First Citizens Investment Services Limited And Its Subsidiaries
(A Subsidiary of First Citizens Bank Limited)

Consolidated Financial Statements

30 September 2019

(Expressed in Trinidad and Tobago Dollars)

First Citizens Investment Services Limited And Its Subsidiaries

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First Citizens Investment Services Limited And Its Subsidiaries

Statement of Management's Responsibilities

Management is responsible for the following:

- Preparing and fairly presenting the accompanying consolidated financial statements of First Citizens Investment Services Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 30 September 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information;
- Ensuring that the Group 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 Group's assets, detection/prevention of fraud, and the achievement of Group 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 consolidated financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that the Group will not remain a going concern for the next twelve months from the reporting date; or up to the date the accompanying consolidated financial statements have been authorised for issue, if later.

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

Sara Ragbir
General Manager
26 November 2019

Head of Finance
26 November 2019

Independent Auditor's Report

To the shareholder of
First Citizens Investment Services Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of First Citizens Investment Services Limited (the Company) and its subsidiaries (together 'the Group') as at 30 September 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 September 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

We 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

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

Responsibilities of management and those charged with governance for the consolidated financial statements (continued)

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

We communicate with 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

Port of Spain
Trinidad, West Indies
9 December 2019

First Citizens Investment Services Limited And Its Subsidiaries

Consolidated Statement of Financial Position

(Expressed in Trinidad and Tobago Dollars)

	Notes	As at 30 September 2019 $'000	2018 $'000
Assets			
Cash and due from other Banks	5	225,842	336,301
Financial assets			
- Fair value through other comprehensive income	6	3,642,013	2,855,144
- Amortised cost	7	4,043,138	3,795,721
- Fair value through profit or loss	8	543	13,852
Intangible assets	9	2,116	849
Property, plant and equipment	10	57,832	59,478
Other assets	11	23,102	136,507
Tax recoverable		30,346	16,504
Total assets		8,024,932	7,214,356
Liabilities			
Borrowings	12	2,158,839	1,450,738
Funds under management		25,748	25,429
Securities sold under repurchase agreements	13	3,900,513	4,112,559
Creditors and accrued expenses	14	115,297	179,386
Loan from parent company	15	372,338	335,243
Deferred income tax liability	16	91,355	17,555
Tax payable		7,072	1,886
Total liabilities		6,671,162	6,122,796
Shareholders' equity			
Share capital	17	637,697	637,697
Retained earnings		603,867	494,629
Fair value reserves	18	112,206	(40,766)
Total shareholders' equity		1,353,770	1,091,560
Total equity and liabilities		8,024,932	7,214,356

The notes on pages 9 to 78 are an integral part of these consolidated financial statements.

On 26 November 2019, the Board of Directors of First Citizens Investment Services Limited authorised these consolidated financial statements for issue.

Director: Anthony Isidore Smart

Director:

First Citizens Investment Services Limited And Its Subsidiaries

Consolidated Statement of Income
(Expressed in Trinidad and Tobago Dollars)

	Notes	Year ended 30 September 2019 $'000	2018 $'000
Interest income	19	337,258	310,175
Interest expense	20	(172,051)	(149,500)
Net interest income		165,207	160,675
Fees and commissions	21	87,543	55,887
Gain on financial assets	22	21,200	7,664
Foreign exchange loss		(1,800)	(1,351)
Other income	23	874	1,488
Total net income		273,024	224,363
Impairment gain/(loss) net of recoveries	24	10,574	(4,354)
Administrative expenses	25	(39,214)	(37,758)
Other operating expenses	26	(36,033)	(55,815)
Profit before taxation		208,351	126,436
Taxation charge	27	(44,455)	(27,058)
Profit for the year		163,896	99,378

The notes on pages 9 to 78 are an integral part of these consolidated financial statements.

First Citizens Investment Services Limited And Its Subsidiaries

Consolidated Statement of Comprehensive Income
(Expressed in Trinidad and Tobago Dollars)

	Note	Year ended 30 September 2019 $'000	2018 $'000
Profit for the year		163,896	99,378
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment net of tax		--	(1,037)
		--	(1,037)
Items that may be reclassified to profit or loss			
Net gains/(losses) on investments in debt instruments designated at FVOCI	18	166,850	(71,476)
Reclassified to amortised cost	18	--	(98)
Net losses on financial assets measured at amortised cost	18	(3,339)	(1,288)
Reclassified to FVOCI	18	--	98
Exchange difference on translation		(10,539)	--
		152,972	(72,764)
Total other comprehensive income/(loss) for the year net of tax		152,972	(73,801)
Total comprehensive income for the year		316,868	25,577

The notes on pages 9 to 78 are an integral part of these consolidated financial statements.

First Citizens Investment Services Limited And Its Subsidiaries

Consolidated Statement of Changes in Equity

(Expressed in Trinidad and Tobago Dollars)

	Share capital $'000	Retained earnings $'000	Fair-value reserves $'000	Total equity $'000
Balance at 1 October 2018	637,697	494,629	(40,766)	1,091,560
Profit for the year	--	163,896	--	163,896
Other comprehensive income				
Net change in investments, net of tax not recognised in the statement of income	--	--	152,972	152,972
Total comprehensive income for the year	--	163,896	152,972	316,868
Transactions with owners				
Dividends	--	(54,658)	--	(54,658)
Total transactions with owners	--	(54,658)	--	(54,658)
Balance at 30 September 2019	637,697	603,867	112,206	1,353,770
Balance at 1 October 2017	637,697	622,642	71,543	1,331,882
Change on initial application of IFRS 9	--	(174,421)	(38,508)	(212,929)
Restated balance as at 1 October 2017	637,697	448,221	33,035	1,118,953
Profit for the year	--	99,378	--	99,378
Other comprehensive loss				
Net change in investments, net of tax not recognised in the statement of income	--	--	(73,801)	(73,801)
Total comprehensive income for the year	--	99,378	(73,801)	25,577
Transactions with owners				
Dividends	--	(52,970)	--	(52,970)
Total transactions with owners	--	(52,970)	--	(52,970)
Balance at 30 September 2018	637,697	494,629	(40,766)	1,091,560

The notes on pages 9 to 78 are an integral part of these consolidated financial statements.

First Citizens Investment Services Limited and its Subsidiaries

Consolidated Statement of Cash Flows

(Expressed in Trinidad and Tobago Dollars)

	Year ended 30 September 2019 $'000	2018 $'000
Cash flows from operating activities		
Profit before taxation	208,351	126,436
Adjustments to reconcile profit to net cash from operating activities:		
IFRS 9 impairment	(10,674)	4,354
Interest income	(337,258)	(315,365)
Interest received	353,795	290,563
Interest expense	172,051	154,691
Interest paid	(192,685)	(140,413)
Depreciation	3,357	3,890
Loss on revaluation of property, plant and equipment	--	632
Loss on disposal of property, plant and equipment	8	521
Tax impairment	--	10,614
Unrealised foreign exchange gain	(29)	(71)
Unrealised (gain)/loss on financial liabilities at fair value through profit or loss	(1)	27
(Gain)/loss on disposal of financial assets	(2)	(358)
Income taxes paid	(49,603)	(30,467)
Cash flows from operating activities before changes in operating assets and liabilities	147,410	105,054
Net change in fair value through other comprehensive income financial assets	(621,855)	653,966
Net change in amortised cost financial assets	(365,612)	(1,355,481)
Net change in fair value through profit or loss	13,017	(13,413)
Net change in other assets	(239,380)	(100,355)
Net change in securities sold under repurchase agreements	(127,317)	375,021
Net change in creditors and accrued expenses	392,370	32,582
Net change in other funding instruments	2,278	(10)
Net change in borrowings	708,101	338,409
Net cash flows (used in)/generated from operating activities	(90,987)	35,773
Cash flows from investing activities		
Acquisition of new branch/subsidiary bank account	1,076	23,267
Net change in short term investment	(69)	(1,715)
Proceeds from disposal of financial assets	5	854
Purchase of intangible assets	(1,267)	--
Purchase of property, plant and equipment	(1,721)	(1,183)
Net cash flows (used in)/generated from investing activities	(1,976)	21,223
Cash flows from financing activities		
Receipt/(repayment) of loan from parent company	37,094	(165,922)
Ordinary dividend paid	(54,658)	(52,970)
Net cash flows used in financing activities	(17,564)	(218,892)
Net decrease in cash and cash equivalents	(110,527)	(161,896)
Cash and cash equivalents at beginning of year	330,870	492,766
Cash and cash equivalents at end of year	220,343	330,870

The notes on pages 9 to 78 are an integral part of these consolidated financial statements.

1 General information

First Citizens Investment Services Limited ("the Group") is incorporated in the Republic of Trinidad and Tobago. Effective 1 September 2018, the Group acquired 100% ownership of First Citizens Portfolio Investment and Management Services Limited (FCPIMS). The Group operates in Trinidad and Tobago as well as in St. Lucia, St. Vincent and Barbados through branches. Its principal business includes dealing in securities and such other business as is authorised pursuant to its registration under the Securities Industry Act 1995 of the Republic of Trinidad and Tobago.

Effective 2 February 2009, First Citizens Bank Limited (the Bank) assumed control of the Group. The Bank formally acquired 100% ownership of the Company on 22 May 2009. The Bank is a subsidiary of First Citizens Holdings Limited (the First Citizens Group), a company with a 64.43% controlling interest and is owned by the Government of the Republic of Trinidad and Tobago (GORTT). The remainder of the shares are listed on the Trinidad and Tobago Stock Exchange and are publicly traded.

The shares of First Citizens Investment Services (Barbados) Limited were fully redeemed by the Group on 30 June 2019. The operations of that company became a branch of First Citizens Investment Services Limited effective 1 July 2019. First Citizens Investment Services (Barbados) Limited is now a special entity.

The Group's registered office is 17 Wainwright Street, Port of Spain, Trinidad and Tobago.

The Group's wholly owned subsidiaries are:

- First Citizens Investment Services (Barbados) Limited;
- First Citizens Brokerage and Advisory Services Limited;
- Caribbean Money Market Brokers (Trincity) Limited; and
- FCIS Nominees Limited.
- First Citizens Portfolio Investment and Management Services Limited

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. *Basis of preparation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretation Committee (IFRS IC) applicable to companies reporting under IFRS. These consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of freehold premises, fair value through other comprehensive income financial assets and financial assets designated at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 **Summary of significant accounting policies (continued)**

a. *Basis of preparation (continued)*

(i) *Standards, amendment and interpretations which are effective and have been adopted by the Group in the current period (continued)*

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018). This standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:
  - Identify the contract with the customer
  - Identify the performance obligations in the contract
  - Determine the transaction price
  - Allocate the transaction price to the performance obligations in the contracts
  - Recognise revenue when (or as) the entity satisfies a performance obligation.

- IFRS 2 - Classification and Measurement of Share-based Payment Transactions (Amendments effective 1 January 2018). This amendments is to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

- IFRIC 23 – Uncertainty over Income Tax Treatments (Effective 1 January 2018). The Interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
  - o Whether tax treatments should be considered collectively
  - o Assumptions for taxation authorities' examinations
  - o The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - o The effect of changes in facts and circumstances

(ii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:*

- IFRS 16 Leases (effective 1 January 2019). This standard specifies how an IFRS reporter will recognise, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term in 12 months and less or the underlying assets has a low value. Lessors continue to classify leases as operating or finance.

The Group is in the process of assessing the impact of the new and revised standards not yet effective on the Financial Statements; we do not anticipate any material impact.

2 **Summary of significant accounting policies (continued)**

b. *Consolidation*

(i) *Principles of consolidation*

The consolidated financial statements include the accounts of the Group and its wholly owned subsidiaries as outlined in Note 1. The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against the previous years'.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) *Investment in subsidiaries*

Subsidiaries are all entities, (including structured entities) over which the Group has control. First Citizens Investment Services (FCIS Group) controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(iii) *Business combinations and goodwill*

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration in relation to financial instruments to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

2 **Summary of significant accounting policies (continued)**

c. *Foreign currency translation*

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

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

The exchange rate between the TT dollar and the US dollar as at the date of these statements was TT$6.6926 = US$1.00 (2018: TT$6.6926 = US$1.00), the TT dollar and the XCD dollar was TT$2.5190 = XC$1.00 (2018: TT$2.5190 = XC$1.00), and the TT dollar and the Barbados dollar was TT$3.4102 = BB$1.00 (2018: TT$3.4102 = BB$1.00), which represented the Group's cover rate.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary items such as equities classified as fair value through other comprehensive income financial assets are included in other comprehensive income.

(iii) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(b) income and expenses for each statement of income are translated at average cover exchange rates for the financial year, and
(c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2 **Summary of significant accounting policies (continued)**

d. *Derivative financial instruments*

Derivative financial instruments including swaps are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

e. *Financial assets and financial liabilities*

(i) *Financial assets*

The First Citizens Group classifies its financial assets in the following business models:
- Hold for trading
- Hold to collect and sell or
- Hold to collect

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3.a. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets cash flows represents solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in "Net Investment Income". The interest income from these financial assets is included in "interest Income' using the effective interest rate method.

2 **Summary of significant accounting policies (continued)**

e. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of income within "Gains from investments securities" in the period in which it arises, unless it arises from debt instruments that were classified at fair value or which are not held for trading, in which case they are presented in Investment Interest Income. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

(a) *Group's business model*

The business model reflects how the Group manages the assets in order to generate cash flows. An assessment is made at a portfolio level and includes an analysis of factors such as:

- The stated objective and policies of the portfolio and the operation of those in practice. More specifically whether the Group's objective is solely to collect the contractual cash flows from the assets or is it to collect both the contractual cash flows and cash flows arising from the sale of the assets.
- Past experience on how the cash flows for these assets were collected.
- Determination of performance targets for the portfolio, how evaluated and reported to key management personnel.
- Managements identification of and response to various risks, which includes but not limited to, liquidity risk, market risk, credit risk, interest rate risk.
- Management considers, in classifying its assets, the level of historical sales and forecasted liquidity requirements.

Arising out of the assessment the portfolios were deemed to have the business models identified as follows:

Hold to Collect	Hold to Collect & Sell	Hold for Trading
Bonds issued by or guaranteed by Government of Trinidad & Tobago (GOTT)	Eurobonds	USD Bonds including Sovereign and Corporate bonds
Non-Eurobonds maturing in greater than 3 years	Treasury Bills	Equity
Loans & receivables	Canadian Treasury Bills	
Securities sold under repurchase agreements to clients and brokers	Non-Eurobonds maturing in less than 3 years	
Long Term Borrowings from brokers in the form of Total Return Swaps	Cash	
Medium Term Notes		

Financial assets are classified on recognition based on the business model for managing the contractual terms of the cash flows.

2 Summary of significant accounting policies (continued)

e. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

(a) *Group's business model (continued)*

Solely payments of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether cash flows represent solely payment of principal and interest (SPPI test). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gain and losses on equity investments classified as FVPL are included in the Statement of Income.

2 **Summary of significant accounting policies (continued)**

e. *Financial assets and financial liabilities (continued)*

(i) *Financial assets (continued)*

(a) *Group's business model (continued)*

Impairment

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
- Note 3.a.ii provides more detail of how the expected credit loss allowance is measured.

Modification of Financial Assets

The Issuer of Financial Assets sometimes renegotiates or otherwise modifies the contractual cash flows of an instrument. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the term when the borrower is not in financial difficulty.
- Significant change in the interest rate.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the borrower being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2 **Summary of significant accounting policies (continued)**

e. *Financial assets and financial liabilities (continued)*

(ii) *Financial liabilities*

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

f. *Impairment of non-financial assets*

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

g. *Offsetting financial instruments*

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

2 **Summary of significant accounting policies (continued)**

h. *Determination of fair value*

For financial instruments traded in an active market, the determination of fair values of financial assets and liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service or regulatory agency, and these prices represent actual and regular occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions. When a market becomes inactive, the valuation technique is the Group's internally developed model which is based on discounted cash flow analysis.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques using input existing at the year end.

The Group uses an internally developed model which is generally consistent with other valuation models used in the industry. Valuation models are used to value unlisted debt securities and other debt securities for which the market has become or is illiquid. Some of the inputs of this model may not be market observable and are therefore based on assumptions.

i. *Sale and repurchase agreements and lending of securities*

Securities sold subject to sale and repurchase agreements (repos) are retained on the consolidated statement of financial position as investment securities and the counterparty liability is included in Securities sold under repurchase agreement and borrowings.

Securities purchased under agreements to resell (reverse repos) are recorded as loans to other banks or customers as appropriate.

The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

2 Summary of significant accounting policies (continued)

j. *Lease transactions*

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

Leases in which a significant portion of the risks and methods of ownership are retained by another party, the lessor, are classified as operating leases. Leases of assets where the Group has substantially all the risk and rewards of ownership are classified as finance leases.

(i) *The Group as the lessee*

The Group has entered into operating leases where the total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the period has expired, any penalty payment made to the lessor is recognised as an expense in the period in which termination takes place.

When assets are held subject to a finance lease, an asset and liability is recognised in the consolidated statement of financial position at amounts equal at inception to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the outstanding liability so as to achieve a constant rate on the finance balance outstanding.

The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(ii) *The Group as the lessor*

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return on the remaining balance of the asset for each period.

2 **Summary of significant accounting policies (continued)**

k. *Property, plant and equipment*

Freehold premises are shown at fair value based on assessments performed by management or by independent valuators every three years, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment are stated at historical cost less depreciation. The valuation of freehold premises is reviewed annually to ensure it approximately equates to fair value. The valuations of freehold premises are re-assessed when circumstances indicate there may be a material change in value.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation of freehold premises are credited to fair value reserves in shareholders' equity. Decreases that affect previous increases of the same assets are charged against fair value reserves directly in equity; all other decreases are charged to the consolidated statement of income. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Leasehold improvements and equipment are recorded at cost less accumulated depreciation.

Depreciation and amortisation are computed on all assets except land.

The provision for depreciation and amortisation is computed using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:-

Buildings	50 years
Equipment and furniture	4- 5 years
Computer equipment and motor vehicles	3- 5 years
Leasehold improvements	Amortised over the life of the lease

The assets' useful lives and residual values are reviewed and adjusted if appropriate at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the assets fair value less cost to dispose and value in use. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are recognised within the consolidated statement of income. When revalued assets are sold, the amounts included in fair value reserves are transferred to retained earnings.

2 **Summary of significant accounting policies (continued)**

l. *Income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the foreseeable future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 **Summary of significant accounting policies (continued)**

m. *Employee benefits*

(i) *Pension plan – First Citizens defined pension plan*

The First Citizens Group operates a defined benefit plan, which is a pension plan that defines an amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. This pension plan is funded by payments from employees and by the First Citizens Group, taking account of the recommendations of independent qualified actuaries.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in First Citizens Group's statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated based on cash outflows allocated to current or prior periods using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The Bank's defined benefit plan operates as a plan which shares risks among subsidiaries of the First Citizens Group which are under common control. The Bank's policy is to recognise the net defined benefit cost of the plan in the separate financial statements of First Citizens Bank Limited, the entity which is legally considered the sponsoring employer of the plan. The Group recognises a cost equal to its contribution payable for its employees in its separate financial statements. Pension contributions for the year amounted to $2 million (September 2018: $1.9 million).

(ii) *Profit sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the First Citizens Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) *Employee share ownership plan*

The First Citizens Group established a cash-settled based remuneration plan for its employees. A liability is recognised for the fair value of the cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in the fair value recognised in the statement of income. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

n. *Cash and due from other Banks*

For purposes of the consolidated statement of cash flows, cash and due from other banks comprise of cash balances on hand, deposits with other banks and short-term highly liquid investments with original maturities of three months or less when purchased net of balances "due to other banks".

2 **Summary of significant accounting policies (continued)**

o. *Net interest income and expense*

Interest income and interest expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method based on the initial carrying amount. Interest income includes coupons earned on fixed income investments, Promissory Notes (PNotes) and accrued discount and premium on treasury bills and other discounted instruments. When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or the amortised cost of a financial liability. The calculation does not consider expected credit losses and include transaction cost, premium, discounts and fees and point paid or received that are integral to the effective interest rate, such as origination fees.

For financial assets that are credit impaired (stage 3), interest income is calculated by applying the effective interest rate to the carrying value net of the expected credit loss provision.

For financial assets classified as Purchased or Originated Credit Impaired (POCI), interest income is calculated by applying a credit-adjusted EIR (based on an initial expectation of further credit losses) to the amortised cost of these POCI assets. The Credit-Adjusted Effective Interest Rate (CAEIR) is lower than the effective interest rate as the cash flows of the instruments are adjusted downwards for the impact of expected credit losses.

p. *Dividend income*

Dividends are recognised in the consolidated statement of income when the entity's right to receive payment is established.

q. *Fee and commission income*

IFRS15 Revenue from Contracts with Customers (effective 1 January 2018). This standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS15 's core underlying principle is that an entity should recognise revenue in a manner that depicts the pattern of the transfer of goods and services to customers. The Group's performance obligations are very contract specific for the various services: wealth managed client accounts, private placements, portfolio management fees and commissions and mutual funds portfolio management.

Fees and commissions are recognised at a point in time when the service has been provided. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognised at a point in time on completion of the underlying transaction. Other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis, which is normally on a monthly billing cycle at a point in time.

The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled at a point in time.

2 **Summary of significant accounting policies (continued)**

q. *Fee and commission income (continued)*

Brokerage & Advisory fees are generally recognised at a point in time upon full completion of the scope of works to the contract, however, for Initial Public Offerings and services of that nature the performance obligation maybe specific to the stage of completion of the services performance obligation. In addition some contracts may require variation to the performance obligation based on the client specifications. This also applies to asset management fees (pension fund and private portfolio) related to investment funds are recognised rateably over the period the service is provided and accrued in accordance with pre-approved fee scales These contracts would qualify for revenue recognition over time.

No changes were required as a result of the impact from the transition to IFRS 15 as at 1 October 2018 and 30 September 2019.

r. *Borrowings*

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

s. *Acceptances*

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-statement of financial position transactions and are disclosed as contingent liabilities and commitments.

t. *Dividend distribution*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's Board of Directors. Dividends for the year, which are declared after the year end, are disclosed in the subsequent events note when applicable.

u. *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

v. *Intangible assets*

Intangible assets comprise separately identifiable items arising from business combinations, computer software licenses and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight line method over the period that the benefits from these assets are expected to be consumed, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The Group chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are tested annually for impairment and whenever there is an indication that the asset may be impaired.

2 **Summary of significant accounting policies (continued)**

v. *Intangible assets (continued)*

(i) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) *Other intangible assets*

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributes to the assets with flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flow.

(iii) *Computer software*

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets when the following criteria are met:-

- It is technically feasible to complete the software and use it
- Management intends to complete the software and use it
- There an ability to use the software
- Adequate technical, financial and other resources to complete the development and to use it
- The expenditure attributable to the software during its development can be reliably measured.

The software development costs are amortised using the straight-line method over their useful lives but not exceeding a period of three years.

w. *Fiduciary activities*

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group (Note 3.d).

3 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management framework

The Board of Directors of First Citizens Bank Limited has overall responsibility for the establishment and oversight of the First Citizens Group risk management framework. To assist the Board of Directors in fulfilling its duties, two Board sub-committees were established to monitor and report to the Board of Directors of the parent on the overall risks within the First Citizens Group - the First Citizens Group Enterprise Risk Management Committee and the Corporate Credit Committee; and two Senior Management Committees- the Senior Management Enterprise Risk Committee and the Asset/Liability Committee.

The First Citizens Group Enterprise Risk Management Unit, headed by the Chief Risk Officer (CRO), reports to both Sub-Committees of the Board of Directors through the Senior Management Committees. This unit is responsible for the management, measurement, monitoring and control of operational, market and credit risk for the First Citizens Group through the First Citizens Group: Operational Risk and Controls Unit, Credit Risk and Administration Unit, Market Risk Unit and Business Continuity Planning Unit. The First Citizens Group Enterprise Risk Management Unit reports into the Senior Management Enterprise Risk Committee to allow monitoring of the adherence to risk limits and the impact of developments in the aforementioned risk areas on strategy and how strategy should be varied in light of the developments.

The Asset/Liability Committee (ALCO) was established to manage and monitor the policies and procedures that address financial risks associated with changing interest rates, foreign exchange rates and other factors that can affect the Group's liquidity. The ALCO seeks to limit risk to acceptable levels by monitoring and anticipating possible pricing differences between assets and liabilities across the Bank and the Group's various companies via the Treasury and International Trade Centre. The Treasury and International Trade Centre's primary role and responsibility is to actively manage the First Citizens Group's liquidity and market risks. The ALCO is also supported in some specific areas of activity by the Bank's Market Risk Committee.

As part of its mandate, the Board establishes written principles for overall risk management, as well as ensuring that policies are in place covering specific areas of risk, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, the First Citizens Group Internal Audit Department is responsible for the independent review of risk management and the control environment and reports its findings and recommendation to the Board Audit Committee.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3 **Financial risk management (continued)**

a. *Credit risk*

Credit risk is the single largest risk for the First Citizens Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a First Citizens Group Credit Risk Management team which reports regularly to the Chief Risk Officer and the Board Credit Committee.

(i) *Credit risk management*

In its management of credit risks, the First Citizens Group has established an organisational structure which supports the lending philosophy of the First Citizens Group. This structure comprises the Board of Directors, the Board Credit Committee (BCC), Senior Management Enterprise Risk Committee (SMERC), the Chief Risk Officer (CRO), the Credit Risk Management Unit and the Internal Audit Department. The Board of Directors maintains general oversight to ensure that policies and procedures are consistent with the strategic direction and credit philosophy of the First Citizens Group and that they serve to bring the required level of protection over assets that are exposed to credit risks. To facilitate day to day decision making and timely implementation of decisions, the Board has delegated authority for specific areas to specific committees and/or officers with an appropriate reporting system to the Board. The BCC focuses primarily on credit risk appetite and in so doing sanctions amendments to credit policies, delegation of lending authority to senior management and credit requests exceeding the authority of management. The SMERC together with the GCRO monitors the effectiveness of credit policies and procedures and may direct changes to strategies to improve the effectiveness of policies. The major focus of the Credit Risk Management Unit is to formulate credit policies, monitor compliance with them and on a continuous basis to assess their relevance to the changing business environment. Most of these policies are established and communicated through the First Citizens Group's written Credit Policy Manual. This document sets out in detail the current policies governing the lending function and provides a comprehensive framework for prudent risk management of the credit function. Major areas of focus are General Credit Policy Guidelines, Exercise of Lending Authority, Credit Review Process, Credit Risk Rating and Classification System, among others.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(ii) *Expected credit loss measurement*

IFRS9 outlines a 'three stage' mode; for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by The First Citizens Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 3.a.iii for a description of how The First Citizens Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 3.a.v for a description of how The First Citizens Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.a.v for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. Note 3.a.vii includes an explanation of how The First Citizens Group has incorporated this in its ECL models
- Purchased or originated credit-impaired financial assets are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how The First Citizens Group determines appropriate groupings when ECL is measured on a collective basis (refer to note 3.a.ix).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial Recognition)	**(Significant increase in credit risk)**	**(Credit - impaired assets)**
12 month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(iii) *Significant increase in credit risk (SICR)*

The First Citizens Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Criteria	Investment Grade Portfolio	Single 'B' Speculative Grade Portfolio
Absolute Measure	PD- 15% or higher	PD -25% or higher
AND	AND	AND
Relative Measure	One Notch downgrade (internal rating scale)	One Notch downgrade (internal rating scale)
OR	OR	OR
Special Consideration	Eurobonds with Trigger 3 Breaches	Eurobonds with Trigger 3 Breaches

The First Citizens Group has not used the low credit risk exemption for any financial instruments in the year ended 30 September 2019.

(iv) *Significant decrease in credit risk (SDCR)*

The table below shows the indicators for a significant decrease in credit risk:

Criteria	Investment Grade Portfolio	Single 'B' or High Yield Portfolio
Relative Measure	Credit rating reverts to level just prior to the SICR	One Notch upgrade (investment securities rating scale)
Absolute Measure	PD - 12.5% or lower	PD - 25% or lower
Special Consideration	No Credit Stop loss Breaches	No Credit Stop loss Breaches

(v) *Definition of default and credit-impaired assets*

The First Citizens Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(v) *Definition of default and credit-impaired assets (continued)*

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower formally files for bankruptcy or there is a commencement of foreclosure proceedings.
- The obligation is classified doubtful or worse as per The First Citizens Group's classification process.
- A modification to the terms and conditions of the original agreement that would not normally be considered is executed
- Restructure proceedings or an indication of the intention to restructure is initiated by the issuer (investments only).

The criteria above have been applied to all financial instruments held by The First Citizens Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD), throughout The First Citizens Group's expected loss calculations.

An investment instrument is considered to no longer be in default (i.e. to have cured) when it has been restructured. An exception exists for credit impaired facilities at origination.

(vi) *Measuring ECL - Explanation of inputs, assumptions and estimation techniques*

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per-Definition of default and credit-impaired above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts The Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, The First Citizens Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents The First Citizens Group's expectation of the extent of loss on a defaulted exposure. LGD varies by seniority of claim and product type, while the availability of collateral is factored before LGD is considered. A robust system for recovering on all delinquent facilities managed by specialized units ensures that early measures are taken to contain loss. The recovery on the various products managed by The First Citizens Group are recorded and this historical information is used to determine LGD. LGD is expressed as the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by multiplying the PD, LGD and EAD after taking into consideration the discounted present value of the EAD and collateral enhancements. The EAD is determined by reducing the outstanding balance from the discounted collateral value. The cost of disposal of the collateral item is factored together with the time frame for disposal before discounting to present values. The discount rate used in the ECL calculation is the original effective interest rate.

3 Financial risk management (continued)

a. *Credit risk (continued)*

(vi) *Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)*

The lifetime and 12-month PDs are determined differently for investments. The Investments PDs are taken from the Standard & Poor's (S&P) transition matrix. The EAD is considered as follows:

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is calculated by taking current drawn balance and adding a" credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on an analysis of the product's usage over a two year period.
- The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type and are influenced by the collection strategies of the specialist units managing the process.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(vii) *Forward-looking information incorporated in the ECL models*

The calculation of ECL incorporates forward-looking information. The First Citizens Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Determination of macroeconomic scenarios and probabilities

For each economic territory management determines a macroeconomic driver, which is statistically linked to the credit risk of that sovereign. Once this lead indicator is established, correlation analysis is conducted between this macroeconomic indicator and key sovereign credit risk metrics, where the sign and strength of correlation coefficients determine which are most significant. These (three) selected sovereign credit risk metrics are determined based on their importance as key sovereign credit rating drivers and are comprised of both fiscal and debt indicators as well as measures of external liquidity. To quantify the impact of the lead macroeconomic driver on each of the credit risk metric, OLS regression is conducted.

To establish the alternative scenarios required by IFRS 9, the lead macroeconomic driver is 'shocked', such that the official forecast for each year moves up and down by a multiple of the historical standard deviation to establish a best- and worse-case. Once these new values are derived, they are inputted into the OLS regression equation for each of the key sovereign credit risk metric to quantify how credit risk changes in the alternative scenarios. These data points are used in the determination of a credit rating for the sovereign in each of the different scenarios for the forecasted period. To assign probabilities, we adopt the Standard and Poor's Transition Matrix, which is computed by comparing the issuer ratings at the beginning of a period with the ratings at the end of the period. This essentially provides us with a probability of moving from the current credit rating to the forecasted rating.

3 Financial risk management (continued)

a. *Credit risk (continued)*

(vii) *Forward-looking information incorporated in the ECL models (continued)*

Investments

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Management judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Research & Analytics team on a periodic basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base case scenario the Research & Analytics team also provided other possible scenarios along with scenario weightings. The number of other scenarios used was set with the only exception being the addition of a fourth scenario if the base and current differed. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance for Corporate/Commercial portfolios is GDP - given the significant impact on companies' performance and collateral valuations.

(viii) *Risk limit control and mitigation policies*

The First Citizens Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and by country are approved annually by the Group's Board of Directors. Actual exposures against limits are monitored regularly and reported to the Group's Risk Management Committee and the Board of Directors.

(a) *Single investee or industry exposure limits*

These limits have been established based on a ranking of the riskiness of various investee or industries. The ranking is guided by a model developed for the Group for this purpose. The model utilises a scale incorporating scores of 1 to 8 with 1 being the least risky. These have been considered into four (4) bands of exposure limits which have been set in relation to the total credit portfolio with a smaller limit being assigned to the more risky industries.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

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

(b) *Country exposure limits*

Exposure limits have been established for selected countries which are considered to be within the Group's off-shore target market. Five risk categories have been developed and the selected countries have been assigned to these categories based either on ratings issued by acceptable rating agencies or the Group's own internal assessment of the economic and political stability of the target. Maximum cross border exposure has been limited to a pre-determined portion of total assets and this amount is allocated to the various risk categories with a larger share being allocated to the more highly rated categories.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure investments, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Liquidity support agreement

The terms of the Liquidity Support Agreement (LSA) under which First Citizens Bank Limited (the Bank) acquired Caribbean Money Market Brokers Limited (CMMB), now First Citizens Investment Services Limited (FCIS), outlined certain financial assurances given by the Government of Republic of Trinidad and Tobago (GORTT) to the Bank, that provided for the indemnification of the Bank against various claims, losses or liabilities if incurred by FCIS within a stipulated period of time after the date of acquisition in relation to obligations existing or default on assets owned by FCIS at the date of the acquisition.

The LSA dated 15 May 2009 and made between the GORTT, the Central Bank of Trinidad and Tobago (CBTT) and the Bank provided that all reasonable claims by the Bank in respect of such losses were expected to be settled, once the Bank had made all reasonable efforts to recover or resist such claims, losses or liabilities. The Bank committed to reimburse FCIS for any losses incurred by FCIS against which the Bank has been indemnified.

Losses which are covered under the LSA include losses in respect of balances due from CL Financial and its affiliates accruing from the date that CMMB was acquired by the Bank to the greater of the maturity date of the obligation or 6 years from the date of completion of the share transfer of CMMB to the Bank.

The Ministry of Finance continues to recognize its commitment under the LSA agreement by way of granting consecutive extensions under the Liquidity Support Agreement for the periods: 16 May 2015 to 15 November 2016, 15 November 2016 to 14 November 2017, 15 November 2017 to 14 November 2018 15 November 2018 to 14 November 2019and subsequently 15 November 2019 to 28 February 2021. Additionally, the Ministry of Finance has made good and settled in full subsequent claims#1 to 10 which was made for losses and expenses incurred resulting from obligations commensurate with the Liquidity Support Agreement.

The Ministry of Finance in its response in letter dated 3 September 2019 has agreed to another extension for a 28 month period effective from 15 November 2019 to 28 February 2021 commensurate under the Liquidity Support Agreement dated 15 May 2009, in which interest continues to accrue at 4% and 5% for the CL Financial USD PNOTE and the CL Financial TTD commercial paper respectively. As at the statement of financial position date, the amount of Promissory Notes due to was US$100,841,820 and the amount of the Commercial Paper due TT$241,239,771. The liquidity support agreement extension was executed on 3 September 2019. These are classified as amortised cost in the Statement of Financial Position as at September 2019.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(ix) *Maximum exposure to credit risk before collateral held or other credit enhancement*

Credit risk exposures relating to on-statement of financial position assets are as follows:

	Gross maximum exposure Sept 2019	Gross maximum exposure Sept 2018
		$'000
Cash and due from other banks	225,842	336,301
Financial assets		
- Fair value through other comprehensive income	3,638,256	2,859,098
- Amortised cost	4,066,250	3,972,367
- Fair value through profit or loss	–	13,413
Other assets	17,057	130,232
	7,947,405	7,311,411

The above table represents a worst case scenario of credit risk exposure to the Group at 30 30 September 2019 and 2018, without taking account of any collateral held or other credit enhancements attached. For on-consolidated statement of financial position assets, the exposures set out above are based on gross carrying amounts before impairment. There are no credit risk exposures relating to off-consolidated statement of financial position items.

As shown above, 3% of the total maximum exposure is derived from cash and due from other banks and receivables (September 2018: 6.6%); while 97% represents investments in other debt securities (September 2018: 93.4%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its cash and due from other banks and assets held at amortised cost portfolio and its other debt securities based on the following:

- The Group has introduced a more stringent selection process for investing in securities with none of the impaired assets coming from new investments made in the current financial year.
- The collateral package or financial assurances in place in support of receivables minimises the probability of losses on this portfolio.
- For September 2019, more than 56% (September 2018: 58%) of the investments in debt securities and other bills have at least a BBB- based on Standards & Poor's Ratings.
- As per Note 3.a.vii 'Risk limit control and mitigation policies- Liquidity Support Agreement', management is confident that given the agreement to transfer the benefits of such assurances by First Citizens Bank Limited to the Group, the Group would realise no losses on these assets. The amount outstanding to FCIS stood at TT$241,239,771 and US$100,841,820 as at September 2019 (September 2018: TT$232 million and US$97.8 million) and continues to accrue interest.
- The Group's portfolio carries a significant concentration of credit risk to Government of Barbados securities from Barbados which at the Balance Sheet date accounted for 4% of the value of Investment Securities (September 2018: 4%).

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(x) *Financial assets*

Included in amortised cost are amounts due from CL Financial and its affiliates of $916 million which matured but are indemnified under the Liquidity Support Agreement (LSA) (September 2018: $887 million). All principal and interest payments due on these advances are covered under the LSA as detailed in note 3.a.ix.

Furtherance, the material indemnified amount outstanding under the Liquidity Support Agreement represents certain Promissory Note and Commercial Paper obligations which were and are due and owing by CL Financial Limited to CMMB (now First Citizens Investment Services Limited ("FCIS"). The GORTT has since petitioned the Court to wind up CL Financial on the basis that the CL Financial Group was unable to pay its debts and or that it was just and equitable that the CL Financial Group be wound up. On 26 July 2017, the Court of Appeal, ordered the appointment of a joint provisional liquidator over the assets of CL Financial pending the determination of the winding up petition.

It is against this background that management made a formal claim/demand by the submissions of (Claim #11) indicating the Bank's intention to claim the full settlement by 30 September 2019 in accordance with the Bank's right to be indemnified in respect of those obligations under the terms of the LSA.

The GORTT in its letter dated 5 September 2019 stated its execution of an extension of the LSA for the period 15 November 2019 to 28 February 2021.

As at the statement of financial position date, the amount of Promissory Notes due was US$101,328,061 and the amount of the Commercial Paper due TT$250,905,604.

(xi) *Debt and other investment securities*

The table below presents an analysis of debt and other investment securities by internal, external and equivalent rating agency designation.

30 September 2019

	Fair value through other comprehensive income-securities $'000	Amortised cost securities $'000	Fair value through profit and loss $'000	Total $'000
Investment grade	2,570,168	1,602,170	--	4,172,338
Speculative grade	1,068,088	2,147,737	--	3,215,825
Default	--	316,343	--	316,343
Total	3,638,256	4,066,250	--	7,704,506

30 September 2018

	Fair value through other comprehensive income-securities $'000	Amortised cost securities $'000	Fair value through profit and loss $'000	Total $'000
Investment grade	2,122,273	1,694,042	13,413	3,829,728
Speculative grade	736,825	1,783,150	--	2,519,975
Default	--	495,175	--	495,175
Total	2,859,098	3,972,367	13,413	6,844,878

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(xii) *Financial assets*

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

			Investments 30 September 2019		
	Stage 1 12-month ECL $'000	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**POCI $'000**	**Total $'000**
Credit rating					
Investment grade	4,215,119	--	--	--	4,215,119
Non investment grade	3,110,049	50,408	12,586	--	3,173,043
Default	--	--	--	316,343	316,343
Gross investments	7,325,168	50,408	12,586	316,343	7,704,505
Loss allowance -	(17,655)	(4,166)	(5,954)	--	(27,775)
Carrying balance	7,307,513	46,242	6,632	316,343	7,676,730

			Investments 30 September 2018		
	Stage 1 12-month ECL $'000	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**POCI $'000**	**Total $'000**
Credit rating					
Investment grade	5,063,552	--	--	--	5,063,552
Non investment grade	1,267,228	23,030	--	--	1,290,258
Default	--	--	495,178	--	495,178
Gross investments	6,330,780	23,030	495,178	--	6,848,988
Loss allowance	(16,667)	(2,395)	(165,646)	--	(184,708)
Carrying balance	6,314,113	20,635	329,532	--	6,664,280

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(xiii) *Loss allowance*

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent step up (or step down) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period .
- The Government of Barbados Series D bonds are recognised as at 1 October 2018 as Purchased or Originated Credit Impaired (POCI). These bonds originated at a deep discount that reflects incurred credit losses. An effective interest rate based in the expected cash flows net of expected credit losses is used. This is known as the Credit Adjusted Effective Interest Rate (CAEIR). The POCI value at 30 September 2019 was 69.76 with a face value of BBD131,997,672
- The total amount of undiscounted expected credit losses at initial recognition for Originated credit-impaired financial assets recognised during the period was BBD41,911,240 of total gross cash flows BBD309,678,913.29.

Investments

	Stage 1 12-month ECL $'000	Sage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	POCI $'000	Total $'000
Gross carrying balance as at 1 October 2018	6,326,669	23,030	495,178	–	6,844,877
Transfer from stage 1 to stage 2	(36,137)	36,137	--	--	--
Transfer from stage 1 to stage 3	--	--	--	--	--
Transfer from stage 2 to stage 1	8,223	(8,223)	--	--	--
Transfer from stage 2 to stage 3	--	--	--	--	--
New financial assets originated	732,752	--	–	293,257	1,026,009
Disposal/Maturities of Investment	(514,954)	--	(477,441)		(992,395)
Unwind of discounts	808,612		1,779	23,086	833,477
FX and other movements	2	(536)	(6,929)		(7,463)
Gross carrying balance as at 30 September 2019	7,325,167	50,408	12,587	316,343	7,704,505

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(xiii) *Loss allowance (continued)*

Investments

	Stage 1 12-month ECL $'000	Sage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	POCI $'000	Total $'000
Gross carrying balance as at 1 October 2017	5,774,839	461,233	12,822	--	6,248,894
Transfer from stage 1 to stage 2	(15,301)	15,301	--	--	--
Transfer from stage 1 to stage 3	(36,263)	--	36,263	--	--
Transfer from stage 2 to stage 1	--	--	--	--	--
Transfer from stage 2 to stage 3	--	(454,167)	454,167	--	--
Transfer from stage 3 to credit impaired	--	--	--	--	--
New financial assets originated	2,209,660	--	--	--	2,209,660
Disposals/Maturities of investment	(1,455,803)	--	--	--	(1,455,803)
Unwind of discounts	--	--	--	--	--
FX and other movements	(150,463)	664	(8,074)	--	(157,873)
Gross carrying balance as at 30 September 2018	6,326,669	23,031	495,178	--	6,844,878

	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	POCI $'000	Total $'000
Loss allowance as at 1 October 2018	(16,920)	(2,395)	(165,393)	--	(184,708)
Movement with P&L impact	--	--	--	--	--
Transfer from stage 1 to stage 2	51	(51)	--	--	--
Transfer from stage 1 to stage 3	--	--	--	--	--
Transfer from stage 2 to stage 1	(1,040)	1,040	--	--	--
Transfer from stage 3 to credit impaired	--	--	--	--	--
New financial assets originated	(1,477)	--	--	--	(1,477)
Change in PDS/LGDs/EADs	1,144	(2,760)	4,092	--	2,476
Disposal of Investment	587	--	--	--	587
Modifications of contractual cash flows	--	--	--	--	--
Unwind of discounts	--	--	--	--	--
FX and other movements (Maturities/Sales)	--	--	--	--	--
Total net P&L charge during the period	(735)	(1,771)	4,092	--	1,586
Other movement with no P&L impact					
Provision Transfer from stage 1 to stage 2	--	--	--	--	--
Provision Transfer from stage 2 to stage 1	--	--	--	--	--
Transfer from stage 3 to credit impaired	--	--	--	--	--
Financial assets derecognised during the period	--	--	155,347	--	155,347
Write-offs	--	--	--	--	--
Loss allowance as at 30 September 2019	(17,655)	(4,166)	(5,954)	--	(27,775)

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(xiii) *Loss allowance (continued)*

	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	POCI $'000	Total $'000
Loss allowance as at 1 October 2017	(53,496)	(120,925)	(5,954)	--	(180,375)
Movement with P&L impact					
Transfer from stage 1 to stage 2	--	--	--	--	--
Transfer from stage 1 to stage 3	34,119	--	(34,119)	--	--
Transfer from stage 2 to stage 1	--	--	--	--	--
Transfer from stage 2 to 3	--	117,444	(117,444)	--	--
New financial assets originated	(347)	--	--	--	(347)
Change in PDS/LGDs/EADs	2,571	1,085	(8,128)	--	(4,472)
Disposal of investment	486	--	--	--	486
Modifications of contractual cash flows	--	--	--	--	--
Unwind of discounts	--	--	--	--	--
FX and other movements (Maturities/Sales)	--	--	--	--	--
Total net P&L charge during the period	36,829	118,529	(159,691)	--	(4,333)
Other movement with no P&L impact					
Provision Transfer from stage 1 to stage 2	--	--	--	--	--
Provision Transfer from stage 2 to stage 1	--	--	--	--	--
Transfer from stage 3 to credit impaired	--	--	--	--	--
Financial assets derecognised during the period	--	--	--	--	--
Write-offs	--	--	--	--	--
Loss allowance as at 30 September 2018	(16,667)	(2,396)	(165,645)	--	(184,708)

(xiv) *Write-off policy*

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's effort to dispose of repossess collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 30 September 2019 was nil (2018: $112.7 million). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(xv) *Concentration of risks of financial assets with credit risk exposure – Geographical sectors*

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 30 September 2019. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. The Group's investment portfolio comprising cash and cash equivalents, financial assets – receivables, fair value through other comprehensive income, amortised cost, held for trading and repurchase receivables is diversified across 28 countries. Limits for each country are reviewed on an annual or more frequent basis and the exposures are monitored on a daily basis. The country exposures are categorised into five regional sectors and the sector concentrations within the portfolio are as follows:

	Asia $000	North America $000	South & Central America $000	Caribbean $000	Other countries $000	Total $000
At 30 September 2019						
Cash and due from other Banks	--	8,856	--	216,986	--	225,842
Financial assets:						
- FV through OCI	408,269	1,107,930	646,718	1,357,283	113,393	3,633,593
- Amortised cost	--	--	--	4,043,138	--	4,043,138
- FV through P&L	--	--	--	--	--	--
Other assets	--	--	--	17,057	--	17,057
At 30 September 2019	408,269	1,116,786	646,718	5,634,464	113,393	7,919,630

	Asia $000	North America $000	South & Central America $000	Caribbean $000	Other countries $000	Total $000
At 30 September 2018						
Cash and due from other Banks	--	23,763	--	312,538	--	336,301
Financial assets:						
- FV through OCI	406,982	638,173	503,311	1,207,945	94,626	2,851,037
- Amortised cost	--	--	--	3,795,721	--	3,795,721
- FV through P&L	--	13,413	--	--	--	13,413
Other assets	--	--	--	124,543	5,689	130,232
At 30 September 2018	406,982	675,349	503,311	5,440,747	100,315	7,126,704

3 **Financial risk management (continued)**

b. *Market risk*

The Group 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 market risks arising from trading and non-trading activities are measured separately by the First Citizens Group Market Risk department who submit reports to the Senior Management Enterprise Risk Committee on a regular basis and also reports via the Enterprise Risk Unit to the Board Enterprise Risk Committee to enable Board oversight of market risk issues. Additionally, on a monthly basis, the First Citizens Group's Market Risk Committee reviews and approves the yield curves used to value all investment securities and reports on this into the Group ALCO. This Committee also provides for the consideration of the Group ALCO technical information that may be relevant to current and developing market conditions from time to time.

Trading portfolios are those positions entered into primarily to take advantage of market movements to generate capital gains.

Non-trading portfolios primarily arise from investments held as collateral for repurchase agreements. Non-trading portfolios also entail foreign exchange and equity risks arising from the Group's amortised cost and fair value through other comprehensive income investments.

(i) *Market risk measurement techniques*

As part of the management of market risk, the Group uses duration management and other portfolio strategies to manage market risk. The major measurement techniques used to measure and control market risk are outlined below.

Value at risk

The Group applies a 'value at risk' methodology (VAR) to its trading and non-trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. VAR measurements capture potential losses arising from changes in interest rates and foreign exchange rates. The Board sets limits on the value of risk that may be accepted for the Group's, trading and non-trading portfolios, which are monitored on a daily basis by First Citizens Group Market Risk.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, at a certain level of confidence (99%) under normal market conditions.

3 Financial risk management (continued)

b. *Market risk (continued)*

(i) *Market risk measurement techniques (continued)*

Value at risk (continued)

The First Citizens Group Market Risk calculates VAR using a 99% confidence level therefore there is a 1% probability that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days for Eurobonds and 30 days for other securities). For comparability purposes the 1-day VAR for the portfolio segments are disclosed in the following section. A parametric approach is used in calculating VAR which uses the volatility, correlation and relative weights of the securities in the portfolio. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Actual exposure against limits is monitored by Risk Management on a daily basis. There are Board approved limits set on the portfolio VAR. A breach in these limits would trigger actions by the management of the Group to reduce risk on the portfolio. These actions can include hedging of the portfolio or specific positions or sale of securities to bring the portfolio back within limit.

The quality of the VAR model is continuously monitored by back-testing the VAR results. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated.

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by risk management include interest rate stress testing, where movements in the yield curve are applied to each investment.

If the Group were to stress the portfolio at 30 September 2019 based on a 100 basis point (1%) upward parallel shift in all yield curves, this would result in mark to market losses of $168 million (September 2018: $349 million).

The results of the stress tests are reviewed by senior management, the Risk Management Committee and by the Board of Directors.

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(i) *Market risk measurement techniques (continued)*

Currency risk sensitivity

Based on net foreign currency positions at 30 September 2019, the effect of a 2.5% depreciation in the Trinidad and Tobago dollar against the respective currencies is as follows:

	US $'000	Euro $'000	EC $'000	Other $'000
At 30 September 2019				
Gain/(loss)	25,490	--	(6,052)	(5,860)
At 30 September 2018				
Gain/(loss)	16,638	50,726	(5,126)	(634)

Group VAR by portfolio

	30 September 2019			30 September 2018		
	Average $'000	High $'000	Low $'000	Average $'000	High $'000	Low $'000
Trading	12,034	18,786	8,592	6,638	11,926	4,782
Non-trading	12,900	16,690	9,253	10,773	11,488	9,921
Total VAR	24,934	35,476	17,845	17,411	23,414	14,703

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(ii) *Foreign exchange risk*

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. It is the policy of the Group not to engage in speculative foreign exchange activities, The Board sets limits on the level of exposure by currency and in aggregate for all positions, which are monitored periodically. The Group's strategy of managing this risk is to buy low and sell high; establish relationships with corporate foreign exchange earners; limit foreign exchange exposure; avoid speculation with an aim to keep a balanced position; and match foreign currency denominated assets with foreign currency denominated liabilities. The Group does not currently engage in any hedging activities to mitigate currency risk. The table below summarises the Group's exposure to foreign currency exchange rate risk at 30 September 2019. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

	TT $'000	US $'000	Euro $'000	EC $'000	Other $'000	Total $'000
At 30 September 2019						
Assets						
Cash and due from other Banks	101,206	59,310	80	55,433	9,813	225,842
Financial assets						
- Fair value through other comprehensive income	83,282	3,457,443	--	100,203	1,085	3,642,013
- Amortised cost	1,813,513	968,921	--	919,476	341,228	4,043,138
- Fair value through profit or loss	--	147	--	--	396	543
Other assets	10,476	2,605	--	2,489	1,486	17,056
Total assets	2,008,477	4,488,426	80	1,077,601	354,008	7,928,592
Liabilities						
Borrowings	198,477	1,960,362	--	--	--	2,158,839
Funds under management	4,803	487	80	19,002	1,376	25,748
Securities sold under repurchase agreements	1,173,226	1,105,737	--	1,259,402	362,148	3,900,513
Loan from parent company	--	372,338	--	--	--	372,338
Creditors and accrued expenses	49,029	4,907	--	12,707	48,654	115,297
Total liabilities	1,425,535	3,443,831	80	1,291,111	412,178	6,572,735
Net on-consolidated statement of financial position	582,942	1,044,595	--	(213,510)	(58,170)	1,355,857

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(ii) *Foreign exchange risk (continued)*

At 30 September 2018	TT $'000	US $'000	Euro $'000	EC $'000	Other $'000	Total $'000
Assets						
Cash and due from other Banks	101,833	78,800	2,114	101,525	52,029	336,301
Financial assets						
- Fair value through other comprehensive income	158,974	2,565,722	–	130,448	–	2,855,144
- Amortised cost	1,910,241	869,982	–	689,293	326,205	3,796,721
- Fair value through profit or loss	5	13,557	–	–	290	13,852
Other assets	100,899	24,346	–	4,147	840	130,232
Total assets	2,271,952	3,552,407	2,114	925,413	379,364	7,131,250
Liabilities						
Borrowings	198,458	1,252,280	–	–	–	1,450,738
Funds under management	5,981	502	85	16,901	1,960	25,429
Securities sold under repurchase agreements	1,311,609	1,358,609	–	1,041,485	400,856	4,112,559
Loan from parent company	50,099	272,544	–	12,600	–	335,243
Creditors and accrued expenses	115,070	2,964	–	59,451	1,901	179,386
Total liabilities	1,681,217	2,886,899	85	1,130,437	404,717	6,103,355
Net on-consolidated statement of financial position	590,735	665,508	2,029	(205,024)	(25,353)	1,027,895

Included in the "Other" category are assets and liabilities held in UK pound sterling, Canadian dollars, Barbados and Yen. A 1% increase or decrease in any of these currencies would not significantly impact the Group's profit.

If the Trinidad and Tobago dollar depreciates by 250 basis points against the United States dollar, the profits would decrease by $23.9 million (September 2018: $16.6 million).

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(iii) *Interest rate risk*

Interest rate risk management focuses on potential changes in net interest income resulting from changes in interest rates, product spreads and mismatches in the re-pricing between interest rate sensitive assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also reduce resulting in losses in the event that unexpected movements arise. The Group's objective in the management of its interest rate risk is to reduce the sensitivity of its earnings and overall portfolio value to fluctuations in the interest rate. The table below summarises the Group's exposure to interest rate risks.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 month $'000	1 to 5 years $'000	Over 5 years $'000	Non-Interest bearing $'000	Total $'000
At 30 September 2019							
Assets							
Cash and due from other Banks	193,670	--	6,206	--	--	25,966	225,842
Financial assets							
- Fair value through other comprehensive income	7,648	403,344	121,808	447,466	2,653,326	--	3,633,592
- Amortised cost	--	937,331	84,346	901,985	2,119,476	--	4,043,138
- Fair value through profit or loss	--	--	--	--	--	--	--
Other assets	404	--	--	--	--	16,653	17,057
Total assets	201,722	1,340,675	212,360	1,349,451	4,772,802	42,619	7,919,629
Borrowings	--	18,889	1,102,597	1,037,353	--	--	2,158,839
Funds under management	25,748	--	--	--	--	--	25,748
Securities sold under repurchase agreements	306,865	444,349	2,709,984	439,315	--	--	3,900,513
Loan from parent company	--	99,250	--	273,088	--	--	372,338
Creditors and accrued expenses	74,079	--	--	83	--	41,135	115,297
Total liabilities	406,692	562,488	3,812,581	1,749,839	--	41,135	6,572,735
Interest sensitivity gap	(204,970)	778,187	(3,600,221)	(400,388)	4,772,802	1,484	1,346,894

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(iii) *Interest rate risk (continued)*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 month $'000	1 to 5 years $'000	Over 5 years $'000	Non-Interest bearing $'000	Total $'000
At 30 September 2018							
Assets							
Cash and due from other Banks	310,422	--	--	--	--	25,879	336,301
Financial assets							
- Fair value through other comprehensive income	30,986	53,127	66,250	564,950	2,135,726	--	2,851,038
- Amortised cost	--	893,191	24,157	968,926	1,909,447	--	3,795,721
- Fair value through profit or loss	--	--	--	--	13,413	--	13,413
Other assets	504	--	--	--	--	129,728	130,232
Total assets	341,912	946,318	90,407	1,533,876	4,058,585	155,607	7,126,705
Borrowings	--	1,016,075	1,719	432,944	--	--	1,450,738
Funds under management	25,429	--	--	--	--	--	25,429
Securities sold under repurchase agreements	118,788	768,177	2,806,399	419,195	--	--	4,112,559
Loan from parent company	62,696	--	272,547	--	--	--	335,243
Creditors and accrued expenses	9,873	--	--	228	--	169,285	179,386
Total liabilities	216,786	1,784,252	3,080,665	852,367	--	169,285	6,103,355
Interest sensitivity gap	125,126	(837,934)	(2,990,258)	681,509	4,058,585	(13,678)	1,023,350

Interest rate risk management focuses on potential changes in net interest income resulting from changes in interest rates, product spreads and mismatches in the re-pricing between interest rate sensitive assets and liabilities. If interest rates were to move by 1%, the impact on net interest income will be $11.9 million (September 2018: $12.6 million).

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(iv) *Other price risk*

Other price risk arises due to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group is affected by changing prices of equity instruments mainly classified as fair value through other comprehensive income securities with fair value movements recognised in shareholders' equity. Management has determined that the impact of the price risk on equity instruments classified as fair value through other comprehensive income is immaterial at the end of both periods reported.

c. *Liquidity risk*

The liquidity risk is the risk that the Group will be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments when they fall due under normal and stress circumstances and arises from fluctuation in cash flows. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and funds under management, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Liquidity risk management process

The First Citizens Group's liquidity management process is carried out by the Treasury and International Trade Centre and monitored by the Group's Asset/Liability Committee (ALCO). The First Citizens 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-statement of financial position or off-statement of financial position liabilities. The Group relies on a broad range of funding sources and applies prudent limits to avoid undue concentration. Current and projected cash flows are monitored, together with diversification of funding and contingency planning, and ensuring that funding disturbances are minimised. The Group manages liquidity risk using both expected and contractual cash flows, by preserving a large and diversified base of core deposits from retail and commercial customers and by maintaining ongoing access to wholesale funding. The Group would also be able to meet unexpected net cash outflows by accessing additional funding sources such as the existing facility with its parent company, asset-backed financing from commercial banks and securities brokers.

Compliance with liquidity policies and risk limits is tracked by First Citizens Group Market Risk and reported into the Senior Management Enterprise Risk Committee and via the Enterprise Risk Unit to the Board Enterprise Risk Management Committee.

3 **Financial risk management (continued)**

c. *Liquidity risk (continued)*

The table below analyses financial assets and liabilities of the Group by remaining contractual maturities at the consolidated statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 month $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 30 September 2019						
Assets						
Cash and due from other Banks	225,842	--	--	--	--	225,842
Financial assets						
- Fair value through other comprehensive income	324,058	123,621	339,234	931,737	2,942,814	4,661,464
- Amortised cost	9,045	991,721	140,856	1,266,875	2,367,473	4,775,970
- Fair value through profit or loss	--	--	--	--	--	--
Other assets	17,057	--	--	--	--	17,057
Total assets	576,002	1,115,342	480,090	2,198,612	5,310,287	9,680,333
Liabilities						
Borrowings	--	20,398	1,120,833	1,037,353	--	2,178,584
Funds under management	25,748	--	--	--	--	25,748
Securities sold under repurchase agreements	307,206	883,032	2,316,388	468,135	--	3,974,761
Loan from parent company	--	99,899	--	299,323	--	399,222
Creditors and accrued expenses	115,297	--	--	--	--	115,297
Total liabilities	448,251	1,003,329	3,437,221	1,804,811	--	6,693,612
Net liquidity gap	127,751	112,013	(2,957,131)	393,801	5,310,287	2,986,721

3 **Financial risk management (continued)**

c. *Liquidity risk (continued)*

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 month $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 30 September 2018						
Assets						
Cash and due from other Banks	336,301	--	--	--	--	336,301
Financial assets						
- Fair value through other comprehensive Income	43,819	66,087	132,109	1,413,229	2,270,108	3,925,352
- Amortised cost	8,632	806,063	446,884	950,532	2,176,210	4,388,321
- Fair value through profit or loss	134	--	408	2,168	14,888	17,598
Other assets	130,232	--	--	--	--	130,232
Total assets	519,118	872,150	579,401	2,365,929	4,461,206	8,797,804
Liabilities						
Borrowings	--	1,019,320	15,628	445,085	--	1,480,033
Funds under management	25,429	--	--	--	--	25,429
Securities sold under repurchase agreements	119,494	770,736	2,858,374	435,720	--	4,184,324
Loan from parent company	77,591	--	278,791	--	--	356,382
Creditors and accrued expenses	179,047	46	185	108	--	179,386
Total liabilities	401,561	1,790,102	3,152,978	880,913	--	6,225,554
Net liquidity gap	117,557	(917,952)	(2,573,577)	1,485,016	4,461,206	2,572,250

Assets available to meet all of the Group's liabilities include cash and due from other banks; receivables and liquid debt securities. In the normal course of business, a proportion of liabilities to customers under securities sold under repurchase agreements repayable within one year will be extended. The Group manages liquidity risk using both expected and contractual cash flows, by preserving a large and diversified base of core deposits from retail and commercial customers and by maintaining ongoing access to wholesale funding. The Group would also be able to meet unexpected net cash outflows by accessing additional funding sources such as the existing facility with its parent company, asset-backed financing from commercial banks and securities brokers.

3 Financial risk management (continued)

c. *Liquidity risk (continued)*

(i) *Assets held for managing liquidity risk*

The Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

(a) Cash deposits at Bank
(b) Government bonds
(c) Secondary sources of liquidity in the form of liquid instruments in the Group's investment portfolios.

(ii) *Loan commitments*

As at 30 September 2019 the Group has no financial instruments that commit it to taking up new receivables or other debt securities (September 2018: nil).

(iii) *Operating lease commitments*

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases, are summarised in the table below. Included in operating expenses for the twelve months to 30 September 2019 is an amount of $964,804 (September 2018: $1.6 million) representing payments under operating leases.

(iv) *Lease commitments*

The Group is committed to the following operating lease payments:

	30 September 2019 $000	30 September 2018 $'000
Up to one year	1,422	1,493
One to five years	611	2,033

(v) *Capital commitments*

At 30 September 2019, the Group had capital commitments to the value of $9,612,854 (September 2018: $679,930).

d. *Fiduciary activities*

The Group provides custody, mutual funds and investment management services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3 **Financial risk management (continued)**

e. *Fair value of financial assets and liabilities*

(i) *Financial instruments not measured at fair value*

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value.

	Carrying value		Fair value	
	Sept 2019 \$000	**Sept 2018 \$'000**	**Sept 2019 \$000**	**Sept 2018 \$'000**
Financial assets				
Cash and due from other Banks	225,842	336,301	225,842	336,301
Amortised cost	4,043,138	3,677,374	4,144,015	3,817,228
Other assets	17,057	130,232	17,057	130,232
Financial liabilities				
Short term borrowings and bank overdraft	2,158,839	1,450,738	2,233,619	2,005,574
Funds under management	25,748	25,429	25,748	25,429
Securities sold under repurchase agreement	3,900,513	4,112,559	4,001,867	4,465,924
Loan from parent company	372,338	335,243	374,825	333,225
Creditors and accrued expenses	115,297	179,386	115,297	179,386

The fair values of the Group's financial instruments are determined in accordance with International Financial Reporting Standards (IFRS) 9 "Financial Instruments: Recognition and Measurement". The fair value of the securities sold under repurchase agreements are based on the fair value of the financial assets of the underlying securities less the accrued interest. The fair value above was determined using level 3 inputs.

Financial instruments where carrying value is equal to fair value

Due to their liquidity and short-term maturity, the carrying values of certain financial instruments approximate their fair values. Financial instruments where carrying value is approximately equal to fair value include cash and due from other banks.

Cash and due from other Banks

This amount represents short term deposits and other bank balances. The fair value of these short term deposits is approximately equal to their carrying amount.

Receivables

Receivables are net of provisions for impairment. The estimated fair value of receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

3 **Financial risk management (continued)**

e. *Fair value of financial assets and liabilities (continued)*

(i) *Financial instruments not measured at fair value (continued)*

Amortised cost investments

Fair value for amortised cost assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using a discounted cash flow valuation methodology where all cash-flows of the instruments are discounted at an appropriate yield plus a credit spread where applicable. The fair value of the amortised cost portfolio is computed for disclosure purposes only. There are no observable prices for these instruments and as such they are considered level 3 instruments.

Borrowings and Securities sold under Repurchase Agreements

Fair value of Repos is based on market value of underlying securities inclusive of interest not including ECL provisions. The Fair value for Borrowings is based on the market value of all other securities inclusive of interest excluding ECL provisions plus all cash borrowings held with brokers. This fair value is calculated for disclosure purposes only.

Due to customers

Amounts due to customer include funds under management and securities sold under repurchase agreements. These have maturities ranging from 1 day to 5 years and are subject to interest reset on a regular basis. The fair value of those amounts with maturities of less than one year is approximately equal to their carrying value. For long term fixed rate liabilities, the fair value of these amounts is estimated using fair value of the underlying securities and accrued finance cost to date.

Loan from parent company

The fair value of these facilities is calculated using discounted cash flow analysis of comparable GORTT borrowing rates for the term indicated, plus a spread consistent with the parent company credit rating September 2019 $374million (September 2018: $334.9million). These facilities accrues interest rates of 3 months LIBOR plus 1.75% and 4% respectively.

(ii) *Financial instruments measured at fair value using a valuation technique*

The total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the period September 2019: $nil (September 2018: nil).

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect The Group's market assumptions. These two types of inputs have created the following fair value hierarchy:-

- Level 1-Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt instruments.
- Level 3-Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

3 **Financial risk management (continued)**

e. *Fair value of financial assets and liabilities (continued)*

(ii) *Financial instruments measured at fair value using a valuation technique (continued)*

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 September 2019				
Fair value securities				
- Investment securities - debt	--	3,453,474	184,782	3,638,256
- Investment securities - equity	543	--	8,421	8,964
Total assets	543	3,453,474	193,203	3,647,220
As at 30 September 2018				
Fair value securities				
- Investment securities - debt	--	2,619,640	239,458	2,859,098
- Investment securities - equity	439	--	4,108	4,547
Total assets	439	2,619,640	243,566	2,863,645

Transfer of debt securities to level 3 were due to observable inputs being less readily available. There were no transfers between Level 1 and Level 2 during the year. Reconciliation of Level 3 items are as follows:-

Reconciliation of Level 3 items

	Equity $	Debt $	Total $
Balance as at 1 October 2018	4,108	239,458	243,566
- Fair value through other comprehensive income	3,227	--	3,227
- Fair value through profit & loss	--	798	798
Additions	1,086	3,230	4,316
Transfer to amortised cost	--	--	--
Disposals	--	(59,325)	(59,325)
Accrued interest	--	(361)	(361)
Amortisation	--	982	982
Balance as at 30 September 2019	8,421	184,782	193,203

3 **Financial risk management (continued)**

f. *Operational risk*

Operating risk is the risk of direct or indirect loss arising from system failure, human error, fraud and external events. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. The Group manages this risk by developing standards and guidelines in the following areas:

- Appropriate segregation of duties and access.
- Reconciling and monitoring of transactions.
- Documentation of controls and procedures.
- Training and development of staff.
- Reporting of operational losses and proposed remedial actions.
- Development of contingency plans.
- Information security.
- Assessments of the processes.
- Business continuity planning

g. *Capital management*

The Group'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 requirement set by the regulators under the Financial Institutions Act (2008);
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- To ensure that the Group can remain solvent during periods of adverse earnings or economic decline; and
- To ensure that the Group is adequately capitalised to cushion depositors and other creditors against losses.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the requirements of the Trinidad and Tobago Securities and Exchange Commission (the Commission), for supervisory purposes. The required information is filed with the Commission on a regular basis as required.

The Commission requires each securities company to hold the minimum paid up share capital of Five Million Trinidad and Tobago dollars. In addition to the minimum level of regulatory capital, the Group's management also monitors capital adequacy using relevant national and international benchmarks. Capital adequacy calculations are reported monthly to the Group's Risk and Portfolio Strategy Committee, the Risk Management Committee and the Board of Directors.

During the past two years, the Group complied with all of the externally imposed capital requirements to which it is subject.

4 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances:

(i) *Financial assets at FVOCI*

The Group uses the discounted cash flow method to determine the fair value of fair value through other comprehensive income financial assets not traded in active markets. The discounted cash flow method discounts the cash-flows of the financial assets at an appropriate yield plus a credit spread where applicable. The carrying amount of fair value of fair value through other comprehensive income financial assets would decrease by $203.47 million if the discount rate used in the discounted cash flow analysis is increased by 100 basis points from management's estimates (2018 - $302.41 million).

The Group's credit spread methodology utilises gradient tenors and currency specific spreads. The appropriate credit spread for the agency or corporate fixed income security is determined using a cubic spline interpolation of the appropriate currency and credit rating category in the credit spread matrix based on the remaining tenor of the facility. This singular credit spread is then added to the discount spot rates to value the facility using the discounted cashflow method. In June 2017 Group Market Risk revised this methodology to reflect the credit risk of the facility as the credit risk on a per cash flow basis, and no longer on the full maturity of the facility. This resulted in moving from applying a single credit spread based on term to maturity, to multiple credit spreads based on each cash flow's term to maturity.

There were no changes to the Credit Spread Methodology this year.

The models used to determine fair values are validated and periodically reviewed by experienced personnel at Group Market Risk.

(ii) *Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.a.vi, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4 **Critical accounting estimates and judgements in applying accounting policies (continued)**

(iii) *Measurement of the expected credit loss allowance (continued)*

Valuation of Government of Barbados (GoB) Series D Instruments

As at 1 October 2018, the Government of Barbados instruments received in the debt exchange, were classified as POCI, which was valued using a suitable yield curve. The curve utilized was constructed using a methodology that captured a market participant's perspective. This took into consideration the risk appetite, and compensations thereof, of investors who participated in similar restructures of sovereign debt and the resulting observations of their yield curves, post–restructure. The curve was constructed using the inputs obtained up to the fifteen year point from FCIS Research and Analytics Department's market reads process. Due to the limitation of available data beyond the fifteen year point, another sovereign of similar credit rating that underwent a restructure was combined through interpolation/extrapolation to produce a blended curve.

(iv) *Loss given default*

The Loss Given Default rate on corporate senior unsecured bonds is estimated to be 60% based on the International Swaps and Derivatives Association standard Credit Default Swap contract specification for North American corporate issuers. The Loss Given Default rate on sovereign senior unsecured bonds is estimated to be 46% based on the average Loss Given Default rate on Sovereign bonds during the period 1983 to 2016 as reported by Moody's Investors Service.

(v) *Purchase Originated Credit-Impaired (POCI)*

POCI financial assets are those for which one or more events that have a detrimental impact on the estimated future cash flows have already occurred. Indicators include:

- Borrower or issuer is experiencing significant financial difficulty;
- A breach of contract, such as a default or past due event;
- The granting of an uncustomary concession(s) by the lender(s) as a result of the borrower's financial difficulty;
- A high likelihood of bankruptcy or other financial reorganisation by the borrower;
- The loss of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

In June 2018, the Government of Barbados (GoB) selectively defaulted on both its local and foreign currency denominated debt. The Group received new GoB instruments in connection with an IMF supported debt restructure effective 1 October 2018. Under the terms of the restructure, the Group received new instruments with maturities ranging from fifteen to thirty-five years. The Group recorded an impairment of approximately BBD 47M on these instruments in the audited financial statements for year ended 30 September 2018.

Due to the variation of the cashflows from the old instruments, the debt exchange effectively resulted in a haircut for the holders of these instruments; hence an impairment was recorded at the financial year-end. The impairment was derived by comparing fair values of the new instruments to the face values of the original instruments. The determination of fair value was obtained by discounting the proposed cash flows using a BBD term-structure yield curve. The yield curve was established using the Group's Pricing Methodology for Non Eurobond Securities.

4 Critical accounting estimates and judgments in applying accounting policies (continued)

(v) *Purchase Originated Credit-Impaired (POCI) (continued)*

The GoB Series D bonds value as at 1 October 2018 was 64.63, the effective interest rate was determined at 7.56% using an adjusted blended yield curve. However, because these bonds have been recognised as POCI, the effective interest rate needed to be adjusted to reflect the *expected* cash flows- net of expected credit losses. Lifetime expected credit losses were used in the estimated cash flows for the purposes of calculating the effective interest rate – resulting in a Credit-Adjusted Effective Interest Rate (CAEIR) of 6.55%.

Interest revenue was calculated on the net carrying amount at the credit-adjusted effective interest rate i.e. including expected credit losses. At September 2019 the CAEIR interest income on the cash flows represented an accretion value of BBD 4.18. The repayment of the cash flows amounted to BBD1.38 as per contractual terms. The Expected Credit Losses which are implicit in the CAEIR needed to be adjusted based on the repayments and changes to the expected cash flow projections due to changes in Probability of Default Assumptions/Macro-economic overlay scenarios (see Note 3.a.v). The recognised change in the ECL stood at BB 2.33 as at September 2019. Therefore, the POCI value for the GoB Series D bonds was BBD 69.76 and the face value BBD 131,997,672 as at September 2019.

The impact to FCIS GoB bond exposure is reflected below:

FCIS SERIES D CONSOL POCI IMPACT	POCI value movements (rounded)	Face Values	CONSOL Sept	Statement of Financial Position Impact	Statement of Income Impact
1 October 2018 value	**64.63**	**131,997,672**	**BBD**	**TTD**	**TTD**
Investment accretion	4.18	131,997,672	5,522,286	18,832,101	18,832,101
Investment cash flows received	(1.38)	131,997,672	(1,814,968)	(6,189,404)	--
ECL remeasurement	2.33	131,997,672	3,062,346	10,443,212	10,443,212
30 September 2019	**69.76**		**6,769,664**	**23,085,909**	**29,275,313**

4 Critical accounting estimates and judgments in applying accounting policies (continued)

(vi) *Income taxes*

Management judgment is required in determining provisions for income taxes and there are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. When appropriate, particularly where the ultimate tax determination is uncertain, management also obtains opinions or advice from leading tax advisors and regularly reassesses its strategy in relation to such exposures.

The Group is subject to income tax in various jurisdictions. Tax is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Substantive enactment is considered to be achieved when further steps in the enactment process will not change the outcome of a proposed change in tax law. Management considers the legislative process applicable in each jurisdiction in which it operates in determining at what point a proposed change in tax law will be considered substantively enacted by identifying the point after which further steps in the enactment process will not affect the outcome of the proposed change.

(vii) *Fair valuation of properties*

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Company determines the amount within a range of reasonable fair value estimates. In making the judgement, the Company considers information from a variety of sources including:

- Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- Recent prices of similar properties in less active market, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount.
- The Group engaged external, independent and qualified valuators to determine the fair value of The Group's land and buildings. The valuations were performed in September 2018. The Group's policy is to obtain independent valuations for its freehold land and buildings at least every three years (Note 10 a. ii)

The valuations are based on current market conditions and thus may change in the future.

(viii) *Loss given default*

The Loss Given Default rate on corporate senior unsecured bonds is estimated to be 60% based on the International Swaps and Derivatives Association standard Credit Default Swap contract specification for North American corporate issuers. The Loss Given Default rate on sovereign senior unsecured bonds is estimated to be 46% based on the average Loss Given Default rate on Sovereign bonds during the period 1983 to 2016 as reported by Moody's Investors Service.

4 **Critical accounting estimates and judgments in applying accounting policies (continued)**

(ix) *Fees and commissions*

The standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers. IFRS 15 does not distinguish between revenue from sales of goods and services or construction contracts. Instead, it defines transactions based on performance obligations satisfied over time or at a point in time. The core underlying principle is that an entity should recognise revenue in a manner that depicts the pattern of transfer of goods and services to customers. The amount recognised should reflect the amount to which the entity expects to be entitled in exchange for those goods and services.

Revenue type	Identification of performance obligation	Satisfaction of performance obligation	Timing of revenue recognition	Impact from adopting IFRS15
Capital markets	Revenue are recognised at a point in time upon full completion of the scope of works to the contract	There is no separation of performance obligation	Completion of full service at a point in time	No changes required
Wealth Management	Revenue are recognised at a point in time upon full completion of the scope of works to the contract	There is no separation of performance obligation	Completion of full service at a point in time	No changes required
Brokerage & Advisory	For general Brokerage and Advisory revenues are recognised at a point in time upon full completion of the scope of works to the contract, however, for Initial Public offerings the performance obligation maybe specific to stage of completion of the services delivered	The separation of the performance obligation would be specific to the engagement and agreement with the client	For IPO fees it would be based on separation of performance obligation as per the contact, this would be over time.	As at 30 September 2019 the impact on the adopting of IFRS15 would be Nil because there were no contract of that nature at the balance sheet date.
Pension Fund & Private Portfolio	Revenue are recognised in accordance with pre-approved fees as per the contract, over the period the service is provided	The separation of the performance obligation would be specific to the agreement with the client	Based on the separation of the performance obligation as per the contract, this would be overtime.	No changes required
Other	Revenue are recognised at a point in time upon full completion of the scope of works to the contract	There is no separation of performance obligation	Completion of full service at a point in time	No changes required

The impact from the transition to IFRS 15 as at 30 September 2019 is Nil.

5 Cash and due from other Banks

	2019 $000	2018 $000
Cash and bank balances	219,636	330,173
Short-term investments	6,206	6,128
	225,842	336,301
Short-term investments:		
- Maturity within 3 months	707	698
- Maturity over 3 months	5,499	5,430
	6,206	6,128

The average effective interest rate on bank deposits was 0.24% (2018: 0.16%).
Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flow:

Cash balances	56,110	116,375
Short-term investments – maturity within 3 months	707	698
Due from other banks	163,526	213,797
	220,343	330,870

6 Financial assets – fair value through other comprehensive income

	2019 $'000	2018 $'000
Debt securities		
GORTT and state owned enterprises	519,959	509,144
Listed	2,580,808	2,110,496
Unlisted	537,488	239,458
	3,638,255	2,859,098
Less provision for impairment	(4,663)	(8,062)
	3,633,592	2,851,036
Equity securities		
Listed	--	--
Unlisted	8,421	4,108
Subtotal equities	8,421	4,108
	3,642,013	2,855,144

6 Financial assets – fair value through other comprehensive income (continued)

The movement in financial assets fair value through other comprehensive income may be summarised as follows:

	2019 $'000	2018 $'000
Opening position IAS 39	--	3,831,364
Adjustment for reclass	--	(1,542,726)
Adjustment for remeasurement	--	(8,072)
At start of year	2,855,144	2,280,566
Exchange difference	2	(8)
Additions	1,156,333	1,525,184
Disposals	(613,177)	(789,716)
Reclassification	--	--
Gains/(losses) from changes in fair value	240,312	(160,440)
Net movement in provisions	3,399	(442)
At end of year	3,642,013	2,855,144

As at 30 September 2019 there were no securities pledged under the Company's bank overdraft and short term borrowings (2018: nil). At the statement of financial position date all repurchase agreements were securitised by an underlying security.

Included in these are financial assets amounting to $3.58 billon (2018: $2.9 billion) that have been pledged to third parties under sale and repurchase agreement. These amounts do not include ECL provision and Fair Value Movements.

Included in these pledged assets, are financial assets amounting to $2.14 billion (2018: $2.3 billion) where the title was transferred under securities sold under repurchase agreements.

7 Financial assets – amortised cost

Debt securities	2019 $'000	2018 $'000
GORTT & state owned enterprises	1,237,531	1,467,427
Listed	87,662	98,022
Unlisted	1,779,111	1,478,325
Corporate	949,358	914,457
Individuals	12,587	14,136
	4,066,249	3,972,367
Less provision for impairment	(23,111)	(176,646)
	4,043,138	3,795,721

7 **Financial assets – amortised cost (continued)**

The movement for the year may be summarised as follows:

	2019 $'000	2018 $'000
Opening position IAS 39	--	2,489,422
Adjustment for reclass	--	1,542,330
Adjustment for remeasurement	--	(220,485)
At beginning of year	3,795,721	3,811,267
Exchange difference	18	(14)
Additions	1,260,379	981,671
Redemptions	(1,140,617)	(991,737)
Impairment on financial assets	109,462	1,355
Net amortisation of discounts	9,427	3,694
Amortisation of unrealised gains on reclassified assets	11,141	(3,088)
Movement of provision for impairment	(2,393)	(7,427)
At end of year	4,043,138	3,795,721

Included in these are financial assets amounting to $3.17 billion (2018: $2.76 billion) billion that have been pledged to third parties under sale and repurchase agreements. These amounts do not include ECL provision.

Included in these pledged assets, are financial assets amounting to $2.94 billion (2018: $2.5 billion) where title was transferred under securities sold under repurchase agreements.

8 **Financial assets - fair value through profit or loss**

	2019 $'000	2018 $'000
Bonds	–	13,413
Listed equity	543	439
	543	13,852

The movement for the year may be summarised as follows:

	2019	2018
Opening position	13,852	655
Adjustment for reclass	--	396
At start of year	13,852	1,051
Additions	109	13,462
Disposals	(13,465)	(618)
Gain/(loss) from changes in fair value	47	(60)
Reclassification to fair value through profit or loss	--	17
	543	13,852

The above securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy, and information about the Group's financial instruments is reported to management on that basis.

9 Intangible assets

This comprises an investment in computer software that was brought into use as at June 2018 and May 2012. Movements are as follows:

	2019 $'000	2018 $'000
At beginning of the year	849	849
Additions	1,267	--
Less: Disposals	(1,883)	--
Disposal – Acc depreciation	1,883	--
At end of year	2,116	849
Cost	27,768	28,385
Accumulated amortisation and impairment	(25,652)	(27,536)
Net book amount	2,116	849

10 **Property and equipment**

	Land & building $'000	Leasehold improvements $'000	Office equipment & furniture $'000	Motor vehicles $'000	Computer equipment $'000	Work in progress $'000	Total $'000
Year ended 30 September 2019							
Opening net book amount	54,017	2,321	1,074	1,393	673	–	59,478
Additions	–	–	20	1,273	120	308	1,721
Disposals	–	–	–	–	(30)	–	(30)
Depreciation charge	(827)	(842)	(510)	(892)	(286)	–	(3,357)
Depreciation charge on disposal	–	–	–	–	20	–	20
Closing net book amount	53,190	1,479	584	1,774	497	308	57,832
At 30 September 2019							
Cost/revaluation	59,423	5,893	14,176	4,397	2,746	308	86,943
Accumulated depreciation	(6,233)	(4,414)	(13,592)	(2,623)	(2,249)	–	(29,111)
Net book amount	53,190	1,479	584	1,774	497	308	57,832

10 **Property and equipment (continued)**

	Land & building $'000	Leasehold improvements $'000	Office equipment & furniture $'000	Motor vehicles $'000	Computer equipment $'000	Work in progress $'000	Total $'000
Year ended 30 September 2018							
Opening net book amount	56,337	3,068	1,999	1,831	244	472	63,951
Additions	–	79	59	871	174	–	1,183
Disposals	–	(7,885)	(46)	(1,741)	(121)	–	(9,793)
Revaluation	(1,245)	–	–	–	–	–	(1,245)
Transfers	–	–	–	–	472	(472)	–
Depreciation charge	(1,075)	(826)	(984)	(813)	(192)	–	(3,890)
Depreciation charge on disposal	–	7,885	46	1,245	96	–	9,272
Closing net book amount	54,017	2,321	1,074	1,393	673	–	59,478
At 30 September 2018							
Cost/revaluation	59,423	5,893	14,156	3,124	2,656	–	85,252
Accumulated depreciation	(5,406)	(3,572)	(13,082)	(1,731)	(1,983)	–	(25,774)
Net book amount	54,017	2,321	1,074	1,393	673	–	59,478
At 30 September 2017							
Cost/revaluation	60,668	13,699	14,143	3,994	2,131	513	95,148
Accumulated depreciation	(4,331)	(10,631)	(12,144)	(2,163)	(1,887)	(41)	(31,197)
Net book amount	56,337	3,068	1,999	1,831	244	472	63,951

10 **Property, plant and equipment (continued)**

a. *Recognised fair value measurements*

(i) *Fair value hierarchy*

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets carried at fair value into the three levels prescribed under the accounting standards.

Level 3	2019 $000	2018 $000
Building on lease land	26,168	26,800
Land and building	17,371	25,567
Freehold land	1,650	1,650
	45,189	54,017

The Group's policy is to recognise transfers into and transfers out of fair values hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. Note 10 – PPE: Land and Building includes leasehold land TTD$8.4 million.

(ii) *Valuation techniques used to determine level 2 and level 3 fair values*

The Group engages external, independent and qualified valuators to determine the fair value of the Group's land and buildings. The last valuations were performed in September 2018. The Group's policy is to obtain independent valuations for its freehold land and buildings at least every three years.

The basis of valuation is the market value, which is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

At the end of each reporting period, management updates their assessment of the fair value of each property, taking into account the most recent independent valuations. Management determines a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available, Management considers information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- discounted cash flow projections based on reliable estimates of future cash flows.

10 Property, plant and equipment (continued)

a. *Recognised fair value measurements (continued)*

(iii) *Transfer between level 2 and 3 and change in valuation techniques*

There were no transfers between levels 2 and 3 for recurring fair value measurements nor change in the valuation technique during the financial year.

Level 3 fair values of land and retail units have been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

As at 30 September 2019, the Group's freehold premises were stated at revalued amounts determined by management. Valuations were made on the basis of open market value. Open market values are determined by considering the current market condition. Changes in fair value are recorded in the statement of comprehensive income.

If freehold premises were stated on the historical cost basis, the amount would be as follows:

	2019 $000	2018 $000
Cost	50,432	50,432
Accumulated depreciation	(6,233)	(5,407)
Net book amount	44,199	45,025

11 Other assets

	2019 $000	2018 $000
Prepayments	6,045	6,275
Fees and coupons receivable	15,710	19,473
Due from parent company	456	896
Amounts due from brokers	309	456
Other receivables	582	109,407
	23,102	136,507

Included in Other receivables to September 2018 are amounts for equity and bond settlements of $107M.

12 Borrowings

	2019 $000	2018 $000
Medium term borrowings	434,710	434,663
Short term borrowings	1,724,129	1,016,075
	2,158,839	1,450,738

Medium term borrowings represent unsecured borrowings of US$35.1 million, and TT$197.7 million from clients for a period of three years (2018: US$35.1 million and TT$197.7 million). These debt accrues on interest rates of 6 month LIBOR plus 2% and 3.5% on the USD, and on the TTD at 3.5% (2018: 6 month LIBOR plus 2% and 3.5% on the TTD notes). The average rate as at the end of September 2019 was 3.63% (2018: 3.63%).

Short term borrowings represent facilities via 4 financial institutions which are secured by the Group's investment securities held by the financial institutions:

(1) Principal US$40 million, 2.5 years maturity, 3.75% (2018: nil)
(2) Principal US$40 million, 9 months maturity, 3.15% (2018: US$40 million)
(3) Principal US$60 million, 6 months maturity, 3.65% (2018: US$60 million)
(4) Principal US$50 million, 1.5 years maturity, 4% (2018: US$50 million)
(5) Principal US$65 million, 3 years maturity, 2.95% (2018: nil)

The market value of the investment security held as collateral for these facilities amounted to $2,233 million at September 2019 (2018: $1,016 million) (Note 3e (i)).

13 Securities sold under repurchase agreements

Securities sold under repurchase agreements are analysed by sector as follows:

	2019 $000	2018 $000
Invested principal	3,850,695	4,059,745
Accrued interest	49,818	52,814
	3,900,513	4,112,559
Public institutions	1,110,100	1,456,883
Private institutions	1,700,437	1,659,654
Consumer	1,089,976	996,022
	3,900,513	4,112,559
Current portion	3,356,386	3,693,768
Non-current portion	544,127	418,791
	3,900,513	4,112,559

Securities sold under repurchase agreements only include financial instruments classified as liabilities at amortised cost. These financial instruments accrue interest at rates between 0.2% and 5.89% (2018: 0.20% and 6.48%).

14 Creditors and accrued expenses

	2019 $000	2018 $000
Accrued expenses	8,000	12,438
Due to brokers	5,247	9,033
Other liabilities	73,855	91,359
Related parties	28,195	66,556
	115,297	179,386

Balances due to related parties include an amount of $23.2 million (2018: $22.4 million) owed to the Bank. This relates to an amount owing to GORTT by the Bank in respect of payments made on claims which were subsequently recovered pursuant to the Liquidity Support Agreement discussed in Note 3a(ii). Other liabilities balance as at 30 September 2019 includes amounts due for Equity and Bond settlements $45.2 million (September 2018: $83.4 million).

15 Loan from parent company

	2019 $000	2018 $000
Loan from parent company	372,338	335,243

This comprises two loan facilities:

1) Unsecured Short Term US facility approved for US$40M, at a rate of 4%. Draw down balance as at September 2019: US$40M (September 2018: US$40M at 4%), repayable Mar 2022
2) Line of Credit approved for US$20M. Drawn down balance as at September 2019: US$14.8M (September 2018: US $9M at 3 month libor plus 175 bps), repayable Dec 2019.

16 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method using tax rates of 30% and 5.5% (2018: 30%, 25% and 12.5%).

The movement on the deferred tax account is as follows:	2019 $000	2018 $000
At beginning of year	17,555	63,741
Fair value reserves (Note 18)	70,727	(50,099)
Statement of income charge (Note 27)	3,124	3,913
Adjustment for deferred tax on Barbados branch restructuring	(51)	--
	91,355	17,555

16 **Deferred tax (continued)**

Deferred tax assets and liabilities and the deferred tax charge/credit in the statement of income and fair value reserve are attributable to the following items:

	Opening balance Oct 2018 $'000	Fair value reserves $'000	(Credit) / Charge to statement of income $'000	Adjustment $'000	Closing balance Sept 2019 $'000
Financial assets at fair value through profit or loss	(222)	--	--	--	(222)
Provisions	(129)	--	--	--	(129)
Deferred tax asset	(351)	--	--	--	(351)
Fair value re-measurement	(26,800)	71,611	--	--	44,811
Amortisation	4,137	(884)	--	--	3,253
Unrealised exchange gains	6,206	--	7	--	6,213
Zero coupon instruments	33,608	--	2,318	--	35,926
Accelerated tax depreciation	755	--	799	--	1,554
Adjustment for Barbados branch restructuring	--	--	--	(51)	(51)
Deferred tax liability	17,906	70,727	3,124	(51)	91,706
Net deferred tax liability	17,555	70,727	3,124	(51)	91,355

	Opening balance Oct 2017 $'000	Fair value reserves $'000	(Credit) / Charge to statement of income $'000	Closing balance Sept 2018 $'000
Financial assets at fair value through profit or loss	(214)	--	(8)	(222)
Provisions	(129)	--	--	(129)
Deferred tax asset	(343)	--	(8)	(351)
Fair value re-measurement	22,822	(49,622)	--	(26,800)
Amortisation	4,613	(476)	--	4,137
Unrealised exchange gains	6,162	--	45	6,206
Zero coupon instruments	29,886	--	3,722	33,608
Accelerated tax depreciation	601	--	154	755
Deferred tax liability	64,084	(50,098)	3,921	17,906
Net deferred tax liability	63,741	(50,098)	3,913	17,555

Deferred income tax assets and liabilities listed above relate to temporary difference relating to assets and liabilities which are taxable under Trinidad and Tobago tax rates.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

16 **Deferred tax (continued)**

The Group does not have any unrecognised losses as at 30 September 2019 (30 September 2018: nil). Deferred tax assets are expected to be recovered as follows:

	2019 $000	2018 $000
Within 12 months	--	--
After 12 months	351	27,151
	351	27,151

Deferred tax liabilities are expected to be realised as follows:

Within 12 months	7,716	6,961
After 12 months	83,990	37,785
At end of year	91,706	44,746

17 **Share capital**

The total authorised number of shares are issued and fully paid. These shares are not traded in an open market and during the year there were no movements in each type and/or class of share.

	2019 $'000	2018 $'000
Authorised		
An unlimited number of shares at par value		
Issued and fully paid		
637,697,000 ordinary shares of no par value	637,697	637,697

18 **Fair value reserves**

i *Fair value reserve - Fair value through other comprehensive income*

For debt financial assets the fair value reserve comprises the cumulative net change in the fair value of the fair value through comprehensive income financial assets, net deferred tax, until the assets are derecognised or impaired. For equity financial assets, any movement in fair value is recognised through other comprehensive income and are not recycled to the Statement of Income.

ii *Fair value reserve - Amortised cost*

The fair value reserve comprises the cumulative gains on amortised cost financial assets, net deferred tax. These gains are being amortised during the life of the relevant instruments.

These related to instruments previously classified as AFS which were reclassified to HTM under the temporary guidance allowed under IAS 39 re reclassifications.

iii *Fair value reserve - Land and buildings*

The fair value reserve comprises of the net fair value of the Group's land and building which are valued by an independent valuator every three years.

18 **Fair value reserves (continued)**

	2019 $000	2018 $000
Financial assets fair value through OCI	104,060	(62,790)
Financial assets amortised cost	7,155	10,494
Land and building	991	991
Foreign exchange	--	10,539
At end of year	112,206	(40,766)
Financial assets fair value through other comprehensive income		
Opening position IAS 39	--	47,292
Adjustment for reclass – Fair value	--	(54,157)
Adjustment for reclass – Deferred tax	--	15,649
At the beginning of year	(62,790)	8,784
Adjustment for FV branch acquisition	266	--
Net gain/(losses) from changes in fair value	238,195	(105,425)
Deferred tax due to change in effective tax rate	--	2,308
Deferred tax (charge)/credit (Note 16)	(71,611)	31,641
Reclassification to amortised cost	--	(98)
At end of year	104,060	(62,790)
Financial assets amortised cost		
At beginning of year	10,494	11,684
Amortisation	(4,391)	(1,789)
Adjustment for FV branch acquisition	168	--
Deferred tax on amortisation (Note 16)	884	501
Reclassification to fair value	--	98
At end of year	7,155	10,494
Land and building		
At beginning of year	991	2,028
Net gains from changes in fair value	--	(1,037)
At end of year	991	991
Foreign exchange reserve		
At beginning of year	10,539	10,539
Exchange differences	(10,539)	--
At end of year	--	10,539

19 **Interest income**

	2019	2018
Fair value through other comprehensive income	201,972	167,086
Amortised cost	131,229	139,062
Fair value through profit and loss	16	111
Other	4,041	3,916
	337,258	310,175

20 Interest expense

	2019 $000	2018 $000
Securities sold under repurchase agreements	101,480	95,417
Borrowings	58,159	44,663
Loan from parent company	11,597	8,644
Other	815	776
	172,051	149,500

21 Fees and commissions

Capital Markets - placement fees	10,959	11,817
Brokerage and Advisory- other	752	26,366
Wealth Management	4,165	6,775
Brokerage & Advisory-equity	1,716	6,394
Pension Fund & Private Portfolio	69,755	4,254
Other	196	281
	87,543	55,887

All fees and commissions are specific to the service contract and are recognised at a point in time, with the exception of Brokerage and Advisory - other and Pension and Private Portfolio which are recognised as per the performance obligation and the fees are recognised over time.

22 Gain on financial assets

Net realised gain on fair value through profit and loss	746	309
Net realised gains on disposal of financial assets	20,454	7,355
	21,200	7,664

23 Other income

Bank interest income	82	703
Other	220	524
Rental income	137	137
Dividend income	435	124
	874	1,488

24 Impairment

Statement of income		
Net increase in provisions for impairment	4,860	4,354
POCI Impairment Writeback	(10,443)	–
Direct (writeback)/write off to income	(5,348)	–
Provision for impairment – tax recoverable	357	–
	(10,574)	4,354
Statement of financial position		
Balance as at 1 October	184,708	5,954
Written off GoB provision (Note 4(iv))	(112,570)	–
Increase in provisions for impairment	8,106	178,754
Provisions written off	(53,126)	–
Transferred to parent	656	–
Balance as at 30 September	27,774	184,708

25 Administrative expenses

	2019 $000	2018 $000
Staff costs (Note 25.a)	35,857	33,868
Depreciation	3,357	3,890
Amortisation cost	--	--
	39,214	37,758

a. *Staff costs*

	2019 $000	2018 $000
Wages and salaries	24,575	22,723
Pension	2,078	1,888
National Insurance	1,223	1,217
Other	7,981	8,040
	35,857	33,868

26 Other operating expenses

	2019 $000	2018 $000
Information technology expenses	3,876	3,739
Office expenses	7,056	7,168
Capital market expenses	--	10,113
Consultancy & outside services	9,228	9,186
SLA Management charges	12,000	8,485
BBD Tax Impairment	--	10,614
Other expenses	3,873	6,510
	36,033	55,815

27 Taxation

	2019 $000	2018 $000
Corporation tax	36,354	27,954
Prior year under/(over) provision	4,977	(4,809)
Deferred tax (Note 16)	3,124	3,913
	44,455	27,058

The tax on profit before tax differs from the theoretical amount that would arise using the basic rate of tax as follows:

	2019 $000	2018 $000
Profit before tax	208,351	126,436
Tax calculated at tax rates applicable to profits in respective countries	70,238	2,845
Income exempt from tax	(31,777)	(15,925)
Expenses not deductible for tax purposes	12,066	45,076
Prior year under/(over) provision	4,594	(4,497)
Net effect of other charges and allowances	(12,176)	(441)
Effects of different tax rates	1,510	--
	44,455	27,058

28 Commitments

a. *Capital commitments*

	2019 $000	2018 $000
Capital expenditure approved by the Directors but not provided for in these accounts	9,613	680

b. *Credit commitments*

Commitments for loans approved not yet disbursed	--	--

29 Assets under management

Assets under management, which are not beneficially owned by the Group, but which are managed by the Group on behalf of investors are listed below at carrying amount.

	2019 $000	2018 $000
Off-consolidated statement of financial position investments	14,946,630	14,742,588

As at 1 September 2018 all Assets under management were transferred to First Citizens Portfolio & Investment Management Services Limited. First Citizens Portfolio Investment Management Services Limited (the "Company"), was incorporated in the Republic of Trinidad and Tobago and is engaged in the provision of financial management services as is authorised pursuant to its registration under Section 51 (1) of the Securities Act 2012 as an Investment Advisor. It was a wholly owned subsidiary of First Citizens Bank Limited until 31 August 2018.

Effective 1 September 2018, First Citizens Investment Services Limited (FCIS) acquired the Company at its net book value of TT$29 million. The ultimate parent company is First Citizens Holdings Limited, a company with a 64.43 % controlling interest and is owned by the Government of the Republic of Trinidad and Tobago (GORTT). The remainder of the shares are listed on the Trinidad and Tobago Stock Exchange and are publicly traded.

The Company's registered office is 17 Wainwright Street, St. Clair, Port of Spain.

30 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. At 30 September 2019 the Group was a 100% subsidiary of First Citizens Bank Limited, which in turn is a subsidiary of First Citizens Holdings Limited, a company owned by the Government of the Republic of Trinidad and Tobago (GORTT).

A number of transactions are entered into with related parties in the normal course of business. These include purchase of investment securities and securities sold under repurchase agreements.

	2019 $'000	2018 $'000
a. *Directors and key management personnel*		
Statement of financial position		
Loan and receivable	--	19
Securities sold under repurchase agreements	(690)	(676)
	(690)	(657)
Statement of income		
Interest income	--	2
Interest expense	(11)	(14)
Salaries and other short-term employee benefits	(5,386)	(5,852)
	(5,397)	(5,864)

b. *Related companies*

The following related party transactions are included in the consolidated statement of financial position and consolidated statement of income for September 2019:

	Parent $'000	Related companies $'000	GORTT $'000
Statement of income			
Interest income	161	--	51,238
Interest expense	(11,597)	(4,270)	--
	(11,436)	(4,270)	51,238
Statement of financial position			
Assets			
Cash and cash equivalents	132,503	8,574	--
Other assets	--	374	--
Financial assets	--	--	1,307,422
Liabilities			
Securities sold under repurchase agreements	--	(186,896)	--
Creditors and accrued expenses	(25,520)	(2,625)	--
Loan from parent company	(380,341)	--	--
	(273,358)	(180,573)	1,307,422

30 Related party transactions (continued)

b. *Related companies (continued)*

The following related party transactions are included in the consolidated statement of financial position and consolidated statement of income for September 2018:

	Parent $'000	Related companies $'000	GORTT $'000
Statement of income			
Interest income	819	--	47,947
Interest expense	(8,637)	(5,822)	--
	(7,818)	(5,822)	47,947
Statement of financial position			
Assets			
Cash and due from other Banks	206,334	--	--
Other assets	896	--	--
Financial assets	--	--	1,309,825
Liabilities			
Securities sold under repurchase agreements	--	(354,007)	--
Creditors and accrued expenses	(53,304)	(1,690)	--
Loan from parent company	(335,243)	--	--
	(181,317)	(355,697)	1,309,825

31 Contingent liabilities

At the consolidated statement of financial position date there were no contingent liabilities (2018: nil).

32 Subsequent events

There were no events after the financial position date which were material to the financial statements and should have resulted in adjustment to the financial statement or disclosures when the financial statements were authorised for issue.