First Citizens Investment Services Limited and its Subsidiaries
Annual Report 2017
(Presented in Trinidad and Tobago Dollars)

Contents

About Us

First Citizens Investment Services Limited commenced operations in Trinidad and Tobago in 2000 and is one of the largest full-service investment management houses in the Caribbean. We provide clients with advisory services, wealth management services, structured investments, asset management services, portfolio management, underwriting, capital market services, bond and equity trading, short-term secured fixed income investments, market commentary and analysis and brokerage services. We are licensed broker-dealers on the Trinidad and Tobago Stock Exchange, Barbados Stock Exchange and the Eastern Caribbean Securities Exchange.

We have always been committed to developing the financial markets in the communities in which we operate. In this regard, we continue to be the thought leader in the Caribbean through our analytical reports and our client seminars which are held in all the territories in which we do business. We conduct investment management seminars throughout the year in all of the territories that we do business.

Our Locations

Trinidad and Tobago

Head Office – St. Clair Centre
17 Wainwright Street
St. Clair
Port of Spain
Tel: (868) 622-3247
Fax: (868) 623-2167

San Fernando Centre
46 Lady Hailes Avenue
San Fernando
Tel: (868) 657-2662
Fax (868) 653-4871

Barbados
One Welches,
Welches
St. Thomas
Tel: (246) 417-6810
Fax: (246) 421-2140

St. Lucia
John Compton Highway
Sans Souci
Castries
Tel: (758) 450-2662
Fax: (758) 451-7984

St. Vincent & the Grenadines
2nd Floor, Sprott Bros. Plaza
Bay Street
Kingstown
Tel: (784) 453-2662
Fax: (784) 453-3800

Chairman

Anthony Isidore Smart
Chairman

Mr. Anthony Smart graduated from the University of Toronto, Canada with a Bachelor of Arts (General) in Economics.

He is an Attorney-at-Law who has been in private practice for 44 years, 30 of which he has led the law firm of Gittens, Smart & Company. He was an elected member of the House of Representatives of the Parliament of Trinidad and Tobago from December 1986 to November 1991.

At various times between January 1987 and February 1989 he was the Deputy Speaker of the House of Representatives, Minister in the Office of the Attorney General, Minister in the Office of the Prime Minister, and Chief Whip in the House of Representatives. He was Attorney General of Trinidad and Tobago from March 1989 to November 1991.

Mr. Smart was a tutor in family law at the Hugh Wooding Law School in the 1970's and was personally responsible for drafting the Code of Ethics for Ministers and Members of Parliament, which was laid in the House of Representatives in 1988.

Mr. Smart was appointed as Chairman of the Board of First Citizens Bank Limited on June 17, 2014 and subsequently as Chairman of First Citizens Investment Services Limited and First Citizens Costa Rica S.A. He served as Executive Chairman of First Citizens Bank Limited from December 4, 2014 to April 7, 2015.

He was inducted into the Fatima College Hall of Achievement for Public Service in 2015.

Our Executive Team

Sana Ragbir
CFA, MBA
General Manager

Ms. Ragbir joined FCIS in 2010 as the Assistant General Manager. Subsequently, she was appointed the General Manager of FCIS in October 2015 and now has oversight of the entire operation of FCIS. She has a Masters in Business Administration, with honors, from Columbia Business School in New York and a B.Sc. in Chemistry/Management, First Class Honors, from University of the West Indies. She is also a Chartered Financial Analyst (CFA).

Stephen Thomas
Assistant General Manager

Mr. Thomas joined FCIS in 2017 as the Assistant General Manager and has specific responsibilities for FCBAS, FCIS regional offices in Barbados, St. Lucia and St. Vincent and the Grenadines, as well as the Wealth Management Department of FCIS. He graduated from the McDonough School of Business at Georgetown University, Washington D.C., US with a Masters in Business Administration. He also holds a Bachelors in Science from the University of the West Indies in Economics.

Vangie Bhagoo-Ramrattan
Head, Research & Analytics

Mrs. Bhagoo-Ramrattan has 14 years of experience in the financial sector, having joined FCIS (formerly CMMB) in 2004. She is currently responsible for the operations of the First Citizens Research & Analytics Department. Vangie holds a Masters Degree in Economics as well as a B.Sc. in Economics with a minor in Finance with (Honors), both from the University of the West Indies.

Daniel Youssef
Head, Wealth Management

Mr. Youssef joined FCIS in January 2011 and currently holds the position of Head of Wealth Management. His responsibilities include leading all the Investment Advisory and Business Development activities of the company. Mr. Youssef holds a Masters of Business Administration (with distinction) from Heriot Watt University in the UK and a Bachelor of Arts Degree in International Business Administration (with honors) from the University of Lincoln, UK.

Greg Ferreira
Corporate Manager, Proprietary Portfolio Management

Mr. Ferreira has over 13 years investment experience and is responsible for managing the FCIS Proprietary Portfolio. He holds a Bachelors of Science in Management Studies with a Finance Minor (First Class Honours) from the University of the West Indies and is also a CFA Charterholder.

Chairperson's Statement

First Citizens Investment Services Limited performance for the financial year which ended 30 September 2017 was solid with Profit After Tax for the period at TTD96.3 million, a decrease of TTD6.4 million from 2016. Shareholder's equity also stood at TTD1.3 billion. The reduced net profit position was as a result of management's decision to exit some Credit Linked Notes (CLNs) over the course of the fiscal year, given the outlook of current market conditions, which negatively impacted trading income. Additionally, management's deliberate strategy of being long USD holders continued to bear fruit, but less so than in the prior year, given the slower rate of depreciation of the local currency to the USD, year over year.

United States (US)

The prospect of tax reform in the US in early 2018, as well as already-strong leading indicators for business investment, point to potential for fixed capital formation being a bright spot over the next several quarters. However, in August 2017, industrial production contracted by 0.9% m-o-m on a seasonally-adjusted basis, from a 0.4% gain in July. This was the weakest reading since the US emerged from recession in 2009, due in large part to disruptions caused by Hurricane Harvey to oil and gas output in and around Houston and the Gulf Coast. Despite the dip, the impact on Q3, 2017 output is expected to be largely offset by a rebound in Q4, 2017. Regardless, real GDP growth is expected to remain above the long-term 1.9% potential trend. It is expected that private fixed investment will grow 3.4% in 2017 and 4.0% in 2018, the highest since the height of the oil investment boom in 2014. Part of this positive outlook in 2018 reflects federal tax reform including business tax rate cuts to be passed and implemented in H118. The US Congress will successfully pass new tax legislation by the middle of 2018, which will provide a boost to economic growth. However, political and procedural obstacles mean that comprehensive tax reform is unlikely to come to full fruition, leaving only a few key items intact, including corporate and income tax cuts.

Europe

The Eurozone is anticipated to grow at a healthy pace in 2018, while the UK heads into an extended slowdown highlighting the increasing divergence between the continent and the British economy. The European Commission expects the Eurozone will expand by 2.1% in 2018. With regard to inflation, while the Eurozone rate is projected to remain below the European Central Bank's goal for the foreseeable future, the UK is expected to exceed the Bank of England's (BoE) target through 2019. Even with political risks subsiding, the European Union is still trying to deal with President Donald Trump's more-protectionist trade stance in the US, while negotiations over Britain's withdrawal from the bloc have failed to make the desired headway. After years of dealing with the financial crisis, the Eurozone economy has managed to ensure 18 straight quarters of growth with survey evidence pointing to continued solid expansion. The positive economic momentum provides further support for the currency union after a critical electoral year that saw anti-EU populists defeated in a series of key votes.

Emerging Economy

Despite subdued activity in advanced economies and associated spillovers, emerging market and developing economies as a group recorded a slight pickup in momentum over 2017, broadly in line with IMF projections. Emerging Asia continued to register strong growth, and the situation improved slightly for stressed economies such as Brazil and Russia. The IMF has projected growth in emerging markets and developing economies to improve to 4.6% in 2017 and 4.9% in 2018. Latin American and Caribbean nations that are projected to grow 1.2% in 2017 are expected to improve to 1.9% growth in 2018. Sub-Saharan Africa is also expected improve its growth rate from 2.6% in 2017 to 3.4% in 2018.

Asia

Backed by better-than-expected growth, the International Monetary Fund (IMF) has revised up its forecast for China to 6.8% for 2017 and 6.5% for 2018. The Chinese central government appears to be shifting its focus towards speeding up reforms, and plans to reduce overcapacity, improve the efficiency of State-Owned Enterprises (SOEs), and encourage private investment are steps in the right direction. The Politburo Standing Committee for the 19th Central Committee of the Communist Party of China (CPC) that was elected in October appears to be more reform-minded. However, progress is likely to be affected over the coming years due to political and social considerations. In the past year, China's leaders have made financial stability one of their top priorities and have made notable progress in their bid to bring to some stability, generally shadow banks that pose significant threats to the economy.

India's economy is likely to see rebound in the early part of 2018, as the negative impact from the Goods and Services Tax (GST) system implementation and will likely wear off. In particular, the manufacturing sector, which slowed in mid-2017 due to de-stocking prior to the implementation of the GST system, will recover. This is already seen from the manufacturing Purchasing Managers' Index (PMI), which rebounded to above 50 in recent months as new orders returned to growth territory and are likely to expand further over the coming quarters. Correspondingly, an improved manufacturing outlook should also help lift the services sector by generating more demand from producers for related services like logistics. Recently, Moody’s upgraded India’s sovereign rating after a gap of 13 years to Baa2, with “stable” outlook, from Baa3 earlier, citing improved growth prospects driven by economic and institutional reforms. This was followed by S&P, which kept India’s sovereign rating unchanged at BBB- with stable outlook saying vulnerabilities stemming from low per capita income and high government debt balances strong GDP growth.

Japan economy is estimated to expand 0.7% in 2018 according to the IMF latest projections. The deceleration from 2017 partly reflects the assumption that personal spending growth will moderate, and that the boost from 2020 Olympics-related private investment will be offset by higher imports and slower projected growth in foreign demand. Prime Minister’s Abe's re-election provides an opportunity for more sweeping business environment reforms. Abe has a two-thirds majority in both the lower and upper house, and thus has the political and public support to press ahead with structural reforms. Corporate governance reforms were a key area of success during Abe's last term, and further progress looks likely over the coming 12 months. Reforms to the financial system to reduce public credit guarantees are also possible, as is increased economic liberalisation in the country's special economic zones.

Regional

The outlook for the Caribbean region is supported by the strengthening global economic recovery, but there are significant downside risks, including volatile commodity prices, the normalization of monetary policy in the US, increased tax and compliance oversight and a very active hurricane season. The region's performance has moderated, with the tourism sector providing the main impetus for overall economic activity. The Caribbean region is forecasted to grow by an average of 2.8% in 2017 compared to 3.4% in 2016. The commodity-exporters have suffered due to the relatively bearish market and is estimated to have declined by 3.3% in 2016, however, growth in 2017 is estimated to pick up to 1.7%. Tourism-dependent economies are forecasted to expand by 2.4%, up from 2.1% in 2016. This estimate will face downward pressure due to the passage of Hurricanes Harvey, Irma and Maria through the region in latter half of the year. Dominican Republic, St. Kitts and Nevis and Grenada are all expected to post economic growth in excess of 2.5% in 2017 while Trinidad and Tobago is projected to deliver the weakest performance, with a contraction of 3.2%.

Jamaica

Jamaica's economic program continues to deliver strong results, supporting high confidence and improving job creation. On conclusion of its visit in September 2017, the IMF noted that quantitative performance criteria and structural benchmarks as at end-June 2017 were met. The central government's primary balance surplus exceeded the program target by a healthy margin, mainly from buoyant corporate income tax. Non-borrowed international reserves also over-performed, and inflation is anchored within the Bank of Jamaica's target range of 4–6%.

Key Indicators:

- Growth has been positive for nine consecutive quarters, with strong performances especially in tourism, construction, and manufacturing.
- The unemployment rate reached 12.2% in April 2017, a 7-year low, and there has been sustained expansion in the labor force.
- For FY17/18, economic activity is projected to expand by 1.6% according to IMF estimates, slightly lower than anticipated, as flooding adversely impacted agriculture.
- Over the medium-term, economic expansion is expected to be around 2½-3%, as sustained reforms yield higher investment and productivity levels.

The strong commitment by the government to fiscal consolidation and structural economic reforms under an IMF-stewarded program will lead to gradual improvements in growth over the medium term. Reforms are expected to continue with focus on fiscal consolidation, including public wage bill reductions, reducing the role of the government in the economy, strengthening the procurement process, improving confidence in the financial sector, and inflation-targeting monetary policy. These strategies will assist in boosting investment and gradually see improvement in productivity.

A continued US economic expansion, supported by investment and an improving labour market has pushed real wages and disposable incomes in the US higher which support Jamaica's tourism industry as it will allow more Americans, which represent the largest source of Jamaican tourist arrivals, to travel abroad. Already, it is reported by the Jamaica Tourist Board (JTB) that visitor arrivals to Jamaica continue to be at a record high since the start of the year, which it said reinforces that the tourism sector is on a firm growth trajectory. Between June and August 2017, the island saw a total of 465,517 visitors from the United States, 77,952 from Canada and 8,423 from Latin America.

Barbados

The Barbadian economy grew by an estimated 1.4% over the first nine months of 2017, as economic growth moderated in the third quarter of the year. Tourism output, which fueled the stronger growth performance over the first half of the year, fell during the third quarter, due to a reduction in the average length-of-stay of visitors and hurricane-related disruptions to tourist arrivals in September. The improved tourism performance for the first nine months of the year helped support the external current account. However, external debt service, coupled with a lack of major foreign inflows to offset those payments, contributed to a further decline in the level of international reserves, which reached 8.6 weeks of import cover as at the end of the third quarter. The external current account was relatively stable, but international reserves declined by BDD133.9 million to BDD549.7 million. The reserve loss was greater than that of 2016, principally due to a decline in net short-term private inflows that offset a modest improvement in net public sector flows.

Government made some progress in reducing the fiscal deficit, due to the increased revenue arising from fiscal measures implemented over the past two years and the stabilization of its expenditure. However, the on-going financing constraint and the weakening of the foreign reserves position underscore the need for continued strengthening of the fiscal accounts to restore the reserves to desired levels and create a platform for sustainable economic growth over the medium term.

Activity in the tourism sector expanded by 4.1% during the first three quarters of the year, compared to 2.8% growth for the corresponding period in 2016. While September arrivals fell by 3.3%, data for the January to September period of 2017 showed cumulative growth in long-stay visitors of 6.2%, relative to the same period in 2016. Arrivals from the US and Canada remained robust, expanding by 14.4% and 10.7%, respectively, but the performance of the UK market was on par with 2016. Regional travel continued to contribute significantly to arrivals, with visitors from Trinidad and Tobago and other CARICOM countries rising by 6.6% and 3.6%, respectively. For the first nine months of the year, the average length-of-stay contracted by 4.3%, the third consecutive year of decline. This pattern is in part related to the increased share of shorter staying North American visitors in the overall arrivals.

Growth in the non–traded sectors of the economy slowed to 0.9% at the end of the third quarter of 2017. Construction output at 4.6%, is estimated to have contributed over one-third of the non-traded sector’s growth and this was mainly attributed to activity in tourism-related and other on-going commercial construction. The twelve-month moving average unemployment rate ending March 2017 remained below the average for the comparable 2016 period at 9.7%. For the first seven months of the year, the twelve-month moving average rate of inflation increased to 3.4%. The main category driving this upward movement in prices was food and non-alcoholic beverages, which was up 8% on a moving average basis, largely due to price increases in the latter half of 2016, and early 2017.

The Central Bank of Barbados announced a further tightening of its monetary policy stance. The policy change will be applied to the Barbados Dollar securities reserve requirement ratio for commercial banks licensed under Part II of the Financial Institutions Act and it will be implemented in two phases. Effective December 1, 2017, commercial banks will be required to hold 18% of their domestic deposits in stipulated securities. From January 1, 2018, commercial banks will be required to hold 20% of their domestic deposits in stipulated securities. This is the second increase for the year and complements the fiscal initiatives introduced by the Minister of Finance in his Financial Statement and Budgetary Proposals earlier in the year. The cash reserve requirement for commercial banks remains unchanged at 5%. The reserve requirements for deposit-taking trust and finance companies, and merchant banks also remain unchanged.

Eastern Caribbean

Data released by the ECCB indicates that Real Gross Domestic Product (GDP) in the ECCU decreased from 2.83% in 2015 to 2.57% in 2016. Growth in 2017 is projected at 3.18%. The hotels & restaurant sector is expected to expand 1.48% in 2017, following a 2.39% expansion in 2016. Output of agriculture, livestock and forestry is forecasted to grow by 3.53% in 2017, following 0.32% growth in 2016. The construction sector is expected to grow by 7.76% in 2017 after growth of 9.95% in 2016 and the transport, storage and communications sector is forecasted to grow by 3.73% in 2017 from a decline of 1.32% in 2016.

According to initial ECCB forecasts, growth in 2017 is expected to increase relative to 2016, except for St. Kitts and Nevis and Antigua and Barbuda, where the ECCB expects economic activity to moderate slightly. Due to the passage of strong hurricanes through the region in the latter half of the year, this forecast can be expected to be revised downwards particularly for the islands of Antigua & Barbuda and Dominica. Meanwhile, the International Monetary Fund (IMF) in its October 2017 World Economic Outlook, estimated economic growth in the region at 2.6% in 2017 and 2.8% in 2018.

The region's current account deficit is forecasted to widen to an average of 6.6% of GDP in 2017 from 5.4% of GDP in 2016. Inflation is forecasted to recover to 1.3% in 2017 (-0.2% in 2016). The IMF directors agreed that while low commodity prices continue to support tourism, fiscal vulnerabilities and the strengthening of the financial sector must be addressed. Total public debt (as a % of GDP) was expected to decline slightly from 82.3% in 2015 to 80.4% in 2016 and then forecasted to moderate further by the end of 2019.

Trinidad and Tobago

The Trinidad and Tobago economy is estimated to have contracted 6% in 2016, after increasing by 1.5% in 2015, as key sectors declined. According to the Central Statistical Office (CSO), there is expected to be a further contraction in real GDP of 2.3% for 2017. Energy sector activity in the first half of 2017 was characterized by declines across the majority of sub-sectors. While crude oil output was relatively maintained, natural gas production declined 6.8% as the slump in production seen in previous years extended into the first half of 2017. Headline Inflation has remained relatively subdued for 2017. It is expected that some fiscal measures announced in the FY 2017/18 budget will result in direct price rises for several products, with spill-over effects in some cases.

The unemployment rate increased to 4.5% in the first quarter of 2017 from 3.8% in the corresponding quarter of 2016. Between March 2016 and March 2017, the number of persons employed declined by 6,700 persons. The highest rates of unemployment during the first quarter of 2017 were observed in the petroleum and gas (9.1%) and (8.0%) construction industries. During the second quarter of 2017, labour productivity in the manufacturing sector continued to trend downward, driven by a faster fall in domestic production than in the number of hours worked.

Trinidad and Tobago's external accounts recorded an overall deficit of USD729.8 million (6.6% of GDP) over the first six months of 2017, larger than the deficit of USD367.3 million (3.2% of GDP) registered in the corresponding period of 2016. Following a deficit of USD982.6 million (8.7% of GDP) over the period January to June 2016, the external current account posted a narrowed estimated deficit of USD246.9 million (2.2% of GDP) in the similar period of 2017. As at the end of October 2017, gross official reserves stood at USD8,516.7 million, compared with USD9,465.8 million as at December 31, 2016. This represents 9.8 months of prospective imports of goods and nonfactor services. With regard to the country's debt position, the Ministry of Finance estimates that as at September 2017, T&T's net public sector debt stood at 62.6% of GDP whilst the external public sector debt was 16.9% of GDP. The total net asset value of the Heritage and Stabilisation Fund as at the end of June 2017 was USD5,619.3 million, compared with USD5,473.0 million at the end of the previous quarter. Conditions in the foreign currency market remain tight in the context of lower foreign currency inflows, particularly from the energy sector. Both purchases and sales of foreign exchange by authorized forex dealers from and to the public (i.e. excluding the Central Bank) have seen some declines throughout 2017.

Natural gas supplies should be boosted by key energy sector projects such as EOG's Sercan and BPTT's Trinidad Onshore Compression (TROC) which came on-stream in the first half of the year. Additionally, the sector will receive a significant boost from BPTT's Juniper project which commenced operations in the third quarter of 2017. As noted by CBTT's Monetary Policy Report in November 2017, should higher energy production be maintained, there is expected to be a positive spillover effect for the non-energy sector.

Anthony Isidore Smart

Chairman
4 December 2017

General Manager's Statement

This annual report covers the period 1 October 2016 to 30 September 2017, in keeping with the financial year end of the First Citizens Group.

During the financial year ended September 2017, the US 10-year note reached a high of 2.63% during this time period. The US Federal Reserve raised interest rates three times for 2017 and predicted more increases to follow in 2018 as Janet Yellen prepares to hand over the chair amid robust hiring and surging financial markets. The latest action in December 2017, US Central Bank's Federal Open Market Committee increased the target range for the federal funds rate by a quarter point to 1.25-1.5%.

The Trinidad and Tobago interest rate environment was subject to marginal downward pressure during the financial year. On average, the curve experienced a 29 bps shift downwards with the greatest increase being seen in the 30 year point (-75 bps). Over the period January to September 2017 the Central Bank of Trinidad and Tobago (CBTT) issued 13 primary issues at a value of approximately TTD9,536.0 million compared to ten (10) primary issues at a value of roughly TTD5,922.5 million in the same period one year earlier. In November 2017, the CBTT agreed to maintain the 'Repo' rate at 4.75%, thus leaving the rate unchanged for the year thus far.

The Barbados Dollar (BBD) yield curve saw some downward pressure for the financial year, despite this economic and fiscal concerns remain crucial. The average change throughout the curve was 45 bps. The XCD yield curve fell overall, with the short end at 5 years shifting upwards by as much as 36 bps while the longer end decreased by 126 bps at the 25 year tenor. The average decrease was 33 bps between the 30-day and 30 year tenors.

Amidst these challenges, this financial year was one in which First Citizens Investment Services Limited continued to record new milestones which included:

1. Arranger – Government of Antigua XCD249,883,500 Treasury Notes/ Treasury Bills
2. Arranger - Government of Grenada XCD89,651,000 Treasury Bills
3. Arranger - Government of St. Lucia XCD265,435,000 Bonds/ Treasury Notes/ Treasury Bills
4. Arranger - Government of St. Vincent & the Grenadines XCD413,200,000 Treasury Notes/ Treasury Bills
5. Arranger – Government of Dominica XCD60,000,000 Treasury Bills
6. First Citizens Brokerage & Advisory Services was the Lead Broker for the Additional Public Offering of shares of First Citizens Bank Limited, acting on behalf of Corporation Sole, which raised TTD1.014 billion
7. First Citizens Brokerage & Advisory Services was the Lead Broker for Trinidad Cement Limited (TCL) in its takeover offer to acquire up to 3,468,023 Readymix W.I. Limited ("RML") Ordinary shares or 29.9% of RML at an offer price of TTD11.00 or USD1.62 per share
8. First Citizens Brokerage & Advisory Services was the Lead Broker for Colonial Life Insurance Company (Trinidad) Limited (CLICO) to assist in the transfer, via put through on the Trinidad & Tobago Stock Exchange, of 61,677,011 shares of Angostura Holdings Limited (AHL) valued at approximately TTD940.574 million, to Corporation Sole of the Government of the Republic of Trinidad and Tobago (GORTT).

Review of Financial Performance

Net Interest Income

Net Interest Income increased to TTD152.8 million compared to TTD140.4 million for the prior year, as a result of a larger Investment Portfolio, despite the continually low interest rate environment.

Fees & Commission Income

Fees and commission decreased marginally by TTD0.3 million. This decrease was mainly due to lower Capital Market fee income of TTD9.5 million versus TTD11.7 million, which was primarily offset by higher Portfolio and Wealth Management fees of TTD8.5 million in 2017 against TTD6.9 million in the prior year.

Trading Income

Trading income declined by TTD13 million year on year. This was mainly due to higher trading losses on Credit Linked Note investment from 2015.

Net foreign exchange gain

Compared to 2016's TTD18.7 million foreign exchange gain, 2017's gain stood at TTD4.1 million. The significant unrealized gain experienced in 2016 was due to the continued depreciation of the TTD and the company's strategy of being long USD at the financial year end 2016. While there was no change in the company's strategy in 2017, the rate of deprecation of the TTD relative to the USD was less in 2017 than 2016.

Administrative and Operating expenses

Total overhead expenses decreased by TTD13.2 million in 2017 mainly due to stringent management of cost savings initiatives.

Investment Securities

Total investment securities was TTD6.3 billion at 30 September 2017, compared to the prior year of TT$5.8 billion. This is mainly represented by net additions/maturities of $480 million, foreign exchange gains of $21 million and fair value movements of $1.1 million on the securities. The Group's 2015 investment in Credit Linked Notes was disposed of by 30 September 2017. The impact on the Statement of Income was TTD10.5 million and the overall net impact on the investment securities balances was TTD239.9 million.

Interest bearing liabilities

Interest bearing liabilities increased by TTD520.6 million from 2016 to 2017. This mainly resulted from the timing on sale of repurchase agreements and an increase in borrowings.

Loan for Parent Company

The loan to our Parent Company increased year on year by TTD95.9 million. At the balance sheet date 30 September 2017 the outstanding amount was TTD169 million which represents a short term facility of USD25 million.

Shareholders' Equity

Shareholders' equity which comprises of share capital, retained earnings and fair value reserves, stood at TTD1.3 billion at 30 September 2017, an increase of TTD45 million. This net increase represents an increase in the fair value reserves of TTD3.4 million, Profit After Tax of TTD96.3 million and dividend payment of TTD54.4 million.

Sara Ragbir

General Manager
4 December 2017

Statement of Management Responsibility

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 2017, 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
4 December 2017

Head of Finance
4 December 2017

Independent Auditor's Report

To the shareholders of
First Citizens Investment Services Limited And Its Subsidiaries

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 And Its Subsidiaries (the Group) as at 30 September 2017, and its consolidated financial performance and its 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 2017;
- 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.

Responsibilities of management 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.

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.

Independent Auditor’s Report (Continued)

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

5 December 2017
Port of Spain
Trinidad, West Indies

First Citizens Investment Services Limited And Its Subsidiaries
Consolidated Statement of Financial Position
(Expressed in Trinidad and Tobago Dollars)

	Notes	As at 30 September 2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		496,482	244,965
Financial assets			
- Loans and receivables	5	1,354,513	1,302,787
- Available-for-sale	6	3,831,364	3,035,223
- Held-to-maturity	7	1,134,909	1,242,923
Fair value through profit or loss	8	655	239,958
Intangible assets	9	849	1,190
Property, plant and equipment	10	63,951	65,728
Other assets	11	30,632	24,913
Tax recoverable		18,629	23,727
Total assets		6,931,984	6,181,414
Liabilities			
Borrowings	12	1,112,329	434,617
Other funding instruments		25,440	32,386
Securities sold under repurchase agreements	13	4,052,703	4,202,844
Creditors and accrued expenses	14	171,707	103,680
Loan from parent company	15	169,321	73,396
Deferred income tax liability	16	63,741	46,511
Tax payable		4,861	1,373
Total liabilities		5,600,102	4,894,807
Shareholders' equity			
Share capital	17	637,697	637,697
Retained earnings		622,642	580,727
Fair value reserves	18	71,543	68,183
Total shareholders' equity		1,331,882	1,286,607
Total equity and liabilities		6,931,984	6,181,414

The notes on pages 21 to 84 are an integral part of these consolidated financial statements.

On the 4 December 2017, 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 2017 $'000	2016 $'000
Interest income	19	278,013	245,699
Interest expense	20	(125,171)	(105,330)
Net interest income		152,842	140,369
Fees and commissions	21	20,747	21,000
Net gain on financial assets	22	3,411	16,386
Net foreign exchange gain		4,090	18,750
Other income		10,790	5,785
Total net income		191,880	202,290
Impairment (loss)/net of recoveries	23	(3,314)	754
Administrative expenses	24	(39,333)	(41,911)
Other operating expenses	25	(22,510)	(33,136)
Profit before taxation		126,723	127,997
Taxation charge	26	(30,414)	(25,316)
Profit for the year		96,309	102,681

The notes on pages 21 to 84 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 2017 $'000	2016 $'000
Profit for the year		96,309	102,681
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment net of tax		--	--
		--	--
Items that may be reclassified to profit or loss			
Revaluation of available-for-sale assets net of tax	18	11,810	7,663
Change in available-for-sale deferred tax 25% to 30%	18	(2,455)	--
Amortisation of gain on held-to-maturity assets reclassified from available-for-sale net of tax	18	(3,486)	(3,772)
Change in held-to-maturity deferred tax 25% to 30%	18	(1,355)	--
Exchange difference on translation		(1,154)	7,673
		3,360	11,564
Total other comprehensive income for the year net of tax		3,360	11,564
Total comprehensive income for the year		99,669	114,245

The notes on pages 21 to 84 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 2015	637,697	540,602	56,619	1,234,918
Profit for the year	--	102,681	--	102,681
Other comprehensive income				
Net change in investments, net of tax not recognised in the statement of income	--	--	11,564	11,564
Total comprehensive income for the year	--	102,681	11,564	114,245
Transactions with owners				
Dividends	--	(62,556)	--	(62,556)
Total transactions with owners	--	(62,556)	--	(62,556)
Balance at 30 September 2016	637,697	580,727	68,183	1,286,607
Balance at 1 October 2016	637,697	580,727	68,183	1,286,607
Profit for the year	--	96,309	--	96,309
Other comprehensive income				
Net change in investments, net of tax not recognised in the statement of income	--	--	3,360	3,360
Total comprehensive income for the year	--	96,309	3,360	99,669
Transactions with owners				
Dividends	--	(54,394)	--	(54,394)
Total transactions with owners	--	(54,394)	--	(54,394)
Balance at 30 September 2017	637,697	622,642	71,543	1,331,882

The notes on pages 21 to 84 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 2017 $'000	2016 $'000
Cash flows from operating activities		
Profit before taxation	126,723	127,997
Adjustments to reconcile profit to net cash from operating activities:		
Interest income	(278,013)	(245,699)
Interest received	285,880	244,041
Interest expense	125,171	105,330
Interest paid	(119,233)	(102,949)
Depreciation	3,703	5,731
Amortisation	349	1,841
Loss on disposal of property, plant and equipment	130	305
Adjustment to amortisation of intangible assets	(7)	--
Unrealised foreign exchange gain	(4,422)	(21,982)
Unrealised gain on financial liabilities at fair value through profit or loss	(68)	(12)
Income taxes paid	(20,535)	(15,248)
Impairment/(recovery) on financial assets	3,314	(754)
	122,992	98,601
Cash flows from operating activities before changes in operating assets and liabilities	122,992	98,601
Net change in loans and receivables	(51,362)	(228,481)
Net change in available-for-sale financial assets	(794,968)	(513,639)
Net change in held-to-maturity financial assets	110,722	409,238
Net change in fair value through profit or loss	239,863	(11,983)
Net change in other assets	(12,715)	32,479
Net change in securities sold under repurchase agreements	(160,097)	267,421
Net change in creditors and accrued expenses	87,420	(2,659,337)
Net change in other funding instruments	(7,029)	(52,088)
Net change in borrowings	677,712	234,287
Net cash flows generated from/(used in) operating activities	212,538	(2,423,502)
Cash flows from investing activities		
Purchase of financial assets	(496)	--
Purchase of property, plant and equipment	(2,056)	(6,728)
Net cash flows used in investing activities	(2,552)	(6,728)
Cash flows from financing activities		
Proceeds/(repayment) of loan from parent company	95,925	(56,415)
Ordinary dividend paid	(54,394)	(62,556)
Net cash flows generated from/(used in) financing activities	41,531	(118,971)
Net increase/(decrease) in cash and cash equivalents	251,517	(2,549,201)
Cash and cash equivalents at beginning of year	244,965	2,794,166
Cash and cash equivalents at end of year	496,482	244,965

The notes on pages 21 to 84 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. The Group operates in Trinidad and Tobago as well as in St. Lucia and St. Vincent 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 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 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.

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. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of freehold premises, available-for-sale financial assets, financial assets designated at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments.

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.

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

- IFRS 10 - Consolidated Financial Statements - (Amendment effective 1 January 2016). This amendment clarifies the accounting for loss of control of a subsidiary when the subsidiary does not constitute a business.

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 11 – Joint Arrangements- (Amendment effective 1 January 2016). This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:
  - Apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11.
  - Disclose the information required by IFRS 3 and other IFRSs for business combinations.
  - The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured.
- IAS 16 - Property, Plant and Equipment and IAS 38 Intangible Assets (amendment effective 1 January 2016) This amendment is to:
  - clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
  - introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
- IAS 28 –Investments in Associates and Joint Venture - (Amendment effective 1 January 2016). This amendment clarifies the accounting for loss of control of a subsidiary when the subsidiary does not constitute a business.

(ii) *The following standards, amendments and interpretations to existing standards are not yet effective for accounting periods beginning on or after 1 January 2016 and have not been early adopted by the Group:*

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

- *IAS 7 - Disclosure Initiative (Amendments effective 1 January 2017.)* Amends IAS 7 *Statement of Cash Flows* to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

a. *Basis of preparation (continued)*

(ii) *The following standards, amendments and interpretations to existing standards are not yet effective for accounting periods beginning on or after 1 January 2016 and have not been early adopted by the Group (continued):*

- IFRS 9, 'Financial instruments part 1: Classification and measurement' (effective 1 January 2018). IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The completed standard was issued in July 2014, with an effective date of 1 January 2018. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The additional amendments in July 2014 introduced a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This amendment completes the IASB's financial instruments project and the Standard. The Group is currently assessing IFRS 9's full impact.

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

- IAS 12, 'Income Taxes' (amendment effective 1 January 2017). Recognition of Deferred Tax Assets for Unrealised Losses. This amendments is to clarify the following aspects :

  - Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or use.
  - The carrying amount of the asset does not limit the estimation of probable future taxable profits.
  - Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
  - An entity assesses a deferred tax assets in combination with other deferred assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax assets in combination with other deferred tax assets of the same type.

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

a. *Basis of preparation (continued)*

(ii) *The following standards, amendments and interpretations to existing standards are not yet effective for accounting periods beginning on or after 1 January 2015 and have not been early adopted by the Group (continued):*

- 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 22 - Foreign currency transactions and advances consideration (Effective 1 January 2018). This IFRIC addresses foreign currency transactions or part of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provide guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

The Group is in the process of assessing the impact of the new and revised standards not yet effective on the consolidated financial statements.

b. *Consolidation*

(i) *Principles of consolidation*

The consolidated financial statements include the accounts of the First Citizens Investment Services and its wholly owned subsidiaries as outlined in Note 1. The financial statements of the unconsolidated 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. The 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.

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

b. *Consolidation (continued)*

(ii) *Investment in subsidiaries (continued)*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

(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 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 IAS 39 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

(iv) *Transactions and non-controlling interests*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

b. *Consolidation (continued)*

(v) *Investment in associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the statement of income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of income.

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 (2016: TT$6.6553 = US$1.00), which represent the Group's mid-rate. The exchange rate between the TT dollar and the BB dollar as at the date of these statements was TT$3.4102 = BB$1.00 (2016: TT$3.3883 = BB$1.00), TT$2.5190 = XC$1.00 (2016: TT$2.5050) which represent the Group's mid-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 available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in the amortised cost are recognised in the 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 available-for-sale 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:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at cover exchange rates as at year end, and
- 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 are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as 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 Group classifies its financial assets in the following categories: loans and receivables, available-for-sale, financial assets designated as at fair value through profit or loss and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the short term and those that the entity upon initial recognition designates at fair value through profit or loss;
- Those that the Group upon initial recognition designates as available-for-sale.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(c) *Financial assets at fair value through profit or loss*

This category comprises two sub-categories: financial assets held for trading and financial assets designated by the Group as fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as fair value through profit or loss.

2 Summary of significant accounting policies (continued)

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

(i) *Financial assets (continued)*

(d) *Held-to-maturity*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity dates where management has the positive intention and the ability to hold to maturity.

(ii) *Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Accrual of interest on investments commences from settlement date for secondary trades. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of income. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of income within 'Net gain/loss on sale of financial assets' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of income as 'Net gain/loss on sale of financial assets'.

2 Summary of significant accounting policies (continued)

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

(iii) *Financial liabilities*

The Group measures financial liabilities at amortised cost. Financial liabilities measured at amortised cost include loan from parent company, bonds payables, other funding instruments and notes due to related parties.

(iv) *De-recognition of financial instruments*

The Group uses trade date accounting for regular way contracts when recording financial assets transactions. Financial assets that are transferred to third parties but do not qualify for de-recognition are presented as assets pledged as collateral if the transferee has the right to sell or re-pledge them.

Financial assets are derecognised when the contractual right to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred.

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(v) *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.

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

f. *Impairment of financial assets*

(i) *Assets carried at amortised cost*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Additionally, no provisioning is required for Assets that are supports by government guarantees even if the exposure is classified as "Non-Performing".

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

f. *Impairment of financial assets (continued)*

(i) *Assets carried at amortised cost (continued)*

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses to the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the amount of the reversal is recognised in the consolidated statement of income in impairment loss on loans net of recoveries.

(ii) *Assets classified as available-for-sale*

The Group assesses at the year end whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

Debt securities are evaluated based on the criteria in Note 2 e. If in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

(iii) Reclassifications are made at fair values at the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are made. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date.

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

g. *Impairment of non-financial assets*

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.

h. *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the 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.

i. *Sale and repurchase agreements and lending 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 other funding instruments.

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.

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.

2 Summary of significant accounting policies (continued)

j. *Lease transactions (continued)*

(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 liability for each period.

k. *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.

2 Summary of significant accounting policies (continued)

l. *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 shareholder's 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 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 sell and value in use. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. When revalued assets are sold, the amounts included in fair value reserves are transferred to retained earnings.

2 Summary of significant accounting policies (continued)

m. *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 tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date. 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 base of assets and liabilities and their carrying values in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of good will; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than 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 that have been enacted or substantially enacted by at the date of the consolidated statement of financial position 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 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 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)**

n. *Employee benefits*

(i) *Pension Plan - First Citizens defined benefit pension plan*

Employees of the Group were admitted to the First Citizens Bank Limited (the Bank) defined benefit pension plan with effect from 1 January 2010 and their pensionable service in this plan commenced from this date.

The Bank 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 Bank's defined benefit plan operates as a plan which shares risks among subsidiaries of the 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.

(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 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.

o. *Cash and cash equivalents*

For purposes of the statement of cash flows, cash and cash equivalents 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.

p. *Interest income and expense*

Interest income and 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 actual purchase price. Interest income includes coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When a loan and receivable 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.

2 Summary of significant accounting policies (continued)

p. *Interest income and expense (continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

q. *Dividend income*

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

r. *Fee and commission income*

Fees and commissions are recognised on an accrual basis, 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 on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportionment basis.

Asset management fees related to investment funds are recognised rateably over the period the service is provided and accrued in accordance with pre-approved fee scales. 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.

s. *Borrowings*

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. 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.

2 Summary of significant accounting policies (continued)

t. *Dividends distribution*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders. Dividends for the year, which are declared after the balance sheet date, 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 computer software licenses and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight line method over their estimated useful economic life, 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.

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.

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.

2 Summary of significant accounting policies (continued)

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 c.).

x. *Preference shares*

Preference shares that are non-convertible and non-redeemable are classified as equity. Dividends are declared at the discretion of the directors.

y. *Comparatives*

Where necessary comparative figures have been adjusted to take into account changes in presentation in the current year, as well as the restatement required for correction of the following prior period errors:

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 at the First Citizens Group level to monitor and report to the Board of Directors of the group on the overall risks within the First Citizens Group - the 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 Group Enterprise Risk Management Unit, headed by the Group 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 Group Operational Risk and Controls Unit, Group Credit Risk and Administration Unit, Group Market Risk Unit and Group Business Continuity Planning Unit. The 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 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 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 exposures arise principally in lending activities that lead to loans and advances and in investment activities that bring debt securities and other bills into the Group's asset portfolio. Credit risk also occurs in off balance sheet financial instruments such as loan commitments. This risk relates to the possibility that a counter party will cause a financial loss to the Group by failing to discharge an obligation. All the Group's lending and investment activities are conducted with various counter parties and it is in pursuing these activities that the Group becomes exposed to credit risk.

The management of credit risk is therefore of utmost importance to the Group and an appropriate organisational structure has been put in place to ensure that this function is effectively discharged for the Group's business; management therefore carefully manages its exposure to credit risk. Exposure to credit risk is managed through appropriate credit policies, procedures, practices and audit functions, together with approved limits. Exposure is also managed by obtaining collateral and corporate and personal guarantees.

(i) *Credit risk measurement*

(a) *Debt securities and other bills*

The Group utilises external ratings such as local and international credit rating agencies or their equivalent in managing credit risk exposures for debt securities and other bills.

In measuring credit risk of receivables at a counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. Clients of the Group are segmented into three rating classes or grades. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

The Group utilises external ratings from local and international credit rating agencies or their equivalent in risk rating credit risk exposures for debt securities and other bills.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(i) *Credit risk measurement (continued)*

(b) *Other loans and receivables*

In measuring credit risk of debt securities and receivables at a counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. Securities of the Group are segmented into three rating classes or grades. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal ratings scale and mapping of external ratings

Group's rating	Description of the grade	External rating: Standard & Poor's equivalent
A+, A, A-, B+	Investment grade	AAA, AA, A, BBB, BBB-
B, B-, C+, C	Speculative grade	BB, B, CCC, C
D	Default	D or SD

The ratings of the major rating agency shown in the table above are mapped to internal rating classes. The Group uses the external ratings where available to benchmark our internal credit risk assessment.

(ii) *Risk limit control and mitigation policies*

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

The 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 Board of Directors. Actual exposures against limits are monitored regularly and reported to the Risk Management Committee and the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing exposure limits where appropriate.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

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

Some other specific control and mitigation measures are outlined below.

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. The principal collateral types for investment advances are:

- Cash deposits;
- Charges over financial instruments such as debt securities and equities;
- Government guarantees and indemnities.

Collateral held as security for financial assets other than receivables is determined by 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.

The Group monitors its concentration of credit exposure so that no single investor or industry default will have a material impact on the Group. These limits are implemented and monitored by the Group Enterprise Risk Management Committee through the establishment of a bi-annual internal Investment Policy Statement. In instances where it is strategically beneficial and adequately documented, the Group would seek approval on an exception basis for variation to its standard approved limits from the Board of Directors of the First Citizens Investment Services Group.

(a) *Single investor or industry exposure limits*

These limits have been established based on a ranking of the riskiness of various investors 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 consolidated 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.

(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.

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

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

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 and subsequently for the period 15 November 2016 to 14 November 2017. Additionally, the Ministry of Finance has made good and settled in full subsequent claims 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 13 September 2017 has agreed to another extension for a twelve month period effective from 15 November 2017 to 14 November 2018 commensurate under the Liquidity Support Agreement dated 15 May 2009. As at the Balance Sheet date, the amount of Promissory Notes due to was US$94,713,173.26 and the amount of the Commercial Paper due TT$224,006,674.95. The liquidity support agreement extension was executed on 19 September 2017.

(iii) *Impairment and provisioning policies*

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the year end on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques. The quarterly assessment of the impairment allowances are approved by subcommittee of the Board.

3 Financial risk management (continued)

a. *Credit risk (continued)*

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	Gross maximum exposure 2017 $'000	Gross maximum exposure 2016 $'000
Cash and cash equivalents	496,482	244,965
Financial assets		
- loans and receivables	1,360,468	1,307,056
- available-for-sale	3,826,626	3,030,925
- held-to-maturity	1,134,909	1,242,923
- fair value through profit or loss	655	239,958
Other assets	23,666	16,147
	6,842,806	6,081,974

The above table represents a worst case scenario of credit risk exposure to the Group at 30 September 2017 and 30 September 2016, 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, 27.5% of the total maximum exposure is derived from cash and cash equivalents and receivables (September 2016: 25.8%); while 73.0% represents investments in other debt securities (September 2016: 70.0%).

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 cash equivalents and loans and receivables portfolio and its other debt securities based on the following:

- The Group has introduced a more stringent selection process for investing in securities classified as receivables with none of the impaired assets coming from new investments made in the current financial year.
- The collateral package or other financial assurances in place in support of receivables minimises the probability of losses on this portfolio.
- More than 57% (September 2016: 53%) 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. (ii) '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 which amount to approximately $224 million and US$94.7 million at 30 September 2017 (September 2016: $215.4 million and US$91.6 million).

3 Financial risk management (continued)

(v) *Financial assets*

Financial assets and cash are summarised as follows:

	Loans and receivables $'000	Available-for-sale $'000	Held-to-maturity $'000	Fair value through profit or loss $'000	Cash and cash equivalents $'000
30 September 2017					
Neither past due nor impaired	489,915	3,826,626	1,134,909	655	496,482
Past due but not impaired	857,731	--	--	--	--
Impaired	12,822	--	--	--	--
Gross	1,360,468	3,826,626	1,134,909	655	496,482
Less: allowance for impairment	(5,955)	--	--	--	--
Net	1,354,513	3,826,626	1,134,909	655	496,482
30 September 2016					
Neither past due nor impaired	468,219	3,030,925	1,242,923	239,863	244,965
Past due but not impaired	827,872	--	--	--	--
Impaired	10,965	--	--	--	--
Gross	1,307,056	3,030,925	1,242,923	239,863	244,965
Less: allowance for impairment	(4,269)	--	--	--	--
Net	1,302,787	3,030,925	1,242,923	239,863	244,965

The total impairment provision for loans and receivables is $5.95 million (September 2016: $4.27 million). There were no provisions for available-for-sale in 2017 (September 2016: nil).

Financial assets neither past due nor impaired

The balance of available-for-sale securities are due from CL Financial and its affiliates are nil for the period at 30 September 2017 (September 2016: nil). All principal and interest payments due on these securities have been made as they have fallen due and the Group is satisfied that collateral held as security for these securities is adequate to cover its exposure.

Financial assets past due but not impaired

Included in loans and receivables past due but not impaired are loans and receivables due from CL Financial and its affiliates of TT$858 million which matured but are indemnified under the Liquidity Support Agreement (LSA) (September 2016: $828 million). All principal and interest payments due on these advances are covered under the LSA as detailed in 3a.(ii).

3 Financial risk management (continued)

a. *Credit risk (continued)*

(v) *Financial assets (continued)*

Financial assets past due but not impaired (continued)

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 to the Court to wind up CL Financial on the basis that the Company was unable to pay its debts and or that it was just and equitable that the Company be wound up. On 25th July 2017, the Court of Appeal, ordered the appointment of a joint provisional liquidators over the assets of the Company 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 #9) for the immediate and full settlement of these debts in accordance with the Bank's right to be indemnified in respect of those obligations under the terms of the LSA.

As at the balance sheet date, the amount of promissory notes due to was US$94,713,173.26 and the amount of commercial paper due TT$224,006,674.94.

Financial assets individually impaired

The sum of individually impaired available-for-sale financial assets before taking into consideration the cash flows from collateral held is nil (September 2016: nil).

The sum of individually impaired loans and receivables before taking into consideration the cash flows from collateral held is $12.8 million (September 2016: $10.9 million). The breakdown of the gross amount of individually impaired receivables by class, along with the fair value of related collateral held by the Group as security, is as follows:

30 September 2017		**Receivables**	
	Individuals $'000	**Corporate entities $'000**	**Total $'000**
Individually impaired receivables	12,822	--	12,822
Fair value of collateral	(6,868)	--	(6,868)
Net	5,954	--	5,954
30 September 2016			
Individually impaired receivables	10,965	--	10,965
Fair value of collateral	(6,696)	--	(6,696)
Net	4,269	--	4,269

Repossessed collateral

During 2017, the Group did not take possession of collateral held as security (2016: nil).

3 Financial risk management (continued)

a. *Credit risk (continued)*

(vi) *Debt and other investment securities*

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

	Loans and receivables $'000	Available-for-sale $'000	Held-to-maturity $'000	Fair value through profit or loss $'000	Total $'000
30 September 2017					
Investment grade	485,316	2,598,900	489,032	--	3,573,248
Speculative grade	869,197	1,227,726	645,877	--	2,742,800
Default	--	--	--	--	--
	1,354,513	3,826,626	1,134,909	--	6,316,048

	Loans and receivables $'000	Available-for-sale $'000	Held-to-maturity $'000	Fair value through profit or loss $'000	Total $'000
30 September 2016					
Investment grade	445,536	1,830,543	593,885	239,863	3,109,827
Speculative grade	857,251	1,200,382	649,038	--	2,706,671
	1,302,787	3,030,925	1,242,923	239,863	5,816,498

3 **Financial risk management (continued)**

a. *Credit risk (continued)*

(vii) *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 2017. 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, available-for-sale, held-to-maturity, 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:

30 September 2017	**Asia $000**	**North America $000**	**South and Central America $000**	**Caribbean $000**	**Other countries $000**	**Total $000**
Cash and cash equivalents	--	167,820	--	328,662	--	496,482
Financial assets						
- loans and receivables	256,316	228,992	--	869,205	--	1,354,513
- available-for-sale	162,321	83,544	383,593	3,144,678	52,490	3,826,626
- held-to-maturity	--	--	--	1,134,909	--	1,134,909
- fair value through profit or loss	--	--	--	655	--	655
Other assets	--	--	--	23,666	--	23,666
As at 30 September 2017	418,637	480,356	383,593	5,501,775	52,490	6,836,851

30 September 2016	**Asia $000**	**North America $000**	**South and Central America $000**	**Caribbean $000**	**Other countries $000**	**Total $000**
Cash and cash equivalents	--	44,505	--	200,460	--	244,965
Financial assets						
- loans and receivables	--	431,716	--	871,071	--	1,302,787
- available-for-sale	143,251	74,743	376,802	2,359,913	76,216	3,030,925
- held-to-maturity	34,734	41,085	--	1,167,104	--	1,242,923
- fair value through profit or loss	--	33,973	--	172,725	33,260	239,958
Other assets	--	--	--	16,147	--	16,147
As at 30 September 2016	177,985	626,022	376,802	4,787,420	109,476	6,077,705

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 Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are measured separately by the Group 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 Bank'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 include those portfolios arising from market-making transactions where the Group acts as a principal with clients or with the market. Trading portfolios are those positions entered into primarily to take advantage of market movements to generate capital gains.

Non-trading portfolios primarily arise from the interest-rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of interest rate, foreign exchange and equity risks arising from the Group's financial assets available-for-sale.

(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, trading and non-trading separately, which are monitored on a daily basis by 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, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be close. It also assumes that market moves occurring over the holding period will follow a similar pattern to those that have occurred in the past.

3 **Financial risk management (continued)**

b. *Market risk (continued)*

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

Value at risk (continued)

The Group applies a parametric approach to 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.

As VAR constitutes an integral part of the Group's market risk control regime, VAR limits are established by the Board annually for all trading and non-trading portfolio operations. Actual exposure against limits is monitored by Risk Management on a daily basis for investment securities with daily pricing.

The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Risk Management Committee.

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.

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

The fair value through profit and loss portfolio at September 2017: $655k (September 2016: $239 million) In the prior year the portfolio consist mainly of credit linked notes which are not actively traded. The fair value of these instruments were determined by the brokers using a variety of variables, some of which are not observable, making it impractical to compute a sensitivity.

The broker's bid ask spread and funding cost are unique to each broker. The CDS for the underlying (GORTT or RSA debt) are not readily available because each broker creates a pricing model using a proxy to derive the (CDS). The brokers are the sole pricing agents and market participants at any given date for the instruments. At September 2017 all the CLN's were disposed.

Currency risk sensitivity

Based on net foreign currency positions at 30 September 2017, 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 2017				
Gain/(loss)	39,296	(22,183)	(4,585)	3,313
At 30 September 2016				
Gain/(loss)	19,100	(49)	4,200	1,638

3 **Financial risk management (continued)**

b. *Market risk (continued)*

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

Group VAR by portfolio

	30 September 2017			30 September 2016		
	Average $'000	High $'000	Low $'000	Average $'000	High $'000	Low $'000
Trading	5,274	11,642	3,413	1,581	2,424	1,038
Non-trading	7,774	8,016	7,262	9,087	9,554	8,557
Total VAR	13,048	19,658	10,675	10,668	11,978	9,595

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 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. 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 2017						
Assets						
Cash and cash equivalents	87,112	324,914	2,155	34,457	47,844	496,482
Financial assets						
- loans and receivables	232,912	1,121,596	--	5	--	1,354,513
- available-for-sale	1,436,424	1,631,136	--	571,924	191,880	3,831,364
- held-to-maturity	482,174	6,811	--	195,910	450,014	1,134,909
- fair value through profit or loss	545	110	--	--	--	655
Other assets	14,329	4,935	--	4,360	42	23,666
Total assets	2,253,496	3,089,502	2,155	806,656	689,780	6,841,589
Liabilities						
Borrowings	198,651	--	911,560	2,118	--	1,112,329
Other funding instruments	5,983	503	86	15,575	3,293	25,440
Securities sold under repurchase agreements	1,317,662	1,260,391	--	925,193	549,457	4,052,703
Loan from parent company	--	169,321	--	--	--	169,321
Creditors and accrued expenses	70,604	48,130	--	51,754	1,219	171,707
Total liabilities	1,592,900	1,478,345	911,646	994,640	553,969	5,531,500
Net on-consolidated statement of financial position	660,596	1,611,157	(909,491)	(187,984)	135,811	1,310,089

3 **Financial risk management (continued)**

b. *Market risk (continued)*

(ii) *Foreign exchange risk (continued)*

	TT $'000	US $'000	Euro $'000	EC $'000	Other $'000	Total $'000
At 30 September 2016						
Assets						
Cash and cash equivalents	75,447	59,132	2,024	27,397	80,965	244,965
Financial assets						
- loans and receivables	225,363	1,046,083	--	46	31,295	1,302,787
- available-for-sale	1,181,728	1,146,258	--	483,978	223,259	3,035,223
- held-to-maturity	511,188	82,697	--	195,037	454,001	1,242,923
- fair value through profit or loss	7	88	--	239,863	--	239,958
Other assets	9,157	264	--	4,191	2,535	16,147
Total assets	2,002,890	2,334,522	2,024	950,512	792,055	6,082,003
Liabilities						
Borrowings	--	--	434,617	--	--	434,617
Other funding instruments	7,105	859	81	11,710	12,631	32,386
Securities sold under repurchase agreements	1,263,515	1,477,567	--	847,781	613,981	4,202,844
Loan from parent company	--	73,396	--	--	--	73,396
Creditors and accrued expenses	52,502	35,727	--	13,763	1,688	103,680
Total liabilities	1,323,122	1,587,549	434,698	873,254	628,300	4,846,923
Net on-consolidated statement of financial position	679,768	746,973	(432,674)	77,258	163,755	1,235,080

Included in the "Other" category are assets and liabilities held in UK pound sterling, Canadian dollars, Euros, Barbados, Eastern Caribbean Dollars and Yen.

If the Trinidad and Tobago dollar depreciates by 2.5% against the United States dollar, the profits would decrease by $39.3 million (2016: $19.1 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. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 30 September 2017							
Assets							
Cash and cash equivalents	496,014	--	--	--	--	468	496,482
Financial assets							
- Loans and receivables	--	485,308	869,205	--	--	--	1,354,513
- Available-for-sale	--	--	69,414	1,012,255	2,746,689	3,006	3,831,364
- Held-to-maturity	176	42,837	88,005	686,899	316,992	--	1,134,909
- Fair value through profit or loss	--	--	--	--	--	655	655
Other assets	5,175					18,491	23,666
Total assets	501,365	528,145	1,026,624	1,699,154	3,063,681	22,620	6,841,589
Liabilities							
Borrowings	2,389	676,450	1,616	431,874	--	--	1,112,329
Other funding instruments	25,440	--	--	--	--	--	25,440
Securities sold under repurchase agreements	538,581	837,828	2,285,692	390,602	--	--	4,052,703
Loan from parent company	--	--	169,321	--	--	--	169,321
Creditors and accrued expenses	7,599	--	--	--	--	164,108	171,707
Total liabilities	574,009	1,514,278	2,456,629	822,476	--	164,108	5,531,500
Interest sensitivity gap	(72,644)	(986,133)	(1,430,005)	876,678	3,063,681	(141,488)	1,310,089

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 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
At 30 September 2016							
Assets							
Cash and cash equivalents	244,500	--	--	--	--	465	244,965
Financial assets							
- Loans and receivables	154,590	297,856	850,341	--	--	--	1,302,787
- Available-for-sale	12,693	69,554	75,860	1,023,258	1,849,560	4,298	3,035,223
- Held-to-maturity	75,819	9,433	8,994	807,715	340,962	--	1,242,923
- Fair value through profit or loss	--	--	--	171,220	68,643	95	239,958
Other assets	2,159	22	--	--	--	13,965	16,146
Total assets	489,761	376,865	935,195	2,002,193	2,259,165	18,823	6,082,002
Liabilities							
Borrowings	267,791	--	--	166,826	--	--	434,617
Other funding instruments	32,386	--	--	--	--	--	32,386
Securities sold under repurchase agreements	622,172	1,024,247	2,145,056	411,369	--	--	4,202,844
Loan from parent company	--	73,396	--	--	--	--	73,396
Creditors and accrued expenses	15,933	--	--	--	--	87,747	103,680
Total liabilities	938,282	1,097,643	2,145,056	578,195	--	87,747	4,846,923
Interest sensitivity gap	(448,521)	(720,778)	(1,209,861)	1,423,998	2,259,165	(68,924)	1,235,079

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 $9.2 million (2015: $10.6 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 available-for-sale securities with fair value movements recognised in shareholders' equity. Management has determined that the impact of the price risk on equity instruments classified as available-for-sale 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 other funding instruments, 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 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 Group's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current and prospective commitments arising from either on-balance sheet or off-balance sheet liabilities. 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 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 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 30 September 2017						
Assets						
Cash and cash equivalents	496,482	--	--	--	--	496,482
Financial assets						
- loans and receivables	506,197	5,029	890,761	5	--	1,401,992
- available-for-sale	66,072	149,550	289,996	1,654,184	2,897,647	5,057,449
- held-to-maturity	34,009	25,103	300,444	675,554	378,782	1,413,892
- fair value through profit or loss	655	--	--	--	--	655
Other assets	47,670	22	--	--	--	47,692
Total assets	1,151,085	179,704	1,481,201	2,329,743	3,276,429	8,418,162
Liabilities						
Borrowings	--	679,286	13,687	455,856	--	1,148,829
Other funding instruments	25,439	--	--	--	--	25,439
Securities sold under repurchase agreements	539,497	840,249	2,319,800	407,429	--	4,106,975
Loan from parent company	23,687	--	174,008	--	--	197,695
Creditors and accrued expenses	171,707	--	--	--	--	171,707
Total liabilities	760,330	1,519,535	2,507,495	863,285	--	5,650,645
Net liquidity gap	390,755	(1,339,831)	(1,026,294)	1,466,458	3,276,429	2,767,517

3 Financial risk management (continued)

c. *Liquidity risk (continued)*

At 30 September 2016	Up to 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Assets						
Cash and cash equivalents	244,965	--	--	--	--	244,965
Financial assets						
- loans and receivables	296,332	154,032	868,660	17,960	--	1,336,984
- available-for-sale	30,092	76,529	255,437	1,526,000	2,042,058	3,930,116
- held-to-maturity	86,477	25,640	64,169	956,068	399,193	1,531,547
- fair value through profit or loss	95	252	6,945	192,226	76,974	276,492
Other assets	49,448	22	--	--	--	49,470
Total assets	707,409	256,475	1,195,211	2,692,254	2,518,225	7,369,574
Liabilities						
Borrowings	269,600	--	5,430	166,383	--	441,413
Other funding instruments	32,386	--	--	--	--	32,386
Securities sold under repurchase agreements	624,381	1,028,795	2,178,621	425,122	--	4,256,919
Loan from parent company	--	73,680	--	--	--	73,680
Creditors and accrued expenses	103,680	--	--	--	--	103,680
Total liabilities	1,030,047	1,102,475	2,184,051	591,505	--	4,908,078
Net liquidity gap	(322,638)	(846,000)	(988,840)	2,100,749	2,518,225	2,461,496

Assets available to meet all of the Group's liabilities include cash and cash equivalents; 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) Government bonds
(b) Secondary sources of liquidity in the form of highly liquid instruments in the Group's investment portfolios.

Off-consolidated statement of financial position items

- *Loan commitments*

As of 30 September 2017, the Group had no financial instruments that commit it to taking up new receivables or other debt securities (September 2016: nil).

- *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 2017 is an amount of $1.6 million (September 2016: $1.9 million) representing payments under operating leases.

- *Lease commitments*

The Group is committed to the following operating lease payments:

	30 September 2017 $'000	**30 September 2016 $'000**
Up to one year	1,610	1,548
One to five years	3,416	3,246
Over five years	--	--

- *Capital commitments*

At 30 September 2017, the Group's capital commitments were $2,296,765 (September 2016: nil).

3 **Financial risk management (continued)**

d. *Fair value of financial assets and liabilities*

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

The following table 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	
	September 2017 $'000	September 2016 $'000	September 2017 $'000	September 2016 $'000
Financial assets				
Cash and cash equivalents	496,482	244,965	496,434	244,917
Loans and receivables	1,354,513	1,302,787	1,358,059	1,304,644
Held-to-maturity	1,134,909	1,242,923	1,170,694	1,265,879
Other assets	23,666	16,146	23,666	16,146
Financial liabilities				
Short term borrowings and bank overdraft	1,112,329	434,617	1,112,329	434,617
Other funding instruments	25,440	32,386	25,440	32,386
Securities sold under repurchase agreement	4,052,703	4,202,844	4,971,422	4,247,060
Loan from parent company	169,321	73,396	167,638	72,238
Creditors and accrued expenses	171,707	103,680	171,707	103,680

The fair values of the Group's financial instruments are determined in accordance with International Accounting Standard (IAS) 39 "Financial instruments: Recognition and Measurement".

Cash and cash equivalents

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.

Held-to-maturity investments

Fair value for held-to-maturity 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 held-to-maturity portfolio is computed for disclosure purposes only. There are no observable prices for these instruments and as such they are considered level 3 instruments.

3 Financial risk management (continued)

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

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

Bank overdraft

The fair values of bank overdraft is equal to its carrying value as such instruments are subject to floating rates of interest which reset on a daily, monthly or quarterly basis.

Due to customers

Amounts due to customers include other funding instruments 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. The fair value of the commitment if settled as at September 2017 $4.9 billion (2016: $4 billion).

Loan from parent company

The fair value of this facility is calculated using discounted cash flow analysis of comparable GORTT borrowing rates for the term indicated.

(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 is nil (September 2016: $1.1 million).

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.
- 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. (See note 3b (i) for sensitivity analysis).

3 Financial risk management (continued)

d. *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 2017				
Assets				
Available-for-sale financial assets				
- investment securities - debt	--	2,542,053	1,284,573	3,826,626
- investment securities - equity	30	367	4,341	4,738
- fair value through profit or loss - debt	--	--	--	--
Total assets	30	2,542,420	1,288,914	3,831,364
As at 30 September 2016				
Assets				
Available-for-sale financial assets				
- investment securities - debt	--	1,829,812	1,201,113	3,030,925
- investment securities - equity	58	310	3,930	4,298
- fair value through profit or loss - debt	--	--	239,958	239,958
Total assets	58	1,830,122	1,445,001	3,275,181

There were no transfers between Level 1 and Level 2 during the year.

Reconciliation of Level 3 items

	Debt securities $'000	Equity securities $'000	Total $'000
Opening balance	1,441,071	3,930	1,445,001
Fair values gains in other comprehensive income	8,403	401	8,804
Additions	317,245	10	317,255
Maturities	(494,531)	--	(494,531)
Accrued interest	1,527	--	1,527
Amortisation	10,858	--	10,858
Closing balance	1,284,573	4,341	1,288,914

3 **Financial risk management (continued)**

e. *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.

f. *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 monitor 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 about the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

(i) *Impairment of debt securities*

The Group reviews its debt securities portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debt securities before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Group also makes judgements on the mitigating factors impacting the probability of impairment losses. (See Note 3.a (iii)).

Impairment of non-financial assets

The Group reviews its property, plant and equipment and intangible assets to determine if any assets are impaired at the balance sheet date. This involves computing the economic value in use and comparing its fair market value where applicable. The higher of these two values is used to assess impairment. An impairment loss is recorded if the amount is less than the carrying value of the asset. In computing economic value in use, management uses judgement in estimating future cash inflows or cost savings that may be derived from ownership or use of the asset. Such cash flows are discounted using an appropriate discount rate as determined by management.

(ii) *Financial assets at fair value through profit or loss*

This category comprises two sub-categories: financial assets held for trading and financial assets designated by the Group as fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading.

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 utilised makes use of the quoted price even though the market is not active.

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

(iii) *Held-to-maturity investments*

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the fair value of investments would increase by $35.8 million (2016: $22.9 million) with a corresponding entry in the fair value reserve in shareholder's equity. There are no observable prices for these instruments and as such they are considered level 3 instruments.

(iv) *Income taxes*

The Group is subject to income tax in various jurisdictions. 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.

(v) *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 Group determines the amount within a range of reasonable fair value estimates. In making the judgement, the Bank considers information from a variety of sources including:

(i) 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;

(ii) 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

(iii) 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 and timing of the cash flows.

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

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

(vi) *Fair value of available-for-sale financial instruments*

The fair value of available for sale securities traded in an active market is determined using quoted market process or dealer price quotations.

The fair value of securities not quoted in an active market is determined using the Group's model.

The Group uses the 'yield-to-call' method where call options are considered to be in the money, and yield to maturity when the options are not in the money, to determine the fair value of available-for-sale financial assets not traded in active markets. This method uses a risk free yield curve at the year-end and an imputed credit spread which is based on the profile of the financial asset – term, duration, call option, etc. as determined by management. The 'yield-to-call' method discounts the cash flows of the financial assets based on the assumption that those assets with embedded call options will be called by the issuer at the first opportunity. (See Note 3 b (i)).

The Group's credit spread methodology utilizes 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.

The impact of the revised credit spread methodology as at 30 September 2017 is an increase of TTD1,869,523 (2016: 5,602,189).

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

5 Loans and receivables

	2017 $'000	2016 $'000
Sectoral analysis		
Corporate	1,345,969	1,291,190
Individuals	14,498	15,866
	1,360,467	1,307,056
Less: Provision for impairment	(5,954)	(4,269)
	1,354,513	1,302,787

The movement in receivables may be summarised as follows:

	2017 $'000	2016 $'000
At beginning of year	1,302,787	1,016,582
Exchange difference	6,071	45,452
Net additions/(disposals)	47,340	239,870
Net movement in provision	(1,685)	883
At end of period	1,354,513	1,302,787

5 Loans and receivables (continued)

The movement in the impairment provision balance may be summarised as follows:

	2017 $'000	2016 $'000
At start of period	4,269	5,088
Provision for impairment – principal	1,678	(881)
Exchange difference	7	62
At end of year	5,954	4,269

6 Available-for-sale

	2017 $'000	2016 $'000
Debt securities		
Securities of/or guaranteed by the GORTT and state owned enterprises	1,430,067	891,750
Listed	1,111,985	938,063
Unlisted	1,284,574	1,201,112
	3,826,626	3,030,925
Equity securities		
Listed	397	367
Unlisted	4,341	3,931
	4,738	4,298
Total securities	3,831,364	3,035,223
Current portion	72,528	162,405
Non-current portion	3,758,836	2,872,818
	3,831,364	3,035,223

Included above there were no securities (September 2016: nil) which are pledged under the Group's bank overdraft and short term borrowings. The remaining debt securities have been pledged to third parties under sale and repurchase agreements.

Included in these are financial assets amounting to $209 million (2016: $1.2 billion) where the title was transferred under securities sold under repurchase agreements.

Included in these are financial assets amounting to $3.6 billion (2016: $2.7billion) have been pledged to third parties under sale and repurchase agreements.

6 Available-for-sale (continued)

The movement in investment securities available-for-sale may be summarised as follows:

	2017 $'000	2016 $'000
Balance at beginning of the year	3,035,223	2,401,814
Exchange differences	10,528	79,389
Additions	2,049,563	1,820,135
Disposals	(1,279,000)	(1,280,992)
Reclassification to fair value through profit or loss	--	--
Movement in provision	--	--
Net fair value gains	15,050	14,877
Balance at end of year	3,831,364	3,035,223
The movement in the impairment provision balance is as follows		
Allowance at start of year	--	--
Provision written off	--	--
Allowance at the end of year	--	--

7 Held-to-maturity

	2017 $'000	2016 $'000
Securities of/or guaranteed by the GORTT	457,163	487,853
Listed investments	--	75,819
Unlisted investments	677,746	679,251
	1,134,909	1,242,923
Current portion	131,018	94,246
Non-current portion	1,003,891	1,148,677
	1,134,909	1,242,923

The movement in financial assets held-to-maturity may be summarised as follows:

	2017 $'000	2016 $'000
Balance at beginning of the year	1,242,923	1,606,273
Exchange differences	4,433	66,220
Additions	3,988	26,749
Redemptions	(113,065)	(443,944)
Amortisation HTM	(8,835)	(17,752)
Amortisation of reclassified HTM	5,465	5,377
Impairments	--	--
Balance at end of year	1,134,909	1,242,923

Included in these are financial assets amounting to $148 million (2016: $604million) where title were transferred under securities sold under repurchase agreements.

Included in these are financial assets amounting to $677 million (2016: $778 million) have been pledged to third parties under sale and repurchase agreements.

8 Financial assets at fair value through profit or loss

	2017 $'000	2016 $'000
Credit Linked Notes		
- Unlisted	655	239,958

The movement in financial assets at fair value through profit or loss may be summarised as follows:

	2017 $'000	2016 $'000
Balance at beginning of the year	239,958	227,957
Additions	559	--
Disposals	(229,327)	--
Reclassification to fair value through profit or loss	--	--
Losses from changes in fair value gains	(10,535)	(1,172)
Foreign exchange movement	--	13,173
Balance at end of year	655	239,958

9 Intangible assets

This comprises an investment in computer software that was brought into use as at May 2012 and September 2016. Movements are as follows:

	2017 $'000	2016 $'000
Balance at beginning of the year	1,190	3,031
Additions	8	--
Reclassed to prepayments	--	--
Amortisation	(349)	(1,841)
Balance at end of year	849	1,190
Acquisition cost	28,385	28,377
Accumulated amortisation and impairment	(27,536)	(27,187)
Net book amount	849	1,190

Intangible assets whose useful life expired in the current year were written off through the consolidated statement of income. There were no reclassification in the current period (2016: nil).

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 2017							
Opening net book amount	57,102	3,812	2,646	1,657	511	--	65,728
Additions	69	66	190	1,087	131	513	2,056
Disposals	--	(21)	(823)	(392)	(532)	--	(1,768)
Revaluation loss	--	--	--	--	--	--	--
Transfers	(67)	1	288	--	(181)	(41)	--
Depreciation charge	(767)	(811)	(1,116)	(799)	(210)	--	(3,703)
Depreciation charge on disposal	--	21	814	278	525	--	1,638
Closing net book amount	56,337	3,068	1,999	1,831	244	472	63,951
At 30 September 2017							
Cost/valuation	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 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 2016							
Opening net book amount	56,762	2,452	3,548	1,910	365	--	65,037
Additions	1,097	4,157	307	795	372	--	6,728
Disposals	--	--	(859)	(1,150)	(96)	--	(2,105)
Revaluation loss	--	--	--	--	--	--	--
Transfers	--	--	--	--	--	--	--
Depreciation charge	(757)	(2,797)	(1,219)	(740)	(218)	--	(5,731)
Depreciation charge on disposal	--	--	869	842	88	--	1,799
Closing net book amount	57,102	3,812	2,646	1,657	511	--	65,728
At 30 September 2016							
Cost/valuation	60,668	14,032	13,957	3,296	2,785	--	94,738
Accumulated depreciation	(3,566)	(10,220)	(11,311)	(1,639)	(2,274)	--	(29,010)
Net book amount	57,102	3,812	2,646	1,657	511	--	65,728
At 30 September 2015							
Cost/valuation	59,572	9,561	14,245	3,635	2,490	--	89,503
Accumulated depreciation	(2,810)	(7,109)	(10,697)	(1,725)	(2,125)	--	(24,466)
Net book amount	56,762	2,452	3,548	1,910	365	--	65,037

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.

	2017 $'000	2016 $'000
Level 3		
Building on leasehold land	28,784	29,442
Building on freehold	5,149	5,256
Freehold land	5,956	5,956
	39,889	40,654

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.

(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 2015. 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 update their assessment of the fair value of each property, taking into account the most recent independent valuations. Management determine 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 consider 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 2017, 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:

	2017 $'000	2016 $'000
Cost	50,639	50,639
Accumulated depreciation	(4,332)	(3,566)
Net book amount	46,307	47,073

11 Other assets

	2017 $'000	2016 $'000
Prepayments	6,966	8,766
Fee and coupon receivable	13,227	8,011
Due from parent company	680	970
Amounts due from brokers	592	381
Other receivables	9,167	6,785
	30,632	24,913

First Citizens Investment Services Ltd has not made any repayments to GORTT for the year ended 30 September 2017 (2016: $742k). Under the Liquidity Support Agreement the GORTT settled claim number eight for TT$2.8 million and US$312k, which was submitted in July 2017.

12 Borrowings

	2017 $'000	2016 $'000
Medium-term borrowings	433,490	166,826
Short-term borrowings	678,839	267,791
	1,112,329	434,617

The Group has an undrawn operating bank overdraft facility denominated in Eastern Caribbean dollars which incurs interest at 9%, (2016: 9%).

Medium-term borrowings represents unsecured borrowings of US$34.9 million, and TT$197.7 million from clients for a period of three years. 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% (2016: 6month LIBOR plus 2%). The average rate as at the end of September was 3.5% (2016: 3.21%).

Short-term borrowings represented demand facilities via a number of financial institutions which are secured by the Group's investment securities held by the financial institutions. The rate of funding on these facilities are 3.35% and 3.65% (2016: 3.35%). The market value of the investment securities held as collateral for this facility amounted to $676 million at 30 September 2017 (2016: $268 million).

13 Securities sold under repurchase agreements

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

	2017 $'000	2016 $'000
Invested principal	4,009,223	4,165,276
Accrued interest	43,480	37,568
	4,052,703	4,202,844
Public institutions	1,337,953	1,838,210
Private institutions	1,770,819	1,401,168
Consumer	943,931	963,466
	4,052,703	4,202,844
Current portion	3,662,102	3,791,475
Non-current portion	390,601	411,369
	4,052,703	4,202,844

Securities sold under repurchase agreements only include financial instruments classified as liabilities at amortised cost. These financial instruments accrue interest at rates between 0.20% and 5.89% (2016: 0.20% and 5.89%).

14 Creditors and accrued expenses

	2017 $'000	2016 $'000
Accrued expenses	8,356	10,088
Due to brokers	130,032	62,064
Other liabilities	3,784	6,774
Related parties	29,535	24,754
	171,707	103,680

Balances due to related parties include:

- Balances due to related parties include an amount of $25.7 million (2016: $23.2 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 3 a. (ii).

15 Loan from parent company

	2017 $'000	2016 $'000
Loan from parent company	169,321	73,396

This loan is an unsecured Short Term US facility up to US$25M.
The interest rates is 4% on the balance (2016: 6 year LIBOR 0.92890% + 225 bps and 6 months LIBOR 1.24894% + 225 bps). The loan is expected to be repaid by August 2018.

16 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method using tax rates of 30%, 25%, 12.5% (September 2016: 25%, 12.5%).

The movement on the deferred income tax account is as follows:	2017 $'000	2016 $'000
At beginning of year	46,511	35,891
Investment securities-fair value re-measurement	8,488	1,637
Statement of income charge (Note 26)	8,742	8,983
At end of year	63,741	46,511

16 Deferred tax (continued)

Deferred income 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 2016 $'000	Fair value reserves $'000	(Credit)/ charge to statement of income $'000	Closing balance 2017 $'000
Financial assets at fair value through profit or loss	(191)	--	(23)	(214)
Provisions	(129)	--	--	(129)
Deferred tax asset	(320)	--	(23)	(343)
Fair value re-measurement	14,277	8,545	--	22,822
HTM amortisation	4,670	(57)	--	4,613
Unrealised exchange gains	4,844	--	1,318	6,162
Zero coupon instruments	21,713	--	8,173	29,886
Accelerated tax depreciation	1,327	--	(726)	601
Deferred tax liability	46,831	8,488	8,765	64,084
Net deferred tax liability	46,511	8,488	8,742	63,741

	Opening balance 2015 $'000	Fair value reserves $'000	(Credit)/ charge to statement of income $'000	Closing balance 2016 $'000
Financial assets at fair value through profit or loss	(252)	--	61	(191)
Provisions	44	--	(173)	(129)
Deferred tax asset	(208)	--	(112)	(320)
Fair value re-measurement	11,396	2,881	--	14,277
HTM amortisation	5,914	(1,244)	--	4,670
Unrealised exchange gains	(24)	--	4,868	4,844
Zero coupon instruments	17,456	--	4,257	21,713
Accelerated tax depreciation	1,357	--	(30)	1,327
Deferred tax liability	36,099	1,637	9,095	46,831
Net deferred tax liability	35,891	1,637	8,983	46,511

16 Deferred tax (continued)

The Group does not have any unrecognised losses. Deferred tax asset is expected to be recovered as follows:

	2017 $'000	2016 $'000
Within 12 months	343	320
After 12 months	--	--
	343	320

Deferred tax liability is expected to be recovered as follows:

	2017 $'000	2016 $'000
Within 12 months	8,105	26,557
After 12 months	55,979	20,274
	64,084	46,831

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.

	2017 $'000	2016 $'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

	2017 $'000	2016 $'000
Fair value - available-for-sale	47,292	37,937
Fair value - held-to-maturity (Note 4 d.)	11,684	16,525
Revaluation of land and building	2,028	2,028
Fair value - foreign exchange	10,539	11,693
	71,543	68,183
Financial assets available-for-sale		
Balance at beginning of year	37,937	30,274
Net gains from changes in fair value	22,544	13,649
Prior period change in the effective tax rate (25% to 30%): Note (16)	(2,455)	--
Deferred tax credit Note (16)	(6,090)	(2,881)
Foreign exchange adjustments	(4,644)	(3,105)
At end of year	47,292	37,937

18 Fair value reserves (continued)

	2017 $'000	2016 $'000
Financial assets held-to-maturity		
Balance at beginning of year	16,525	20,297
Amortisation	(4,911)	(5,130)
Prior period change in the effective tax rate (25% to 30%)	(1,355)	--
Deferred tax on amortisation (Note 16)	1,412	1,244
Foreign exchange adjustments	13	114
At end of year	11,684	16,525
Property, plant and equipment		
Balance at beginning of year	2,028	2,028
Net gains from revaluation	--	--
At end of year	2,028	2,028
Foreign exchange reserve		
Balance at beginning of year	11,693	4,020
Foreign exchange movement	(1,154)	7,673
At end of year	10,539	11,693

19 Interest income

Available-for-sale	173,157	127,303
Held-to-maturity	74,313	86,773
Loans and receivables	29,829	29,359
Other	714	2,264
	278,013	245,699

20 Interest expense

Securities sold under repurchase agreements	98,178	96,420
Other funding instruments	--	762
Short term borrowings	22,227	5,916
Loan from parent company	4,165	1,790
Other	601	442
	125,171	105,330

21 Fees and commissions

Capital markets fee income	9,524	11,655
Portfolio and wealth management	8,457	6,947
Brokerage services	2,440	2,259
Other	326	139
	20,747	21,000

22 Net gains on financial assets

	2017 $'000	2016 $'000
Net unrealised fair value loss on financial assets at fair value through profit or loss	(48)	(1,172)
Net realised gain on financial assets	3,459	17,558
Net gains on disposal of available-for-sale financial assets	3,411	16,386

23 Impairment loss net of recoveries

Statement of income

	2017 $'000	2016 $'000
Provisions	6,265	--
Recovery of previously incurred losses	(2,951)	(754)
	3,314	(754)

Statement of financial position

	2017 $'000	2016 $'000
Balance as at 1 October	4,269	5,023
Provisions taken/(recovered)	3,314	(816)
Exchange difference	--	62
Balance as at 30 September	7,583	4,269

24 Administrative expenses

	2017 $'000	2016 $'000
Wages and salaries	35,281	34,339
Depreciation	3,703	5,731
Amortisation cost	349	1,841
	39,333	41,911

25 Other operating expenses

	2017 $'000	2016 $'000
Information technology expenses	4,586	4,862
Office expenses	7,317	8,429
Marketing expenses	1,017	973
Other expenses	9,590	18,872
	22,510	33,136

26 Taxation

	2017 $'000	2016 $'000
Corporate tax	22,189	16,242
Over provision in prior/current year	(517)	--
Deferred tax (Note 16)	8,742	9,074
	30,414	25,316

26 Taxation (continued)

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

	2017 $'000	2016 $'000
Profit before taxation	126,724	127,997
Tax calculated at tax rates applicable to profits in respective countries	36,893	35,972
Income exempt from tax	(18,362)	(24,389)
Expenses not deductible for tax purposes	8,747	9,696
Over provision in prior year	(517)	--
Net effect of other charges and allowances	3,190	1,132
Effects of different tax rates (from 25% to 30%)	463	2,905
Taxation charge	30,414	25,316

27 Assets under management

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

	2017 $'000	2016 $'000
Off-consolidated statement of financial position investments	1,355,392	1,193,654

28 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. The Group is fully owned by First Citizens Bank Limited, 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.

	2017 $'000	2016 $'000
a. *Directors and key management personnel*		
Statement of financial position		
Loan and receivable	93	143
Securities sold under repurchase agreements	(669)	(503)
	(576)	(360)
Statement of income		
Interest income	5	7
Interest expense	(4)	(17)
Salaries and other short-term employee benefits	(6,234)	(6,722)
	(6,233)	(6,732)

28 **Related party transactions (continued)**

b. *Related companies*

The following related party transactions are included in the consolidated statement of financial position and consolidated statement of income for 2017:

	Parent $'000	Related companies $'000	GORTT $'000
Statement of income			
Interest income	574	--	45,115
Interest expense	(4,165)	(5,067)	--
	(3,591)	(5,067)	45,115
Statement of financial position			
Assets			
Cash and cash equivalents	283,780	--	--
Other assets	728	--	--
Financial assets	--	--	1,181,917
Liabilities			
Securities sold under repurchase agreements	--	(317,495)	--
Creditors and accrued expenses	(27,708)	(1,856)	--
Loan from parent company	(169,321)	--	--
	87,479	(319,351)	1,181,917

The following related party transactions are included in the consolidated statement of financial position and consolidated statement of income for 2016:

	Parent $'000	Related companies $'000	GORTT $'000
Statement of income			
Interest income	634	--	17,686
Interest expense	(1,790)	(2,242)	--
	(1,156)	(2,242)	17,686
Statement of financial position			
Assets			
Cash and cash equivalents	184,909	--	--
Other assets	970	--	--
Financial assets	--	--	782,016
Liabilities			
Securities sold under repurchase agreements	--	(192,309)	--
Creditors and accrued expenses	(23,370)	(1,384)	--
Loan from parent company	(73,393)	--	--
	89,116	(193,693)	782,016

29 Contingent liabilities

At the consolidated statement of financial position date there were no contingent liabilities (2016: nil).

30 Subsequent events

At a Board meeting held on July 4, 2017 Management presented a note to the Board which outlined the general terms for a proposed re-organisation in keeping with regulatory objectives which, when implemented, would result in the eventual separation of trustee, custodian and investment management functions for the First Citizens Group. The Board approved this approach for the re-organisation of FCIS with the understanding that FCIS would become the hub for the Group's investment management function and would no longer provide custodian services to clients, such changes being subject to the necessary regulatory approval and the approval of the other key stakeholders.