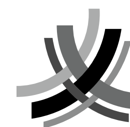
Unconsolidated Financial Statements
30 September 2013



First Citizens

Independent Auditor's Report

To the shareholders of First Citizens Bank Limited

Report on the Financial Statements
We have audited the accompanying unconsolidated financial statements of First Citizens Bank Limited (the Bank), which comprise the unconsolidated statement of financial position as of 30 September 2013 and the unconsolidated income statement, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects the financial position of the Bank as of 30 September 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
16 December 2013
Port of Spain
Trinidad, West Indies

Unconsolidated Statement of Financial Position
(expressed in Trinidad and Tobago dollars)

	Notes	As at 30 September 2013 $'000	2012 $'000
ASSETS			
Cash and due from other banks	6	1,465,470	1,564,673
Statutory deposits with Central Bank	7	6,656,179	4,373,774
Financial assets			
- Available-for-sale	8	5,376,053	4,855,769
- Loans & receivables			
Loans to customers	9	10,274,154	9,079,378
Loan notes	10	3,032,756	3,624,308
Finance leases	11	1,547	3,891
Other assets	12	287,838	499,908
Investment in joint ventures	13	3,475	3,475
Investment in associates	14	79,302	79,299
Investment in subsidiaries	15	839,292	838,643
Due from parent company		2,349	2,221
Due from subsidiaries		1,357,507	89,268
Tax recoverable		19,909	—
Property, plant and equipment	16	356,018	341,251
Retirement benefit asset	17	179,493	228,659
TOTAL ASSETS		29,931,342	25,584,517
LIABILITIES			
Customers' deposits	18	21,013,425	17,887,697
Other funding instruments	19	14,651	17,314
Derivative financial instruments	20	158,253	150,673
Due to other banks		1,426	6,713
Creditors and accrued expenses	21	375,782	234,974
Debt securities in issue	22	1,500,000	1,500,000
Due to parent company		1,045,693	—
Due to subsidiaries		32,084	278,327
Deferred income tax	23	226,144	215,530
Notes due to related parties	25	1,169,355	1,169,303
Tax payable		—	33,303
TOTAL LIABILITIES		25,536,813	21,493,834
CAPITAL & RESERVES ATTRIBUTABLE TO THE BANK'S EQUITY HOLDERS			
Share capital	26	643,557	643,557
Retained earnings		2,607,357	2,373,515
Statutory reserve	27	643,557	643,557
Other reserves		500,058	430,054
TOTAL SHAREHOLDERS' EQUITY		4,394,529	4,090,683
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,931,342	25,584,517

The accompanying notes form an integral part of these unconsolidated financial statements.

On 9 December 2013, the Board of Directors of First Citizens Bank Limited authorised these unconsolidated financial statements for issue.

Director: ______ Director: ______

Statement of Management Responsibility

The Financial Institutions Act, 2008 (The Act), requires that management prepare and acknowledge responsibility for preparation of the financial statements annually, establish and maintain an adequate internal control structure and procedures for financial reporting, safeguarding the assets of the company as well as ensuring compliance with the Act.

It is management's responsibility to apply the appropriate accounting policies and make accounting estimates that are reasonable. Management is responsible for ensuring that the statements presented are a fair and true presentation of the state of affairs of the company which includes ensuring that the information from which the statements are derived are designed and properly monitored in a manner which would allow accurate information to be provided. In addition, management is responsible for ensuring that the information presented is free from material misstatement whether due to fraud or error.

Management accepts responsibility for the annual financial statements as well as the responsibility for the maintenance of the accounting records and internal controls which form the basis of the financial statements. The financial statements of the First Citizens Bank Limited are prepared in accordance with International Financial Reporting Standards and the appropriate accounting policies have been established and applied in a manner which gives a true and fair view of the Company's financial affairs and operating results.

In addition, it is noteworthy to mention that nothing has come to the attention of management to indicate that the Company will not remain a going concern for the next twelve months from the date of this statement.

Group Chief Executive Officer
16 December 2013

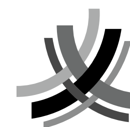
Group Chief Financial Officer
16 December 2013

Unconsolidated Statement of Income
(expressed in Trinidad and Tobago dollars)

	Notes	Year Ended 30 September 2013 $'000	2012 $'000
Interest income	28	1,164,342	1,161,671
Interest expense	29	(346,157)	(387,207)
Net interest income		818,185	774,464
Fees and commissions	30	129,114	112,115
Gain on sale of available-for-sale financial assets		13,212	5,967
Dividend income	31	149,590	741,762
Foreign exchange gain	32	70,215	78,170
Other income		12,839	53,743
Total net income		1,193,155	1,766,221
Impairment loss on loans, net of recoveries	9	(28,793)	(36,539)
Administrative expenses	33	(427,110)	(379,887)
Other operating expenses	34	(268,347)	(240,463)
Profit before taxation		468,905	1,109,332
Taxation	35	(38,599)	(190,512)
Profit for the year		430,306	918,820

The accompanying notes form an integral part of these unconsolidated financial statements.

Unconsolidated Financial Statements
30 September 2013



First Citizens

Unconsolidated Statement of Comprehensive Income
(expressed in Trinidad and Tobago dollars)

	Year Ended 30 September 2013 $'000	2012 $'000
Profit for the year	430,306	918,820
Other Comprehensive Income		
Items that will not be reclassified to profit or loss		
Revaluation of property, plant and equipment	844	10,577
	844	**10,577**
Items that may be reclassified		
Exchange difference on translation	(29)	1,284
Revaluation of financial assets available-for-sale	69,189	172,625
	69,160	**173,909**
Total Other Comprehensive Income	70,004	184,486
Total Comprehensive Income For The Year	500,310	1,103,306

The accompanying notes form an integral part of these unconsolidated financial statements.

Unconsolidated Statement of Changes in Equity
(expressed in Trinidad and Tobago dollars)

	Share Capital $'000	Statutory Reserve $'000	Fair Value Reserve $'000	Revaluation Surplus $'000	Exchange Differences on Translation $'000	Retained Earnings $'000	Total $'000
Balance at 1 October 2012	643,557	643,557	347,240	81,530	1,284	2,373,515	4,090,683
Comprehensive Income							
Profit for the year	—	—	—	—	—	430,306	430,306
Other comprehensive income for the year	—	—	69,189	844	(29)	—	70,004
Total Comprehensive Income For The Year	—	—	69,189	844	(29)	430,306	500,310
Transactions With Owners							
Dividends (Note 35)	—	—	—	—	—	(196,464)	(196,464)
Balance at 30 September 2013	643,557	643,557	416,429	82,374	1,255	2,607,357	4,394,529
Balance at 1 October 2011	640,000	640,436	174,615	70,953	—	1,564,754	3,090,758
Comprehensive Income							
Profit for the year	—	—	—	—	—	918,820	918,820
Other comprehensive income for the year	—	—	172,625	10,577	1,284	—	184,486
Total Comprehensive Income For The Year	—	—	172,625	10,577	1,284	918,820	1,103,306
Transactions With Owners							
Dividends (Note 35)	—	—	—	—	—	(106,938)	(106,938)
Transfer to statutory reserves	—	3,121	—	—	—	(3,121)	—
Issued share	3,557	—	—	—	—	—	3,557
Balance at 30 September 2012	643,557	643,557	347,240	81,530	1,284	2,373,515	4,090,683

The accompanying notes form an integral part of these unconsolidated financial statements.

Unconsolidated Statement of Cash Flows
(expressed in Trinidad and Tobago dollars)

	Note	Year Ended 30 September 2013 $'000	2012 $'000
Profit before taxation		468,905	1,109,332
Adjustments to reconcile profit to net cash provided by operating activities:			
Depreciation		43,059	48,878
Interest income		(1,164,342)	(1,161,671)
Interest received		1,125,447	1,175,291
Interest expense		346,157	387,207
Interest paid		(345,569)	(415,415)
Loss/(gain) on disposal of property, plant & equipment		5	(237)
Gain on sale of available-for-sale financial assets		(13,212)	(5,967)
Net change in derivative valuation		(1,202)	(8,762)
Amortisation of premium on investment securities		2,276	6,406
Amortisation of bond issue cost		496	496
Net pension income		58,922	35,529
Foreign exchange gain on derivative financial instrument		(40)	(7,703)
Net movement in allowance for loan loss		27,070	36,718
Cashflows from operating activities before changes in operating assets and liabilities		547,972	1,200,102
Net change in loans to customers		(1,221,846)	(435,508)
Net change in finance leases		2,344	865
Net change in customers' deposits		3,125,728	836,030
Net change in other funding instruments		(2,663)	(2,572)
Net change in other assets		250,965	20,733
Net change in due to/ from ultimate parent company		1,045,565	(177)
Net change in statutory deposits with Central Bank		(2,282,405)	(302,189)
Net change in creditors and accrued expenses		140,221	35,972
Pension contributions paid		(9,756)	(10,002)
Taxes paid		(104,542)	(3,425)
Net cashflows generated from operating activities		1,491,583	1,339,829
Net cash flows from operating activities		1,491,583	1,339,829
Cash Flows from Investing Activities			
Purchase of financial assets		(5,505,892)	(4,363,246)
Proceeds from sale of financial assets		5,088,254	3,666,661
Repayment on loan notes receivable		591,552	539,853
Net change in short-term investments		210,687	121,001
Investment in subsidiaries		(635)	(283,236)
Proceeds from disposal of property, plant and equipment		525	5,224
Purchase of property, plant and equipment		(57,231)	(52,071)
Net cash flows generated from/(used in) Investing Activities		327,536	(365,814)
Cash flows from Financing Activities			
Net change in advances to subsidiaries		(1,268,239)	(19,515)
Net change in due to subsidiaries		(246,243)	(28,351)
Net receipt on derivative financial instrument		8,822	16,769
Issuance of shares		—	3,557
Ordinary dividend paid		(193,542)	(104,016)
Preference dividend paid		(2,922)	(2,922)
Net change in long term loans from related companies		—	(473,568)
Net cash flows used in financing activities		(1,702,124)	(608,046)
Effect of exchange rate changes		(224)	(10,186)
Net increase in cash and cash equivalents		116,771	355,783
Cash and cash equivalents at beginning of year		1,192,570	836,787
Cash and cash equivalents at end of year	6	1,309,341	1,192,570

The accompanying notes form an integral part of these unconsolidated financial statements.

Notes to the Unconsolidated Financial Statements
(expressed in Trinidad and Tobago dollars)

1 General Information

First Citizens Bank Limited (the Bank) and its subsidiaries (together the Group) provide retail, commercial and corporate banking as well as investment banking services as a licensee under the Financial Institutions Act 2008. The Group operates primarily in Trinidad and Tobago and the Eastern Caribbean region.

The Bank is a subsidiary of First Citizens Holdings Limited (Holdings), a company owned by the Government of the Republic of Trinidad and Tobago (GORTT). During the year First Citizens Holdings disposed of 20% of its ordinary share holdings interest, through the initial public offering on the Trinidad and Tobago Stock Exchange.

On 12 September 1993, the Workers' Bank (1989) Limited, National Commercial Bank of Trinidad and Tobago Limited and Trinidad Co-operative Bank Limited under and by virtue of vesting orders made by the Minister of Finance under section 49 of the Financial Institutions Act, 1993, were transferred to and became vested in the Bank.

All entities which were transferred to, or from which specific assets or liabilities were transferred to the Bank, were wholly owned or controlled by the Trinidad and Tobago Government. Therefore, the transfers were recorded as a combination of interests under common control whereby all assets and liabilities transferred to the Bank were transferred at their carrying amounts in the accounts of the transferred or transferring entities at the dates of the respective transfers.

The Bank currently holds investments in the following entities:

Entity	Nature of operations	Country of incorporation	Ownership interest
First Citizens Asset Management Limited	Investment and asset management services for corporate benefit plans, mutual funds and other parties	Trinidad & Tobago	100%
First Citizens Bank (Barbados) Limited	Banking, including the provision of mortgages for residential and commercial properties	Barbados	100%
First Citizens Costa Rica SA	Service related transactions	Costa Rica	100%
First Citizens Financial Services (St. Lucia) Limited	Selected banking and financial service operations	St. Lucia	100%
First Citizens Investment Services Limited	Investment and asset management services and repo business	Trinidad & Tobago	100%
First Citizens Securities Trading Limited	Financial management services and repo business	Trinidad & Tobago	100%
First Citizens (St. Lucia) Limited	Selected banking and financial service operations	St. Lucia	100%
First Citizens Trustee Services Limited	Provision of trustee, administration and bond paying agency services	Trinidad & Tobago	100%
Infolink Services Limited	Provision of automated banking reciprocity services	Trinidad & Tobago	25%
St. Lucia Electricity Services Limited	Provision of electrical power to consumers	St. Lucia	19%
Trinidad and Tobago Interbank Payment System Limited	Automated clearing house	Trinidad & Tobago	14.29%

2 Summary of Significant Accounting Policies

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

2.1 Basis of preparation

The Bank has prepared these stand-alone financial statements to file with the Central Bank of Trinidad & Tobago in accordance with the Financial institutions Act 2008. The Bank has also prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the Bank and its subsidiaries (the 'Group'). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has control over – have been fully consolidated. The consolidated financial statements can be obtained from 9 Queen's Park East, Port of Spain, Trinidad. Users of these stand-alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 30 September 2013 in order to obtain full information on the financial position, financial performance and changes in financial position of the Group as a whole.

These unconsolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The unconsolidated 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 and 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 Bank's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the unconsolidated financial statements are disclosed in Note 4.

a) Standards, amendment and interpretations which are effective and have been adopted by the Bank:

- IAS 1 Presentation of Items of Other Comprehensive Income - (effective 1 July 2012).

  The amendments to IAS 1 change the grouping of items presented in OCI. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

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

The following standards, amendments and interpretations are effective for accounting periods beginning on or after 1 January 2013 but have not been early adopted by the Bank.

- IFRS 9, 'Financial instruments part 1: Classification and measurement' (effective 1 January 2015). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015. Key features are as follows:

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

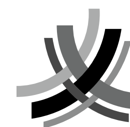
  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (effective 1 January 2013). These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments:Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

- IFRS 10 Consolidated Financial Statements (effective 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities.

- IFRS 11 Joint Arrangements (effective 1 January 2013). This standard replaces IAS 31 Interest in Joint Ventures. The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

- IFRS 12 Disclosure of interest in Other Entities (effective 1 January 2013). This standard requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.



2 Summary of Significant Accounting Policies (continued)

2.1 Basis of preparation (continued)

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank: (continued)

- IFRS 13 Fair Value Measurement (effective 1 January 2013).

  IFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by IFRS. Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e., an "exit price"). "Fair value" as used in IFRS 2 Share-based Payments and IAS 17 Leases is excluded from the scope of IFRS 13.

- IAS 19 Employee Benefits (Revised) (effective 1 January 2013). The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following:

  For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in OCI as they occur. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in OCI with no subsequent recycling to profit or loss.

  Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

  Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

- IFRS 1 Government Loans — Amendments to IFRS 1 (effective 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This is the same relief as was given to existing preparers of IFRS financial statements.

- IAS 27 Separate Financial Statements – Amendments (effective 1 January 2013). This Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments.

- IAS 28 Investments in Associates and Joint Ventures - Amendments (effective 1 January 2013). This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

- IAS 32 Offsetting Financial Assets and Financial liabilities — Amendments to IAS 32 (effective 1 January 2014). This requires that "a financial asset and a financial liability shall be offset ... when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts …" The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself.

  The Bank is currently assessing the impact of the above standards.

2.2 Investment in subsidiaries

Subsidiaries are all entities, (including special purpose entities) over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Investments in subsidiaries are accounted for at cost in these unconsolidated financial statements.

2.3 Investment in joint ventures

A joint venture exists where the Bank has a contractual arrangement with one or more parties to undertake activities through entities that are subject to joint control.

Investments in joint ventures are accounted for at cost in these unconsolidated financial statements.

2.4 Investment in associates

Associates are all entities over which the Bank has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for at cost in these unconsolidated financial statements.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The unconsolidated financial statements are presented in Trinidad and Tobago dollars, which is the Bank's presentation currency. The exchange rate between the TT dollar and the US dollar as at the date of these statements was TT$6.3506 = US$1.00 (2012: TT$6.3503 = US$1.00), which represent the Bank's mid-rate.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at 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 income statement.

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 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.

2.6 Derivative financial instruments

Derivative financial instruments including swaps are initially recognised in the statement of financial position at cost (including transaction costs) and are subsequently re-measured at their fair values. 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.

Changes in the fair value of the derivative are included in the income statement.

2.7 Financial assets and financial liabilities

2.7.1 Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(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:

i. those that the entity upon initial recognition designates as available-for-sale;

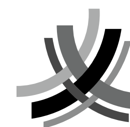
ii. those for which the holder may not recover substantially all its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value—which is the cash consideration to originate or purchase the loan including transaction costs—and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as loan notes. Interest on loans is included in the income statement under interest income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement under impaired loss on loans and receivables net of recoveries.

(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.

Available-for-sale financial assets are initially recognised at fair value and subsequently carried at fair value with gains and losses being recognised in the statement of comprehensive income except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.



2 Summary of Significant Accounting Policies (continued)

2.7 Financial assets and financial liabilities (continued)

2.7.1 Financial assets (continued)

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payments are established.

Financial liabilities

The Bank measures financial liabilities at amortised cost. Financial liabilities measured at amortised cost include deposits from banks or customers, bonds payables, other funding instruments and notes due to related parties.

2.8 Reclassification

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the available for sale category if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Such reclassifications cannot reversed.

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.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:
i) Delinquency in contractual payments of principal or interest;
ii) Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
iii) Breach of loan covenants or conditions;
iv) Initiation of bankruptcy proceedings;
v) Deterioration of the borrower's competitive position;
vi) Deterioration in the value of collateral; and
vii) Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three (3) months and twelve (12) months; in exceptional cases, longer periods are warranted.

The Bank 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 Bank 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.

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 income statement. 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 Bank 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 Bank'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.

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 Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank 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 income statement in impairment loss on loans net of recoveries.

(b) Assets classified as available-for-sale

The Bank 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

For debt securities the classification is based on the criteria in Note 2.9 (a). 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 income statement.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been negotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

2.10 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.

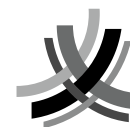
2.11 Offsetting financial instruments

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.

2.12 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 Bank has substantially all the risk and rewards of ownership are classified as finance leases.



2 Summary of Significant Accounting Policies (continued)

2.12 Lease transactions (contined)

(a) The Bank as the lessee

The Bank has entered into operating leases where the total payments made under operating leases are charged to the income statement 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 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 income statement 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.

(b) The Bank 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.

2.13 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. 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 Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of freehold premises are credited to fair value reserves in shareholders' equity. Decreases that affect previous increases of the same assets are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. 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 at varying rates to allocate the cost of the assets to their residual value.

The following rates are used:

Buildings	2% straight line
Equipment and furniture	20% to 25% straight line
Computer equipment and motor vehicles	20% to 33.3% straight line
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.

2.14 Income tax

Current income tax is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised in the income statement for the period except to the extent it relates to items recognised directly in equity. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are 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 provided in full, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by at the date of the 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.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The principal temporary differences arise from depreciation on property, plant and equipment, the defined benefit asset, tax losses carried forward, revaluation gains/losses on available-for-sale financial assets and the amortisation of zero coupon instruments.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

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.

2.15 Employee benefits

(a) Pension plans

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 Bank, taking account of the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the plans annually. The asset recognised in the statement of financial position in respect of defined benefit plans is the fair value of the plan assets less the present value of the defined benefit obligation at the date of the financial position together with adjustments for unrecognised actuarial gains and losses and past service costs. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligations are charged or credited to income over the employees' expected average remaining working life. Past service costs are recognised immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

(b) Profit sharing and bonus plans

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

2.16 Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise of cash balances on hand, deposits with other banks and short-term highly liquid investments with maturities of three months or less when purchased.

2 Summary of Significant Accounting Policies (continued)

2.17 Interest income and expense

Interest income and interest expense are recognised in the income statement 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, loans and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts.

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 Bank estimates cashflows 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 cashflows for the purpose of measuring the impairment loss.

2.18 Fee and commission income

Fees and commissions are recognised on an accrual basis, when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct cost) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained part at the same effective interest rate as the other participants. 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 apportionate 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.

2.19 Dividend income

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

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

2.21 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 income statement over the period of the borrowings using the effective interest method.

2.22 Acceptances

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

2.23 Dividend distribution

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

The Class A preference shares are non-convertible, non-participating and non-voting. The option for redemption expired in September 1999. The shares pay cumulative dividend of 4% per annum.

The Class B preference shares pay cumulative dividends of 2% per annum, but are non-participatory, non-voting, non-convertible and non-redeemable.

Preference shares dividends are declared at the discretion of the board of directors.

2.24 Provisions

Provisions are recognised when the Bank 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.

2.25 Segment reporting

The Bank's segmental reporting is based on the following: Retail Banking, Corporate Banking, Investment Banking, and Group functions.

3 Financial Risk Management

The Bank'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 Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank'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 Bank 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 has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Board Enterprise Risk Committee to monitor the overall risk process within the Bank.

The Group Enterprise Risk Unit is responsible for managing risk decisions and monitors risk levels and reports to the Board Enterprise Risk Committee.

The Group Enterprise Risk Unit, headed by the Chief Risk Officer, is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. This unit comprises of Group Operational Risk, Credit Administration Department, Group Market Risk and Business Continuity Plan Unit.

The Bank has also established the Asset Liability Committee (ALCO) to manage/monitor the Bank's assets and liabilities and the overall financial structure via the Group's Treasury. It is primarily responsible for funding and liquidity risk.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment, and reports its findings and recommendations to the 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.

3.1 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 Bank'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 Bank by failing to discharge an obligation. All the Bank's lending and investment activities are conducted with various counter parties and it is in pursuing these activities that the Bank becomes exposed to credit risk.

3 Financial Risk Management (continued)

3.1 Credit risk (continued)

It is expected that these areas of business will continue to be principal ones for the Bank in the future and with loans and advances currently comprising a significant portion of the Bank's assets and being responsible for a substantial portion of the revenue generated, it is anticipated that the Bank will continue to be exposed to credit risk well into the future. The management of credit risk is therefore of utmost importance to the Bank and an appropriate organisational structure has been put in place to ensure that this function is effectively discharged for the Bank'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.

3.1.1 Credit risk management

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

3.1.2 Credit risk measurement

As part of the on-going process of prudent risk management, the Bank's policy is to risk rate credit facilities at the time of approval and annually. The rating process partitions the portfolio into un-criticised (higher quality loan assets) and criticised sections (the lower quality/impaired assets evaluated under the Credit Classification System). The Credit Classification System is in place to assign risk indicators to credits in the criticised portfolio and engages the traditional categories utilised by regulatory authorities.

3.1.3 Credit classification system

(a) Loans to customers

The Bank's Credit Classification System is outlined as follows:

Criticised Loans

Rating	Description
Pass	Standard
SM	Special mention
SS	Substandard
D	Doubtful
L	Loss

(b) Debt securities and other bills

The Bank 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.

(c) Other loans and receivables

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

Bank's internal ratings scale and mapping of external ratings

Bank's rating	Description of the grade	External rating: Standard & Poor's equivalent
A, B+	Investment grade	AAA, AA, A, BBB
B, 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 our rating classes based on the long-term average default rates for each external grade. The Bank uses the external ratings where available to benchmark our internal credit risk assessment.

3.1.4 Risk limit control and mitigation policy

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, industry and country segments. The Bank monitors its concentration of credit exposure so that no single borrower or industry default will have a material impact on the Bank. These limits are implemented and monitored by the Credit Administration Department via the stipulations of the Bank Credit Policy Manual. In instances where it is strategically beneficial and adequately documented, the Group would seek approval on an exception basis for a variation to its standard approved limits from the Board of Directors.

(a) Single borrower and borrower bank exposure limits

Limits established by regulatory authorities have been incorporated into the credit policies where concentration is restricted by limiting credit amounts to a fraction of the capital base. This is supported by a stringent reporting requirement and is further enhanced by policies requiring periodic review of all commercial credit relationships.

(b) Industry exposure limits

These limits have been established based on a ranking of the riskiness of various industries. The ranking is guided by a model developed for the Bank 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.

(c) Country Exposure Limits

Exposure limits have been established for selected countries which are considered to be within the Bank's off-shore catchment area and/or 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 Bank'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.

(d) Collateral

The principal collateral types for loans and advances are:
- Cash deposits
- Mortgages over residential properties
- Charges over business assets such as premises and accounts receivable
- Charges over financial instruments such as debt securities and equities
- Government guarantees and indemnities

The Bank does not take a second or inferior collateral position to any other lender on advances outside the lending value calculated as per the Bank's stipulated guidelines. The Bank recognises that the value of items held as collateral may diminish over time resulting in loans being less protected than initially intended. To mitigate the effect of this, margins are applied to security items in evaluating coverage. The Bank assesses the collateral value of credits at the point of inception and monitors the market value of collateral as well as the need for additional collateral during periodic review of loan accounts in arrears as per the Credit Policy.

<u>Liquidity Support Agreement</u>

It was agreed inter alia, in the Liquidity Support Agreement dated May 15, 2009, made between the Government of the Republic of Trinidad and Tobago (GORTT), the Central Bank of Trinidad and Tobago and the First Citizens Bank Limited (the Bank), that the GORTT would provide certain assurances to the Bank so that the acquisition of the shares of Caribbean Money Market Brokers Limited, now First Citizens Investment Services Limited (FCIS), would not reduce the capital adequacy ratio of the Bank below 10% for the five years from the date of completion of the said acquisition of the shares.

The terms of the agreement under which the Bank acquired FCIS included certain financial assurances by the GORTT that provide 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 as set out in the provisions of the Liquidity Support Agreement.

All reasonable claims by the Bank in respect of such losses are expected to be settled once the Bank has made all reasonable efforts to recover or resist such claims, losses or liabilities.

3 Financial Risk Management (continued)

3.1 Credit risk (continued)

3.1.4 Risk limit control and mitigation policy (continued)

(d) Collateral (continued)

Losses which are covered under the Liquidity Support Agreement include the following:

- Losses in respect of taxes and employee matters, within sixty days after the expiration of the relevant statute of limitation;
- Losses in respect of defect of title to shares, due authorisation of the sale of the shares, enforceability of the share sale agreement, corporate good standing of FCIS and the Bank, compliance with laws, possession of requisite permits and consents, breaches of any of the material provisions of existing contracts between FCIS and the Bank and third parties other than employee contracts and ownership of underlying assets of FCIS and the Bank. The limitation of such claims is 20 years after the date of completion of the share transfer to the Bank;
- Losses in respect of balances due from CL Financial Limited and its affiliates which include capitalised interest accruing from the date FCIS 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 to the Bank; and
- Any other losses other than those set out above arising from the purchase of the shares. The limitation of such claims is 2 years after the date of completion of the share transfer to the Bank.

(e) Derivatives

The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

(f) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counter parties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(g) Credit-related commitments

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

3.1.5 Impairment and provisioning policies

The Bank's impairment provision policy is covered in detail in Note 2.9.

The Bank'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.

3.1.6 Maximum exposure to credit risk before collateral held or other credit enhancement

	Gross maximum exposure 2013 $'000	Gross maximum exposure 2012 $'000
Credit risk exposures relating to on balance sheet financial assets are as follows:		
Cash and bank balances	1,465,470	1,564,673
Statutory deposit with Central Bank	6,656,179	4,373,774
Financial assets		
- Available-for-sale	5,339,900	4,829,685
- Loans to customers	10,563,428	9,341,582
- Loan notes	3,032,756	3,624,308
- Finance leases	1,547	3,891
Interest receivable	197,867	158,972
Other assets	27,331	272,363
	27,284,478	24,169,248
Credit risk exposures relating to off balance sheet financial assets are as follows:		
Contingent liabilities	212,857	183,511
Credit commitments	715,520	810,677
	928,377	994,188
	28,212,855	25,163,436

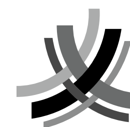
The above table represents a worst case scenario of credit risk exposure to the Bank without taking account of any collateral held or other credit enhancements attached.

3.1.7 Loans to customers and other financial assets

Loans to customers and other financial assets are summarized as follows:

	30 September 2013			
	Loans to customers $'000	Financial assets available for sale $'000	Loan notes $'000	Finance leases $'000
Neither past due nor impaired	7,821,907	5,339,900	3,032,756	1,673
Past due but not impaired	2,334,088	—	—	—
Individually impaired	410,382	—	—	—
Gross	10,566,377	5,339,900	3,032,756	1,673
Unearned interest	(2,949)	—	—	(126)
Less: Allowance for impairment	(289,274)	—	—	—
Net	10,274,154	5,339,900	3,032,756	1,547

	30 September 2012			
	Loans to customers $'000	Financial assets available for sale $'000	Loan notes $'000	Finance leases $'000
Neither past due nor impaired	6,141,889	4,777,011	3,624,308	3,504
Past due but not impaired	2,824,024	52,674	—	810
Individually impaired	385,178	—	—	—
Gross	9,351,091	4,829,685	3,624,308	4,314
Unearned interest	(9,509)	—	—	(423)
Less: Allowance for impairment	(262,204)	—	—	—
Net	9,079,378	4,829,685	3,624,308	3,891



3 Financial Risk Management (continued)

3.1 Credit risk (continued)

3.1.7 Loans to customers and other financial assets (continued)

(a) Neither past due nor impaired

The credit quality of the portfolio of loans to customers and other financial assets that were neither past nor impaired on an individual basis can be assessed by reference to the internal rating system adopted by the Bank.

30 September 2013
Loans to Customers

	Individual $'000	Corporate $'000	Total $'000
Standard	1,993,146	4,365,871	6,359,017
Special Mention	89,881	1,373,009	1,462,890
	2,083,027	5,738,880	7,821,907

30 September 2012
Loans to Customers

	Individual $'000	Corporate $'000	Total $'000
Standard	1,780,669	2,932,120	4,712,789
Special Mention	59,985	1,369,115	1,429,100
	1,840,654	4,301,235	6,141,889

The composition of the portfolio of loans to customers that were neither past due nor impaired on an individual basis is illustrated below by loan type and borrower categorisation. All facilities are inclusive of unearned interest.

30 September 2013

	Individual (retail customers) $'000	Corporate $'000	Total $'000
Instalment loans	673,457	11,801	685,258
Demand loans	104,777	5,284,505	5,389,282
Overdrafts	4,153	47,670	51,823
Credit cards	269,362	—	269,362
Mortgages	1,031,278	394,904	1,426,182
Loans to customers	2,083,027	5,738,880	7,821,907
Impairment allowance	(37,269)	(41,414)	(78,683)
Loans net of impairment	2,045,758	5,697,466	7,743,224

30 September 2012

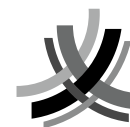
	Individual (retail customers) $'000	Corporate $'000	Total $'000
Instalment loans	601,764	5,978	607,742
Demand loans	84,746	3,949,041	4,033,787
Overdrafts	663	65,418	66,081
Credit cards	274,141	—	274,141
Mortgages	879,340	280,798	1,160,138
Loans to customers	1,840,654	4,301,235	6,141,889
Impairment allowance	(34,884)	(31,793)	(66,677)
Loans net of impairment	1,805,770	4,269,442	6,075,212

(b) Past due but not impaired

Loans to customers less than 90 days past due and 180 days for mortgage facilities are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans to customers and other financial assets that were past due but not impaired on an individual basis are as follows:

30 September 2013	Up to 30 days $'000	30 to 60 days $'000	60 to 90 days $'000	>90 days $'000	Total $'000
Individual (retail customers)					
Instalment loans	171,013	13,564	3,589	—	188,166
Demand loans	41,609	10,199	2,123	—	53,931
Overdrafts	9,340	629	152	—	10,121
Credit cards	16,136	4,621	1,154	—	21,911
Mortgages	481,812	55,292	9,628	4,124	550,856
Sub-total	719,910	84,305	16,646	4,124	824,985
Impairment allowance	(8,518)	(1,196)	(271)	(14)	(9,999)
Corporate					
Demand Loans	834,891	77,207	927	—	913,025
Mortgages	571,963	23,038	1,077	—	596,078
Sub-total	1,406,854	100,245	2,004	—	1,509,103
Impairment allowance	(6,185)	(545)	(7)	—	(6,737)
Loans to customers past due but not impaired	2,126,764	184,550	18,650	4,124	2,334,088
Fair value of collateral					
Individual (retail customers)	843,699	70,728	7,988	3,715	926,130
Corporate	1,511,509	103,235	25,820	—	1,648,614

30 September 2012	Up to 30 days $'000	30 to 60 days $'000	60 to 90 days $'000	>90 days $'000	Total $'000
Individual (retail customers)					
Instalment	179,414	13,388	2,915	—	195,717
Demand loans	50,717	10,907	752	—	62,376
Overdrafts	14,618	1,312	107	—	16,037
Credit cards	—	4,179	—	—	4,179
Mortgages	513,190	47,540	5,460	2,754	568,944
Sub-total	757,939	77,326	9,234	2,754	847,253
Impairment allowance	(10,787)	(1,297)	(147)	(704)	(12,935)
Corporate					
Demand Loans	1,228,449	22,260	10,438	—	1,261,147
Mortgages	667,159	39,144	2,395	6,926	715,624
Sub-total	1,895,608	61,404	12,833	6,926	1,976,771
Impairment allowance	(8,127)	(189)	(64)	(11)	(8,391)
Loans to customers past due but not impaired	2,653,547	138,730	22,067	9,680	2,824,024
Available-for-sale financial assets	52,674	—	—	—	52,674
Loan notes	—	—	—	—	—
Finance leases	810	—	—	—	810
Fair value of collateral					
Individual (retail customers)	1,160,874	86,597	13,129	3,862	1,264,462
Corporate	1,841,778	955,403	25,860	8,050	2,831,091



3 Financial Risk Management (continued)

3.1 Credit risk (continued)

3.1.7 Loans to customers and other financial assets (continued)

(c) Individually impaired

	Individual (retail customers)					Corporate		Total
	Instalment $'000	Demand Loans $'000	Overdrafts $'000	Credit Cards $'000	Mortgages $'000	Demand Loans $'000	Mortgages $'000	$'000
30 September 2013								
Loans to customers	27,478	30,568	555	23,905	9,807	287,417	30,652	410,382
Impairment allowance	(27,347)	(2,539)	(529)	(19,292)	(1,606)	(138,826)	(3,716)	(193,855)
Fair value of collateral	9,647	67,320	140	—	5,551	520,468	32,469	635,595
30 September 2012								
Loans to customers	27,257	34,798	742	16,315	5,002	277,937	23,126	385,177
Impairment allowance	(26,527)	(16,027)	(740)	(10,766)	(3,931)	(100,862)	(15,347)	(174,200)
Fair value of collateral	11,659	69,720	150	—	9,265	530,144	20,141	641,079

Upon initial recognition of loans to customers, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In the subsequent periods, the fair value is updated by reference to market price or indices of similar assets.

(d) Loans to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payment. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. In some cases, restructuring results in the assets continuing to be impaired but in a number of cases restructuring is geared to facilitate a correction of the root cause of impairment which eventually improves collectability of the assets.

3.1.8 Credit quality of available-for-sale securities

The table below represents an analysis of available-for-sale securities rating agency designation.

S&P	September 2013 Available for sale securities $'000	September 2012 Available for sale securities $'000
A- to AAA	4,747,733	4,376,572
BBB- to BBB+	266,336	285,145
Lower than BBB-	252,064	161,565
Unrated	73,767	6,403
	5,339,900	4,829,685

3.1.9 Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The Bank does not assume title of these assets, and as a result, they are not included in the statement of financial position.

3.1.10 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's main credit exposure as categorised by industry sectors of counter parties.

	2013 Gross maximum exposure $'000	2012 Gross maximum exposure $'000
Cash and bank balances	1,465,470	1,564,673
Statutory deposits with Central Bank	6,656,179	4,373,774
Loans, receivables and available-for-sale investments:		
Consumer	1,791,772	1,296,966
Agriculture	10,227	2,795
Petroleum	481,141	504,410
Manufacturing	159,099	123,075
Construction	4,530,367	4,268,247
Distribution	152,182	128,215
Hotels and guest houses	589,947	352,003
Transport, storage and communications	1,088,142	641,265
Finance, insurance and real estate	3,303,674	3,828,960
Other business services	791,927	511,996
Personal services	13,741	12,953
Real estate mortgages	1,906,496	2,457,935
Government related	4,116,976	3,692,837
Finance leases	1,547	3,891
Interest receivable	197,867	158,972
	27,256,754	23,922,967

3.2 Market risk

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

The market risks arising from trading and non-trading activities are measured separately by the Group Market Risk department who submit reports to the Senior Management Enterprise Risk Committee on a regular basis. Additionally, on a monthly basis, the Group's Market Risk Committee reviews and approves the yield curves used to value all investment securities.

Trading portfolios include those portfolios arising from market-making transactions where the Bank 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 Bank's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of interest rate, foreign exchange and equity risks arising from the Bank's financial assets available-for-sale.

3.2.1 Currency risk

The Bank 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 Bank not to engage in speculative foreign exchange activities, since its primary focus is to supply foreign currency to customers at a profit with the US$ dominating trading. However, as supply usually lags behind customer demand, the Bank may find itself in an overbought or oversold position.

The Bank's strategy of managing this risk is to buy low and sell high; establish relationships with corporate foreign exchange earners; limit foreign exchange exposure; avoid speculation with an aim to keep a balanced position; and match foreign currency denominated assets with foreign currency denominated liabilities. The Bank does not currently engage in any hedging activities to mitigate currency risk.

3 Financial Risk Management (continued)

3.2 Market risk (continued)

3.2.1 Currency risk (continued)

Foreign currency exposure for financial assets, financial liabilities and off-balance sheet items

As at 30 September 2013	TT$ $'000	US$ $'000	OTHER $'000	TOTAL $'000
ASSETS				
Cash and due from other banks	174,054	974,659	316,757	1,465,470
Financial assets:				
Available-for-sale	4,355,101	988,736	32,216	5,376,053
Loans to customers	8,047,658	2,226,496	—	10,274,154
Loan notes	1,635,687	1,397,069	—	3,032,756
Other assets	211,006	66,755	10,077	287,838
TOTAL FINANCIAL ASSETS	14,423,506	5,653,715	359,050	20,436,271
LIABILITIES				
Customers' deposits	17,319,005	3,413,181	281,239	21,013,425
Other funding instruments	—	14,651	—	14,651
Due to other banks	—	1,416	10	1,426
Derivative financial instruments	932,718	(774,465)	—	158,253
Notes due to related companies	58,000	1,111,355	—	1,169,355
Creditors and accruals	349,408	26,388	(14)	375,782
TOTAL FINANCIAL LIABILITIES	18,659,131	3,792,526	281,235	22,732,892
Net on balance sheet position	(4,235,625)	1,861,189	77,815	(2,296,621)
Off-balance sheet items	201,489	10,844	524	212,857
Credit commitments	557,390	158,130	—	715,520

As at 30 September 2012	TT$ $'000	US$ $'000	OTHER $'000	TOTAL $'000
ASSETS				
Cash and due from other banks	250,187	1,039,819	274,667	1,564,673
Financial assets:				
Available-for-sale	3,783,517	1,025,440	46,812	4,855,769
Loans to customers	7,767,626	1,311,752	—	9,079,378
Loan notes	1,707,816	1,916,492	—	3,624,308
Other assets	418,146	71,605	10,157	499,908
TOTAL FINANCIAL ASSETS	13,927,292	5,365,108	331,636	19,624,036
LIABILITIES				
Customers' deposits	14,285,823	3,337,420	264,454	17,887,697
Other funding instruments	—	17,314	—	17,314
Due to other banks	—	6,704	9	6,713
Derivative financial instruments	985,718	(835,045)	—	150,673
Notes due to related companies	58,000	1,111,303	—	1,169,303
Creditors and accruals	213,773	21,099	102	234,974
TOTAL FINANCIAL LIABILITIES	15,543,314	3,658,795	264,565	19,466,674
Net on balance sheet position	(1,616,022)	1,706,313	67,071	157,362
Off balance sheet items	182,698	516	297	183,511
Credit commitments	406,500	404,177	—	810,677

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 TT$ appreciates by 1% against the US$, the profit would increase by $1.9 million (2012: $2.1 million). One percent was considered a reasonable possible shift since the US$ rate has not changed by more than 1% year-on-year over the past 3 years.

3.2.2 Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and future cash flows. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of the changes in market interest rates. Cashflow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of the changes in market interest rate. The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on both its fair value and cash flow risks.

The Bank'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 strategy employed to achieve this involves the active pricing of deposit and loan products, increasing market share of loans and funding, diversifying portfolios, changing the mix of products in accordance with market trends and reducing funding mismatch through long-term instruments.

The table below summarises the Bank's exposure to interest rate risk. The assets and liabilities are categorised by the earlier of the repricing date and the maturity date.

As at 30 September 2013	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
Financial Assets							
Cash and due from other banks	1,181,131	—	40,950	—	—	243,389	1,465,470
Statutory deposits with Central Bank	307,887	753,035	521,687	—	—	5,073,570	6,656,179
Financial assets:							
Available-for-sale	469,821	10,561	1,263,234	331,372	3,257,183	43,882	5,376,053
Loan to customers and finance leases	1,694,138	1,055,408	2,355,597	3,590,769	1,869,063	—	10,564,975
Loan loss provision	—	—	—	—	—	(289,274)	(289,274)
Loan notes	1,924,917	63,506	359,477	390,057	294,799	—	3,032,756
Other assets	—	—	27,331	—	—	260,507	287,838
Total Financial Assets	5,577,894	1,882,510	4,568,276	4,312,198	5,421,045	5,332,074	27,093,997
Financial Liabilities							
Due to other banks	—	—	—	—	—	1,426	1,426
Customers' deposits	18,204,043	641,246	1,898,234	269,235	667	—	21,013,425
Other funding instruments	—	1,332	1,332	10,655	1,332	—	14,651
Derivative financial instruments	(3,579)	—	(2,739)	11,017	120,353	33,201	158,253
Debt securities in issue	—	—	500,000	1,000,000	—	—	1,500,000
Due to subsidiaries	—	—	27,331	—	—	4,753	32,084
Notes due to parent company	—	—	—	1,111,355	—	58,000	1,169,355
Total Financial Liabilities	18,200,464	642,578	2,424,158	2,402,262	122,352	97,380	23,889,194
Interest Sensitivity Gap	(12,622,570)	1,239,932	2,144,118	1,909,936	5,298,693		

As at 30 September 2012	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
Assets							
Cash and due from other banks	1,331,286	—	42,864	—	—	190,523	1,564,673
Statutory deposits with Central Bank	272,146	790,068	522,980	—	—	2,788,580	4,373,774
Financial assets:							
Available-for-sale	119,990	35,904	1,190,241	326,158	3,150,990	32,486	4,855,769
Loan to customers and leases	1,141,893	632,380	1,788,948	3,954,196	1,828,056	—	9,345,473
Loan loss provision	—	—	—	—	—	(262,204)	(262,204)
Loan notes	1,934,765	63,503	359,464	898,077	368,499	—	3,624,308
Other assets	70,528	—	70,527	67,169	—	291,684	499,908
Total Financial Assets	4,870,608	1,521,855	3,975,024	5,245,600	5,347,545	3,041,069	24,001,701
Liabilities							
Due to other banks	—	—	—	—	—	6,713	6,713
Customers' deposits	14,511,435	1,118,984	1,804,435	452,843	—	—	17,887,697
Other funding instruments	—	1,332	1,332	10,655	3,995	—	17,314
Derivative financial instruments	(4,773)	—	(4,046)	(4,877)	129,969	34,400	150,673
Debt securities in issue	—	—	—	1,500,000	—	—	1,500,000
Due to subsidiaries	70,527	—	70,527	67,169	—	70,104	278,327
Notes due to related companies	—	—	—	1,111,303	—	58,000	1,169,303
Total Financial Liabilities	14,577,189	1,120,316	1,872,248	3,137,093	133,964	169,217	21,010,027
Interest Sensitivity Gap	(9,706,581)	401,539	2,102,776	2,108,507	5,213,581		

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.

A 100 basis points increase in interest rates will cause an increase in profit of $4.5 million (2012: $7.2 million).

3 Financial Risk Management (continued)

3.2 Market risk (continued)

3.2.3 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 Bank 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.

3.3 Liquidity risk

The liquidity risk is the risk that the Bank 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 Bank 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 Bank 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 Bank's liquidity management process is carried out by the Treasury Department and monitored by the Bank's Asset and Liability Commitee (ALCO). The Bank'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 Bank 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 Bank 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, by maintaining ongoing access to wholesale funding and by maintaining a liquid pool of marketable securities dedicated to mitigating liquidity risk as a contingency measure. Fallback techniques include access to the local interbank and institutional markets and stand-by lines of credit with external parties and the ability to close out or liquidate market positions.

3.3.1 Financial assets and liabilities

The table below analyses financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 30 September 2013	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
Financial Liabilities						
Due to other banks	1,426	—	—	—	—	1,426
Customers' deposits	18,210,189	645,103	1,917,641	275,015	802	21,048,750
Other funding instruments	—	1,865	1,813	12,781	1,380	17,839
Derivative financial instruments	25,904	—	25,904	207,229	221,834	480,871
Debt securities in issue	21,183	—	568,364	1,142,255	—	1,731,802
Due to subsidiaries	4,753	—	27,331	—	—	32,084
Notes due to related companies	—	—	58,078	1,198,466	58,000	1,314,544
Total Financial Liabilities	18,263,455	646,968	2,599,131	2,835,746	282,016	24,627,316
Total Financial Assets	5,302,296	1,933,874	5,085,160	6,076,398	11,923,006	30,320,734
Liquidity Gap	(12,961,159)	1,286,906	2,486,029	3,240,652	11,640,990	5,693,418

As at 30 September 2012	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
Financial Liabilities						
Due to other banks	6,713	—	—	—	—	6,713
Customers' deposits	14,512,785	1,128,936	1,825,013	464,436	156	17,931,326
Other funding instruments	—	1,961	1,910	13,554	4,286	21,711
Derivative financial instruments	25,906	—	25,906	207,250	273,670	532,732
Debt securities in issue	21,183	—	89,067	1,731,802	—	1,842,052
Due to subsidiaries	140,631	—	70,527	67,169	—	278,327
Notes due to related companies	—	—	58,078	1,256,492	58,000	1,372,570
Total Financial Liabilities	14,707,218	1,130,897	2,070,501	3,740,703	336,112	21,985,431
Total Financial Assets	4,885,242	1,546,932	4,493,543	7,067,001	10,005,314	27,998,032
Liquidity Gap	(9,821,976)	416,035	2,423,042	3,326,298	9,669,202	6,012,601

3.3.2 Assets held for managing liquidity risk

The Bank 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 Bank's assets held for managing liquidity risk comprise:

- Cash and balances with Central Bank;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's investment portfolios.

3.3.3 Off-Balance sheet items

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

As at 30 September 2013	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
Loan commitments	715,520	—	—	—	—	715,520
Acceptances	1,035	511	—	—	—	1,546
Guarantees	96,311	42,022	20,816	34,832	8	193,989
Letters of credit	6,371	10,951	—	—	—	17,322
Operating leases	—	—	12,537	26,865	31,141	70,543
Capital commitments	—	—	17,955	—	—	17,955
Total	819,237	53,484	51,308	61,697	31,149	1,016,875

As at 30 September 2012	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
Loan commitments	810,677	—	—	—	—	810,677
Acceptances	239	251	323	—	—	813
Guarantees	125,503	15,172	21,179	7,847	23	169,724
Letters of credit	347	2,174	5,929	4,524	—	12,974
Operating leases	—	—	19,632	11,531	9,048	40,211
Capital commitments	—	—	12,595	—	—	12,595
Total	936,766	17,597	59,658	23,902	9,071	1,046,994

3.4 Operational risk

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

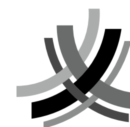
- Appropriate segregation of duties and access
- Reconciling and monitoring of transactions
- Documentation of controls and procedures
- Training and development of staff
- Reporting of operational losses and proposed remedial actions
- Development of contingency plans
- Information Security
- Assessments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

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position, are:-

- To comply with the capital requirement set by the regulators under the Financial Institutions Act (2008);
- To safeguard the Bank'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 Bank can remain solvent during periods of adverse earnings or economic decline; and
- To ensure that the Bank is adequately capitalised to cushion depositors and other creditors against losses.

Capital adequacy and the use of the regulatory capital are monitored monthly by the ALCO Committee, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory practices, as implemented by the Central Bank of Trinidad and Tobago for supervisory purposes. The required information is filed with the Central Bank of Trinidad & Tobago on a monthly basis.


First Citizens

3 Financial Risk Management (continued)

3.5 Capital management (continued)

The Central Bank of Trinidad & Tobago requires each financial institution to:-

- Maintain a ratio of qualifying capital to risk adjusted assets of not less than the minimum standard of 8%.
- Core capital must not be less than fifty percent (50%) of qualifying capital i.e. supplementary capital must not exceed core capital.

The Bank's regulatory capital is broken down into:

- Tier 1 (Core) Capital – share capital, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 (Supplementary) Capital – qualifying subordinated loan capital, impairment allowances and unrealised gains arising on the fair valuation of available-for-sale securities and property, plant and equipment.

Tier 1 (Core) Capital	**2013 $'000**	**2012 $'000**
Share capital	539,957	539,957
Statutory reserve	643,557	643,557
Retained earnings	2,607,357	2,373,515
Total Tier 1	3,790,871	3,557,029
Tier 2 (Supplementary) Capital		
Preference shares	103,600	103,600
Fair value reserves	500,058	430,054
Eligible reserve provision	107,759	99,730
Total Tier 2 Capital	711,417	633,384
Total Regulatory Capital	4,502,288	4,190,413
Ratios		
Risk adjusted assets	8,609,305	7,958,070
Qualifying capital to risk adjusted assets	52.30%	52.66%
Core capital to qualifying capital	84.20%	84.88%

3.6 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities presented on the Bank's statement of financial position at an amount other than their fair value.

	Carrying Value		**Fair Value**	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Financial Assets				
Cash and due from other banks	1,465,470	1,564,673	1,465,470	1,564,673
Statutory deposits with Central Bank	6,656,179	4,373,774	6,656,179	4,373,774
Financial assets:				
Loans to customers	10,274,154	9,079,378	12,649,203	9,805,134
Loan notes	3,032,756	3,624,308	3,312,153	3,997,777
Finance leases	1,547	3,891	1,768	4,614
Financial Liabilities				
Customers' deposits	21,013,425	17,887,697	21,131,548	17,972,199
Other funding instruments	14,651	17,314	17,136	20,522
Debt securities in issue	1,500,000	1,500,000	1,694,305	1,754,222
Notes due to related companies	1,169,355	1,169,303	1,286,656	1,306,358

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

Financial instruments where carrying value is equal to fair value

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

Loans to customers less allowance for loan losses

Loans to customers are net of specific and other provisions for impairment, which reflects the additional credit risk. The estimated fair value of these loans represents the discounted amount of future cash flows based on prevailing market rates.

Loan notes

The fair value of these notes are calculated using discounted cash flow analyses of comparable government borrowing rates for the terms indicated.

Customer deposits

Due to their liquidity and short-term maturity, the carrying values of some customer deposits approximate their fair value. The fair value of the other customer deposits are computed using discounted cash flow analyses at current market interest rates.

Debt securities in issue

The fair value of the TT$500 million bonds is calculated using discounted cash flow analysis assuming the 'yield-to-call' method of valuation. These bonds carry fixed interest rates and have been discounted using the prevailing market rate of similar instruments.

Notes due to related companies

These notes are payable on demand (no maturity stated). The fair value of these notes approximates their carrying value.

b) Fair value hierarchy

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 Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:-

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

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

The following table shows an analysis of financial instruments measured at fair value by level of the fair value hierarchy:

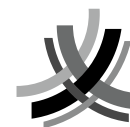
As at 30 September 2013 Financial assets	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Available-for-sale financial assets:				
- Investment securities – debt	875,398	4,464,502	—	5,339,900
- Investment securities – equity	33,861	—	2,292	36,153
Total Financial Assets	909,259	4,464,502	2,292	5,376,053

As at 30 September 2012 Financial assets	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total** $'000
Available-for-sale financial assets:				
- Investment securities – debt	915,385	3,914,300	—	4,829,685
- Investment securities – equity	23,792	—	2,292	26,084
Total Assets	939,177	3,914,300	2,292	4,855,769

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

Reconciliation of Level 3 items:

	2013 $'000	**2012 $'000**
Opening balance	2,292	2,290
Exchange difference	—	2
Closing balance	2,292	2,292



3 Financial Risk Management (continued)

3.7 Deferred day 1 profit/loss

The Bank policy is not to recognise day 1 gains or losses in the unconsolidated financial statements.

4 Critical Accounting Estimates And Judgments

The Bank 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:

a) Fair value of available for sale financial instruments

The Bank uses the discounted cash flow method 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 discounted cash flow method discounts the cash-flows of the financial assets at an appropriate yield plus a credit spread where applicable. The carrying amount of available-for-sale financial assets would decrease by $216.9 million if the discount rate used in the discounted cash flow analysis is increased by 100 basis points from management's estimates (2012: $500.4million).

b) Estimation of the impairment loss on the loan portfolio

The Bank estimates the impairment loss on its loan portfolio by comparing the present value of the future cashflows to the carrying amounts in the financial statements. The Bank makes assumptions about the amount and timing of future cashflows as well as the loss experience of the portfolio. The loss experience considers both the recovery rate on the portfolio as well as the probability of default by the customer. Management considers both the market and economic conditions at the year end and may modify the loss experience on the portfolio if necessary, to reflect current conditions.

Future cashflows for the individually significant loans and loans in arrears are estimated based on credit reviews performed by management and management's estimate of the value of the collateral held.

If the Bank's estimation of the loss experience on the portfolio of loans not considered individually impaired were adjusted by 1% upwards, the impairment provision for loans and receivables would increase by $1.6 million (2012: $0.9 million).

c) Income taxes

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.

d) Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate, salary and pension increases. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. In determining the salary increases, the Bank considered long-term salary inflation, age, merit and promotion.

e) 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 Bank 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.

5 Segment Analysis

For management purposes, the Bank is organized into five business segments based on products and services as follows:-

- **Retail Banking** – includes loans and mortgages, deposit, foreign exchange transactions, credit and debit cards and card merchant acquiring business with retail and commercial customers.
- **Corporate Banking** – Loans and credit facilities and deposits and current accounts for corporate and institutional customers.
- **Treasury Management and Investment Banking** – Liquidity management and investment banking services including corporate finance, and specialised financial trading.
- **Asset Management** – Investment products and services to institutional investors and intermediaries.
- **Group Function** – Finance, legal, and other centralised functions.

As the Bank's segment operations are all financial with a majority of revenues deriving from interest and the Executive Management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Executive Management is measured in a manner consistent with that in the income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Bank's average cost of funding. There are no other material items of income or expense between the business segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The Bank's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. As the Executive Management reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Executive Management.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the unconsolidated statement of financial position.

5 Segment Analysis (continued)

5.1 Segment results of operations

The segment information provided to the Executive Management for the reportable segments for the year ended 30 September 2013 is as follows:-

	Retail Banking $'000	Corporate Banking $'000	Treasury & Investments Banking $'000	Group Functions $'000	Total $'000
Year ended 30 September 2013					
Net interest income	373,817	391,405	52,178	785	818,185
Inter-segment net interest income	68,683	(35,331)	(33,352)	—	—
Net fee and commission income	104,717	14,497	8,735	1,165	129,114
Foreign exchange gains	32,248	(136)	35,301	2,802	70,215
Other income	7,687	8,304	159,524	126	175,641
Total Income	587,152	378,739	222,386	4,878	1,193,155
Impairment loss	(10,818)	(32,366)	14,391	—	(28,793)
Administrative expenses	(151,855)	(8,988)	(131,578)	(134,689)	(427,110)
Other operating expenses	(170,229)	(24,742)	(38,122)	(35,254)	(268,347)
Total non-interest expenses	(332,902)	(66,096)	(155,309)	(169,943)	(724,250)
Profit Before Taxation	254,250	312,643	67,077	(165,065)	468,905
As at 30 September 2013					
Total Assets	4,523,087	7,141,129	17,941,923	325,203	29,931,342
Total Liabilities	10,551,177	6,334,371	8,633,196	18,069	25,536,813
Year ended 30 September 2012					
Net interest income	363,984	342,047	68,433	—	774,464
Inter-segment net interest income	55,279	(22,717)	(32,562)	—	—
Net fee and commission income	91,008	10,538	9,483	1,086	112,115
Foreign exchange gains	29,941	365	45,168	2,696	78,170
Other income	7,862	142	793,327	141	801,472
Total Income	548,074	330,375	883,849	3,923	1,766,221
Impairment loss	(17,710)	(3,081)	(15,748)	—	(36,539)
Administrative expenses	(153,217)	(10,375)	(89,848)	(126,447)	(379,887)
Other operating expenses	(172,099)	(21,899)	(9,541)	(36,924)	(240,463)
Total non-interest expenses	(343,026)	(35,355)	(115,137)	(163,371)	(656,889)
Profit Before Taxation	205,048	295,020	768,712	(159,448)	1,109,332
As at 30 September 2012					
Total Assets	4,266,198	6,114,328	14,789,815	414,176	25,584,517
Total Liabilities	8,098,637	5,050,727	8,332,066	12,404	21,493,834

6 Cash And Due From Other Banks

	2013 $'000	2012 $'000
Cash and bank balances	770,966	341,993
Short-term investments	694,504	1,222,680
	1,465,470	1,564,673
Short-term investments:		
- Maturity within 3 months	539,801	857,290
- Maturity over 3 months	154,703	365,390
	694,504	1,222,680

The average effective interest rate on short-term bank deposits was 0.10% (2012: 0.10%); these deposits have an average maturity of 90 days (2012: 90 days).

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2013 $'000	2012 $'000
Cash and bank balances	770,966	341,993
Short-term investments – maturity within 3 months	539,801	857,290
Due to other banks	(1,426)	(6,713)
	1,309,341	1,192,570

7 Statutory Deposits With Central Bank

Under the provisions of the Financial Institutions Act 2008, the Bank is required to maintain as a non-interest bearing deposit with the Central Bank restricted cash balances. This balance represents a ratio of certain deposit liabilities held in such form and to such extent as the Central Bank may prescribe from time to time. As of 30 September 2013, the current ratio was 17%. Under the provisions of the Act, it can be waived for a specified period of time and on such conditions as may be determined by the Central Bank. In 2006, the Central Bank introduced another compulsory special deposit account, which amounted to $1,582.6 million as at year end (2012: $1,582.2 million) and carries an average interest rate of 0.41% (2012: 0.31%) per annum. Interest is to be paid semi-annually.

8 Available-for-sale Financial Assets

	2013 $'000	2012 $'000
Listed investments	909,259	939,177
Unlisted investments	4,474,669	3,924,466
	5,383,928	4,863,643
Impairment allowance	(7,875)	(7,874)
	5,376,053	4,855,769
Debt securities		
- Listed	875,398	915,385
- Unlisted	4,464,502	3,914,300
	5,339,900	4,829,685
Equity securities		
-Listed	33,861	23,792
-Unlisted	2,292	2,292
	36,153	26,084
Total	5,376,053	4,855,769
Current portion	1,743,617	1,346,135
Non current portion	3,632,436	3,509,634
	5,376,053	4,855,769
Balance at beginning of the year	4,855,769	3,922,934
Exchange differences	169	6,083
Additions	5,505,892	4,363,246
Disposals	(5,078,029)	(3,666,661)
Net fair value gains	92,252	230,167
Balance at end of year	5,376,053	4,855,769
Fair value gains based on		
Quoted market prices	10,069	76,408
Other techniques	82,183	153,759
	92,252	230,167

The movement in the impairment allowance is as follows:

	2013	2012
Allowance at start of year	7,874	7,838
Exchange differences	1	36
Allowance at the end of year	7,875	7,874

9 Loans To Customers

	2013 $'000	2012 $'000
Performing loans	10,154,860	8,958,228
Non-performing loans	408,568	383,354
	10,563,428	9,341,582
Allowance for loan losses	(289,274)	(262,204)
	10,274,154	9,079,378
Loans Analysed By Sector		
Consumer	1,791,772	1,296,966
Agriculture	10,227	2,795
Petroleum	5,865	7,128
Manufacturing	151,200	110,181
Construction	3,535,571	3,257,154
Distribution	152,182	128,215
Hotels and guest houses	589,947	352,003
Transport, storage and communications	846,366	369,767
Finance, insurance and real estate	901,117	858,881
Other business services	658,944	487,603
Personal services	13,741	12,953
Real estate mortgage	1,906,496	2,457,936
	10,563,428	9,341,582
Current portion	5,103,919	3,560,944
Non current portion	5,459,509	5,780,638
	10,563,428	9,341,582
Allowance For Loan Losses		
Allowance at start of year	262,204	225,486
Charge for the year	34,396	39,113
Loans written off during the year	(7,326)	(2,395)
Allowance at the end of year	289,274	262,204
Impairment Loss On Loans Net Of Recoveries		
Charge for the year	34,396	39,113
Loans directly written off during the year, net of recoveries	(5,603)	(2,574)
	28,793	36,539

10 Loan Notes

The loan notes due to the Bank comprise the following:

	2013 $'000	2012 $'000
i) Taurus Services Limited	616,370	684,856
ii) First Citizens Holdings Limited (Holdings)	46,927	52,141
iii) Notes receivable from Central Bank	1,872,683	1,870,628
iv) First Citizens Investment Services Limited	476,295	952,545
v) First Citizens Financial Services (St.Lucia) Limited	20,481	64,138
	3,032,756	3,624,308

(i) This represents several interest bearing notes issued by Taurus Services Limited as consideration for assets sold to Taurus Services Limited as part of the restructuring of the three former banks and Government support for the Bank on its formation (See Note 1).

The terms of the original notes, dated 30 September 1994, were as follows:
- Tenor of 15 years with effect from 30 September 1994;
- Interest rate of 4.5% below prime with a floor rate of 11.5% per annum;
- A moratorium of 5 years on principal payments; and
- Government guarantee.

On 1 October 2000, a new agreement was entered into whereby the Government made a bullet payment to reduce part of the interest accrued. The unpaid portion of the interest up to that date of $150 million was capitalised. Thereafter, accrued interest was capitalised semi-annually until 30 September 2002 (the end of the moratorium) and this totalled $198.4 million. The new principal balance outstanding on the restructured loan notes as at 30 September 2004 which included all capitalised interest to that date amounted to $1,267 million.

The terms of this new agreement are as follows:

- Tenor of 22 years with effect from 1 October 2000;
- Interest rate of 4.5% below prime with a floor rate of 11.5% per annum;
- A moratorium of 2 years on both principal and interest;
- Payment of principal and interest in semi-annual intervals thereafter; and
- Government guarantee.

To date, these notes have been serviced in accordance with the new agreement. These notes are not transferable. On 8 November 2007, the Bank was informed of the Government's intention to early repay these notes. To date, there have been no further developments.

(ii) This represents the balance on a loan note issued by Holdings as consideration for $40 million redeemable preference shares in the Bank and a non-interest bearing note in the amount of $58 million issued by the Bank.

The original terms of the note were as follows:
- Tenor of 15 years with effect from 30 September 1994;
- Interest rate of 4.5% below prime with a floor rate of 11.5% per annum; and
- Government guarantee.

On 1 October 2000, a new agreement was entered into whereby unpaid interest up to that date of $11.2 million was capitalised. Thereafter, accrued interest was capitalised semi-annually until 30 September 2002 (the end of the moratorium) and this totalled $17.9 million. The new principal balance outstanding on the restructured loan note as at 30 September 2004 which included all capitalised interest to that date amounted to $96.5 million.

The terms of this new agreement are as follows:
- Tenor of 22 years with effect from 1 October 2000;
- Interest rate of 4.5% below prime with a floor rate of 11.5% per annum;
- A moratorium of 2 years on both principal and interest;
- Payment of principal and interest in semi-annual intervals thereafter; and
- Government guarantee.

To date, this note has been serviced in accordance with the agreement. This note is not transferable.

(iii) This balance represents four pro-notes due from the Central Bank of Trinidad & Tobago, received as consideration for the Clico Investment Bank (CIB) fixed deposits portfolio transferred to the Bank, as part of the liquidation of that financial institution, as at 1st February 2009. Two notes totalling TT$972.4 million (2012: $970.8 million) earn interest at 1.50% (2012: 2.20%). The other two totalling US$141.8 million (2012: $137.2 million) earn interest at 1.10% (2012: 1.20%). These notes have a tenor of one year (1) with effect from January 2013. Principal and interest are payable on maturity, with an option to roll-over the principal on a monthly basis.

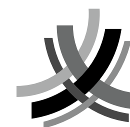
(iv) This represents the balance on a loan note in the sum of US$290 million issued to First Citizens Investment Services Limited (formerly CMMB). The terms of the agreement are as follows:

- Tenor of 5 years with effect from 1 July 2010;
- Interest rate of 4.5%;
- Interest to be paid monthly; and
- Principal repayment – US$5.0 million monthly.

(v) This represents a loan note issued in the sum of US$17million to First Citizens Financial Services (St. Lucia) Limited by the Bank. The terms of the agreement are as follows:

- Tenor of 1 year with effect from 4 November 2012;
- Interest rate of 4.0%; and
- Payment of principal and interest on maturity.

This loan note expires on 4 November 2013 and the Bank is currently finalising the renewal agreement for an additional six months to March 2014.



11 Finance Leases

	2013 $'000	2012 $'000
Gross lease receivable	1,673	4,314
Unearned finance charges	(126)	(423)
Net investment in finance leases	1,547	3,891

The gross investment in finance lease receivable is analysed as follows:

	2013 $'000	2012 $'000
- Up to one year	1,302	2,525
- One year to five years	371	1,789
	1,673	4,314

The net investment in finance leases may be analysed as follows:

	2013 $'000	2012 $'000
- Up to one year	1,231	2,308
- One year to five years	316	1,583
	1,547	3,891

12 Other Assets

	2013 $'000	2012 $'000
Accounts receivable and prepayments	62,640	68,573
Due from GORTT	27,331	272,363
Accrued interest	197,867	158,972
	287,838	499,908

The receivable from the GORTT represents amounts due relating to claims made pursuant to the Liquidity Support Agreement ("Agreement") amongst the GORTT, the Central Bank of Trinidad and Tobago and First Citizens Bank Limited dated 15 May 2009. See note 3.1.4 (d).

As at September 2013, the GORTT has paid $538.0 million to the Bank in relation to the claims made to date and the Bank has outstanding claims of $27.3 million due from the GORTT. This balance is expected to be repaid over two (2) years with interest accruing at 2% per annum.

13 Investment in Joint Ventures

	2013 $'000	2012 $'000
a) Infolink Services Limited	2,554	2,554
b) Trinidad & Tobago Interbank Payment System Limited	921	921
	3,475	3,475

a) This investment represents 25% of the equity capital of Infolink Services Limited, a company incorporated in Trinidad and Tobago whose principal activity is the provision of electronic banking reciprocity.

b) This investment represents 14.29% in the equity capital of Trinidad & Tobago Inter-payment System Limited whose principal activity is the operation of an automated clearings house.

14 Investment in Associate

	2013 $'000	2012 $'000
Beginning of the year	79,299	78,934
Exchange differences	3	365
At end of year	79,302	79,299

The fair value of the investment in associate at 30 September 2013 is $120.0 million (2012: $132.6 million).

15 Investment in Subsidiaries

	2013 $'000	2012 $'000
Beginning of the year	838,643	555,315
Additions	635	283,236
Exchange differences	14	92
End of year	839,292	838,643

In August 2012, the Bank acquired First Citizens Bank (Barbados) Limited.

16 Property, Plant And Equipment

	Freehold Premises $'000	Leasehold Premises $'000	Motor Vehicle & Equipment $'000	Work in Progress $'000	Total $'000
Year ended 30 September 2013					
Opening net book amount	228,391	33,721	70,992	8,147	341,251
Additions	1,250	2,134	33,063	20,784	57,231
Disposals	—	—	(530)	—	(530)
Revaluation surplus	1,125	—	—	—	1,125
Depreciation charge	(2,382)	(5,915)	(34,762)	—	(43,059)
Closing net book amount	228,384	29,940	68,763	28,931	356,018
At 30 September 2013					
Cost/valuation	236,533	72,351	423,608	28,931	761,423
Accumulated depreciation	(8,149)	(42,411)	(354,845)	—	(405,405)
Net book amount	228,384	29,940	68,763	28,931	356,018
Year ended 30 September 2012					
Opening net book amount	221,725	35,900	63,608	7,709	328,942
Additions	10	5,887	45,736	438	52,071
Disposals	(4,687)	—	(300)	—	(4,987)
Revaluation surplus	14,103	—	—	—	14,103
Depreciation charge	(2,760)	(8,066)	(38,052)	—	(48,878)
Closing net book amount	228,391	33,721	70,992	8,147	341,251
At 30 September 2012					
Cost/valuation	234,158	70,217	391,075	8,147	703,597
Accumulated depreciation	(5,767)	(36,496)	(320,083)	—	(362,346)
Net book amount	228,391	33,721	70,992	8,147	341,251
At 30 September 2011					
Cost/valuation	224,732	64,330	345,639	7,709	642,410
Accumulated depreciation	(3,007)	(28,430)	(282,031)	—	(313,468)
Net book amount	221,725	35,900	63,608	7,709	328,942

As at 30 September, 2013, the Bank's freehold premises were stated at revalued amounts determined by management. Valuations were made on the basis of open market value, using the independent valuation report for 2012 as the base. Open market values are determined by considering the current market condition. Discussions were held with the valuators to determine if there were any significant changes/movements in the market. Changes in fair value are recorded in the statement of comprehensive income.

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

	2013 $'000	2012 $'000
Cost	185,830	184,580
Accumulated depreciation	(63,562)	(61,180)
Net book amount	122,268	123,400

17 Retirement Benefit Asset

	2013 $'000	2012 $'000
a) The amount recognised in the statement of financial position is derived as follows:		
Pension plan assets at fair value	1,137,092	1,041,981
Present value of obligation to plan members	(1,156,854)	(1,091,777)
Value of deficit	(19,762)	(49,796)
Unrecognised actuarial gains	199,255	278,455
Retirement benefit asset	179,493	228,659
The amounts recognised in the income statement are as follows:		
Expected return on plan assets	66,072	65,719
Interest costs	(59,467)	(53,124)
Current service cost	(54,089)	(41,706)
Amortised net gain recognised in year	(11,438)	(6,418)
Net pension expense	(58,922)	(35,529)
Movement in the asset recognised in the statement of financial position is as follows:		
At beginning of year	228,659	254,186
Net pension expense	(58,922)	(35,529)
Bank's contributions paid	9,756	10,002
At end of year	179,493	228,659
The movement in the defined benefit obligation over the year is as follows:		
Beginning of year	1,091,777	861,425
Current year service cost	54,089	41,706
Interest cost	59,467	53,124
Members' contributions	9,638	9,635
Actuarial (loss)/gain	(35,734)	150,056
Benefits paid	(21,418)	(23,236)
Expense allowance	(965)	(933)
At year end	1,156,854	1,091,777
The movement in the fair value of the plan assets for the year is as follows:		
Beginning of year	1,041,981	927,845
Expected return on plan assets	66,072	65,719
Actuarial gain	32,028	52,949
Bank's contributions	9,756	10,002
Members' contributions	9,638	9,635
Benefits paid	(21,418)	(23,236)
Expense allowance	(965)	(933)
	1,137,092	1,041,981
The major actuarial assumptions are:		
Discount rate	5.00%	5.50%
Expected return on plan assets	6.35%	6.35%
Salary increases	5.50%	6.00%
Pension increases	2.00%	3.00%

The actual return on plan assets was $98.1 million (2012: $118.7 million).

b) Retirement Benefit plan assets are comprised as follows:

	2013		2012	
	$'000	%	$'000	%
Equity securities	477,579	42	364,693	35
Debt securities	579,917	51	520,991	50
Other	79,596	7	156,297	15
	1,137,092	100	1,041,981	100

c) The expected rate of return on assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at year end. Expected returns on equity reflect the long-term rates of return experienced in the respective markets.

d) Expected contributions to post employment benefit plans for the year ended 30 September, 2013 are $9.9 million (2012: $9.6 million).

e) The amounts recognised in the statement of financial position for a five year period is as follows:

At 30 September	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Present value of defined benefit obligation	(1,156,854)	(1,091,777)	(861,425)	(717,507)	(543,217)
Fair value of plan assets	1,137,092	1,041,981	927,845	818,971	771,629
(Surplus)/deficit in the plan	(19,762)	(49,796)	66,420	101,464	228,412
Experience gain/(loss) on plan liabilities	(35,734)	150,056	61,910	108,283	57,258
Experience gain/(loss) on plan assets	32,028	52,949	44,593	(16,987)	(62,293)

18 Customers' Deposits

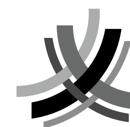
Deposits are analysed by sector as follows:	2013 $'000	2012 $'000
Public institutions	9,702,797	7,417,575
Private institutions	6,055,197	5,683,680
Consumer	5,255,431	4,786,442
	21,013,425	17,887,697
Current portion	20,743,524	17,434,854
Non-current portion	269,901	452,843
	21,013,425	17,887,697

Deposits due to customers only include financial instruments classified as liabilities at amortised cost. Deposits amounting to $3.2 billion (2012: $2.7 billion) are at fixed rates. All other deposits amounting to $17.8 billion (2012: $15.2 billion) are at variable rates.

As at year end, the unprocessed CIB deposit liabilities held was $22.4 million (2012: $21.9 million).

19 Other Funding Instruments

	2013 $'000	2012 $'000
Loan participation	14,651	17,314
Other funding instruments are analysed by sector as follows:		
Public institutions	14,651	17,314
Private institutions	—	—
	14,651	17,314
Current portion	2,664	2,664
Non current portion	11,987	14,650
	14,651	17,314



First Citizens

20 Derivative Financial Instruments

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of these. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amount of the financial instrument provides a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instrument and, therefore, do not indicate the Bank's exposure to credit or price risk. The derivative instrument becomes favourable (asset) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

	Contract/Notional Amount $'000	Fair value Liability $'000
30 September 2013		
Currency SWAP - Maturity date February 2022	807,665	158,253
	807,665	158,253
30 September 2012		
Currency SWAP - Maturity date February 2022	869,446	150,673
	869,446	150,673

Both current swap transactions are contracted with First Citizens (St. Lucia) Limited, a subsidiary company.

21 Creditors and Accrued Expenses

	2013 $'000	2012 $'000
Other liabilities	149,985	134,165
Due to GORTT	124,400	—
Interest payable	101,397	100,809
	375,782	234,974

The amount due to GORTT relates to what is owed by the Bank with respect to payment made on claims which were subsequently recovered pursuant to the liquidity support agreement outlined in Note 3.1.4d.

22 Debt securities in issue

	2013	2012
(i) Fixed Rate Bond TTD$500 million	500,000	500,000
(ii) Fixed Rate Bond TTD$500 million	500,000	500,000
(iii) Fixed Rate Bond TTD$500 million	500,000	500,000
	1,500,000	1,500,000
Current portion	500,000	—
Non current portion	1,000,000	1,500,000
	1,500,000	1,500,000

i) TTD Fixed Rate Bond (issued in August 2008) – This Bond is unsecured and carries a fixed rate of interest of 8.35% with tenor of five and one half (5 1/2) years. Interest is payable semi-annually in arrears. Principal will be repaid in a bullet payment at maturity.

ii) TTD Fixed Rate Bond (issued in October 2008) – This Bond is unsecured and carries a fixed rate of 8.45% with a tenor of seven (7) years. Interest is payable semi-annually in arrears. Principal will be repaid in a bullet payment at maturity.

iii) TTD Fixed Rate Bond (issued in August 2010) – This Bond is unsecured and carries a fixed rate of 5.25% with a tenor of seven (7) years. Interest is payable semi-annually in arrears. Principal will be repaid in a bullet payment at maturity.

23 Deferred Income Tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% (2012: 25%).

	2013 $'000	2012 $'000
The movement on the deferred income tax account is as follows:		
At beginning of year	(215,530)	—
Impact of revaluation adjustments recorded directly to shareholders' equity:		
- Revaluation on available-for-sale investments	(23,062)	(57,542)
- Revaluation on property, plant and equipment	(281)	(3,526)
Credit/(charge) to statement of income (note 34)	12,729	(154,462)
At end of year	(226,144)	(215,530)

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 relate to the same fiscal authority. Deferred income tax assets and liabilities are attributable to the following items:

	Balance at 1-Oct-12 $'000	(Charge)/ credit to income statement $'000	(Charge)/ credit to equity $'000	Balance at 30-Sept-13 $'000
Deferred Income Tax Liabilities				
Retirement benefit asset	(57,162)	12,291	—	(44,871)
Fair value measurement of available for sale	(115,470)	—	(23,062)	(138,532)
Zero coupon instruments	(268)	(171)	—	(439)
Accelerated tax depreciation	(17,429)	609	—	(16,820)
Revaluation gain on property, plant and equipment	(25,201)	—	(281)	(25,482)
Net deferred income tax liability	(215,530)	12,729	(23,343)	(226,144)

	Balance at 1-Oct-11 $'000	(Charge)/ credit to income statement $'000	(Charge)/ credit to equity $'000	Balance at 30-Sept-12 $'000
Deferred Income Tax Asset				
Tax losses carried forward	160,326	(160,326)	—	—
Deferred Income Tax Liabilities				
Retirement benefit asset	(63,544)	6,382	—	(57,162)
Fair value measurement of available for sale	(57,928)	—	(57,542)	(115,470)
Zero coupon instruments	(487)	219	—	(268)
Accelerated tax depreciation	(16,692)	(737)	—	(17,429)
Revaluation gain on property, plant and equipment	(21,675)	—	(3,526)	(25,201)
	(160,326)	5,864	61,068	(215,530)
Net deferred income tax liability	—	(154,462)	(61,068)	(215,530)

	2013 $'000	2012 $'000
Deferred Tax Liabilities		
- Deferred tax liability to be recovered after more than 12 months	226,144	215,530
- Deferred tax liability to be recovered within 12 months	—	—
	226,144	215,530

24 Income Tax Effects Relating To Components Of Other Comprehensive Income

	2013 Before tax	2013 Tax (expense) /benefit	2013 Net of tax	2012 Before tax	2012 Tax (expense) /benefit	2012 Net of tax
Exchange difference on translation	(29)	—	(29)	1,284	—	1,284
Available-for-sale assets	92,251	(23,062)	69,189	230,166	(57,541)	172,625
Gains on property revaluation	1,125	(281)	844	14,103	(3,526)	10,577
	93,347	(23,343)	70,004	245,553	(61,067)	184,486

25 Notes Due To Related Parties

	2013 $'000	2012 $'000
i) First Citizens (St. Lucia) Limited	1,111,355	1,111,303
ii) First Citizens Holdings Limited	58,000	58,000
	1,169,355	1,169,303
Non current portion	1,169,355	1,169,303

i) The amount due to First Citizens (St. Lucia) Limited represents a note issued by the Bank to reduce the liquidity mismatch on the US$ balance sheet. Interest is paid semi-annually. This note carries a fixed interest rate of 5.25%. The principal amount is to be paid in a bullet payment at maturity in February 2016.

ii) The amount due to First Citizens Holdings Limited is a non-interest bearing note with no specified maturity date, issued in part consideration for a note acquired from Holdings (see Note 10(ii)).

26 Share Capital

The total authorised number of shares are issued and fully paid. Twenty percentage (20%) of these shares are trading on the Trinidad and Tobago Stock Exchange.

	2013 $'000	2012 $'000
251,353,562 ordinary shares of no par value	539,957	539,957
42,500,000 A preference shares of no par value	42,500	42,500
61,100,000 B preference shares of no par value	61,100	61,100
	643,557	643,557

The Class A preference shares are non-convertible, non-participating and non-voting. The option for redemption expired in September 1999. The shares pay cumulative dividend of 4% per annum (Note 2.23).

The Class B preference shares pay cumulative dividends of 2% per annum, but are non-participatory, non-voting, non-convertible and non-redeemable (Note 2.23).

27 Statutory Reserve

The Financial Institutions Act 2008, Part VI, Section 56 1(a) stipulates that a Bank must transfer at the end of each financial year no less than 10% of its profits after taxation to a Reserve Fund until the amount standing to the credit of the Reserve Fund is not less than the stated capital or assigned capital of the Bank.

28 Interest Income

	2013 $'000	2012 $'000
Loans to customers	730,883	674,825
Financial assets available for sale	286,683	294,272
Loan notes	146,776	192,574
	1,164,342	1,161,671

29 Interest Expense

	2013	2012
Customers' deposits	57,434	62,016
Other funding instruments & related party balances	68,643	80,623
Debt securities in issue	220,080	244,568
	346,157	387,207

30 Fees And Commissions

	2013	2012
Credit related fees	31,983	27,279
Transaction service fees/commissions	94,520	82,203
Portfolio and other management fees	2,611	2,633
	129,114	112,115

31 Dividend income

	2013 $'000	2012 $'000
Dividend Income from subsidiaries	140,493	732,804
Dividend Income- other	9,097	8,958
	149,590	741,762

In 2012 the Bank received extra ordinary dividend income of $584.2 million from its subsidiaries. Had the Bank not received this income, its profitable tax for 2012 would have been $334.6 million.

32 Foreign Exchange Gains

	2013	2012
Transaction gains less losses	67,030	60,773
Translation gains less losses	3,185	17,397
	70,215	78,170

33 Administrative Expenses

	2013	2012
Wages and salaries	289,252	259,393
Pension expenses (note 17)	58,922	35,529
Other administrative expenses	35,877	36,087
Depreciation	43,059	48,878
	427,110	379,887

The number of permanently employed staff as at the year-end was 1,403 (2012: 1,345)

34 Other Operating Expenses

	2013 $'000	2012 $'000
Property expenses	45,437	42,437
Technical and professional	17,460	21,818
Advertising expenses	12,717	15,743
Hardware and software maintenance	15,107	11,158
Deposit insurance (see below)	26,881	25,545
Operating expenses	150,745	123,762
	268,347	240,463

The Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986 established a Deposit Insurance Fund for the protection of depositors. By the Central Bank (Deposit Insurance) Order 1986, dated 17 September 1986, an annual premium of 0.2% of the average deposit liabilities outstanding as at the end of each quarter of the preceding year is levied.

35 Taxation

	2013 $'000	2012 $'000
Current tax (including prior year under/over provision)	51,328	36,050
Deferred tax (Note 23)	(12,729)	154,462
	38,599	190,512

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

	2013	2012
Profit before taxation	468,905	1,109,332
Tax calculated at 25%	117,226	277,333
Income exempt from tax	(86,707)	(234,138)
Expenses not deductible for tax purposes	18,084	19,021
Prior year (over)/under provision	(10,004)	128,296
	38,599	190,512

36 Dividends

	2013 $'000	2012 $'000
Ordinary dividend paid	193,542	104,016
Preference dividend paid	2,922	2,922
	196,464	106,938

37 Related Party Transactions

(a) Directors and key management personnel

	2013	2012
Salaries and other short-term employee benefits (note 32)	20,272	22,407
Loans and receivables	6,180	3,859
Interest income	237	185
Customers' deposits	3,816	3,810
Interest expense	72	76

b) Transactions with Associate

	2013	2012
Loans and receivables	87,321	103,192
Interest income	6,781	8,376

c) Transactions and balances with subsidiaries

	2013	2012
Due from subsidiaries	1,357,507	89,268
Due to subsidiaries	32,084	278,327
Customers' deposits	1,720,623	553,183
Loan notes payable	1,111,355	1,111,303
Loan note expense	68,643	79,244
Other loans and receivables	496,776	1,016,683
Income from other loans and receivables	34,493	59,770
Derivative financial instruments	158,253	150,672
Derivative expense	109,334	133,822
Derivative income	49,705	65,035
Other income	5,914	10,718
Other expenses	1,382	1,712

In the due from subsidiaries, $1.05 million represents the net proceeds due from the sale of the shares by parent.

d) Transactions and balances with Parent Company

	2013	2012
Customers' deposits	2,079	1,745
Loans to customers	2,349	2,221
Long-term notes (Note 25)	58,000	58,000
Loan notes (Note 10)	46,927	52,141
Interest income on loan notes	5,846	6,463
Due to parent company	1,045,693	—

The due to parent represents the net proceeds due to Holdings resulting from the disposal of 20% of its ordinary shares.

e) Government of the Republic of Trinidad and Tobago

As stated in note 1, on the formation of the Bank it was agreed that the assets and liabilities of the predecessor financial institutions would be transferred to the Bank and the non-performing portfolio sold to a liquidating company in consideration for an equivalent amount of Government-guaranteed notes and commercial paper. In 2009, the Bank entered into a Liquidity Support Agreement with GORTT and the Central Bank in relation to the acquisition of the shares of Caribbean Money Market Brokers Limited, now First Citizens Investment Services Limited which provided indemnification of the Bank against certain losses. In addition, the Central Bank agreed to put specific liquidity arrangements in place by way of pro notes to facilitate CIB fixed deposits transferred to the Bank in 2009.

The current amount outstanding on these obligations and the related income and expenses are disclosed below:-

	2013	2012
Assets		
Loan notes with Taurus Services Limited (note 10 (i))	616,370	684,856
Loan notes from Central Bank (note 10 (iii))	1,872,683	1,870,628
Due from GORTT (note 12)	124,400	—
Liabilities		
Due to GORTT (note 21)	27,331	272,363
Interest Expense		
Loan notes with Taurus Services Limited	76,784	84,897
Loan note with the Central Bank	26,535	33,522

(f) Other transactions with the Government of the Republic Trinidad and Tobago

In addition to the balances in (e) above, the Bank in its ordinary course of business enters into lending, deposit and investment transactions with the GORTT, other state owned institutions, state agencies and local government bodies. Transactions and balances between the Bank and these related parties are as follows:

	2013 $'000	2012 $'000
Loans and receivables	3,168,788	2,399,897
Interest income	158,439	174,155
Customers' deposits	9,702,797	7,417,575
Interest expense	26,521	26,356
Financial assets available for sale	3,420,559	4,370,544
Income from financial assets available for sale	182,401	264,845

38 Commitments

(i) Capital Commitments

	2013	2012
Capital expenditure approved by the Directors but not provided for in these accounts	17,955	12,595

(ii) Credit Commitments

	2013	2012
Commitments for loans approved not yet disbursed	715,520	810,677

39 Contingent Liabilities

(a) Litigation

The Bank is involved in claims and counterclaims arising from the conduct of its business. Based on the facts now known to the Bank, the Directors believe that the outcome of these matters would not have a material adverse effect on the position of the Bank.

(b) Customers' liability under acceptances, guarantees and letters of credit

These represent the Bank's potential liability, for which there are claims against its customer in the event of a call on these commitments.

	2013 $'000	2012 $'000
Acceptances	1,546	813
Guarantees	193,989	169,724
Letters of credit	17,322	12,974
	212,857	183,511

40 Lease Rentals

The Bank leased certain premises under non-cancellable operating leases expiring in various years up to 2026. The leases contain renewal options from five to twenty-five years. Rental expense incurred under lease agreements amount to $22.5 million for the year 2013 (2012: $22.5 million).

The future lease obligations under non-cancellable leases are summarised below:

	2013 $'000	2012 $'000
- Up to one year	12,537	19,632
- One year to five years	26,865	11,531
- Over five years	31,141	9,048
	70,543	40,211

41 Subsequent events

On 9 December 2013, the Board of Directors declared a dividend payment of $1.09 per share payable to shareholders.