FIRSTCARIBBEAN INTERNATIONAL BANK (JAMAICA) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2016

(Expressed in Jamaican dollars unless otherwise indicated)

FirstCaribbean International Bank (Jamaica) Limited

Index to the Financial Statements
Year ended 31 October 2016

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Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited

Report on the financial statements

We have audited the accompanying financial statements of FirstCaribbean International Bank (Jamaica) Limited (the "Bank") which comprise the statement of financial position as at 31 October 2016 and the statement of changes in equity, statement of income, statement of comprehensive income, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act, 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 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 about 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 of financial statements that give a true and fair view 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited (Continued)

Report on the financial statements (Continued)

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 October 2016 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

Report on Additional Requirements of the Jamaican Companies Act
We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements are in agreement with the accounting records, and give the information required by the Jamaican Companies Act in the manner so required.

Ernst & Young
Chartered Accountants
Kingston, Jamaica

15 December 2016

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2016 $'000	2015 $'000
ASSETS			
Cash and balances with Central Bank	3	8,461,927	7,889,845
Due from other banks	4	23,649,548	20,944,853
Derivative financial instruments	5	-	139
Other assets	6	193,882	202,080
Investment securities	7	5,230,271	5,224,574
Loans and advances to customers	8	44,227,631	37,583,517
Taxation recoverable		-	30,034
Property and equipment	9	1,335,929	1,136,335
Deferred tax assets	10	399,307	567,143
Retirement benefit asset	11	636,282	644,486
TOTAL ASSETS		84,134,777	74,223,006

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2016 $'000	2015 $'000
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	12	65,031,488	55,978,001
Derivative financial instruments	5	-	67
Other liabilities	13	1,355,197	1,044,147
Taxation payable		54,905	-
Debt securities in issue	14	3,059,915	3,070,705
Retirement benefit obligation	11	82,939	77,164
TOTAL LIABILITIES		69,584,444	60,170,084
EQUITY			
Share capital	15	8,465,258	8,465,258
Reserves	15	5,994,609	5,769,507
Retained earnings/(Accumulated deficit)		90,466	(181,843)
TOTAL EQUITY		14,550,333	14,052,922
TOTAL LIABILITIES AND EQUITY		84,134,777	74,223,006

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

Approved for issue by the Board of Directors on 15 December 2016 and signed on its behalf by:

Mark St. Hill

Anthony Bell

Nigel Holness

Allison Rattray

FirstCaribbean International Bank (Jamaica) Limited

Statement of Changes in Equity
Year ended 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital $'000	Reserves $'000	Retained Earnings/ (Accumulated Deficit) $'000	Total $'000
Balance at 31 October 2014		8,465,258	5,422,573	(90,801)	13,797,030
Total comprehensive income for the year	29	-	79,972	175,920	255,892
Transfer to loan loss reserve	21	-	266,962	(266,962)	-
Balance at 31 October 2015		8,465,258	5,769,507	(181,843)	14,052,922
Total comprehensive income for the year	29	-	88,297	409,114	497,411
Transfer to statutory reserve fund	19	-	30,000	(30,000)	-
Transfer to loan loss reserve	21	-	106,805	(106,805)	-
Balance at 31 October 2016		8,465,258	5,994,609	90,466	14,550,333

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Income
Year ended 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2016 $'000	2015 $'000
Interest and similar income		4,324,980	3,730,003
Interest and similar expense		(1,367,486)	(981,992)
Net interest income	23	2,957,494	2,748,011
Other operating income	24	2,004,730	1,544,019
Total operating income		4,962,224	4,292,030
Loan loss impairment	8	3,328	87,226
Net operating income		4,965,552	4,379,256
Operating expenses	25	(4,305,153)	(4,047,190)
Profit before taxation	26	660,399	332,066
Income tax expense	27	(251,285)	(156,146)
NET PROFIT FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	28	409,114	175,920
EARNINGS PER STOCK UNIT	28	0.52	0.22

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Comprehensive Income
Year ended 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2016 $'000	2015 $'000
Net profit for the year		409,114	175,920
Other comprehensive income, net of tax:			
Other comprehensive income, net of tax, to be reclassified to net income in subsequent periods:			
Net gains on available-for-sale investment securities	29	8,322	717
Other comprehensive income, net of tax, not to be reclassified to net income in subsequent periods:			
Re-measurement gains on retirement benefit plans	29	79,975	79,255
		88,297	79,972
Comprehensive income for the year, attributable to equity holders of the parent		497,411	255,892

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Cash Flows
Year ended 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2016 $'000	2015 $'000
Cash Flows from Operating Activities			
Profit before taxation		660,399	332,066
Adjustments to reconcile profit to net cash provided by operating activities:			
Loan loss impairment	8	(3,328)	(87,226)
(Gain)/Loss on disposal of property and equipment		(1,741)	1,248
Depreciation	9	216,925	176,229
Interest income	23	(4,324,980)	(3,730,003)
Interest expense	23	1,367,486	981,992
Fair value losses on derivative financial instruments		9,530	9,107
Unrealised foreign exchange gains		(511,330)	(395,734)
		(2,587,039)	(2,712,321)
Changes in operating assets and liabilities:			
Loans to customers		(4,999,699)	(3,514,074)
Customer deposits		6,444,368	9,518,842
Retirement benefit asset		55,747	60,710
Retirement benefit obligations		6,820	9,415
Other assets		196,602	246,167
Other liabilities		(139,533)	(1,339,618)
Statutory reserves at Bank of Jamaica		(1,032,208)	(1,191,907)
		(2,054,942)	1,077,214
Interest received		4,314,404	3,675,046
Interest paid		(1,287,987)	(823,162)
Income tax paid		(42,658)	(1,646)
Cash provided by operating activities		928,817	3,927,452
Cash Flows from Investing Activities			
Investment securities, net		6,477	5,478
Money market placements		(11,351,611)	1,344,000
Additions to property and equipment	9	(417,827)	(527,539)
Proceeds from disposal of property and equipment		3,049	1,114
Net cash (used in)/provided by investing activities		(11,759,912)	823,053
Cash Flows from Financing Activities			
Proceeds from issue of debt securities	14	-	3,000,000
Government securities sold under agreements to repurchase		-	(1,498,278)
Net cash provided by financing activities		-	1,501,722
Net (decrease)/increase in cash and cash equivalents		(10,831,095)	6,252,227
Effect of exchange rate changes on cash and cash equivalents		1,724,053	1,103,960
Cash and cash equivalents at beginning of year		23,295,012	15,938,825
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	14,187,970	23,295,012

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2016
(Expressed in Jamaican dollars unless otherwise indicated)

1. Corporate Information

FirstCaribbean International Bank (Jamaica) Limited (the "Bank"), which is incorporated and domiciled in Jamaica, is a 99.74% (2015 – 99.71%) subsidiary of FirstCaribbean International Bank Limited (the "Parent"), a bank incorporated and domiciled in Barbados. On 17 November 2016, the Bank completed the repurchase of all minority shares. These shares were immediately cancelled upon repurchase and later reissued to the Parent. The Parent now owns 100% of the Bank. The ultimate parent company and controlling party is Canadian Imperial Bank of Commerce ("CIBC"), a company incorporated in Canada.

The registered office of the Bank is located at 23-27 Knutsford Boulevard, Kingston 5, Jamaica.

The Bank is licensed to carry on banking and other related services and is regulated by the Bank of Jamaica (BOJ) under the Banking Services Act (BSA) which was passed in June 2014 and became effective on 30 September 2015. This Act repealed and replaced, *inter alia*, the former Banking Act, 1992 and the Banking (Amendment) Act, 1997. The BSA and related regulations, provide a standardized legal framework for the operations of the licensed deposit-taking intermediaries and provide the statutory principles on which supervision is conducted. The legal framework is further complemented by supervisory notes and Standards of Best Practice issued by the BOJ. The legislation serves to further strengthen oversight of the deposit-taking financial sector and achieve greater conformity with the Basel Core Principles.

2. Summary of Significant Accounting Policies

The principal financial accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in conformity with International Reporting Financial Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the requirements of the Jamaican Companies Act.

The financial statements provide comparative information in respect of the previous period.

(ii) Basis of measurement

These financial statements have been prepared under the historical cost basis, except for available-for-sale investment securities, and derivative financial instruments, which have all been measured at fair value. The carrying value of recognized assets that are hedged items in fair value hedges, are adjusted to record changes in fair value attributable to the risks that are being hedged. Additionally, certain land and buildings are measured at deemed cost. Deemed cost represents fair value at the date of transition to IFRS. These financial statements are presented in Jamaican dollars, and all values are rounded to the nearest thousands except where otherwise indicated.

(iii) Judgement and estimates

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Other disclosures relating to the Bank's exposure to risks and uncertainties include:

- Capital management - Note 15
- Financial risk management and policies - Note 35
- Sensitivity analyses disclosures - Notes 11 and 35

The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 36.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies

(i) Standards, interpretations and amendments to published standards that were adopted during the year

The accounting policies adopted are consistent with those of the previous financial year. There were no new standards and amendments which apply for the first time in 2016 that affect the annual financial statements of the Bank.

(ii) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards and amendments to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 November 2016. Of these, the following are relevant to the Bank but have not been early adopted:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank elected to early adopt the new standard effective 1 November 2017 in keeping with its ultimate parent CIBC who has elected to early adopt due to OSFI (Office of the Superintendent of Financial Institutions) regulations. During 2016, the Bank performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Bank in the future. Overall, the Bank expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank expects a higher loan loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

(a) Classification and measurement

The Bank does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. The available for sale (AFS) reserve currently in accumulated other comprehensive income (OCI) will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Bank expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Bank expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Bank were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)
Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the Bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment
IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Bank expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Bank will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting
The Bank believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9. The Bank will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.
The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank's financial statements.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRS 16 Leases
This standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. The Bank is currently assessing the impact of IFRS 16 on its financial statements.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss
- Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank's financial statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2017 and are intended to provide information to help investors better understand changes in a company's debt. This amendment is not expected to have a significant impact on the Bank's financial statements.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
Effective for annual periods beginning on or after 1 January 2017, this amendment clarifies the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. An entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The Bank is currently assessing the impact of these amendments and plans to adopt the new standard on the required effective date.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures
(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

Annual Improvements 2012-2014 Cycle (continued)

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. These amendments are not expected to have any impact on the Bank’s financial statements.

2. Summary of Significant Accounting Policies (Continued)

(c) Segment reporting

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

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

(d) Foreign currency translation

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates, referred to as the functional currency. The functional currency of the Bank is the same as its presentation currency. The financial statements are presented in Jamaican dollars, which is the Bank's functional and presentation currency.

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 such transactions and from the translation of foreign currency monetary assets and liabilities at the year-end exchange rates are recognised in the statement of income.

Translation differences resulting from changes in the amortised cost of foreign currency monetary assets classified as available-for-sale are recognised in the statement of income. Other changes in the fair value of these assets are recognised in other comprehensive income. Translation differences on non-monetary financial assets classified as available-for-sale are reported as a component of the fair value gain or loss in other comprehensive income.

(e) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Bank uses interest rate swaps to manage its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

2. Summary of Significant Accounting Policies (Continued)

(e) Derivative financial instruments and hedge accounting (continued)

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

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

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed at inception and on a monthly basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

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

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

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income. The Bank has not entered into any cash flow hedge arrangements during the financial year.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments

The Bank recognises financial instruments on its statement of financial position when it becomes a party to the contractual provisions of the instrument and classifies its financial assets into the following categories:

(i) Loans and receivables; or
(ii) Available-for-sale financial assets.

Management determines the classification of its investments at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

During the normal course of business, financial assets carried at amortised cost may be restructured with the mutual agreement of the Bank and the counterparty. When this occurs for reasons other than those which could be considered indicators of impairment (Note 2(i)) the Bank assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instrument's interest rate. If the restructured terms are significantly different, the Bank derecognises the original financial asset and recognises a new one at fair value, with any difference recognised in the statement of income.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They arise when the Bank provides money, goods or services directly or indirectly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to borrowers.

Loans and receivables financial assets are carried at amortised cost using the effective interest method, less any provisions for impairment. Third party expenses associated with loans and receivables, such as legal fees incurred in securing a loan are expensed as incurred.

(ii) 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.

All purchases and sales of financial assets at available-for-sale that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at settlement date, which is the date that the Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Unquoted equity instruments for which fair values cannot be measured reliably are recognised at cost less impairment, if any.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments (Continued)

(ii) Available-for-sale financial assets (Continued)
All gains and losses from disposals of investment securities available-for-sale are included in operating income as net investment securities gains or losses. Where certain financial assets are hedged and there is ineffectiveness, this is included in operating income as net hedge relationship gains or losses. Dividends are recorded on the accrual basis when declared and are included in investment securities interest and similar income.

Financial liabilities, other than derivatives, are measured at amortised cost. Derivatives are measured at fair value. Interest expense is recognised on an accrual basis using the effective interest method.

(g) Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with Bank of Jamaica (excluding statutory reserves) and accounts with other banks (Note 3).

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

(i) Impairment of financial assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Bank granting to a borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

- adverse changes in the payment status of borrowers in the Bank; or
- national or local economic conditions that correlate with default on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the recoverable amount, being the estimated present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate.

In certain instances, the terms of advances to customers are restructured or renegotiated. These facilities are subject to the impairment review noted above, and where there is objective evidence of impairment, the amount of any impairment loss is measured as the difference between the carrying value of the facility and the present value of estimated future cash flows based on the renegotiated terms and conditions discounted at the original effective interest rate before restructuring.

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2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (Continued)

Loans are written off, in whole or in part, against the related allowance for credit losses upon settlement (realisation) of collateral or in advance of settlement (no realisation) where the determination of the recoverable value is completed and there is no realistic prospect of recovery above the recoverable value. Any subsequent recoveries are credited to the statement of income. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the statement of income.

In circumstances where Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is disclosed as an appropriation of retained earnings and is included in a non-distributable general banking reserve.

(j) Derecognition of financial assets and liabilities

(i) Financial assets

Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired, the rights to receive cash flows from the asset have been transferred or there is an obligation to pay the received cash flows in full without material delay to a third party, and where the Bank has transferred substantially all risks and rewards of ownership or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

(k) Sale and repurchase agreements and lending of securities

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(l) Loans and provision for impairment losses

Loans are stated net of unearned income and provision for impairment.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the statement of financial position date. These have been estimated based upon historical patterns of losses in each component, the credit rating allocated to the borrowers and the current economic climate in which the borrowers operate.

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2. Summary of Significant Accounting Policies (Continued)

(l) Loans and provision for impairment losses (Continued)

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 180 days in arrears is written-off.

(m) Leases

(i) As lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

(ii) As 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, which reflects a constant periodic rate of return.

(n) Financial guarantees

Financial guarantees are financial contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts issued by the Bank are treated as contingent liabilities and not recognised in the statement of financial position until a payment under the guarantee has been made, at which time the payment is treated as a loan and advance to customers.

(o) Property and equipment

Land and buildings comprise mainly branches and offices and are shown at deemed cost, less subsequent depreciation for buildings. Under IFRS 1, a first time adopter may elect to use a previous GAAP revaluation of an item of property and equipment as its deemed cost. The Bank elected to apply this provision on transition to IFRS on 1 November 2002.

All other property and equipment are stated at historical cost less accumulated depreciation. 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 are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other property and equipment is computed on the straight line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful lives.

The annual rates used are:

- Buildings	2½%
- Leasehold improvements	10% or over the life of the lease
- Equipment, furniture and vehicles	6.67% - 50%

2. Summary of Significant Accounting Policies (Continued)

(o) Property and equipment (Continued)

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are determined by reference to its carrying amount and are taken into account in determining net income.

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

(p) Transactions with jointly controlled entities

IFRS 3 Business Combinations does not apply to a business combination of entities or businesses under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The Bank accounts for the acquisition of commonly controlled entities as follows:

- The assets, liabilities, income and expenses of a subsidiary are included in the financial statement prospectively from the date of acquisition.
- The assets and liability of the subsidiaries are reflected in the financial statements at their carrying amounts and are not revalued to fair value.
- No new goodwill is recognized as a result of the combination. Instead, any difference between the value of consideration and the carrying value of the assets acquired is reflected as an adjustment to retained earnings.

(q) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, if it is more than likely 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. The expense relating to any provision is charged to the statement of income net of any reimbursement.

(r) Income taxes

Taxation expense in the statement of income comprises current and deferred tax charges.

Current tax charges are based on taxable income for the year, which differs from the income before tax reported because taxable income excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Bank's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

2. Summary of Significant Accounting Policies (Continued)

(r) Income taxes (Continued)

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised. Management's judgement is required to determine the amount of the deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realized.

Deferred tax is charged or credited in the statement of income, except where it relates to items charged or credited to other comprehensive income, in which case deferred tax is also dealt with in the statement of comprehensive income.

(s) Customer loyalty programme

The Bank offers customer points programmes through its credit card products. A portion of the net fee revenues are deferred in relation to award credits under customer loyalty programmes as a separately identifiable revenue component. The amount deferred represents the fair value of the award credits and is recognised when the awards are utilised or expire.

(t) Retirement benefit obligations

(i) Pension obligations

The Bank operates a defined benefit plan and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from the Bank, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset recognised in the statement of financial position in respect of the defined benefit pension plan is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Re-measurements, comprising where applicable actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Bank recognises restructuring-related costs

2. Summary of Significant Accounting Policies (Continued)

(t) Retirement benefit obligations (Continued)

(i) Pension obligations (Continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Bank recognises the following changes in the net defined benefit obligation as part of staff costs expenses in the statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. The Bank's contributions to defined contribution pension plans are charged to the statement of income in the year to which they relate.

(ii) Other post-retirement obligations

The Bank provides post-retirement health care benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

(iii) Annual leave and other benefits

Employee entitlements to annual leave and other benefits are recognised when they accrue to employees. A provision is made for the established liability for annual leave and other benefits as a result of services rendered by employees up to the statement of financial position date.

(u) Borrowings

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

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(v) Recognition of income and expenses

(i) Interest and similar income and expense

Interest and similar income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price or estimated recoverable amount. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bills and other discounted instruments.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

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 recognized using the original effective interest rate.

(ii) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees, which have a high probability of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest yield on the loan. Fees and commission arising from origination, negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, 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-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(w) Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(x) Fair value measurement

The Bank measures financial instruments, such as, derivatives, and available for sale investment securities at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 34. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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3. Cash and Balances with Central Bank

	2016 $'000	2015 $'000
Cash	962,896	720,113
Deposits with Central Bank – interest bearing	4,158,371	4,025,809
Deposits with Central Bank – non-interest bearing	3,338,304	3,140,809
	8,459,571	7,886,731
Interest receivable	2,356	3,114
	8,461,927	7,889,845

Under Section 43 of the Banking Services Act, 2014, the Bank is required to place deposits with the Bank of Jamaica ("Central Bank") which are held substantially on a non-interest-bearing basis as a cash reserve; accordingly, these amounts are not available for investment or other use by the Bank. These reserves represent the required ratio of the Bank's prescribed liabilities as follows:

	2016	2015
Jamaica dollar denominated cash reserves	12%	12%
Foreign currency denominated reserves	10%	9%

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2016 $'000	2015 $'000
Cash and balances with Central Bank	8,461,927	7,889,845
Less: Mandatory reserve deposits with Central Bank (Note 33)	(6,571,894)	(5,539,686)
	1,890,033	2,350,159
Due from other banks (Note 4)	23,649,548	20,944,853
	25,539,581	23,295,012
Less: Balances with maturity dates over 90 days	(11,351,611)	-
	14,187,970	23,295,012

4. Due From Other Banks

	2016 $'000	2015 $'000
Money market placements	23,620,698	20,941,392
Interest receivable	28,850	3,461
	23,649,548	20,944,853

Included in money market placements are deposits with the ultimate parent company of $586,276,000 (2015 – $970,614,000) (Note 30).

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5. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	Contract /Notional Amount Assets US$'000	Contract /Notional Amount Liabilities US$'000	Fair Values Assets J$'000	Fair Values Liabilities J$'000
As at 31 October 2016				
Interest rate swaps	-	-	-	-
As at 31 October 2015				
Interest rate swaps	600	600	139	(67)

Interest rate swaps
Interest rate swaps are contractual agreements between two parties to exchange movements in interest rates.

6. Other Assets

	2016 $'000	2015 $'000
Prepayments and deferred items	65,293	62,173
Due from related parties	2,619	40,154
Other	125,970	99,753
	193,882	202,080

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7. Investment Securities

	2016	2015
	$'000	**$'000**
Securities available-for-sale:		
Equity securities – unquoted (see note below)	5,034	5,034
Issued or guaranteed by the Government of Jamaica –		
Bonds & debentures	5,182,348	5,176,342
	5,187,382	5,181,376
Interest receivable	42,889	43,198
Total	5,230,271	5,224,574

Unquoted equity instruments for which fair values cannot be measured reliably are recognised at cost less impairment. Note 2(f)(ii).

The movement in investment securities may be summarised as follows:

Securities available-for-sale:

	$'000
Balance at 1 November 2014	5,185,779
Gains from changes in fair value (Note 29)	1,075
Amortisation of premium on purchases	(5,478)
Balance at 31 October 2015	5,181,376
Gains from changes in fair value (Note 29)	12,483
Amortisation of premium on purchases	(5,477)
Disposals	(1,000)
Balance at 31 October 2016	5,187,382

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8. Loans and Advances to Customers

	2016				2015			
	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Performing loans	9,206,203	6,819,679	27,801,151	43,827,033	8,506,782	5,761,596	22,765,301	37,033,679
Impaired loans	607,510	447,784	296,537	1,351,831	756,159	447,322	378,402	1,581,883
Gross loans	9,813,713	7,267,463	28,097,688	45,178,864	9,262,941	6,208,918	23,143,703	38,615,562
Less: Provision for credit losses	(375,555)	(217,456)	(317,235)	(910,246)	(411,829)	(268,882)	(357,754)	(1,038,465)
	9,438,158	7,050,007	27,780,453	44,268,618	8,851,112	5,940,036	22,785,949	37,577,097
Add: Interest receivable				275,719				263,424
Less: Unearned fee income				(316,706)				(257,004)
				44,227,631				37,583,517

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8. Loans and Advances to Customers (Continued)

Ageing analysis of past due but not impaired loans is as follows:

As at 31 October 2016	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Less than 30 days	33,025	138,780	73,117	244,922
31 – 60 days	142,764	127,858	22,488	293,110
61- 90 days	31,868	46,132	386	78,386
	207,657	312,770	95,991	616,418

As at 31 October 2015	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Less than 30 days	15,351	115,549	53,550	184,450
31 – 60 days	756,959	142,919	9,639	909,517
61- 90 days	87,465	73,304	-	160,769
	859,775	331,772	63,189	1,254,736

Provision for credit losses comprise:-

	2016 $'000	2015 $'000
Specific provision	186,907	302,407
General provision	723,339	736,058
	910,246	1,038,465

As at 31 October 2016, loans with principal balances outstanding of $1,351,831,000 (2015 - $1,581,883,000) were in non-performing status. Interest receivable on these loans amounted to $30,015,000 (2015 - $38,741,000). Interest taken to income in respect of these loans amounted to $10,779,000 (2015 - $28,904,000).

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8. Loans and Advances to Customers (Continued)

The movement in the provision for credit losses during the year is as follows:

	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
As at 31 October 2016				
Balance, beginning of year	411,829	268,882	357,754	1,038,465
Individual impairment	(36,809)	58,749	(30,023)	(8,083)
Collective impairment	664	98	3,993	4,755
Interest accrued on impaired loans	-	(917)	-	(917)
Recoveries & write offs	(129)	(109,356)	(14,489)	(123,974)
Balance, end of year	375,555	217,456	317,235	910,246

	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
As at 31 October 2015				
Balance, beginning of year	382,649	381,517	423,365	1,187,531
Individual impairment	32,697	(53,517)	59,553	38,733
Collective impairment	(3,636)	(6,411)	(115,912)	(125,959)
Interest accrued on impaired loans	-	(2,060)	-	(2,060)
Recoveries & write offs	119	(50,647)	(9,252)	(59,780)
Balance, end of year	411,829	268,882	357,754	1,038,465

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8. Loans and Advances to Customers (Continued)

The provision for credit losses determined under the Bank of Jamaica regulatory requirements is as follows:

	2016	2015
	$'000	$'000
Specific provision	1,260,921	938,632
General provision	392,355	736,058
	1,653,276	1,674,690
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 21)	743,030	636,225

Loans and advances to customers include finance lease receivables:

	2016	2015
	$'000	$'000
No later than 1 year	-	1,111
Later than 1 year and no later than 5 years	-	-
Gross investment in finance leases	-	1,111
Unearned future finance income on finance leases	-	(21)
Net investment in finance leases	-	1,090

There was no provision for impairment on finance lease receivables.

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9. Property and Equipment

	Land $'000	Buildings $'000	Leasehold Improvements $'000	Equipment, Furniture and Vehicles $'000	Total $'000
			2016		
Cost					
1 November 2015	55,000	206,212	353,115	2,288,949	2,903,276
Additions	-	-	34,697	383,130	417,827
Disposals	-	-	-	(20,220)	(20,220)
Transfers	-	-	3,769	(3,769)	-
31 October 2016	55,000	206,212	391,581	2,648,090	3,300,883
Accumulated depreciation					
1 November 2015	-	47,236	201,533	1,518,172	1,766,941
Charge for the year	-	5,002	31,068	180,855	216,925
Relieved on disposals	-	-	-	(18,912)	(18,912)
31 October 2016	-	52,238	232,601	1,680,115	1,964,954
Net book value					
31 October 2016	55,000	153,974	158,980	967,975	1,335,929
			2015		
Cost					
1 November 2014	55,000	182,567	267,087	1,897,906	2,402,560
Additions	-	18,212	52,577	456,750	527,539
Disposals	-	(471)	(1,284)	(25,068)	(26,823)
Transfers	-	5,904	34,735	(40,639)	-
31 October 2015	55,000	206,212	353,115	2,288,949	2,903,276
Accumulated depreciation					
1 November 2014	-	42,514	179,154	1,393,505	1,615,173
Charge for the year	-	4,790	23,284	148,155	176,229
Relieved on disposals	-	(68)	(905)	(23,488)	(24,461)
31 October 2015	-	47,236	201,533	1,518,172	1,766,941
Net book value					
31 October 2015	55,000	158,976	151,582	770,777	1,136,335

Included in the table above are amounts totaling $14,430,000 (2015 – $14,430,000) representing the revalued amount of land and buildings which has been used as the deemed cost of these assets under the provision of IFRS 1 on transition to IFRS on 1 November 2002. Subsequent additions and other property and equipment are shown at cost. Equipment, furniture and vehicles include $312,561,000 (2015 - $200,361,000) relating to work-in-progress on which no depreciation has been charged.

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10. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 33⅓% (2015 - 33⅓%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate setting off are as follows:

	2016 $'000	2015 $'000
Deferred tax assets	790,766	917,539
Deferred tax liabilities	(391,459)	(350,396)
	399,307	567,143

The movement in the deferred income tax account was as follows:

	2016 $'000	2015 $'000
Balance as at 1 November	567,143	664,406
Charge to the statement of income (Note 27)	(123,687)	(57,277)
Charge to other comprehensive income (Note 29)	(44,149)	(39,986)
Balance as at 31 October	399,307	567,143

Deferred income tax assets and liabilities were attributable to the following items:

	2016 $'000	2015 $'000
Deferred tax assets:		
Accelerated tax depreciation	18,428	28,602
Loan loss provisions	241,113	245,353
Post-retirement medical and insurance benefits	27,646	25,721
Other provisions	120,405	98,197
Tax losses carried forward	383,174	519,666
	790,766	917,539
Deferred tax liabilities:		
Retirement benefit asset	212,094	214,829
Available for sale investments	8,807	4,646
Other provisions	170,558	130,921
	391,459	350,396
Net deferred tax asset	399,307	567,143

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10. Deferred Income Taxes (continued)

Deferred income taxes are recognized on tax losses carried forward only to the extent that realization of the related tax benefit is probable.

The Bank has tax losses, subject to agreement with the Commissioner General of Tax Administration Jamaica, amounting to $1,149,523,000 (2015 - $1,558,999,000). If unutilized, these tax losses can be carried forward indefinitely, however, the amount that can be utilized is restricted to 50% of chargeable income (before prior year losses) in any one year.

11. Retirement Benefit Asset (Obligation)

Plan Characteristics, funding and risks

The Bank operates a pension scheme covering all permanent employees. The pension benefit is based on the average of the best five consecutive years' earnings in the last ten years, multiplied by the years of credited service. The assets of the plan are held independently of the Bank's assets in a separate trustee fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation for IFRS purposes was carried out as at 31 October 2016.

Benefit changes

There were no material changes to the terms of the defined benefit pension or post-retirement medical benefit plans in 2016 or 2015.

Risks

The defined benefit pension and post-retirement medical benefit plans expose the Bank to actuarial risks, such as longevity risk, currency risk, interest rate risk, market (investment risks) and health care cost inflation risks arising in the relevant sectors.

Plan Governance

The Bank is responsible for the establishment of the plan and has oversight of its management and administration. The Bank's Board of Directors has delegated powers and authorities to a Pension Steering Committee ("PSC") and an Investment Sub-Committee ("ISC") as advisory sub-committees and delegated to each of them certain of its responsibilities in connection with the management and administration of the plan and the investment of plan assets. These are set out in the documented mandates for these committees. The day to day oversight of the management and administration of the plan is the responsibility of the Board of Trustees who ensure the plan is operated in accordance with the Trust Deed and Rules and local legislation and that all benefits are calculated and paid in accordance with the plan Rules. The Trustees have appointed an Investment Manager who holds the funds on behalf of the Trustees and invests the plan assets as directed by the Trustees. The PSC and ISC provide support and guidance to the Board of Trustees on matters such as investment strategy, risk management, funding and administration. The Trustees set the contribution rates, in consultation with the PSC, based on the results of the triennial actuarial funding valuation. The last actuarial valuation to determine the adequacy of funding done as at 31 October 2015 revealed that the scheme was adequately funded at that date. The investment strategy for the plan, as set out in the Statement of Investment Objectives, Policies and Procedures, is reviewed annually the Trustees in consultation with the ISC. The current plan assets include investments in locally quoted equities, bonds and real estate.

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11. Retirement Benefit Asset (Obligation) (Continued)

Amounts recognized in the statement of financial position:

	2016 $'000	2015 $'000
Defined benefit pension scheme (Note 11(a))	636,282	644,486
Other post retirement benefits (Note 11(b))	(82,939)	(77,164)

(a) Defined benefit pension scheme

	2016 $'000	2015 $'000
Fair value of plan asset	4,110,997	3,606,573
Present value of funded obligation	(3,474,715)	(2,962,087)
Asset in the statement of financial position	636,282	644,486

At 31 October 2016, pension plan assets include the Parent's ordinary stock units with a fair value of $46,821,000 (2015 – $37,884,000).

	2016 $'000	2015 $'000
Balance at 1 November	644,486	664,370
Charge for the year (Note 25)	(55,747)	(60,710)
Transfer of assets to pay contributions for defined contribution plan	(74,270)	(64,405)
Effect on statement of other comprehensive income (Note 29)	121,763	105,181
Contributions paid	50	50
Balance at 31 October	636,282	644,486

The amounts recognised in the statement of income are as follows:

	2016 $'000	2015 $'000
Current service cost	88,053	77,541
Past service cost	-	33,325
Interest cost	261,669	248,959
Interest income	(319,675)	(312,076)
Adminstration and other non-plan investment management expenses	25,700	12,961
Included in staff costs (Note 25)	55,747	60,710
Actual return on plan assets	713,657	446,524

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11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (Continued)

Changes in the fair value of plan asset are as follows:

	2016 $'000	2015 $'000
Fair value of plan asset at start of year	3,606,573	3,332,615
Asset transferred out of the plan	(74,270)	(64,405)
Actual return on plan asset	713,657	446,524
Contributions	50	50
Benefits paid during year	(109,313)	(95,250)
Administration and other non-plan investment management expenses	(25,700)	(12,961)
Fair value of plan asset at end of year	4,110,997	3,606,573

Changes in the present value of obligation are as follows:

	2016 $'000	2015 $'000
Present value of obligation at start of year	2,962,087	2,668,245
Interest cost	261,669	248,959
Current service cost	88,053	77,541
Past service cost	-	33,325
Benefits paid during year	(109,313)	(95,250)
Actuarial gain on plan obligation	272,219	29,267
Present value of obligation at end of year	3,474,715	2,962,087

The Bank expects to contribute $50,000 (2015 - $50,000) to its defined benefit pension plan in the next year.

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11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The net remeasurement gains recognized in statement of other comprehensive income were as follows:

	2016 $'000	2015 $'000
Actuarial (losses)/gains on defined benefit obligation arising from:		
- Financial assumptions	(56,425)	(138,054)
- Experience adjustments	(215,794)	108,787
Return on plan assets excluding interest income	393,982	134,448
Net remeasurement gains recognized in OCI	121,763	105,181

The breakdown of the net obligations between active members and inactive and retired members is as follows:

	2016 $'000	2015 $'000
Active members	2,123,873	1,815,548
Inactive and retired members	1,350,842	1,146,539
	3,474,715	2,962,087

The average duration of the net asset/(obligations) at the end of the reporting period is as follows:

	2016	2015
Average duration, in years	19	19

The major categories of plan assets as a percentage of the fair value of total plan assets were as follows:

	2016 %	2015 %
Quoted equity instruments:		
Local	11	11
International	1	1
Quoted debt instruments:		
Government bonds	38	38
Corporate bonds	2	4
Real estate	25	21
Other assets	23	25
	100	100

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11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The principal actuarial assumptions used were as follows:

	2016	2015
	%	%
Discount rate	9.00	9.00
Future salary increases	7.50	7.50
Future pension increases	5.50	5.50

Defined benefit pension plan amounts for the current and previous four years were as follows:

	2016	2015	2014	2013	2012
	$'000	$'000	$'000	$'000	$'000
Fair value of plan assets	4,110,997	3,606,573	3,332,615	3,407,373	3,124,665
Present value of obligation	(3,474,715)	(2,962,087)	(2,668,245)	(2,312,611)	(2,015,520)
	636,282	644,486	664,370	1,094,762	1,109,145

A quantitative sensitivity analysis for significant assumptions as at 31 October 2016 is shown below:

Assumption	Sensitivity level	Impact on net defined benefit pension plans	
		Increase	Decrease
		$'000	$'000
Discount rate	1.00%	2,895,984	4,226,664
Future salary increases	0.50%	3,591,093	3,365,546
Future pension increases	0.50%	3,691,388	3,276,916
Existing retiree age	1 year	3,578,095	N/A

A quantitative sensitivity analysis for significant assumptions as at 31 October 2015 is shown below:

Assumption	Sensitivity level	Impact on net defined benefit pension plans	
		Increase	Decrease
		$'000	$'000
Discount rate	1.00%	2,463,632	3,612,599
Future salary increases	0.50%	3,066,423	2,864,504
Future pension increases	0.50%	3,147,110	2,793,322
Existing retiree age	1 year	3,050,539	N/A

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The following payments are expected benefit payments to be made in future years out of the defined benefit plan:

	2016	2015
	$'000	$'000
Within the next 12 months	68,489	60,375
Between 1 and 5 years	375,669	328,809
Between 5 and 10 years	844,893	715,587
Total expected payment	1,289,051	1,104,771

(b) Post-retirement medical benefits

In addition to pension benefits, the Bank offers medical benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension scheme.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 6.5% - 7.5% per year (2015: 6% - 9%).

A quantitative sensitivity analysis for significant assumptions as at 31 October 2016 is as shown below:

Assumption	Sensitivity level	Impact on post-retirement medical benefits	
		Increase	Decrease
		$'000	$'000
Discount rate	1.00%	76,264	90,713
Medical premium inflation	1.00%	90,784	76,106
Existing retiree age	1 year	85,501	N/A

A quantitative sensitivity analysis for significant assumptions as at 31 October 2015 is as shown below:

Assumption	Sensitivity level	Impact on post-retirement medical benefits	
		Increase	Decrease
		$'000	$'000
Discount rate	1%	70,734	84,688
Medical premium inflation	1%	85,143	70,259
Existing retiree age	1 year	79,468	N/A

	2016	2015
	$'000	$'000
Present value of unfunded obligations and liability in the statement of financial position	82,939	77,164

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11. Retirement Benefit Asset/(Obligation) (Continued)

(b) Post-retirement medical benefits (continued)

	2016 $'000	2015 $'000
Obligation at beginning of year	77,164	84,017
Charge for the year (Note 25)	6,820	9,415
Employer contributions	(2,845)	(2,566)
Effect of statement of other comprehensive income (Note 29)	1,800	(13,702)
Obligation at end of year	82,939	77,164

The amounts recognised in the statement of income are as follows:

	2016 $'000	2015 $'000
Current service cost	-	77
Past service cost – vested benefits	-	1,478
Interest cost	6,820	7,860
Total included in staff costs (Note 25)	6,820	9,415

The net re-measurement gain/(loss) recognized in the statement of other comprehensive income was as follows:

	2016 $'000	2015 $'000
Actuarial gains(losses) on defined benefit obligation arising from:		
- Financial adjustments	(2,354)	(2,804)
- Experience adjustments	4,154	(10,898)
Net re-measurement gains/(losses) recognized in OCI	1,800	(13,702)

The breakdown of the obligation between active members and inactive and retired members is as follows:

	2016 $'000	2015 $'000
Active members	-	-
Inactive and retired members	82,939	77,164
	82,939	77,164

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11. Retirement Benefit Asset/(Obligation) (Continued)

(b) Post-retirement medical benefits (continued)

The average duration of the obligation at the end of the reporting period of the obligation is as follows:

	2016	2015
Average duration, in years	9	9

12. Customer Deposits

	2016 $'000	2015 $'000
Individuals	24,799,797	22,319,462
Business and Government	32,183,586	24,824,371
Banks	7,782,105	8,658,458
	64,765,488	55,802,291
Interest payable	266,000	175,710
	65,031,488	55,978,001

13. Other Liabilities

	2016 $'000	2015 $'000
Accounts payable and accruals	679,062	633,982
Due to related parties	74,612	154,467
Items in transit, net	509,807	164,380
Other taxation payable	24,674	21,758
Other	67,042	69,560
	1,355,197	1,044,147

14. Debt Securities in Issue

	2016 $'000	2015 $'000
Notes due 2018	3,000,000	3,000,000
Add: interest payable	59,915	70,705
	3,059,915	3,070,705

During the year ended 31 October 2015, the Bank issued redeemable medium term notes ("the notes") with a par value of $3,000,000,000. The notes are denominated in Jamaican dollars and interest thereon is payable semi-annually in arrears. The interest rate on the notes is fixed at 9.25% for the first year; and variable at the 6-month Jamaica Treasury Bill Tender (WATBY) plus 190 basis points for years 2 and 3. The average effective interest rate during 2016 was 8.16% (2015: 9.25%). The principal repayment of the notes is due at maturity in 2018. However, the Bank has the option of redeeming the notes without penalty, after the passing of two interest payment periods. The notes and any interest payable thereon, are guaranteed by the ulitimate parent.

On 9 December 2016 the Bank completed a private bond issue amounting to $1.875 billion. The note is repayable by 9 December 2019, with a fixed interest rate at 7.65%, and will constitute senior unsecured debt with a Gurantee by the ultimate parent.

15. Share Capital and Reserves

	2016 No. of Shares (000)	2015 No. of shares (000)
Share Capital		
Authorised -		
Ordinary shares of no par value [1]	300,000	300,000
'A' ordinary shares of no par value [1]	900,000	900,000
	1,200,000	1,200,000

[1] These shares rank pari passu.

	2016 $'000	2015 $'000
Issued and fully paid -		
Share capital at beginning and end of year -		
265,756,730 (2015 – 265,756,730) ordinary stock units of no par value	1,396,667	1,396,667
528,000,000 (2015 – 528,000,000) 'A' ordinary shares of no par value	7,068,591	7,068,591
	8,465,258	8,465,258

Objectives, policies and procedures

Capital strength provides protection for depositors and creditors, allows the Bank to undertake profitable business opportunities as they arise and helps maintain favourable credit ratings.

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15. Share Capital and Reserves (Continued)

Objectives, policies and procedures (Continued)
The Bank's objective is to employ a strong and efficient capital base. It manages capital in accordance with policies established by the Board. These policies relate to capital strength, capital mix, dividends and return of capital, and the capital adequacy requirements applicable to a regulated entity. Each policy has associated guidelines, and capital is monitored continuously for compliance.

There were no significant changes made in the objectives, policies and procedures during the year.

Regulatory requirements
The Bank's regulatory capital requirements are determined in accordance with the Banking Services Act, 2014, and Regulations issued thereunder, primarily, The Banking Services (Deposit Taking Institutions) (Capital Adequacy) Regulations, 2015. Capital adequacy is measured by the ratio of regulatory capital to risk-weighted assets.

Regulatory capital consists of Tier 1 capital plus Tier 2 capital, less certain prescribed deductions.

- Tier 1 capital is comprised substantially of ordinary shares or stock, non-redeemable non-cumulative preference shares, plus certain eligible reserves, less: aggregate net losses as defined; goodwill, start-up expenses and other intangible assets; and any other designated deductions.
- Tier 2 capital principally comprises hybrid capital instruments (such as non-redeemable cumulative preference shares and qualifying redeemable preference shares having an original term to maturity of five years or more), and general provisions (subject to certain limitations).
- A deduction from Tier 1 and 2 Capital is required for certain prescribed items such as investments in, and share of accumulated losses in unconsolidated subsidiaries.

Risk-weighted assets is the sum of on-balance sheet assets, off-balance sheets assets (contingent accounts), and foreign currency positions.

- On-balance sheet assets are classified in one of four broad risk-weighting categories. Classification is dependent on the Regulator's assessment of the nature of the counter-party or where applicable, the guarantor or the collateral.

- Off-balance sheet assets (contingent accounts) are first assigned a credit conversion factor to determine an on-balance sheet credit equivalent amount, which is then risk weighted in a manner similar to on-balance sheet assets.

- A capital charge is assessed for foreign currency risk, being the higher of aggregated long/short foreign currency positions.

Global capital standards require that banks maintain minimum Tier 1 and Capital Adequacy Ratio of 4% and 8%, respectively. Under the Banking Services Act, 2014, Jamaican deposit-taking financial institutions are required to maintain a minimum capital adequacy ratio of 10% and Tier 1 capital should be not less than 50% of regulatory capital. During the year, the Bank complied in full with all of its regulatory capital requirements, as follows:

Tier 1 and Total Capital ratios were: 24.2% and 24.2%, respectively (2015 – 29.0% and 29.0%).

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15. Share Capital and Reserves (Continued)

Reserves

	2016 $'000	2015 $'000
Capital reserves (Note 16)	12,833	12,833
Fair value reserves – available-for-sale investment securities (Note 17)	17,615	9,293
Retirement benefit reserve (Note 18)	(17,221)	(97,196)
Statutory reserve fund (Note 19)	2,576,667	2,546,667
Retained earnings reserve (Note 20)	2,616,163	2,616,163
Loan loss reserve (Note 21)	743,030	636,225
General reserve (Note 22)	45,522	45,522
Total reserves at end of the year	5,994,609	5,769,507

16. Capital Reserves

	2016 $'000	2015 $'000
Comprised:		
Unrealised –		
Surplus on revaluation of premises	5,493	5,493
Realised –		
Profit on sale of property and equipment	7,340	7,340
Balance at end of year	12,833	12,833

17. Fair Value Reserves – Available For Sale Investment Securities

	2016 $'000	2015 $'000
Balance at beginning of year	9,293	8,576
Net fair value gains on available-for-sale investments during the year (Note 29)	8,322	717
Balance at end of the year	17,615	9,293

18. Retirement Benefit Reserve

	2016 $'000	2015 $'000
Balance at beginning of year	(97,196)	(176,451)
Re-measurement gains on retirement benefit plans during the year (Note 29)	79,975	79,255
Balance at end of year	(17,221)	(97,196)

Gains and losses arising from re-measurement of retirement benefit plans in other comprehensive income are reflected in this reserve.

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19. Statutory Reserve Fund

	2016 $'000	2015 $'000
Balance at beginning of the year	2,546,667	2,546,667
Transfer from retained earnings	30,000	-
Balance at end of the year	2,576,667	2,546,667

The fund is maintained in accordance with the Banking Services Act 2014. The Bank is required to make transfers of a minimum of 15% of net profit until the amount in the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the reserve fund is not less than paid up share capital. On 15 December 2016 the Board of Directors approved the transfer of $70,000,000 (2015: $30,000,000) from retained earnings to the statutory reserve fund effective 31 January 2017. The transfer will be done based on the net profits for the year ended 31 October 2016.

20. Retained Earnings Reserve

	2016 $'000	2015 $'000
Balance at beginning and end of year	2,616,163	2,616,163

Section 41(1) of the Banking Services Act 2014, permit the transfer of any portion of net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be reported to the Bank of Jamaica.

21. Loan Loss Reserve

	2016 $'000	2015 $'000
Balance at beginning of year	636,225	369,263
Transfer from retained earnings	106,805	266,962
Balance at end of the year	743,030	636,225

This is a non-distributable reserve representing the excess of the provision for loan losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 8).

22. General Reserve

	2016 $'000	2015 $'000
Balance at beginning and end of the year	45,522	45,522

This represents a transfer by the former subsidiary, FirstCaribbean International Building Society, on amalgamation for amounts transferred from retained earnings to a general reserve on a tax free basis.

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23. Net Interest Income

	2016 $'000	2015 $'000
Interest and similar income:		
Cash and balances due from banks	227,581	115,126
Investment securities	365,579	380,795
Loans and advances	3,731,157	3,231,969
Repurchase agreements and other	663	2,113
	4,324,980	3,730,003
Interest and similar expense:		
Customer deposits	(1,116,315)	(723,326)
Debt securities in issue	(250,849)	(213,218)
Other	(322)	(45,448)
	(1,367,486)	(981,992)
Net interest income	2,957,494	2,748,011

24. Other Operating Income

	2016 $'000	2015 $'000
Net fees and commissions	958,585	752,106
Foreign exchange transactional net gains	480,345	362,716
Foreign exchange revaluation net gains	511,330	395,734
Securities net losses	(9,530)	(9,107)
Other operating income	64,000	42,570
	2,004,730	1,544,019

Foreign exchange transactional net gains include gains and losses arising from foreign currency trading activities.

25. Operating Expenses

	2016 $'000	2015 $'000
Staff costs	1,417,917	1,300,214
Depreciation	216,925	176,229
Occupancy costs	382,564	364,819
Other operating expenses	2,287,747	2,205,928
	4,305,153	4,047,190

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25. Operating Expenses (Continued)

Analysis of staff costs:

	2016 $'000	2015 $'000
Wages and salaries	968,734	853,305
Pension costs –		
Defined benefit plan (Note 11)	55,747	60,710
Defined contribution plan	63,049	56,931
Other post retirement benefits (Note 11)	6,820	9,415
Other share and cash-based benefits (Note 37)	9,039	8,154
Severance	-	15,114
Other staff-related costs	314,528	296,585
	1,417,917	1,300,214

26. Profit Before Taxation

Profit before taxation is stated after charging:

	2016 $'000	2015 $'000
Depreciation	216,925	176,229
Directors' emoluments-		
Fees	8,992	3,243
Management remuneration	35,841	29,811
Management fees	845,320	893,723
Auditors' remuneration-		
Current year	13,320	12,464

27. Income Tax Expense

(a) The taxation expense is based on the profit for the year adjusted for taxation purposes and comprises:

	2016 $'000	2015 $'000
Current year income tax	125,405	97,223
Prior year over accrual	(3,364)	-
Tax on income at source	5,557	1,646
	127,598	98,869
Deferred tax charge (Note 10)	123,687	57,277
	251,285	156,146

Income tax is calculated at the rate of 33⅓%.

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27. Income Tax Expense (Continued)

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

	2016 $'000	2015 $'000
Profit before taxation	660,399	332,066
Tax calculated at 33⅓%	220,133	110,689
Effect of :		
Income not subject to tax	(23,733)	(2,148)
Expenses not deductible for tax	52,835	43,833
Prior year over accrual	(3,364)	-
Other charges and allowances	5,414	3,772
	251,285	156,146

28. Earnings Per Stock Unit

Earnings per ordinary stock unit for the Bank is calculated by dividing the net profit for the year by the weighted average number of ordinary stock units in issue:

	2016	2015
Net profit for the year ($'000)	409,114	175,920
Weighted average number of ordinary stock units in issue ('000)	793,757	793,757
Earnings per stock unit ($)	0.52	0.22

29. Components of Other Comprehensive Income

	2016 $'000	2015 $'000
Available-for-sale investment securities:		
Gains arising during the year (Note 7)	12,483	1,075
Less: Deferred tax	(4,161)	(358)
Other comprehensive gains for the year (Note 17)	8,322	717
Re-measurement on retirement benefit plans:		
Gains arising during the year	119,963	118,883
Less: Deferred tax	(39,988)	(39,628)
Other comprehensive gains for the year (Note 18)	79,975	79,255
Total other comprehensive gains for the year, net of tax	88,297	79,972

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30. Related Party Transactions

In the ordinary course of business, the Bank provides to its connected persons normal banking services on terms similar to those offered to persons not connected to the Bank.

(a) Transactions and balances with FirstCaribbean entities and their associates

	2016	2015
	$'000	$'000
The Parent, FirstCaribbean International Bank Limited:		
Net payable	74,612	154,467
Management fee expense	845,320	893,723
Affiliates, other FirstCaribbean entities:		
Interest income	81,991	30,052
Interest expense	326,802	149,339
Net receivable	2,619	40,154
Deposits by other FirstCaribbean entities	7,744,415	8,747,711
Interest expense on securities sold under agreements to repurchase	-	23,249
Money market placements	15,447,819	13,478,074
The ultimate parent, CIBC:		
Interest income	481	3,122
Customer deposits	7,037	8,825
Money market placements (Note 4)	586,276	970,614
Loans and advances to customers	95	95
Derivative financial instruments	-	97
Interest expense derivative	88	630

The net payable to the Parent includes an amount of $14,135,000 (US$110,000) (2015: $79,730,000 (US$670,000)) related to loan losses recovered.

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30. Related Party Transactions (Continued)

(b) Transactions and balances with directors

	2016	2015
	$'000	$'000
Loans outstanding	18,798	12,279
Deposits	28,998	23,653
Interest income	734	906
Interest expense	530	635
Directors' fees	8,992	3,243
Post retirement benefits	3,357	2,295
Management remuneration paid (included below)	35,841	29,811

(c) Key management remuneration paid during the year

	2016	2015
	$'000	$'000
Wages and salaries	87,400	103,196
Statutory contributions	8,696	10,647
Severance	-	3,492
Post retirement benefits	6,014	10,504
	102,110	127,839

31. Commitments

(a) Future rental commitments under operating leases

At 31 October 2016, the Bank held leases on buildings for extended periods. The future rental commitments under these leases were as follows:

	2016	2015
	$'000	$'000
Not later than 1 year	305,086	278,641
Later than 1 year and less than 5 years	886,346	838,400
Later than 5 years	194,596	333,478
	1,386,028	1,450,519

During the year, $279,229,000 (2015 - $272,325,000) of lease payments was charged to net income.

(b) Other

The following table indicates the contractual amounts of financial instruments not presented in the statement of financial position that commit the Bank to extend credit to customers:

	2016	2015
	$'000	$'000
Guarantees and indemnities	942,705	769,689
Letters of credit	3,218,387	2,178,731
Loan commitments	6,487,104	5,692,194
	10,648,196	8,640,614

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32. Contingencies

The Bank, because of the nature of its business, is subject to various threatened or filed legal actions. At 31 October 2016 material claims filed amounted to approximately $2,094,044,000 (2015 - $2,042,553,000). The majority of this amount relates to a specific counter claim of approximately $2,003,112,000 (2015 - $2,001,319,000), filed by a former customer against the Bank. Another counter claim was brought against the former customer by the Bank for approximately $610,110,000 (2015 – $565,004,000). Although the amount of the ultimate exposure, if any, cannot be determined at this time, the Directors are of the opinion, based upon the advice of Counsel, that the final outcome of threatened or filed suits will not have a material adverse effect on the financial position of the Bank.

33. Pledged Assets

Mandatory reserve deposits are held at the Bank of Jamaica in accordance with statutory requirements. These deposits are not available to finance the Bank's day to day operations. Additionally, assets are pledged as collateral to third parties.

	2016	**2015**
	$'000	**$'000**
Cash and balances with Central Bank		
Statutory reserves at Bank of Jamaica (Note 3)	6,571,894	5,539,686
Investment securities – bonds & debentures:		
Pledged as collateral for clearing services	131,641	118,671
	6,703,535	5,658,357

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34. Business Segments

The Bank's operations are organised into two business segments, Retail and Business Banking and Wholesale Banking which are supported by the functional units within the Administration segment (which includes Finance, Human Resources, Technology and Operations, Treasury, Risk and other).

Retail and Business Banking
This line of business provides a full range of financial products and services to individuals and small businesses. Clients can access the Bank's services and products through its network of branches as well as, use the convenience of ABMs, Internet Banking, Telephone Banking and Cards Issuing as well as Card Merchant Acquiring services.

Wholesale Banking
This line of business comprises three sub-segments: Corporate Banking, Investment Banking and Client Solutions Group.

Corporate Banking provides a full range of corporate and commercial banking services, including Cards Merchant Acquiring business, to large and mid-size corporate businesses, governments, financial institutions, international trading companies and private wealth vehicles throughout Jamaica. Investment Banking provides debt and equity capital markets and corporate finance products and services to large corporations, financial institutions and governments. The Client Solutions Group deals with transactions relating to financial instruments (derivatives) and foreign exchange.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on economic profits, which for the total of all segments is equal to net income before taxes reflected on the financial statements. Economic profits include funds transfer pricing, management allocations, and other charges for the segments' use of capital.

Income taxes are managed on a Bank basis and are not allocated to business segments. Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and intangible assets. Securities and cash placements are normally held within the Treasury unit within the Administration segment.

The Administration segment results include the earnings on excess capital as well as the offset to the capital charges that have been allocated to Retail and Wholesale Banking.

The Bank's operations are located solely in Jamaica.

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34. Business Segments (Continued)

	Retail & Business Banking $'000	Wholesale Banking $'000	Administration $'000	Total $'000
31 October 2016				
External revenues	2,616,255	2,457,357	1,256,098	6,329,710
Revenues from/(to) other segments	849,312	20,500	(869,812)	-
Total revenues	3,465,567	2,477,857	386,286	6,329,710
(Loss)/Income before taxation	(334,131)	1,012,466	(17,936)	660,399
Taxation charge				(251,285)
Net income for the year				409,114
Segment assets	18,976,959	25,961,240	38,797,271	83,735,470
Unallocated assets				399,307
Total assets				84,134,777
Segment liabilities	34,830,106	22,805,995	11,893,438	69,529,539
Unallocated liabilities				54,905
Total liabilities				69,584,444
Other segment information				
Interest income	2,800,154	1,757,963	(233,137)	4,324,980
Interest expense	379,128	408,427	579,931	1,367,486
Capital expenditure	198,521	-	219,306	417,827
Depreciation	118,046	2,258	96,621	216,925
Loan impairment	22,702	(26,030)	-	(3,328)

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34. Business Segments (Continued)

	Retail & Business Banking	Wholesale Banking	Administration	Total
	$'000	$'000	$'000	$'000
31 October 2015				
External revenues	2,360,476	1,942,484	971,062	5,274,022
Revenues from/(to) other segments	613,367	(196,128)	(417,239)	-
Total revenues	2,973,843	1,746,356	553,823	5,274,022
(Loss)/Income before taxation	(526,101)	621,601	236,566	332,066
Taxation charge				(156,146)
Net income for the year				175,920
Segment assets	16,656,399	21,559,188	35,410,242	73,625,829
Unallocated assets				597,177
Total assets				74,223,006
Total liabilities	31,019,276	16,475,535	12,675,273	60,170,084
Other segment information				
Interest income	2,315,526	1,163,246	251,231	3,730,003
Interest expense	342,751	229,017	410,224	981,992
Capital expenditure	300,435	-	227,104	527,539
Depreciation	81,963	2,846	91,420	176,229
Loan impairment losses	(30,867)	(56,359)	-	(87,226)

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35. Financial Risk Management

(a) Strategy in using financial instruments

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

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans and advances which are disclosed on the statement of financial position, but the Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

(b) Credit risk

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

<u>Process and Control</u>
The Credit Risk Management Department (CRMD) is responsible for the provision of the Bank's adjudication, oversight and management of credit risk within its portfolios, including the measurement, monitoring and control of credit risk.

The CRMD's credit risk approval authority flows from the Board of Directors and are further delegated to the Chairman and the Chief Risk Officer (CRO). The department is guided by the Bank's Delegation of Authority Policy. Delegation is based on exposure and risk level; where the credit decision relates to larger and or higher risk transactions the Credit Committee (CC) is responsible for the final decision.

The Risk and Conduct Review Committee (R&CRC) is responsible for approving policy requirements and key risk limits.

<u>Credit Risk Limits</u>
Credit limits are established for all loans (mortgages, personal and business & government) for the purposes of diversification and managing concentration. These include limits for individual borrowers, Banks of related borrowers, industry sectors, and products or portfolios. The Bank does not have excessive concentration in any single borrower, or related Bank of borrowers, or industry sector.

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

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

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

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35. Financial Risk Management (Continued)

(b) Credit risk (continued)

Exposures by Industry Groups

The following table provides an industry-wide break down of total exposures by industry groups:

	2016			2015		
	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2016 $'000	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2015 $'000
Agriculture, fishing and mining	354,726	132,852	487,578	1,170,187	187,633	1,357,820
Construction	4,702,099	184,900	4,886,999	194,294	-	194,294
Distribution	5,260,391	2,109,931	7,370,322	5,842,293	2,058,238	7,900,531
Electricity, gas and water	4,325,521	682,050	5,007,571	4,248,386	631,700	4,880,086
Financial institutions	44,560	500	45,060	56,783	500	57,283
Government and public entities	3,379,557	877,318	4,256,875	3,981,233	-	3,981,233
Manufacturing and production	1,363,841	247,733	1,611,574	917,278	16,465	933,743
Personal	17,387,698	4,114,313	21,502,011	14,715,244	3,300,649	18,015,893
Professional and other services	2,357,085	2,292,407	4,649,492	2,286,075	2,440,417	4,726,492
Tourism and entertainment	3,192,710	275	3,192,985	3,310,094	475	3,310,569
Transport, storage and communication	2,810,676	5,917	2,816,593	1,893,695	4,537	1,898,232
Total	45,178,864	10,648,196	55,827,060	38,615,562	8,640,614	47,256,176
Provision for credit losses			(910,246)			(1,038,465)
			54,916,814			46,217,711

Impaired Financial Assets and Provision for Credit Losses

The Bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits which include exposures not recognised in the statement of financial position. Actual exposures against limits are monitored daily.

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

35. Financial Risk Management (Continued)

(b) Credit risk (continued)

Derivatives
The Bank maintains strict control limits on net open derivative positions, that is, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

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

Credit Related 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, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore, carry less risk than a direct borrowing.

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

Maximum Exposure to Credit Risk
The maximum exposure to credit risk would be all statement of financial position carrying values of all financial assets plus the contingent liabilities and commitments [these disclosures are shown in Note 31(b)] not recognised in the statement of financial position. The gross maximum exposure would be before allowance for credit losses and the effect of mitigation through the use of master netting and collateral arrangements. The maximum exposure to credit risk within the customer loan portfolio would be all the statement of financial position carrying values plus the loan commitments [these disclosures are shown in Note 31(b)] not recognised in the statement of financial position. The gross maximum exposure within the customer loan portfolio would be before provision for credit losses and the effect of mitigation through the use of master netting and collateral arrangements, plus the loan commitments amount not recognised in the statement of financial position.

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35. Financial Risk Management (Continued)

(c) Geographical concentration of assets, liabilities, off-balance sheet items, revenues and capital expenditure

The Bank operates in only the Jamaican geographical market.

(d) Credit rating system and credit quality per class of financial assets

Credit Quality
A mapping between the Bank's internal ratings and the ratings used by external agencies is shown in the table below. As part of the Bank's risk-rating methodology, the risk assessed includes a review of external ratings of the obligor. The obligor rating assessment takes into consideration the Bank's financial assessment of the obligor, the industry, and the economic environment of the country in which the obligor operates. In certain circumstances, where a guarantee from a third party exists, both the obligor and the guarantor will be assessed.

	Loans and advances to customers	Investment securities	
Grade Description	**Days past due**	**Standards & Poor's equivalent**	**Moody's Investor Services**
High grade	0-7	AAA to BBB-	Aaa to Baa3
Standard	8-60	BB+ to B-	Ba to B3
Substandard	61-89	CCC+ to CC	Caa1 to Ca
Impaired	90+	D	C

A credit scoring methodology is used to assess personal customers and a grading model is used for Corporate clients. As well, an ageing analysis of the portfolio assists in the development of a consistent internal-risk rating system. This risk rating system is used for portfolio management, risk limit setting, product pricing, and in the determination of economic capital.

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

At the reporting date, investment securities were all rated standard or high grade. Cash balances and amounts due from banks are held with counterparties that are standard, high grade or CIBC group entities.

The table below shows the credit quality by class of asset for gross loans and advances to customers, based on our internal credit rating system. Amounts provided are before allowance for credit losses, and after credit risk mitigation, valuation adjustments related to the financial guarantors, and collateral on agreements.

35. Financial Risk Management (Continued)

(d) Credit rating system and credit quality per class of financial assets (Continued)

Credit Quality (Continued)

	2016				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**Total $'000**
Loans and advances to customers:					
Mortgages	8,998,947	175,418	31,838	607,510	9,813,713
Personal loans	6,586,317	188,874	44,488	447,784	7,267,463
Business & government loans	27,727,195	73,578	378	296,537	28,097,688
Total	43,312,459	437,870	76,704	1,351,831	45,178,864

	2015				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**Total $'000**
Loans and advances to customers:					
Mortgages	7,652,216	767,147	87,419	756,159	9,262,941
Personal loans	5,482,110	206,128	73,358	447,322	6,208,918
Business & government loans	22,715,754	49,478	69	378,402	23,143,703
Total	35,850,080	1,022,753	160,846	1,581,883	38,615,562

For business and government loans, the Bank further employs risk ratings in managing the credit portfolio. Business and government borrowers with elevated default risk are monitored on the Early Warning List. Early Warning List characteristics include borrowers exhibiting a significant decline in revenue, income, or cash flow or where the Bank has doubts as to the continuing viability of the business. Early Warning List customers are often also delinquent, but this is not always the case. As of 31 October 2016, Early Warning List customers in the medium to high risk category amounted to $649,617,000 (2015 - $613,940,000).

35. Financial Risk Management (Continued)

(e) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk arises from positions in securities and derivatives as well as from the core retail, wealth and wholesale banking businesses. The key risks to the Bank are foreign exchange, interest rate and, to a far less extent, credit spread. Management of market risk within the Bank is centralized at the Parent which mirrors the way that the hard currencies are managed by Treasury Sales and Trading and although the local currency exposures are managed in their respective geographic regions, these exposures are still monitored, measured and controlled centrally from a market risk perspective. The Bank classifies market risk exposures into trading and non-trading. For Jamaica virtually all of the positions fall into the latter with currently just foreign exchange being considered trading. Due to the relatively small size of the trading portfolio the key types of measures used for market risk are not segregated from the non-trading book therefore the following sections give a comprehensive review of the Bank's entire exposures.

Policies and Standards:
The Parent has a comprehensive policy for market risk management related to its identification and to the measurement, monitoring and control of those risks. This policy is reviewed and approved annually by the Risk and Conduct Review Committee. The policy includes the annual approval of the Board limits which is used by the Parent to establish explicit risk tolerances expressed in terms of the four main risk measures mentioned below. There is a three tiered approach to limits at the Parent Bank. The highest level are those set at the Board level, and the second level which includes a "haircut" from the Board limits are the Chief Risk Officer limits. The third level of limits is for the Treasury Sales and Trading, which limits traders to specific size of deal, documented through a formal delegation letter and these are monitored using the Bank's Acumen system.

Process and Control:
Market risk measures are monitored with differing degrees of frequency dependent upon the relative risk and speed with which the risk changes. Foreign exchange (FX) positions, Value at Risk (VaR) and certain profit & loss measures are all measured daily whereas others such as stress tests and credit spread sensitivity are performed on either a weekly or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a daily, weekly and monthly basis and a summary version is reported quarterly to the Parent Board. A summary of key risks is also presented to the local Board on a quarterly basis.

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

§ Outright position, used predominantly for FX,
§ Sensitivity to a 1 basis point move in a curve, used for both interest rate and credit spread risk,
§ Value at Risk (VaR) measures for both interest rate risk and for non pegged currencies
§ Stress scenarios based upon a combination of theoretical situations and historical events.

Position:
This risk measurement is used predominantly for the Bank's foreign exchange business. The measure produced and reported daily focuses upon the outright long or short position in each currency from both a pre-structural and post structural basis. Any forward contracts or FX swaps are also incorporated.

FirstCaribbean International Bank (Jamaica) Limited

35. Financial Risk Management (Continued)

(e) Market risk (continued)

Sensitivity:
The main two measures utilized by the Bank are the DV01 (delta value of a 1 basis point move, also known as the PV01 or Present value of a 1 basis point move) and the CSDV01 (Credit Spread Delta of a 1 basis point move). The DV01 measure is calculated for a 1 basis point move down in the yield curve. This generates the effect on earnings by individual currency of a parallel shift down in the related yield curve. As curves rarely move in a parallel fashion it is measured across different tenors to ensure that there is no further curve risk of having for example a long position in the short end of the curve offset by a short position in the longer tenors. This is then utilized within the scenario analysis. The sensitivities are calculated using a post-structural basis that considers core balances for non contractual maturities as well as assigning risk to capital and non product general ledger accounts as well as considering market specific pricing situations that exist in the region.

Value at Risk:
The Bank's Value at Risk ("VaR") methodology utilizes the tested and validated CIBC models. It is a statistically and probability based approach that uses volatilities and correlations to quantify risk into dollar terms. VaR measures the potential loss from the adverse market movements that can occur overnight with a less than one percent probability of occurring under normal market conditions, based on equally weighted historical data. VaR uses numerous risk factors as inputs and is computed through the use of historical volatility of each risk factor and the associated correlations among them, evaluated over a one year period and updated on a regular basis. The use of these historical measures do cause a degree of limitation to its accuracy as it assumes that future price movements will follow a statistical distribution and thus may not clearly predict the future impact. The fact that VaR is an end of day measure and thus does not take into account intra moves is not a significant issue for the Bank as neither the trading nor non trading portfolios are that active and the FX is controlled via trade and volume size limits. A further weakness of the VaR measure is that it does not estimate the effects of market variable moves outside of the ninety-nine percent parameter and hence may underestimate losses. To counter this, the Bank has various stress measures to calculate potential tail event losses.

35. Financial Risk Management (Continued)

(e) Market risk (continued)

Stress Testing & Scenario Analysis:
Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern.

The Bank has two distinct approaches as follows:

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

- The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market risk in conjunction with Treasury Sales & Trading consider the market data over approximately the last ten years and identify the greatest curve or data point moves over both sixty day and single day periods. These are then applied to the existing positions/sensitivities of the Bank. This is performed and reported on a monthly basis as they do not tend to change rapidly. For foreign exchange stresses, the Bank considers what the effect of either a revaluation or devaluation of the JMD would have on the earnings of the Bank. This is backed by reviews of historical data and considers the worst case that the Bank would be unable to exit the position rapidly.

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35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk
Foreign exchange (or currency) risk is defined as the risk that the value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Since the JMD is not pegged to the USD, the VaR measure can be used. However, due to some of the known inherent weaknesses of the VaR methodology, emphasis is placed particularly on the overall position limit and the related stress tests. The Parent Board has set limits on Total Positions (Structural plus country) by currency while Credit Risk Officer limits are utilized at the country or trading level Positions are monitored on a daily basis and Treasury Sales & Trading are solely responsible for the hedging of the exposure of the Bank.

The following table highlights large currency exposures of the Bank in USD. It also highlights the measures used to monitor, measure and control that risk.

Foreign exchange exposure and risk

31 October 2016:

Currency	Position Long (Short) vs USD	6% Deval	1% Reval	Average Position
	$'000	$'000	$'000	$'000
Jamaican dollar	4,707	(282)	28	3,824

31 October 2015:

Currency	Position Long (Short) vs USD	10% Deval	1% Reval	Average Position
	$'000	$'000	$'000	$'000
Jamaican dollar	7,273	(582)	73	6,597

The Bank utilizes a measure to quantify non-trading foreign exchange risk, also referred to as post-structural foreign exchange risk. This considers the effect of currency changes on the Bank's retained earnings and profit derived throughout the year in non-USD currencies. Full details of the structural positions are included in the Parent's financial statements.

The Bank will occasionally trade non-USD/JMD currencies, but these are quickly hedged. There were no material balances at either 2016 or 2015 fiscal year end.

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35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 October:

Concentrations of assets, liabilities and credit commitments:

	2016							
	EC	BDS	CAY	BAH	US	JA	Other	Total
As at 31 October 2016	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	-	-	155	-	3,275,722	5,001,316	184,734	8,461,927
Due from banks	2,668	(7,331)	3,865	1,818	22,031,582	430,702	1,186,244	23,649,548
Other assets	-	-	-	-	71,703	119,590	2,589	193,882
Investment securities	-	-	-	-	-	5,230,271	-	5,230,271
Deferred tax assets	-	-	-	-	-	399,307	-	399,307
Retirement benefit asset	-	-	-	-	-	636,282	-	636,282
Loans and advances to customers	-	-	-	-	22,066,149	22,130,436	31,046	44,227,631
Property and equipment	-	-	-	-	-	1,335,929	-	1,335,929
Total assets	2,668	(7,331)	4,020	1,818	47,445,156	35,283,833	1,404,613	84,134,777
Liabilities								
Customer deposits	-	-	-	-	34,842,004	28,778,080	1,411,404	65,031,488
Other liabilities	-	772	-	-	5,243,753	(3,816,753)	(72,575)	1,355,197
Taxation payable	-	-	-	-	-	54,905	-	54,905
Debt securities in issue	-	-	-	-	-	3,059,915	-	3,059,915
Retirement benefit obligation	-	-	-	-	-	82,939	-	82,939
Total liabilities	-	772	-	-	40,085,757	28,159,086	1,338,829	69,584,444
Net assets/(liabilities)	2,668	(8,103)	4,020	1,818	7,359,399	7,124,747	65,784	14,550,333
Credit commitments	-	-	-	-	3,380,208	6,601,273	666,715	10,648,196

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35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

	2015							
	EC	BDS	CAY	BAH	US	JA	Other	Total
As at 31 October 2015	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	42	60	143	-	2,501,380	5,206,194	182,026	7,889,845
Due from banks	-	12,482	4,725	1,684	18,780,137	646,459	1,499,366	20,944,853
Other assets	-	-	-	-	-	176,285	25,795	202,080
Investment securities	-	-	-	-	-	5,224,574	-	5,224,574
Taxation recoverable	-	-	-	-	-	30,034	-	30,034
Deferred tax assets	-	-	-	-	-	567,143	-	567,143
Retirement benefit asset	-	-	-	-	-	644,486	-	644,486
Loans and advances to customers	-	-	-	-	18,256,266	19,288,314	38,937	37,583,517
Property and equipment	-	-	-	-	-	1,136,335	-	1,136,335
Derivative financial instruments	-	-	-	-	139	-	-	139
Total assets	42	12,542	4,868	1,684	39,537,922	32,919,824	1,746,124	74,223,006
Liabilities								
Customer deposits	-	-	-	-	29,337,427	24,934,934	1,705,640	55,978,001
Derivative financial instruments	-	-	-	-	67	-	-	67
Other liabilities	-	715	-	-	3,530,814	(2,433,019)	(54,363)	1,044,147
Debt securities in issue	-	-	-	-	-	3,070,705	-	3,070,705
Retirement benefit obligation	-	-	-	-	-	77,164	-	77,164
Total liabilities	-	715	-	-	32,868,308	25,649,784	1,651,277	60,170,084
Net assets	42	11,827	4,868	1,684	6,669,614	7,270,040	94,847	14,052,922
Credit commitments	-	-	-	-	2,217,838	5,883,865	538,911	8,640,614

35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

Analysis was conducted to determine the sensitivity to reasonable possible movements of selected currencies against the Jamaican dollar to which the Bank had significant exposure at 31 October 2016 in respect of its assets and liabilities holding all other variables constant. The results revealed that as of 31 October 2016, if the Jamaican dollar had depreciated by 6% (2015 – 8%) against foreign currencies, profit before tax for the year would have been $751,957,000 higher (2015 - $817,565,000 higher) and shareholders' equity would have been $$751,957,000 higher (2015 - $817,565,000 higher). Similarly, if the Jamaican dollar had revalued by 1% (2015 – 1%) against foreign currencies, profit before tax for the year would have been $125,326,000 lower (2015 - $102,196,000 lower) and shareholders' equity would have been $125,326,000 lower (2015 - $102,196,000 lower).

(f) Liquidity risk

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

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

Process and Control

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

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

Risk Measurement

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

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

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35. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

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

	1 to 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 October 2016					
Cash and balances with Central Bank	8,461,927	-	-	-	8,461,927
Due from other banks	16,967,548	6,682,000	-	-	23,649,548
Other assets	193,882	-	-	-	193,882
Deferred tax assets	-	-	399,307	-	399,307
Investment securities	42,889	304,908	4,168,803	713,671	5,230,271
Loans and advances to customers	4,004,825	2,982,666	18,758,294	18,481,846	44,227,631
Property and equipment	-	-	910,135	425,794	1,335,929
Retirement benefit asset	-	-	-	636,282	636,282
Total assets	29,671,071	9,969,574	24,236,539	20,257,593	84,134,777
Customer deposits	60,087,228	3,971,042	724,066	249,152	65,031,488
Other liabilities	1,355,197	-	-	-	1,355,197
Taxation payable	-	54,905	-	-	54,905
Debt securities in issue	-	59,915	3,000,000	-	3,059,915
Retirement benefit obligation	-	-	-	82,939	82,939
Total liabilities	61,442,425	4,085,862	3,724,066	332,091	69,584,444
Net assets/(liabilities)	(31,771,354)	5,883,712	20,512,473	19,925,502	14,550,333
Commitments, guarantees and contingent liabilities	7,343,949	2,617,621	5,575	681,051	10,648,196

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35. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

	1 to 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 October 2015					
Cash and balances with Central Bank	7,889,845	-	-	-	7,889,845
Due from other banks	20,944,853	-	-	-	20,944,853
Other assets	202,080	-	-	-	202,080
Deferred tax assets	-	-	567,143	-	567,143
Investment securities	43,198	1,003	4,064,449	1,115,924	5,224,574
Taxation recoverable	30,034	-	-	-	30,034
Loans and advances to customers	5,909,423	1,463,984	14,896,637	15,313,473	37,583,517
Property and equipment	-	-	703,648	432,687	1,136,335
Retirement benefit asset	-	-	-	644,486	644,486
Derivative financial instruments	139	-	-	-	139
Total assets	35,019,572	1,464,987	20,231,877	17,506,570	74,223,006
Customer deposits	49,577,298	5,833,302	297,219	270,182	55,978,001
Derivative financial instruments	67	-	-	-	67
Other liabilities	1,044,147	-	-	-	1,044,147
Debt securities in issue	-	70,705	3,000,000	-	3,070,705
Retirement benefit obligation	-	-	-	77,164	77,164
Total liabilities	50,621,512	5,904,007	3,297,219	347,346	60,170,084
Net assets/(liabilities)	(15,601,940)	(4,439,020)	16,934,658	17,159,224	14,052,922
Commitments, guarantees and contingent liabilities	6,015,630	1,621,114	3,529	1,000,341	8,640,614

FirstCaribbean International Bank (Jamaica) Limited

35. Financial Risk Management (Continued)

(g) Interest rate risk

Interest rate risk arises from the changes in interest rate affecting the future cash flows of financial instruments. For the Bank there is currently no trading interest rate risk. Non-trading interest rate risk consists primarily of a combination of the risks inherent in asset and liability management activities and the activities of the core retail, wealth and corporate businesses. Interest rate risk results from differences in the maturities or re-pricing dates of assets inclusive of those not recognised in the statement of financial position.

As at 31 October 2016, there are no market risk limits against the VaR and USD DV01.

The following table highlights the other key interest rate risk measures utilised by the Bank:

31 October 2016

Currency	Post Structural DV01 $	VaR $'000	Increase 100 basis points $'000	Decrease 100 basis points $'000	60 day Stressed Loss $'000
Jamaican dollar	(1,863)	-	186	(186)	1,172

31 October 2015

Currency	Post Structural DV01 $	VaR $'000	Increase 250 basis points $'000	Decrease 100 basis points $'000	60 day Stressed Loss $'000
Jamaican dollar	(9,632)	151	963	(963)	2,332

FirstCaribbean International Bank (Jamaica) Limited

35. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

The Bank's sensitivity did not move significantly throughout the year. Generally the contractual sensitivities are marginally long, but the effect of the structural interest rate assumptions, particularly with regard to core deposit balances, generate the relatively small net short position reflected above.

USD Interest Rate Exposure

The USD interest rate risk exposure is calculated for the Bank and reported monthly at both a product and tenor level at the Assets and Liabilities Committee. As at 31 October the risk sensitivity and related stress results to a 1 basis point drop in the underlying USD yield curve are as follows:

31 October 2016

Currency	Post Structural DV01 $'000	Increase 100 basis points $'000	Decrease 50 basis points $'000	60-Day Stressed Loss $'000
USD	-	-	-	-

31 October 2015

Currency	Post Structural DV01 $'000	Increase 250 basis points $'000	Decrease 100 basis points $'000	60-Day Stressed Loss $'000
USD	(19,689)	1,969	(984)	2,707

The main components of this risk on the asset side, are fixed rate loans and mortgages offset by core deposit and transactional accounts and inter-company borrowing on the liability side.

35. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

Derivatives held for ALM purposes

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

(h) Cash flow and fair value interest rate risk

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

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

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35. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

The following tables summarise carrying amounts of statement of financial position, asset and liabilities in order to arrive at the Bank's interest rate gap based on earlier of contractual re-pricing or maturity dates.

	Immediately Rate Sensitive[1]	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive[2&3]	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2016							
Cash and balances with Central Bank	-	4,160,727	-	-	-	4,301,200	8,461,927
Due from other banks	1,422,561	15,261,503	6,682,000	-	-	283,484	23,649,548
Other assets	-	-	-	-	-	193,882	193,882
Investment securities	-	4,237,828	304,908	682,501	-	5,034	5,230,271
Loans and advances to customers	1,555,853	3,022,785	2,995,475	18,225,105	18,428,413	-	44,227,631
Property and equipment	-	-	-	-	-	1,335,929	1,335,929
Deferred tax assets	-	-	-	-	-	399,307	399,307
Retirement benefit asset	-	-	-	-	-	636,282	636,282
Total assets	2,978,414	26,682,843	9,982,383	18,907,606	18,428,413	7,155,118	84,134,777
Customer deposits	39,409,947	20,677,280	3,971,043	724,066	249,152	-	65,031,488
Other liabilities	-	-	-	-	-	1,355,197	1,355,197
Taxation payable	-	-	-	-	-	54,905	54,905
Debt securities in issue	-	3,059,915	-	-	-	-	3,059,915
Retirement benefit obligation	-	-	-	-	-	82,939	82,939
Total liabilities	39,409,947	23,737,195	3,971,043	724,066	249,152	1,493,041	69,584,444
Total interest rate sensitivity gap	(36,431,533)	2,945,648	6,011,340	18,183,540	18,179,261	5,662,077	14,550,333
Cumulative gap	(36,431,533)	(33,485,885)	(27,474,545)	(9,291,005)	8,888,256	14,550,333	-

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example base rate loans.
(2) This includes financial instruments such as equity investments.
(3) This includes non-financial instruments.

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35. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

	Immediately Rate Sensitive(1)	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive(2&3)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2015							
Cash and balances with Central Bank	-	4,028,923	-	-	-	3,860,922	7,889,845
Due from other banks	1,767,613	18,995,293	-	-	-	181,947	20,944,853
Derivative financial instruments	-	-	139	-	-	-	139
Taxation recoverable	-	-	-	-	-	30,034	30,034
Other assets	-	-	-	-	-	202,080	202,080
Investment securities	-	4,240,452	1,003	978,085	-	5,034	5,224,574
Loans and advances to customers	1,688,421	4,603,713	1,598,348	14,916,679	14,776,356	-	37,583,517
Property and equipment	-	-	-	-	-	1,136,335	1,136,335
Deferred tax assets	-	-	-	-	-	567,143	567,143
Retirement benefit asset	-	-	-	-	-	644,486	644,486
Total assets	3,456,034	31,868,381	1,599,490	15,894,764	14,776,356	6,627,981	74,223,006
Customer deposits	33,560,631	16,000,797	5,848,993	297,398	270,182	-	55,978,001
Other liabilities	-	-	-	-	-	1,044,147	1,044,147
Derivative financial instruments	-	-	67	-	-	-	67
Debt securities in issue	-	3,070,705	-	-	-	-	3,070,705
Retirement benefit obligation	-	-	-	-	-	77,164	77,164
Total liabilities	33,560,631	19,071,502	5,849,060	297,398	270,182	1,121,311	60,170,084
Total interest rate sensitivity gap	(30,104,597)	12,796,879	(4,249,570)	15,597,366	14,506,174	5,506,670	14,052,922
Cumulative gap	(30,104,597)	(17,307,718)	(21,557,288)	(5,959,922)	8,546,252	14,052,922	-

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example base rate loans.

(2) This includes financial instruments such as equity investments.

(3) This includes non-financial instruments.

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35. Financial Risk Management (Continued)

(h) Cash flow and fair value Interest rate risk (continued)

Average effective yields by the earlier of the contractual re-pricing or maturity dates:

	2016					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and balances with Central Bank	-	1.20	-	-	-	1.20
Due from other banks	-	0.92	0.75	-	-	0.92
Investment securities[1]	-	6.13	7.50	8.50	-	6.52
Loans to customers [2]	45.75	9.73	6.75	8.03	8.39	9.50
Debt securities in issue	-	8.16	-	-	-	8.16
Customer deposits[3]	0.09	3.37	4.95	6.84	6.16	1.53

	2015					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and balances with Central Bank	-	2.10	-	-	-	2.10
Due from other banks	-	0.35	-	-	-	0.35
Investment securities[1]	-	6.47	7.25	8.19	-	6.80
Loans to customers [2]	44.75	8.44	8.46	7.74	8.9	9.76
Debt securities in issue	-	9.25	-	-	-	9.25
Customer deposits[3]	0.09	2.73	4.84	7.18	6.05	1.40

[1] Yields are based on book values and contractual interest rates adjusted for amortisation of premiums and discounts.
[2] Yields are based on book values, net of allowance for credit losses and contractual interest rates.
[3] Yields are based on contractual interest rates.

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35. Financial Risk Management (Continued)

(i) Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., the exit price).

The determination of fair value requires judgment and is based on market information, where available and appropriate. Fair value measurements are categorized into three levels within a fair value hierarchy (Level 1, 2 or 3) based on the valuation inputs used in measuring the fair value, as outlined below:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities we can access at the measurement date. Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.
- Level 2 - Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation technique where all significant inputs are observable. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.
- Level 3 - Non-observable or indicative prices or use of valuation technique where one or more significant inputs are non-observable.

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

31 October 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment securities:				
Government debt securities	-	5,225,237	-	5,225,237
Total financial assets	-	5,225,237	-	5,225,237

31 October 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment securities:				
Government debt securities	-	5,219,540	-	5,219,540
Derivative financial instruments	-	139	-	139
Total financial assets	-	5,219,679	-	5,219,679
Financial liabilities				
Derivative financial instruments	-	67	-	67
Total financial liabilities	-	67	-	67

There were no transfers between levels in the fair value hierarchy during the year.

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35. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

Financial instruments recorded at fair value

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

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

b) Available-for-sale investment securities
Available-for-sale investment securities valued using a valuation technique or pricing models primarily consist of debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions about liquidity and price disclosure, counterparty credit spreads and sector specific risks.

Fair value of financial instruments not carried at fair value

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

i. Due from other banks
Loans and advances to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. Their carrying values approximate their fair values.

ii. Loans and advances to customers
The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The balances are net of specific and other provisions for impairment.

35. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

Fair value of financial instruments not carried at fair value (continued)

iii. Customer deposits
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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

v. Financial assets and liabilities with carrying values that approximate fair values
For financial assets and liabilities that are liquid or have a short-term maturity, it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits savings accounts without a specific maturity and variable rate financial instruments.

The following tables set out the fair values of the financial instruments of the Bank not shown on the statement of financial position at fair value:

	Carrying value 2016 $'000	Fair value 2016 $'000	Carrying value 2015 $'000	Fair value 2015 $'000
Loans and advances to customers (1)	44,227,631	44,273,682	37,583,517	37,505,525
Customer deposits (1)	65,031,488	65,303,463	55,978,001	56,137,825
Debt securities in issue (2)	3,059,915	3,154,481	3,070,705	3,186,748

(1) These financial instruments are all Level 3 items by level of the fair value hierarchy.
(2) These financial instruments are all Level 2 items by level of the fair value hierarchy.

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the year in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. During 2016, we transferred $44,273,682,000 of loans and advances to customers and $65,303,463,000 of customer deposits from Level 2 to Level 3 due to reduced observability in the inputs used to value these instruments.

Quantitative information about significant non-observable inputs

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

			Range of inputs	
As at 31 October	**Valuation technique**	**Key non-observable inputs**	**Low**	**High**
Loans and advances to customers	Market proxy or direct broker quote	Market proxy or direct broker quote	0%	40%
Customer deposits	Market proxy or direct broker quote	Market proxy or direct broker quote	-	14.5%

36. Critical Accounting Judgements and Estimates in Applying Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance for impairment losses.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provisions should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, concentrations of risks and economic data, country risk and the performance of different individual groups.

(b) Retirement benefit obligation

Accounting for some retirement benefit obligation requires the use of actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. These actuarial assumptions are based on management's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits and comprise both demographic and financial assumptions. This includes assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Variations in the financial assumptions can cause material adjustments in future years, if it is determined that the actual experience differed from the estimate.

(c) Property and equipment

Management exercises judgement in determining whether costs incurred can accrue significant future economic benefits to the Bank to enable the value to be treated as a capital expense.

Further judgement is applied in the annual review of the useful lives and residual values of all categories of property and equipment and the resulting depreciation determined thereon.

36. Critical Accounting Judgements and Estimates in Applying Accounting Policies (Continued)

(d) Income taxes

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

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

(e) Impairment of available-for-sale investments

Management makes judgements at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment.

(f) Fair value of financial instruments

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

37. Employee Share Ownership Plan

Under the employee share ownership plan, qualifying employees can choose each year to have up to 6% of their eligible earnings withheld to purchase common shares in the Parent. The Bank matches 50% of the employee contribution amount, up to a maximum contribution of 6% of eligible earnings, depending upon length of service and job level. The Bank's contributions vest after employees have two years of continuous participation in the plan. All contributions are paid into a trust and used by the plan trustees to purchase common shares in the open market. The Bank's contributions are expensed as incurred and totalled $9,039,000 (2015 - $8,154,000) (Note 25).