CIBC FirstCaribbean International Bank

ANNUAL REPORT

# 2017

BAHAMAS

CIBC FirstCaribbean International Bank

# BAHAMAS 2017 | ANNUAL REPORT

## Inside this report

# Corporate Profile

CIBC FirstCaribbean is a relationship bank offering a full range of market leading financial services through our Corporate and Investment Banking, Retail and Business Banking and Wealth Management segments. We are located in seventeen (17) countries around the Caribbean, providing the banking services that fit our customers' lives through approximately 3,000 employees in 68 branches and offices. We are one of the largest regionally listed financial services institutions in the English and Dutch speaking Caribbean, with over US$12 billion in assets and market capitalization of US$2 billion. We also have an office in Hong Kong. The face of banking is changing throughout the world and CIBC FirstCaribbean intends to lead these changes with the expertise, integrity and knowledge gained from banking in the Caribbean since 1836.

The Bahamas Operating Company comprises operations in the Bahamas and Turks and Caicos Islands where there are fifteen (15) branches and agencies, fifty-eight (58) Instant Teller Machines, and Wealth Management and Corporate Investment Banking centres spread over New Providence, Grand Bahama, Abaco, Eleuthera and the Turks and Caicos Islands.

## Vision

To be the leader in client relationships – we put our clients at the centre of everything we do in order to be the first choice for financial services in the region.

## Mission

To achieve our vision by fulfilling commitments we have made to our stakeholders:

- **Clients** - To deliver to our clients banking that fits their lives
- **Employees** - To create an environment where all employees can excel
- **Communities** - To make a real difference in our communities
- **Shareholders** - To generate strong total returns for our shareholders

Succeeding will mean living by our values – Trust, Teamwork, Accountability – and creating value for all who invest in CIBC FirstCaribbean.

## Values - Trust, Teamwork, Accountability

Values define the character of both individuals and organisations. At CIBC FirstCaribbean, they shape our everyday decisions.

- **Trust** - We believe in, empower and support each other. We act with respect, integrity, honesty and transparency in our relationships with each other and with our clients.
- **Teamwork** - We believe in CIBC FirstCaribbean and work together to promote a sense of pride and purpose in all we do for our clients and for our Bank.
- **Accountability** - We do what we say, because this is what our clients expect and deserve. If we make a mistake, we admit it and fix it.

## Strategic Priorities

We have three key strategic priorities: focusing on our clients, building on our technology base to create a regionally leading digital experience for our clients and simplifying the way we do business.

- **Client Relationships** – We aim to grow our share of wallet with our existing clients, attract new clients, further improve sales and service capability by making it personalized, responsive and easy.
- **Modern Digital Banking Experience** – We are building digital capabilities across our sales and delivery channels to provide our clients with a modern omni-channel, banking experience.
- **Simplification** – We are optimizing our processes and cost structure by simplifying the way we do business. We aim to remove paper from our processes, and we are investing in next generation compliance and frictionless key customer experiences.

# 2017 Highlights

## First for Clients

In 2017, we continued on our mission to strengthen our relationships with our clients across all lines of business. To achieve this, we made several significant investments in enhancing our training programs for employees while also improving our suite of products and service delivery.

As a result, the Bahamas team earned its second consecutive prestigious "Bank of the Year (Bahamas) Award" under The Banker Magazine's annual international financial industry awards program.

## Retail, Business Banking and International Banking

- Our Retail, Platinum and Business Banking team excelled in 2017 and delivered a record-breaking sales performance in spite of many challenges including major hurricanes, prime rate changes and fierce competition.
- We continued to expand our ABM network at key locations in Abaco, Freeport, Grand Bahama, and across New Providence
- We also encouraged the migration of over-the-counter (OTC) transactions to alternate channels and improved the sales-to-service mix.
- Our Senior Relationship Manager for Sales & Platinum Banking and our Mortgage Specialist at Bay Street Branch, were recognized as top producers for the Caribbean.
- Our Governor's Harbour Branch was recognized as the second overall sales performance unit winner across 17 countries.
- Improving our client experience and sales process were major priorities this year. We made technological improvements to our account opening process which allowed us to respond more quickly to the needs of our clients.
- System upgrades continue to make the loan process more efficient and have improved the satisfaction of our business banking clients.
- Additionally, we completed a state-of-the-art renovation of our JFK (RND Plaza) Branch.

## Corporate and Investment Banking

- Corporate & Investment Banking's performance followed a positive trend in all the key areas this year. We continue to offer a superior, solution-oriented customer experience to all clients.

## Wealth Management

- This year, we launched our Investment Advisor platform, which provides clients with access to a dedicated Investment Advisor and world-class tools that allow us to offer personalized portfolio management. This platform is a key tool that helps our wealth management business to continue to differentiate itself from its competitors.

## First for Employees

We placed special emphasis on providing opportunities for learning and development for our employees through a variety of courses offered by the Bank's Learning and Development Team.

- In May, we hosted a number of very successful Employee Appreciation Day activities under the theme "You've Got Our Vote."
- One of our employees received the annual regional Player of the Series award, which is only given to eight members of a team of 3,000 employees.
- One of our employees won the Financial Services Industry 'Professional of the Year' Award from the Bahamas Financial Services Board.

## First for Communities

We continued our legacy of giving and service through several substantial financial and personal donations, in the spirit of putting our community members first.

CIBC FirstCaribbean made a donation of USD 550,000 to countries across the region in partnership with CIBC Canada to aid in their recovery. In the Turks and Caicos Islands (TCI), Country Head, Larry Lawrence, presented a cheque for USD 50,000 to the Turks & Caicos Islands Red Cross on behalf of the bank to assist with the disaster recovery effort there after the country was hit with two category five hurricanes in a matter of weeks.

Employees at our Mall at Marathon and Freeport Branches pooled personal funds to offer donations to members of the TCI team shortly after the last hurricane left the vicinity.

In The Bahamas, we raised over $84,000 through our sixth annual Walk for the Cure fundraising activities. Our TCI team also contributed $15,000, despite their efforts being hampered by the impact of the hurricanes.

Other major donations and volunteerism highlights included:

- A contribution to the AIDS Foundation of the Bahamas to renovate the kitchen used to feed children who participate in the organization's after-school feeding and homework program.
- A significant donation was made to the Bahamas Swimming Federation to assist with the cost of our young athletes competing in the CARIFTA Swimming Championships.
- We contributed to the Salvation Army of The Bahamas to support its community outreach programs.
- The Bank continued its support of Junior Achievement Bahamas organizations in New Providence and Freeport
- We donated to Hands for Hunger to support its Christmas feeding campaign and a national educational forum on child hunger.

- Donations were made to the Bilney Lane Children's Home, Children's Emergency Hostel, Elizabeth Estates Children's Home and the Nazareth Center
- We also supported the Bahamas Primary School Student of the Year program, the Mario Ford Baseball program and youth teams in the JBLN Baseball League and the Freedom Farm Baseball League.

### Financial Performance

We maintained our capital strength, with Tier 1 Capital Ratio at 27%, which is well above regulatory minimum requirements. Our final dividend was $0.17 cents per share.

## 2017 HIGHLIGHTS

### Financial Highlights

| B$(000), except per share amounts, as at or for the year ended October 31 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Common share information** | | | | | |
| Net earnings/(loss) per share-basic (B$ cents) | 63.9 | 58.7 | 55.1 | (122.4) | (11.9) |
| Adjusted net earnings per share (B$ cents) | 66.5 | 58.7 | 55.4 | 34.7 | 26.5 |
| Share price - closing | 8.60 | 8.50 | 8.05 | 8.05 | 7.25 |
| Shares outstanding (thousands) - end of period | 120,216 | 120,216 | 120,216 | 120,216 | 120,216 |
| Market capitalisation | 1,033,858 | 1,021,836 | 967,739 | 967,739 | 871,566 |
| **Value measures** | | | | | |
| Dividend yield (dividends per share/share price) | 3.5% | 3.5% | 3.7% | 3.2% | 4.1% |
| Dividend payout ratio (dividends/net income) | 47.0% | 51.1% | 54.5% | n/m | n/m |
| Adjusted Dividend payout ratio | 46.3% | 51.1% | 54.1% | n/m | n/m |
| **Financial results** | | | | | |
| Total revenue | 180,286 | 173,232 | 172,100 | 177,130 | 168,243 |
| Loans loss impairment expense | 12,308 | 11,446 | 14,934 | 113,831 | 77,502 |
| Impairment of goodwill | - | - | - | 115,000 | - |
| Operating expenses | 91,219 | 91,213 | 90,953 | 95,501 | 104,987 |
| Net income/(loss) | 76,759 | 70,573 | 66,213 | (147,202) | (14,246) |
| Adjusted net income | 79,958 | 70,573 | 66,213 | 41,705 | 31,872 |
| **Financial measures** | | | | | |
| Efficiency ratio (operating expenses/total revenue) | 50.6% | 52.7% | 52.8% | 53.9% | 62.4% |
| Return on equity (net income/average equity)* | 11.4% | 11.2% | 11.4% | (22.9%) | (1.9%) |
| Adjusted return on equity (net income/average equity) | 11.9% | 11.2% | 11.5% | 6.5% | 4.2% |
| Net interest margin (net interest income/average total assets)* | 4.1% | 4.2% | 4.0% | 4.1% | 4.1% |
| **Statement of Financial Position information** | | | | | |
| Loans and advances to customers | 2,072,500 | 2,008,325 | 1,871,361 | 1,982,885 | 2,122,045 |
| Total assets | 3,522,156 | 3,228,934 | 3,277,449 | 3,407,568 | 3,297,493 |
| Customer deposits | 2,750,848 | 2,491,947 | 2,585,806 | 2,766,647 | 2,499,328 |
| Total equity | 693,144 | 655,016 | 607,829 | 554,265 | 728,692 |
| **Balance sheet quality measures** | | | | | |
| Common equity to risk weighted assets | 30% | 31% | 38% | 32% | 37% |
| Risk weighted assets | 2,315,471 | 2,139,821 | 1,614,700 | 1,739,686 | 1,970,197 |
| Tier I Capital ratio | 27% | 27% | 34% | 29% | 28% |
| Tiers I and II Capital ratio | 28% | 27% | 35% | 29% | 29% |
| **Other information** | | | | | |
| Full time equivalent employees (#)* | 514 | 505 | 538 | 594 | 607 |

n/m - Not Meaningful

* - Certain figures shown here do not correspond to the 2016 Consolidated Financial Statements and reflect adjustments made. Refer to note 2.4.

# Building on our momentum

**Marie Rodland-Allen**
Managing Director,
Bahamas and Turks & Caicos Islands

In 2017, the Bahamas Operation of CIBC FirstCaribbean International Bank was named Bank of the Year by The Banker Magazine. This marks the seventh time the Bank has received this prestigious International Industry Award in the last eleven (11) years and was the second consecutive year that the Bank won this award.

### Financial Performance

In Fiscal 2017, the Bank was able to build on its momentum from the previous year. The Bank earned net income of $77 million, an improvement over the $71 million earned in Fiscal 2016, as a result of several factors including a $4 million increase in net interest income due to loan growth.

The Bank achieved a 27% Tier 1 and 28% Total Capital ratio at year end, which are both well above the minimum regulatory requirements.

### Retail and Business Banking

Fiscal 2017 was impacted by hurricanes, governing prime rate changes and competition throughout the market. Nonetheless, the Bank remained resilient and made tremendous strides in improving our franchise and delivering very strong sales results, while enhancing the sales and service experience. Our strategy this year was focused on accelerating profitable growth by building a sustainable sales and service culture across product suites – lending, credit cards, deposits and insurance – and improving operational efficiency. Our strategy also included improving our operating model by encouraging the migration of over-the-counter (OTC) transactions to alternate channels and improving the sales to service mix to enhance operational efficiency and sales capacity.

Our Senior Relationship Manager Sales and Platinum Banking Manager and the Mortgage Specialist at our Bay Street Branch, were recognized as top producers for the Caribbean. Additionally, our Governors Harbour Branch was recognized as the second overall sales performance unit winner across the seventeen territories in which we operate.

We embraced a state of the art renovation of our JFK Branch location, to create a truly customer centric ambiance and digitization of alternate services.

In keeping in line with the goal of ensuring accessibility of banking services to clients anywhere in the Bahamas, we continued to expand our Instant Teller (Automated Banking Machine/ABM) footprint through the introduction of new access points in Freeport, Grand Bahama, and across New Providence.

### Corporate and Investment Banking

The Corporate & Investment Banking performance was positive in all the key areas, as productive loans and operating profitability increased over prior year.

This was achieved through our continued focus on our customers' banking experiences and increased velocity in our end to end loan process. We continue to offer our customers value added financing and banking solutions with customized debt options to address their various financing needs.

2018 fiscal will be no different; our customers will continue to remain at the center of everything we do. We will seek to raise the bar and continue offering a superior customer experience which will be solution-oriented in the areas of financing, day to day banking and technological advancements.

### Private Wealth Management

In 2017, we continued to build sustainable, dedicated client relationships that are personalized and responsive using our knowledge of the local and international markets. We do this through our integrated client service model, using our strengths in trust & wealth planning, core banking, investment advice and discretionary portfolio management to ensure we deliver a holistic approach to our client's needs, as demonstrated when we were selected by World Finance as the Best Wealth Management Provider in the Bahamas.

Our experience in building strong, long-term client relationships enables us to increase share of wallet by retaining our existing clients and attracting additional wealth management business across the four pillars.

In 2017 we launched our Investment Advisor platform providing clients with access to a dedicated Investment Advisor and access to world class tools to provide personalized portfolio management. The platform provides advisors with access to global research, new issues, key market data and international equities, fixed income and mutual funds. The mobile app provides advisors access to real time client information and market data regardless of where they are, further providing clients with up to date, responsive service. This platform is a key tool that helps our wealth management business continue to differentiate itself in terms of client focus and service offering.

### Community Partnership

Through our signature event, Walk for the Cure, our teams raised $84,000 in the Bahamas and $15,000 in the Turks and Caicos Islands (TCI). As in previous years, the proceeds from the 2017 Walk were donated to eight cancer support organizations across the Bahamas and two groups in TCI. For the fourth consecutive year, a record number of corporate clients sponsored the event and participated in the Walk on Sunday, October 1st. I would like to sincerely thank all of our team members for donating time and energy for this very worthy cause and our corporate sponsors who made a significant impact on our fundraising efforts.

This year, the Turks and Caicos Islands were directly impacted by two Category Five Hurricanes within a two week period. Our TCI operations made a $50,000 donation to the Turks and Caicos Islands Red Cross to assist with the country's recovery efforts.

Through our Comtrust Foundation, we continued our corporate giving throughout the communities in the Bahamas and Turks and Caicos Islands with focus on the following areas: Health and Wellness, Youth Empowerment & Education, Community & Environment and Staff Volunteerism.

Donations were made to a large number of organisations such as The Bahamas Feeding Network, Hands for Hunger and the Salvation Army. A sizeable donation was made to the Bahamas Swimming Federation to assist with their participation in the Carifta Swimming Championships.

We continued our support of the Junior Achievement company managed by employee volunteers at our branch in Freeport, Grand Bahama and also contributed to the Junior Achievement scholarship program.

Contributions were made to the annual summer program as well as other programs aimed at educating and empowering our youth. Donations were made to all of the Class A and Class B Junkanoo Groups to assist with defraying the cost of participating in the Boxing Day and New Year's Eve Junkanoo parades.

Our team members generously donated their time and talent to participate in several successful Adopt-A-Cause initiatives this year. Employee volunteers also assisted with the serving of food and the distribution of care packages at the Salvation Army's annual Christmas luncheon and assisted organized youth clubs in the Bahamas.

### People

Our focus as a business continues to be that of providing our clients a Personalised, Responsive and Easy banking experience. Success and achievement of these goals are being constantly realized through the immediate adaptation of new technology where processes are being enhanced, products and services improved and our people inspired to go above and beyond to successfully meet the goals of the business.

We provided opportunities for employee development via the courses offered by the Learning and Development team.

Recognition of employees continued steadfastly throughout the year via the Bank's Achiever's Program and, overall, one of our employees was a recipient of the annual Player of the Series award that is only given to eight persons across the region. Externally, the Bank took advantage of the opportunity to recognize three of its top performers through the Financial Services Industry Excellence Awards program hosted by the Bahamas Financial Services Board and one of those three employees was the winner in the 'Professional of the Year' category.

Moreover, to keep our people focused, engaged and energized to bring about an environment of harmony and consistent success, various initiatives were implemented. These initiatives comprised engagement visits to the business units in the Bahamas and Turks and Caicos Islands where individuals were able to receive refresher courses on benefits offered by the Bank, wellness initiatives that covered Cancer Awareness and educational presentations to assist persons with their personal and professional development. The celebration of International Women's Day was a part of the myriad of activities that employees enjoyed during the course of the year.

"You've Got Our Vote" was the theme for the annual 'Employee Appreciation Day' and was well received by the celebrated Bank employees.

Appreciation

We anticipate that Fiscal 2018 will be an even brighter year for the Bank. We will continue to improve our employees' capabilities and products to provide improved customer experiences. It is my pleasure to thank the Board of Directors, management, staff, shareholders and our clients for their continued support over the years.

Marie Rodland-Allen
Managing Director

# THE BOARD OF DIRECTORS

**Colette Delaney**
Chief Operating Officer and Managing Director
and Head of Regional Country Management,
Marketing and Strategy

**Gary Brown**
Chief Executive Officer

**Marie Rodland-Allen**
Managing Director,
Bahamas and
Turks and Caicos Islands

**Trevor Torzsas**
Managing Director,
Cards and Customer
Relationship Management

**Felix Stubbs**
District Governor of
Rotary International

**Willie Moss**
Attorney-at-Law

**G. Diane Stewart**
Attorney-at-Law

# SENIOR MANAGEMENT AND ADVISORS

Pictured seated, left to right, are:

Gezel Farrington
Director, Retail Banking Channels

Marie Rodland-Allen
Managing Director,
Bahamas and Turks & Caicos Islands

Raymond Donaldson
Director,
Corporate & Investment Banking

Standing, left to right, are:

Robert Cox
Associate Director,
Client Credit Management

Antionette Turnquest
Head of Human Resources,
Bahamas and Turks & Caicos Islands

Glenda Whylly
Senior Manager,
Managing Director's Office

Stacia Williamson
Controller & Chief
Financial Officer

Sherrylyn Bastian
Legal Counsel
and Corporate Secretary

Andrew Hanna
Senior Manager,
Data Center Operations

*Missing from photo:*

Beulah Arthur
Country Treasurer

Gaye Dean
Manager Technology,
Operations & Corporate Services

## Registered Office

FirstCaribbean International Financial Centre
2nd Floor, Shirley Street
Nassau, The Bahamas

## Regional Audit & Governance Committee

Paula Rajkumarsingh – Chair
David Ritch
Lynne Kilpatrick
Sir Allan Fields
G. Diane Stewart
Rik Parkhill
Lincoln Eatmon

## Auditors

Ernst & Young

## Legal Advisors

Harry B. Sands, Lobosky & Company
McKinney, Bancroft & Hughes

## Registrar and Transfer Agents

CIBC Trust Company (Bahamas) Limited

**Management's discussion and analysis (MD&A) is provided to enable readers to assess CIBC FirstCaribbean's financial condition and results of operations as at and for the year ended October 31, 2017, compared with prior years. The MD&A should be read in conjunction with the audited consolidated financial statements included in this Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are expressed in thousands of Bahamian dollars. Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.**

## Overview

FirstCaribbean International Bank Limited is a leading Caribbean financial institution providing individual and business clients with a full range of products and services through our four (4) segments – Retail and Business Banking, Corporate and Investment Banking, Wealth Management and Administration.

The business segments are supported by the Administration segment which includes Finance, Human Resources, Risk, Technology & Operations, Treasury, and other support units. Highlights and commentary on business segments can be found in 2017 Highlights Section of this annual report.

The following discussion and analysis is based on the Bank's overall results and financial position with commentary referring to segments and geographic operations when deemed relevant.

## Nature of the business

The Bank offers traditional banking solutions for what matters to its clients in the markets in which it operates. It maintains capital well in excess of the regulatory minimum requirements and deploys this capital together with other deposits in interest earning assets within its managed risk appetite. The Bank operates and is regarded as one of the largest banks in two main geographic markets - The Bahamas and Turks and Caicos Islands. The macroeconomic environments in these territories influence the Bank and its results. The Bank is also affected by the global macroeconomic environment to the extent they affect the drivers of financial risks to which the Bank is exposed such as credit and liquidity risk and other market risks such as currency risk, interest rate risk and other pricing risk.

## Objectives and strategies

The Bank continues to focus on three strategic priorities to address market trends: Focusing on our clients relationships, building our technology base to create a regionally leading digital experience for our clients and simplifying the way we do business.

## Resources, risks and relationships

The most important resources and relationships available to the Bank are driven by its clients, employees, communities (including its regulators) and its shareholders. Over the years, the Bank has developed these resources and relationships to synergistically deliver banking that fits our clients' lives.

Using the capital provided by shareholders and other funding from clients, the Bank, through the work of its employees is able to provide a stable affordable source of funding to its clients, contributing to building the communities in which the Bank resides.

The risks faced by the Bank (including credit, market, compliance, operational, and liquidity) and our approach to managing these risks are discussed further under the heading "Risk Management Approach" in this discussion and analysis section.

## Review of results, performance measures and indicators

## Review of the Consolidated Statement of Income

**Highlights**

| B$ thousands except per share amounts, as at or for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Total revenue | 180,286 | 173,232 |
| Net income | 76,759 | 70,573 |
| Adjusted net income | 79,958 | 70,573 |
| Total assets | 3,522,156 | 3,228,934 |
| Basic earnings per share (cents) | 63.9 | 58.7 |
| Adjusted Basic earnings per share (cents) | 66.5 | 58.7 |
| Dividend per share | 30.0 | 30.0 |
| Closing share price per share (cents) | 8.60 | 8.50 |
| Return on equity | 11.4% | 11.2% |
| Adjusted Return on equity | 11.9% | 11.2% |
| Efficiency | 50.6% | 52.7% |
| Tier I capital ratio | 27% | 27% |
| Total capital ratio | 28% | 27% |

Net income for the year was $77 million, compared to $71 million in 2016.

The results for both years were affected by certain significant items as follows:

### 2017

- $4 million increase in net interest income primarily due to loan growth and the prime rate reduction
- $3 million increase in operating income primarily due to higher service-based fees

### 2016

- $3 million decrease in loan loss impairment expense due to improvement in loss experience and recovery activity

Excluding $3 million in non-recurring loan loss impairment expense and other costs related to the impact of Hurricanes Irma and Maria, adjusted net income was $80 million.

The components of $3 million is as follows:
- Loan loss impairment expense $3 million
- Asset write down and relief costs $0.3 million

There were no adjusting items in 2016.

## Net interest income and margin

| B$ thousands for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Average total assets | 3,375,545 | 3,253,192 |
| Net interest income | 138,814 | 135,075 |
| Net interest margin | 4.11% | 4.15% |

Net interest income increased year on year by $3.7 million (2.8%) largely caused by higher productive loan interest earnings, offset by margin compression and mandated Bahamas prime rate reduction.

## Operating income

| B$ thousands for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Fee & commission income | 29,780 | 26,901 |
| Foreign exchange earnings | 10,894 | 9,656 |
| Net (losses)/gains | (146) | 898 |
| Other | 944 | 702 |
| | 41,472 | 38,157 |

Operating income increased year on year by $3.3 million (8.7%) primarily due to higher foreign exchange earnings and service based fees.

## Operating expenses

| B$ thousands for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Remuneration and benefits: | | |
| Wages and salaries | 22,950 | 24,070 |
| Benefits | 6,301 | 7,677 |
| | 29,251 | 31,747 |
| Business license | 8,617 | 8,662 |
| Occupancy and maintenance | 10,437 | 11,470 |
| Depreciation | 4,532 | 3,101 |
| Communications | 2,380 | 2,323 |
| Professional and management fees | 22,468 | 22,027 |
| Other | 13,534 | 11,883 |
| | 91,219 | 91,213 |

Operating expenses were relatively flat primarily due to higher outside services costs, offset by lower staff costs, mainly relating to the post-retirement benefits plans.

## Loan loss impairment

| B$ thousands for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Individual impairment | | |
| Mortgages | (207) | (940) |
| Personal loans | 971 | 7,252 |
| Business & Government | 8,382 | 3,766 |
| | 9,146 | 10,078 |
| Collective impairment charge | 3,162 | 1,368 |
| | 12,308 | 11,446 |

Loan loss impairment increased by $0.9 million (8%) year on year. The collective allowances increased by $2 million due to a non-recurring provision related to hurricanes Irma and Maria.

The ratio of loan loss impairment to gross loans was 0.6% compared with 0.5% at the end of 2016. Non-performing loans to gross loans declined to 6.8% at the end of 2017 compared to 8.9% at the end of 2016.

## Review of the Consolidated Statement of Comprehensive Income

| B$ thousand for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Net income for the year | 76,759 | 70,573 |
| Other comprehensive income | | |
| Net (losses)/gains on available-for-sale investment securities | (7) | 1,678 |
| Re-measurement (losses)/gains on retirement benefit plans | (2,560) | 11,000 |
| Other comprehensive (loss)/income for the year | (2,567) | 12,678 |
| Comprehensive income for the year | 74,192 | 83,251 |

Other comprehensive income decreased year on year as a result of a reduction in re-measurement gains on the pension plans. Conversely, there were net gains from investment securities compared with losses in the prior year, due primarily to higher fair values in the current year.

## Review of the Consolidated Statement of Financial Position

| B$ millions for the year ended October 31 | 2017 | 2016 |
|---|---|---|
| Assets | | |
| Cash & balances with The Central | | |
| Bank and due from banks | 512,736 | 407,943 |
| Investment securities | 799,966 | 678,072 |
| Loans and advances: | | |
| Mortgages | 1,013,870 | 1,022,511 |
| Personal | 208,775 | 205,728 |
| Business & Government | 965,500 | 918,386 |
| Provision for impairment (net of recoveries and write-offs) | (119,917) | (146,341) |
| Interest receivable | 14,130 | 19,173 |
| Unearned fee income | (9,858) | (11,132) |
| | 3,385,202 | 2,008,325 |
| Other assets | 136,954 | 134,594 |
| | 3,522,156 | 3,228,934 |
| Liabilities and Equity | | |
| Customer deposits | | |
| Individuals | 877,587 | 813,389 |
| Business & Government | 1,590,409 | 1,409,100 |
| Banks | 280,286 | 267,044 |
| Interest payable | 2,566 | 2,414 |
| | 2,750,848 | 2,491,947 |
| Other liabilities | 78,164 | 81,971 |
| Equity | 693,144 | 655,016 |
| | 3,522,156 | 3,228,934 |

Total assets increased by $293 million (9.1%) primarily due to increased securities, higher cash & balances with banks, and increase in loans and advances to customers.

Total liabilities increased by $255 million (9.9%) due to higher customer deposits as a result of increased funds placed by business clients.

Total equity has increased year on year by $38 million (5.8%) due mainly to net income for the year of $77 million, partially of other comprehensive loss of $3 million and dividends of $36 million.

Our capital strength protects our depositors and creditors from risks inherent in our business, allows us to absorb unexpected losses and enables us to take advantage of attractive business opportunities. The Bank continues to maintain strong capital ratios of Tier I and Tier I & II of 27% and 28%, respectively, at the end of 2017, well in excess of regulatory requirements.

## Business Segment Overview

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. During the year, the economic profit/(loss) measure was changed to net income to better align with enterprise-wide financial analysis and capital optimization models. The changes impacted the segment results, however there was no impact on consolidated net income resulting from these reclassifications. Prior period amounts were reclassified accordingly.

Transactions between the business segments are on normal commercial terms and conditions.

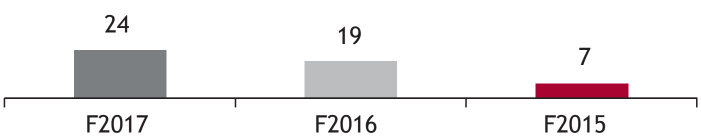
## Retail, Business and International Banking

Retail Banking includes Retail, Business Banking and Cards businesses. Effective November 2015, International Wealth, which was previously reported in Wealth Management, was transitioned to the Retail Banking segment. Prior period disclosures have been amended to conform to this current presentation. Retail and Business Banking provides a full range of financial products and services to individuals, which can be accessed through our network of branches and ABMs, as well as through internet and telephone banking channels, inclusive of our recently launched Mobile Banking App. Business Banking clients are provided with products and services to satisfy their day to day operational and working capital business needs. Cards offering include both the issuing and acquiring business.

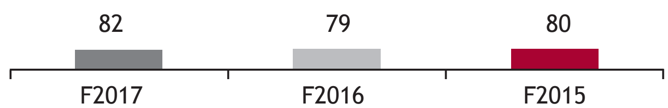
Total revenues increased by $3 million on year as higher loan earnings as a result of higher loan volumes and increased fee income.

Net income increased year on year by $5 million as a result of higher loan volumes and lower indirect expenses.

Net Income ($ Millions)




Total Revenue ($ Millions)




## Corporate and Investment Banking

This segment comprises: Corporate Lending, Investment Banking and Client Solutions Group businesses.

Corporate Lending provides a full range of corporate and commercial banking services to large and mid-size corporate businesses, governments, financial institutions, international trading companies and private wealth vehicles.

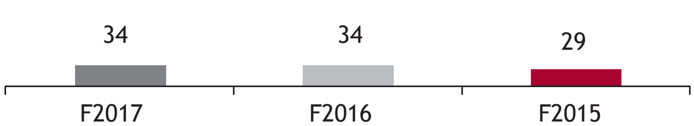
Investment Banking provides debt, equity, capital markets and corporate finance products and services to large corporations, financial institutions and governments.

Clients are also provided with derivative and other risk mitigating products through the Client Solutions Group.

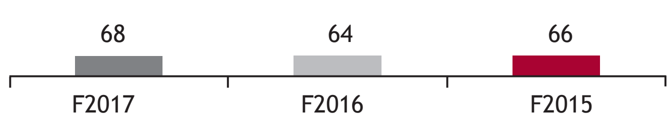
Total revenue increased by $4 million year on year due to higher loan earnings and fee based income. Deposit interest expense declined due to lower fixed deposit balances and rates.

Net income was flat year on year as higher loan earnings were offset by higher indirect expenses.

Net Income ($ Millions)




Total Revenues ($ Millions)



## Wealth Management

Wealth management comprises Private Wealth Management, International Corporate Banking and Investment Management.

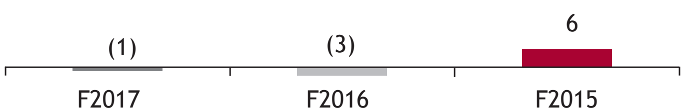
Dedicated wealth management relationship managers provide traditional core banking, complex credit, investment advice, discretionary portfolio management, trust services and wealth planning to the high and ultra-high net worth clients.

International Corporate Banking is a specialised business that facilitates leveraging of legislation and incentives in the international financial services jurisdictions to offer international clients a wide range of products, services and financial solutions.

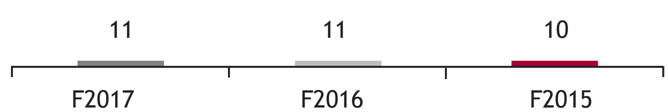
Total revenue was flat year on year as a result of higher spreads on deposits, offset by lower fees and commissions.

Net income increased year on year by $1.5 million driven by higher internal revenue, fees and commision, and lower operating and indirect expenses.

Net income ($ Millions)




Total Revenues ($ Millions)



## Administration

The Administration segment includes Finance, Human Resources, Risk, Technology & Operations, Treasury, and other units, which support the business segments. The revenues and expenses of the functional groups are generally allocated to the business segments. The Administration segment retains earnings on excess capital and the offset to capital charges allocated to the business segments.

Treasury is responsible for balance sheet and liquidity risk management for the Bank. Securities and cash placements are normally held within the Treasury unit included in the Administration segment.

## Risk Management Approach

The Bank assumes a variety of risks in its ordinary business activities. Risk is defined as any event that could: damage the core earnings capacity of the Bank; increase earnings or cash flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations.

The Bank's approach to risk management is based on sound banking principles and a robust governance structure. Risk is managed within tolerance levels established by our management committees and approved by the Board of Directors and its committees (the Board). This is achieved through a comprehensive framework of measurement, monitoring and control policies, procedures and processes. Further information on credit, market and liquidity risks within the Bank can be found in note 26 of the consolidated financial statements.

Primary responsibility for the identification and assessment of risk lies with line management in our various strategic business units. The Risk Management department, which reports to the Chief Risk Officer, develops risk policies and procedures and provides independent oversight, analysis and adjudication through centrally based teams which manage credit risk, market risk, and operational risk.

The Bank's risk management policies and procedures are designed to identify and analyse these risks, to set appropriate risk limits, and to monitor and enhance risk management practices to reflect changes in markets, products and evolving best practice.

A robust control and governance structure is embedded within each strategic business unit. Representatives from Risk Management interact with the senior leadership of each strategic business unit in order to identify and manage risks in the respective businesses. This approach is supported by comprehensive enterprise-wide reporting.

## Credit Risk

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

Credit risk is managed and controlled on the basis of established credit processes and policies operating within a framework of delegated authorities. In addition to approving the Bank's key credit policies and setting credit risk appetites and tolerances, the Finance, Risk and Conduct Review Committee of the Board also delegates credit approval limits to the Credit Committee of the Bank. The Credit Committee is chaired by the Chief Risk Officer. There is appropriate segregation of duties between customer facing functions responsible for originating and managing exposures, the Credit Risk Management function responsible for credit adjudication and oversight, and the Operations function responsible for disbursing loans and safekeeping security.

Credit grading, scoring and monitoring systems facilitate the early identification and management of deterioration in loan quality. Delinquent facilities are subject to separate and additional oversight by specialised loan restructuring teams. Classification is automated and operates strictly in line with regulatory and accounting standards. Credit provisions are independently calculated in accordance with International Financial Reporting Standards (IFRS) for statutory reporting and in accordance with the The Bank and Trust Companies Regulation Act, 2000 to meet regulatory requirements by the central risk and financial controls teams.

## Market Risk

Market risk is the measurement of potential loss arising from adverse movements in interest rates, foreign exchange rates, equity and commodity prices, and credit spread risk in the Bank's investment portfolios. It arises in trading activities, as well as in the natural course of wholesale and retail business. The principal aim of the Bank's market risk management activities is to limit the adverse impact of interest rate and exchange rate movements on profitability and shareholder value and to enhance earnings within defined limits.

The Finance, Risk and Conduct Review Committee of the Board reviews market risk strategy and establishes overall limits. It approves key policies, oversees the measurement, monitoring and control regime, and delegates market risk limits to the Chief Risk Officer.

There is no single risk measure that captures all aspects of market risk. The Bank uses several risk measures including Value at Risk ('VaR'), sensitivity measures and stress testing. Market risks are managed by setting limits based upon the specific markets and products where the Bank is involved, as well as the amount of the Bank's capital at risk. These measurement methodologies utilise international best practice. There is a centralised, dedicated Market Risk Management team charged with the responsibility to ensure that the risk measurement methodologies used are appropriate for the risks being taken and that appropriate measurement, monitoring and control procedures are in place.

## Compliance Risk

Compliance risks are associated with failures to comply with laws, regulations, rules, and the codes of ethics and conduct applicable to our business activities. Such failures can give rise to legal or regulatory sanctions, material financial loss, or a loss of reputation to the Bank.

Primary responsibility for compliance lies with territorial line management. The compliance team within the Risk Management department is tasked with identifying the compliance obligations in each country where the Bank operates. It also provides advice and guidance to the business lines on compliance risks and the development of appropriate policies and procedures to ensure compliance with all legislation and internal code of conduct and ethics policies. It independently assesses and monitors compliance and reports to the Audit & Governance Committee of the Board.

## Operational Risk

The Bank defines operational risk as the measurement of potential loss or damaged reputation from failed or inadequate internal processes, people and systems or from external events. Operational risks are inherent in all activities within the Bank, including in outsourced activities and in all interactions with external parties.

Strong internal governance and controls, including a fraud framework, operational risk testing, and trained staff, is the key to successful operational risk management. Each strategic business unit is primarily responsible for identifying, assessing and managing operational risks in that business unit. An Operational Risk Management team develops and maintains the framework for identifying, monitoring and controlling operational risks and supports each business unit in implementing the framework and raising awareness of operational risks. This team also sets policy and monitors compliance. Operational risk management activities across the Bank are reported regularly to the Audit & Governance Committee and Finance, Risk and Conduct Review Committee.

The Bank's operational risk management framework includes ongoing monitoring through self-assessment of control deficiencies and weaknesses, and the tracking of incidents and loss events to ensure that, once identified, control deficiencies are communicated and remedied in a timely fashion across the Bank.

## Liquidity Risk

Liquidity risk is defined as the risk that the Bank will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at an unacceptably high cost. The Bank is exposed to liquidity risk through our general funding activities and in the management of our assets and liabilities.

The Bank's exposure to liquidity risk is governed by a Liquidity Management Policy and Framework approved by the Board. The operation of the policy is delegated to Management in the form of the Asset and Liability Team (ALCT). The Bank and individual operating company ALCT are responsible for monitoring liquidity risk and adherence to the Liquidity Management Policy. Day-to-day management of liquidity is handled by the Treasury team.

The Bank performs stress tests and scenario analyses to evaluate the impact of stresses on its liquidity position. These tests are at both a Bank specific and systemic risk level. The results are independently reviewed by the market risk function and reported to the Board quarterly.

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# Independent Auditor's Report

The Shareholders and Directors
FirstCaribbean International Bank (Bahamas) Limited

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of FirstCaribbean International Bank (Bahamas) Limited (the Bank) which comprise the consolidated statement of financial position as at October 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key Audit Matter | How our Audit Addressed the Key Audit Matter |
|---|---|
| ***Allowance for Loan Losses*** | |
| Related disclosures in the financial statements are included in Note 2.4, Significant accounting policies, Impairment of financial assets - Loans and receivables, Note 8, Loans and advances to customers and Note 26, Financial risk management.<br><br>This is a key audit matter since it requires the application of judgement and use of subjective assumptions by management. The assessment of impairment involves the use of assumptions including the financial condition of the counterparty, the estimated timing and amount of expected future cash flows, valuation of collateral and the time and costs of collection of such collateral. Additionally, the use of different models in the determination of the specific and collective allowance could result in significantly different estimates. Management continually assesses the assumptions and models used to take account of current economic and real estate market conditions.<br><br>The associated risk management disclosure is also complex and dependent upon high quality data. | • We assessed and tested the design and operating effectiveness of controls over individual and collective loan impairment calculations and the quality of underlying data and respective applications.<br><br>• We evaluated management's methodologies and calculations for establishing the individually assessed (specific) allowance for credit losses and assessed the adequacy of the allowance established by reviewing a sample of loan files.<br><br>• We involved our internal real estate specialists to assess the methodology used and values obtained for third party valuations of the underlying real estate held as collateral for loans. We also utilized our internal specialists to test the application and general controls over the respective systems used in generating data.<br><br>• We reviewed the collective allowance methodology and its application in comparison to the Bank's internal policies and requirements of International Accounting Standard 39, *Financial Instruments: Recognition and Measurement (IAS 39).* We reviewed the accuracy of the inputs used in the model, including management's assumptions and management's review of the outputs of the model.<br><br>• We assessed the adequacy of the disclosures in the financial statements including credit risk disclosures in Note 26. |

| Key Audit Matter | How our Audit Addressed the Key Audit Matter |
|---|---|
| ***Goodwill*** | |
| Related disclosures in the financial statements are included in Note 2.4, Summary of significant accounting policies, Goodwill and Note 11, Goodwill.<br><br>Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary undertaking and in accordance with IAS 36, management is required to annually test goodwill for impairment. Goodwill is deemed to be impaired if the carrying amount of a cash generating unit (CGU) to which goodwill has been allocated, is in excess of its recoverable amount.<br><br>This is a key audit matter since impairment testing requires significant estimation and judgement relative to assumptions used for projected cash flows for CGUs (e.g. growth rates, terminal values and discount rates).<br><br>This impairment testing is sensitive to variations in estimates and assumptions that can result in significantly different conclusions. | • We reviewed key assumptions used by management in the cash flow projections and discount rates. We compared these assumptions to historical performance, growth rates in light of future economic conditions and independent sources of information.<br><br>• We evaluated the impairment testing methodology and related financial statement disclosures in comparison to the requirements of International Accounting Standard 36, Impairment of Assets.<br><br>• We assessed the sensitivity of the assumptions to reasonable possible changes that could result in the carrying value of CGU exceeding its recoverable amount.<br><br>• We assessed the accuracy of management's historic forecasting performance in light of actual results.<br><br>• We involved an internal valuation specialist to assist us in evaluating the methodology and assumptions used by management in performing the impairment test. |
| ***Fair value of investment securities, derivative financial instruments and hedge accounting*** | |
| Related disclosures in the financial statements are included in Note 2.4, Derivative financial instruments and hedge accounting, available-for-sale financial assets and impairment of financial assets – AFS debt instruments and AFS equity instruments, Note 5, Derivative financial | • We tested the effectiveness of controls over valuation and monthly hedge effectiveness in comparison with the requirements of IAS 39.<br><br>• We reviewed the market prices applied to the Bank's debt securities by comparing the prices used to an independent external source and reviewed management's assessment for |

| Key Audit Matter | How our Audit Addressed the Key Audit Matter |
|---|---|
| instruments, Note 7, Investment securities and Note 26, Financial risk management.<br><br>This is a key audit matter due to the complexity of valuation models used to determine fair value of financial instruments with higher estimation uncertainty, comprising of derivative financial instruments and investment in government and other debt securities having a carrying value of $487m. These valuation models can be subjective in nature and involve observable and unobservable data and various assumptions. The use of different valuation techniques and assumptions could result in significantly different estimates of fair value. Inaccurate application of hedge accounting rules could result in incorrect classification and could have a significant impact on the statement of comprehensive income.<br><br>The associated risk management disclosure is also complex and dependent upon high quality data. | impairment indicators and recoverable value in comparison to the requirements of IAS 39.<br><br>• We involved internal valuation specialists who tested the hedge effectiveness and the fair value of all derivatives held by the Bank. We also used internal valuation specialists to assess the fair value of investment securities which did not have observable market prices.<br><br>• We assessed the adequacy of the disclosures in the financial statements, including the disclosure of valuation sensitivity and the fair value hierarchy in Note 33. |

**Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements**

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with management and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Tiffany Norris-Pilcher.

Ernst + Young

January 19, 2018

## Consolidated Statement of Financial Position

As at October 31
(Expressed in thousands of Bahamian dollars)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Assets | | | |
| Cash and balances with The Central Bank | 3 | $ 148,075 | $ 114,774 |
| Due from banks | 4 | 364,661 | 293,169 |
| Derivative financial instruments | 5 | 366 | 362 |
| Other assets | 6 | 13,256 | 4,917 |
| Investment securities | 7 | 799,966 | 678,072 |
| Loans and advances to customers | 8 | 2,072,500 | 2,008,325 |
| Property and equipment | 9 | 27,975 | 28,414 |
| Retirement benefit assets | 10 | 22,610 | 28,154 |
| Goodwill | 11 | 72,747 | 72,747 |
| Total assets | | $ 3,522,156 | $ 3,228,934 |
| | | | |
| Liabilities | | | |
| Derivative financial instruments | 5 | 8,918 | 17,333 |
| Customer deposits | 12 | 2,750,848 | 2,491,947 |
| Other liabilities | 13 | 55,879 | 49,174 |
| Retirement benefit obligations | 10 | 13,367 | 15,464 |
| Total liabilities | | $ 2,829,012 | $ 2,573,918 |
| | | | |
| Equity | | | |
| Issued capital | 14 | 477,230 | 477,230 |
| Reserves | 14 | (13,194) | (14,326) |
| Retained earnings | | 229,108 | 192,112 |
| Total equity | | 693,144 | 655,016 |
| Total liabilities and equity | | $ 3,522,156 | $ 3,228,934 |

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors on January 19, 2018, and signed on its behalf by:

Marie Rodland-Allen
Managing Director

I. S. Stewart
Director

## Consolidated Statement of Income

For the year ended October 31
*(Expressed in thousands of Bahamian dollars)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Interest and similar income | | $ 149,254 | $ 146,708 |
| Interest and similar expense | | 10,440 | 11,633 |
| Net interest income | 15 | 138,814 | 135,075 |
| Operating income | 16 | 41,472 | 38,157 |
| | | 180,286 | 173,232 |
| Operating expenses | 17 | 91,219 | 91,213 |
| Loan loss impairment | 8 | 12,308 | 11,446 |
| | | 103,527 | 102,659 |
| Net income for the year | | $ 76,759 | $ 70,573 |
| Basic and diluted earnings per share (expressed in cents per share) | 18 | 63.9 | 58.7 |

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended October 31
*(Expressed in thousands of Bahamian dollars)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Net income for the year | | $ 76,759 | $ 70,573 |
| Other comprehensive income: | | | |
| Other comprehensive income/(loss) to be reclassified to net income or loss in subsequent periods: | | | |
| Net (losses)/gains on available-for-sale investment securities | 20 | (7) | 1,678 |
| Other comprehensive income/(loss) not to be reclassified to net income or loss in subsequent periods: | | | |
| Re-measurement (losses)/gains on retirement benefit plans | 10 | (2,560) | 11,000 |
| Other comprehensive (loss)/income for the year | | (2,567) | 12,678 |
| Comprehensive income for the year | | $ 74,192 | $ 83,251 |

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Statement of Changes in Equity

For the year ended October 31
*(Expressed in thousands of Bahamian dollars)*

| | Notes | Issued capital | Reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| As at November 1, 2015 | | $ 477,230 | $ (30,602) | $ 161,201 | $ 607,829 |
| Net income for the year | | - | - | 70,573 | 70,573 |
| Other comprehensive income for the year | | - | 12,678 | - | 12,678 |
| Total comprehensive income | | - | 12,678 | 70,573 | 83,251 |
| Dividends | 19 | - | - | (36,064) | (36,064) |
| Transfer to statutory reserve fund – Turks & Caicos Islands | 14 | - | 3,598 | (3,598) | - |
| Balance at October 31, 2016 | | 477,230 | (14,326) | 192,112 | 655,016 |
| Net income for the year | | - | - | 76,759 | 76,759 |
| Other comprehensive loss for the year | | - | (2,567) | - | (2,567) |
| Total comprehensive income | | - | (2,567) | 76,759 | 74,192 |
| Dividends | 19 | - | - | (36,064) | (36,064) |
| Transfer to statutory reserve fund – Turks & Caicos Islands | 14 | - | 3,699 | (3,699) | - |
| Balance at October 31, 2017 | | $ 477,230 | $ (13,194) | $ 229,108 | $ 693,144 |

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Statement of Cash Flows

**For the year ended October 31**
(Expressed in thousands of Bahamian dollars)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net income for the year | | $ 76,759 | $ 70,573 |
| | | | |
| Adjustments to reconcile net income to net cash from/ (used in) operating activities | | | |
| Loan loss impairment | 8 | 12,308 | 11,446 |
| Depreciation of property and equipment | 9 | 4,532 | 3,101 |
| Net write-off of property and equipment | | 266 | - |
| Net losses/(gains) on sale and redemption of investment securities | 16 | 16 | (827) |
| Interest income on investment securities | 15 | (23,546) | (23,258) |
| Net hedging gains | 5 | (1,231) | (1,041) |
| Interest expense on derivative financial instruments | 15 | 2,020 | 3,425 |
| Net cash flows from net income before changes in operating assets and liabilities | | 71,124 | 63,419 |
| | | | |
| - net decrease/(increase) in due from banks greater than 90 days | 4 | 13,201 | (2,409) |
| - net (increase)/decrease in mandatory reserves with The Central Bank | 3 | (4,870) | 992 |
| - net increase in loans and advances to customers | | (76,483) | (148,320) |
| - net (increase)/decrease in other assets | | (2,799) | 10,129 |
| - net increase/(decrease)in customer deposits | | 258,901 | (93,859) |
| - net decrease in other liabilities | | (5,738) | (1,724) |
| Net cash from/(used in) operating activities | | 253,336 | (171,772) |
| | | | |
| Cash flows from investing activities | | | |
| Purchases of property and equipment | 9 | (4,359) | (6,187) |
| Purchases of investment securities | 7 | (775,678) | (705,818) |
| Proceeds from sale and redemption of investment securities | 7 | 653,652 | 810,606 |
| Interest income received on investment securities | | 23,655 | 23,290 |
| Interest paid on derivative financial instruments | | (1,418) | (3,118) |
| Net cash (used in)/from investing activities | | (104,148) | 118,773 |
| | | | |
| Cash flows from financing activities | | | |
| Dividends paid | 19 | (36,064) | (36,064) |
| Net cash used in financing activities | | (36,064) | (36,064) |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 113,124 | (89,063) |
| Cash and cash equivalents, beginning of year | | 265,713 | 354,776 |
| Cash and cash equivalents, end of year | 3 | $ 378,837 | $ 265,713 |

The accompanying notes are an integral part of the consolidated financial statements.

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

## Note 1 Corporate Information

FirstCaribbean International Bank (Bahamas) Limited (the "Bank") was formerly named CIBC Bahamas Limited ("CIBC Bahamas") and was controlled by Canadian Imperial Bank of Commerce (CIBC), a company incorporated in Canada. The Bank changed its name to FirstCaribbean International Bank (Bahamas) Limited on October 11, 2002, following the combination of the retail, corporate and offshore banking operations of Barclays Bank PLC in The Bahamas and the Turks & Caicos Islands ("Barclays Bahamas") and CIBC Bahamas. The Bank is incorporated in The Commonwealth of The Bahamas and is licensed to carry on banking and other related activities.

The Bank is a subsidiary of FirstCaribbean International Bank Limited (the "Parent" or "FCIB"), a company incorporated and domiciled in Barbados, which owns 95.2% of the Bank. The Parent and its subsidiaries (collectively, the "Parent Group") is owned by CIBC (the "Ultimate Parent"), a company incorporated in Canada. From October 11, 2002, the major shareholders of FirstCaribbean International Bank (Bahamas) Limited were jointly CIBC and Barclays Bank PLC, ("Barclays"), a company incorporated in England. On December 22, 2006, CIBC acquired Barclays' interest in the Parent and now owns 91.7% of the shares of FirstCaribbean International Bank Limited.

The registered office of the Bank is located at the FirstCaribbean Financial Centre, 2nd Floor, Shirley Street, Nassau, The Bahamas. The Bank is listed on the Bahamas International Securities Exchange ("BISX").

These consolidated financial statements have been authorised for issue by the Board of Directors on January 19, 2018. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

## Note 2 Basis of Preparation and Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale ("AFS") investment securities, financial assets and liabilities at fair value through the profit or loss and derivative financial instruments, which have all been measured at fair value. The carrying values of recognised assets that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The consolidated financial statements are presented in Bahamian dollars, and all values are rounded to the nearest thousand except where otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements.

#### Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at October 31, 2017 (the "reporting date"). The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

#### Subsidiaries

All subsidiaries, which are those companies controlled by the Bank, have been fully consolidated. The principal subsidiaries of the Bank are disclosed in Note 28.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has: 1) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); 2) Exposure, or rights, to variable returns from its involvement with the investee; and 3) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including: 1) The contractual arrangement with the other vote holders of the investee; 2) Rights arising from other contractual arrangements; and 3) The Bank's voting rights and potential voting rights.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

All inter-company transactions, balances and unrealised surpluses and deficits on transactions and balances have been eliminated. Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

### 2.2 Significant accounting judgments and estimates

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

Estimates and judgments 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 14
- Financial risk management and policies – Note 26
- Sensitivity analysis disclosures – Notes 10, 26

The estimates and judgments 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.

#### 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.

#### 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 consolidated statement of income. In particular, judgment 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 judgments about the borrower's financial situation and the net realisable value of the 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.

## Retirement benefit obligations

Accounting for some retirement benefit obligations requires the use of actuarial techniques to make a reliable estimate of the amount of benefits 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.

In determining the appropriate discount rate, management considers the interest rates of government bonds, in the absence of corporate bonds, in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about pension obligations are given in Note 10.

## Taxes

### Income taxes

The Bank is not subject to income taxes in The Bahamas and the Turks and Caicos Islands.

### Value Added Tax (VAT)

Effective January 1, 2015, the Government of The Commonwealth of The Bahamas implemented a value added tax (VAT). VAT is an indirect tax which is considered a broadly based consumption tax charged on the value added to goods and services. It applies to almost all goods and services that are imported, bought and sold for use or consumption. Conversely, exported goods and services supplied to customers abroad are exempted or zero-rated. Currently, VAT is assessed at 7.5%. The Company is a VAT registrant.

## Impairment of available-for-sale investments

Management makes judgments 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.

## Goodwill

In accordance with International Accounting Standards ("IAS") 36, goodwill is reviewed for impairment annually using the "value in use" method. This requires the use of estimates for determination of future cash flows expected to arise from each cash-generating unit and an appropriate discount rate to calculate present value.

## Going Concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

## 2.3 Adoption of new accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of those impacted by new and amended standards and interpretations.

### New and amended standards and interpretations

There were no new standards and amendments which apply for the first time in 2017 that affect the annual consolidated financial statements of the Bank.

## 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### Foreign currency translation

The consolidated financial statements are presented in Bahamian dollars, which is the Bank's functional and presentational currency.

### Transactions and balances

Transactions in foreign currencies are initially recorded by the Bank at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at rates prevailing at the reporting date and non-monetary assets and liabilities are translated at historic rates. Revenue and expenses denominated in foreign currencies are translated into the Bank's functional currency using prevailing average monthly exchange rates. Realised and unrealised gains and losses on foreign currency positions are reported in income of the current year. Translation differences on non-monetary items, such as equities classified as available-for-sale securities, are included in the available-for-sale revaluation reserve in equity.

### Derivative financial instruments and hedge accounting

#### Initial recognition and subsequent measurement

The Bank uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its foreign currency risks and interest rate risks, respectively. 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 consolidated statement of income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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.

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:

• 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 the hedged risk, changes in the fair value of the derivatives are recorded in the consolidated 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.

• 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 consolidated statement of income. Amounts accumulated in other comprehensive income are recycled to the consolidated 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 consolidated 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 consolidated 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 gains or losses within operating income.

## Interest income and expense

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the original effective interest rate for the purpose of measuring impairment loss.

## Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Origination fees for loans which have a high probability of being drawn are deferred (together with related direct costs) and recognised as an adjustment to the effective interest yield on the loan. Commissions and fees arising from 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. Asset management fees related to investment funds are recognised proportionately 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.

## Customer loyalty programs

The Bank offers customer points programs through its Credit Card products. A portion of the net fee revenues are deferred in relation to award credits under customer loyalty programs 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 are expired.

## Financial instruments

The Bank recognises financial instruments on its consolidated 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:

- Financial assets at fair value through profit or loss;
- Loans and receivables; or
- Available-for-sale investment securities

Management determines the classification of its investments at initial recognition.

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

### Financial assets and liabilities at fair value through profit or loss

This category comprises financial assets or liabilities held for trading. A financial asset or liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Management may designate a financial asset or liability at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

### Loans and receivables

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

### Available-for-sale investment securities

Available-for-sale investment securities 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.

## Recognition

All purchases and sales of financial assets at fair value through profit or loss and available-for-sale instruments that require delivery within the timeframe established by regulation or market convention (“regular way” purchases and sales) are recognised on the settlement date, which is the date that an asset is delivered to or by the Bank. Otherwise, such transactions are treated as derivatives until settlement occurs. Loans and receivables are recognised when cash is advanced to the borrower.

Financial assets not carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets has expired or where the Bank has transferred substantially all risks and rewards of ownership.

## Subsequent measurement

Available-for-sale investment securities and financial assets or liabilities at fair value through profit or loss are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Loans and receivables are carried at amortised cost using the effective interest method, less any provisions for impairment. 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 consolidated 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. All gains and losses from disposals and/or changes in the fair value of financial assets and liabilities at fair value through profit or loss and derivatives held for trading are included in operating income as net trading gains or losses. All gains and losses from disposals of investment securities classified as 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 hedging gains or losses. Dividends are recorded on the accrual basis when declared and are included in investment securities interest and similar income.

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 (see 'Impairment of financial assets'), 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 consolidated statement of income.

## Offsetting financial instruments

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

## Derecognition of financial assets and financial liabilities

### (i) Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement'; and
- Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to pay.

### (ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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 consolidated statement of income.

## Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ('repos') are retained in the consolidated statement of financial position as investment securities and the counterparty liability is included in other borrowed funds. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the repurchase agreement using the effective interest method.

## Impairment of financial assets

### Loans and receivables

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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 group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with default on the assets in the group.

If there is objective evidence that an impairment loss on loans and advances 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.

Loans are written off, in whole or in part, against the related provision for impairment 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 consolidated 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 consolidated statement of income. In circumstances where The Central Bank of the Bahamas' ("The 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.

### AFS debt instruments

An AFS debt instrument is identified as impaired when there is objective observable evidence about our inability to collect the contractual principal or interest. When an AFS debt instrument is determined to be impaired, an impairment loss is recognised by reclassifying the cumulative unrealised losses in other comprehensive income to the consolidated statement of income. Impairment losses previously recognised in the consolidated statement of income are reversed in the consolidated statement of income if the fair value subsequently increases and the increase can be objectively determined to relate to an event occurring after the impairment loss was recognised.

AFS equity instruments

Objective evidence of impairment for an investment in an AFS equity instrument exists if there has been a significant or prolonged decline in the fair value of the investment below its cost, or if there is information about significant adverse changes in the technological, market, economic, or legal environment in which the issuer operates, or if the issuer is experiencing significant financial difficulty. When an AFS equity instrument is determined to be impaired, an impairment loss is recognised by reclassifying the cumulative unrealised losses on other comprehensive income to the consolidated statement of income. Impairment losses previously recognised in the consolidated statement of income cannot be subsequently reversed. Further decreases in fair value subsequent to the recognition of an impairment loss are recognised directly in the consolidated statement of income, and subsequent increases in fair value are recognised in other comprehensive income.

Impairment of non-financial assets

The Bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to Goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

## Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition and is reported in the consolidated statement of financial position. Goodwill is tested annually for impairment at third quarter, or when circumstances indicate that the carrying value may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to the lowest levels for which there are separately identifiable cash flows (cash-generating units) for the purpose of impairment testing. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation, with the exception of land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Land and buildings comprise mainly branches and offices. 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 consolidated statement of income during the financial period in which they are incurred.

Depreciation on property and equipment is computed using 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 | 20 – 50% |

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

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.

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.

## Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and included in the consolidated statement of income.

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 effective interest method, which reflects a constant periodic rate of return.

## 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 that are not classified as insurance contracts are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantees, which is generally the premium received or receivable on the date the guarantee was given. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the present value of any expected payment when a payment under the guarantee has become probable. A financial guarantee that qualifies as a derivative is re-measured at fair value as at each reporting date and reported as Derivative instruments in assets or liabilities, as appropriate.

## Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash balances, non-restricted deposits with The Central Bank (excluding mandatory reserve deposits), treasury bills and other money market placements.

## Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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.

### Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Bank has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## Retirement benefit obligations

### Pension obligations

The Bank operates a pension plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries. The plan has defined benefit and defined contribution sections. 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. 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 obligation 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 asset or liability recognised in the consolidated statement of financial position in respect of the defined benefit sections of the plan is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets, together with adjustments for unrecognised actuarial gains/losses and past service costs. 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 that have terms to maturity approximating the terms of the related liability. The pension plan is a final salary plan and the charge, representing the net periodic pension cost less employee contributions, is included in staff costs.

Re-measurements, comprising where applicable of 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 reserves through Other Comprehensive Income ("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

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 in the consolidated 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

For the defined contribution section of the plan, the Bank makes contributions to a private trustee-administered fund. Once the contributions have been paid, the Bank has no further payment obligations. 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 the defined contribution section of the plan are charged to the consolidated statement of income in the year to which they relate.

### Other post-retirement obligations

The Bank provides post-retirement healthcare 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 periodically by independent qualified actuaries.

## 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 consolidated statement of income over the period of the borrowings, using the effective interest method.

## Share capital

### Share issue costs

Shares issued for cash are accounted for at the issue price less any transaction costs associated with the issue. Shares issued as consideration for the purchase of assets, or a business, are recorded at the market price on the date of issue.

### Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are not reflected in the consolidated financial statements.

## Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

- Available-for-sale reserve, which comprises changes in fair value of available-for-sale investment securities; and
- Other capital reserve, which includes the statutory reserves (Note 14)

## Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

## Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Bank.

## 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 operating segments of an entity. The Bank has determined the Parent's Senior Executive Team as its chief operating decision-maker.

Interest income is reported net within revenue as management primarily relies on net interest income as a performance measure and not the gross income and expense.

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.

## Fair value measurement

The Bank measures financial instruments, such as derivatives and available-for-sale investment securities, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 26. 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 by 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 categorised 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.

### Comparatives

Where necessary, comparative figures have been adjusted to comply with changes in presentation in the current year.

## 2.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (IFRS 9) replaces IAS 39 Financial Instruments: Recognition and Measurement, and is effective for annual periods beginning on or after January 1, 2018, which for the Bank would have been on November 1, 2018. However, the Bank will adopt the new standard early, effective November 1, 2017 in keeping with its ultimate parent, CIBC, who has elected to early adopt due to an OSFI (Office of the Superintendent of Financial Institutions) issued advisory on the early adoption of IFRS 9 for Domestically Systemically Important Banks (D-SIBS).

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, we will not restate our prior period comparative consolidated financial statements when we adopt the requirements of the new standard. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognised in our opening November 1, 2017 retained earnings and accumulated other comprehensive income (AOCI) as if we had always followed the new requirements.

As permitted, we have elected to continue to apply the hedge accounting requirements of IAS 39. The key changes to our accounting policies and the expected impact resulting from the adoption of IFRS 9 are described below.

The application of IFRS 9 is expected to reduce our shareholders' equity by approximately $3.08 million as at November 1, 2017. The impact to our regulatory capital is not expected to be material.

### (a) Classification and measurement

The IFRS 9 classification and measurement perspective model requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as fair value through profit or loss (FVTPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVTPL. Subsequent measurement of instruments classified as FVTPL under IFRS 9 operates in a similar manner to trading under IAS 39.

For debt instrument financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as fair value through OCI (FV-OCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as amortised cost. Subsequent measurement of instruments classified at FV-OCI and amortised cost classifications under IFRS 9 operate in a similar manner to AFS for debt securities and loans and receivables, respectively, under existing IAS 39, except for the impairment provisions which are discussed below.

For those debt instrument financial assets that would otherwise be classified as FV-OCI or amortised cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity instrument financial assets are required to be classified at initial recognition as FVTPL unless an irrevocable designation is made to classify the instrument as FV-OCI for equities. Unlike AFS for equity securities under IAS 39, the FV-OCI for equities category results in all realised and unrealised gains and losses being recognised in OCI with no recycling to profit and loss. Only dividends will continue to be recognised in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss.

Derivatives will continue to be measured at FVTPL under IFRS 9.

As a result of the application of the classification and measurement requirements of IFRS 9, we concluded:

- The loans and advances to customers that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- The debt securities classified as available for sale under IAS 39 are expected to be measured at FV-OCI

### (b) Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortised cost or FV-OCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

### (c) Expected Credit Loss Methodology

The application of ECL will significantly change our credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognises lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

### Stage Migration and Significant Increase in Credit Risk

Financial instruments subject to the ECL methodology are categorized into three stages.

For non-impaired financial instruments:

**Stage 1** is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognise 12 months of ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

**Stage 2** is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognise lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognising 12 months of ECL. In contrast to stage 1 and stage 2, inherent within the incurred loss methodology under IAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.

### For impaired financial instruments:

Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognised for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

For our business and government portfolios, the individually assessed allowances for impaired instruments recognised under IAS 39 will generally be replaced by stage 3 allowances under IFRS 9, while the collective allowances for non-impaired financial instruments will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9. For our retail portfolios, the portion of our collective allowances that relate to impaired financial instruments under IAS 39 will generally be replaced by stage 3 allowances, while the non-impaired portion of our collective allowances will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9.

### Forward looking information

The Bank will also incorporate forward-looking information in both the assessment of SICR and the measurement of ECL by evaluating a range of probability weighted scenarios. The Bank considers forward-looking information as macroeconomic factors (e.g. unemployment, GDP growth and interest rates) and other economic forecasts.

## IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial statements and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9 and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

## IFRS 16 Leases

The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise ‘short-term’ leases of ‘low-value’ assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

### 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. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. This amendment is effective for annual periods beginning on or after January 1, 2017 and is not expected to have a significant impact on the Bank.

### IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in a foreign currency.

These amendments are effective for annual periods beginning on or after January 1, 2018, and early application is permitted. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Bank will assess the potential effect of these amendments in 2018.

### Annual Improvements 2014-2016 Cycle

The improvements in this cycle 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.

### 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.

*(Expressed in thousands of Bahamian dollars)*

## Note 3 Cash and Balances with The Central Bank

| | 2017 | 2016 |
|---|---|---|
| Cash | $ 34,836 | $ 37,520 |
| Deposits with The Central Bank - non-interest bearing | 113,239 | 77,254 |
| Cash and balances with The Central Bank | 148,075 | 114,774 |
| Less: Mandatory reserve deposits with The Central Bank | (50,234) | (45,364) |
| Included in cash and cash equivalents, as per below | $ 97,841 | $ 69,410 |

Mandatory reserve deposits with The Central Bank represent the Bank's regulatory requirement to maintain a percentage of deposit liabilities as cash or deposits with The Central Bank. These funds are not available to finance the Bank's day-to-day operations and, as such, are excluded from cash resources to arrive at cash and cash equivalents.

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

### Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| Cash and balances with The Central Bank, as per above | $ 97,841 | $ 69,410 |
| Due from banks, included in cash and cash equivalents (Note 4) | 280,996 | 196,303 |
| | $ 378,837 | $ 265,713 |

## Note 4 Due from Banks

| | 2017 | 2016 |
|---|---|---|
| Included in cash and cash equivalents (Note 3) | $ 280,996 | $ 196,303 |
| Greater than 90 days maturity from date of acquisition | 83,665 | 96,866 |
| Due from banks | $ 364,661 | $ 293,169 |

Due from banks comprises deposit placements and include amounts placed with other FirstCaribbean International Bank entities of $194,292 (2016: $127,616) and deposit placements with CIBC entities of $113,224 (2016: $53,684) (Note 22). Due from banks include placements with FCIB Jamaica totalling $37,730 (2016: $41,484), which are pledged in favour of that bank in support of loans granted to certain of its customers.

The average effective yield on deposit placements during the year was 1.85% (2016: 1.05%).

*(Expressed in thousands of Bahamian dollars)*

## Note 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 that is the basis upon which changes in the value of derivatives are measured.

| 2017 | Notional Amount | | Fair Values | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Interest rate swaps | $ 34,023 | $ 144,008 | $ 366 | $ 8,918 |

| 2016 | Notional Amount | | Fair Values | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Interest rate swaps | $ 52,310 | $ 174,298 | $ 362 | $ 17,333 |

The Bank has positions in the following types of derivatives:

### Interest rate swaps

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

Cash collateral pledged with counterparties that have one-way collateral posting arrangements total $7,521 (2016: $14,082) and are included Due from Banks (Note 4).

### Derivative financial instruments held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to specified risks. Fair value hedges are used by the Bank to protect against changes in the fair value of specific financial assets due to movements in interest rates. The financial assets hedged for interest rate risk include fixed interest rate loans and available-for-sale debt securities and are hedged by interest rate swaps.

During the year, the Bank recognised net gains on effective hedges of $1,231 (2016: $1,041) due to gains on hedging instruments of $3,616 (2016: $2,412) and losses on hedged items attributable to the hedged risk of $2,385 (2016: $1,371). These results are included within operating income as part of net hedging gains/losses (Note 16).

CIBC entities are counterparties to certain of the Bank's interest rate swap contracts (Note 22).

In 2017, the Bank recognised gains of $3,667 as a result of failed hedges, along with associated fees of $4,000 (2016: nil), which are included within operating income as part of net trading gains/losses as these derivatives are classified as trading derivatives upon failure.

*(Expressed in thousands of Bahamian dollars)*

## Note 6 Other Assets

| | 2017 | 2016 |
|---|---|---|
| Clearings and suspense | $ 7,983 | $ 1,598 |
| Other accounts receivables (Note 22) | 3,448 | 1,429 |
| Prepayments and deferred items | 1,825 | 1,890 |
| | $ 13,256 | $ 4,917 |

Included in other accounts receivables are balances due from other Parent Group entities amounting to $25 (2016: $24) and the Bank's retirement benefit pension plan amounting to $nil (2016: $589), which represents amounts paid to pensioners on the plan's behalf.

## Note 7 Investment Securities

| | 2017 | 2016 |
|---|---|---|
| Available-for-sale | | |
| Equity securities - unquoted | $ 219 | $ - |
| Government debt securities | 467,162 | 395,212 |
| Other debt securities | 325,536 | 275,702 |
| | 792,917 | 670,914 |
| Add: Interest receivable | 7,049 | 7,158 |
| | $ 799,966 | $ 678,072 |

Debt securities issued or guaranteed by the Government of The Bahamas amounted to $429,540 (2016: $352,715). The Bank has a regulatory reserve requirement to maintain a percentage of deposit liabilities in cash or in the form of certain government securities. At October 31, 2017, the reserve requirement amounted to $156,482 (2016: $144,315) of which $50,234 (2016: $45,364) is included within cash and balances with The Central Bank (Note 3).

The movement in investment securities (excluding interest receivable) is summarised as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 670,914 | $ 774,658 |
| Additions (purchases, changes in fair value and foreign exchange) | 775,655 | 706,862 |
| Disposals (sales and redemptions) | (653,652) | (810,606) |
| Balance, end of year | $ 792,917 | $ 670,914 |

The effective yield during the year on investment securities was 3.14% (2016: 3.12%).

*(Expressed in thousands of Bahamian dollars)*

## Note 8 | Loans and Advances to Customers

| | Mortgages | Personal Loans | Business & Government Loans | 2017 |
|---|---|---|---|---|
| Performing loans (Note 26) | $ 903,481 | $ 188,476 | $ 947,347 | $ 2,039,304 |
| Impaired loans (Note 26) | 110,389 | 20,299 | 18,153 | 148,841 |
| Gross loans (Note 26) | 1,013,870 | 208,775 | 965,500 | 2,188,145 |
| Less: Provisions for impairment | (77,326) | (25,395) | (17,196) | (119,917) |
| | $ 936,544 | $ 183,380 | $ 948,304 | $ 2,068,228 |
| Add: Interest receivable | | | | 14,130 |
| Less: Unearned fee income | | | | (9,858) |
| | | | | $ 2,072,500 |

| | Mortgages | Personal Loans | Business & Government Loans | 2016 |
|---|---|---|---|---|
| Performing loans (Note 26) | $ 885,908 | $ 177,076 | $ 891,886 | $ 1,954,870 |
| Impaired loans (Note 26) | 136,603 | 28,652 | 26,500 | 191,755 |
| Gross loans (Note 26) | 1,022,511 | 205,728 | 918,386 | 2,146,625 |
| Less: Provisions for impairment | (89,151) | (31,033) | (26,157) | (146,341) |
| | $ 933,360 | $ 174,695 | $ 892,229 | $ 2,000,284 |
| Add: Interest receivable | | | | 19,173 |
| Less: Unearned fee income | | | | (11,132) |
| | | | | $ 2,008,325 |

Movement in provisions for impairment for 2017 is as follows:

| | Mortgages | Personal Loans | Business & Government Loans | 2017 |
|---|---|---|---|---|
| Balance, beginning of year | $ 89,151 | $ 31,033 | $ 26,157 | $ 146,341 |
| Individual impairment | (207) | 971 | 8,382 | 9,146 |
| Collective impairment | (527) | 26 | 3,663 | 3,162 |
| Recoveries and write-offs | (11,091) | (6,635) | (12,996) | (30,722) |
| Interest accrued on impaired loans | (3,840) | (1,646) | (2,524) | (8,010) |
| Balance, end of year | $ 73,486 | $ 23,749 | $ 22,682 | $ 119,917 |

Movement in provisions for impairment for 2016 is as follows:

| | Mortgages | Personal Loans | Business & Government Loans | 2016 |
|---|---|---|---|---|
| Balance, beginning of year | $ 97,415 | $ 29,223 | $ 39,408 | $ 166,046 |
| Individual impairment | (940) | 7,252 | 3,766 | 10,078 |
| Collective impairment | (333) | (320) | 2,021 | 1,368 |
| Recoveries and write-offs | (6,991) | (5,122) | (12,512) | (24,625) |
| Interest accrued on impaired loans | (3,225) | (1,382) | (1,919) | (6,526) |
| Balance, end of year | $ 85,926 | $ 29,651 | $ 30,764 | $ 146,341 |

*(Expressed in thousands of Bahamian dollars)*

Ageing analysis of past due but not impaired loans for 2017:

| | Mortgages | Personal Loans | Business & Government Loans | 2017 |
|---|---|---|---|---|
| Less than 30 days | $ 48,915 | $ 5,290 | $ 8,016 | $ 62,221 |
| 31 - 60 days | 36,379 | 3,962 | 11,704 | 52,045 |
| 61 - 89 days | 24,524 | 1,620 | 1,489 | 27,633 |
| | $ 109,818 | $ 10,872 | $ 21,209 | $ 141,899 |

Ageing analysis of past due but not impaired loans for 2016:

| | Mortgages | Personal Loans | Business & Government Loans | 2016 |
|---|---|---|---|---|
| Less than 30 days | $ 50,170 | $ 5,322 | $ 4,023 | $ 59,515 |
| 31 - 60 days | 29,561 | 2,354 | 6,656 | 38,571 |
| 61- 89 days | 20,705 | 1,054 | 1,581 | 23,340 |
| | $ 100,436 | $ 8,730 | $ 12,260 | $ 121,426 |

The average interest yield during the year on loans and advances was 6.09% (2016: 6.39%). Impaired loans as at October 31, 2017 amounted to $148,841 (2016: $191,755) and interest taken to income on impaired loans during the year amounted to $1,283 (2016: $1,795).

*(Expressed in thousands of Bahamian dollars)*

## Note 9 | Property and Equipment

| | Land and Buildings | Equipment, Furniture and Vehicles | Leasehold Improvements | 2017 |
|---|---|---|---|---|
| Cost | | | | |
| Balance, November 1, 2016 | $ 20,762 | $ 41,818 | $ 20,572 | $ 83,152 |
| Purchases | 208 | 2,781 | 1,370 | 4,359 |
| Net transfer | 362 | 3,784 | (4,146) | - |
| Write-offs | (141) | (212) | (46) | (399) |
| Balance, October 31, 2017 | $ 21,191 | $ 48,171 | $ 17,750 | $ 87,112 |
| Accumulated depreciation | | | | |
| Balance, November 1, 2016 | $ 7,491 | $ 33,424 | $ 13,823 | $ 54,738 |
| Depreciation (Note 17) | 645 | 3,028 | 859 | 4,532 |
| Write-offs | (23) | (110) | - | (133) |
| Balance, October 31, 2017 | 8,113 | 36,342 | 14,682 | 59,137 |
| Net book value, October 31, 2017 | $ 13,078 | $ 11,829 | $ 3,068 | $ 27,975 |

| | Land and Buildings | Equipment, Furniture and Vehicles | Leasehold Improvements | 2016 |
|---|---|---|---|---|
| Cost | | | | |
| Balance, November 1, 2015 | $ 20,762 | $ 39,766 | $ 16,437 | $ 76,965 |
| Purchases | - | 2,052 | 4,135 | 6,187 |
| Balance, October 31, 2016 | $ 20,762 | $ 41,818 | $ 20,572 | $ 83,152 |
| Accumulated depreciation | | | | |
| Balance, November 1, 2015 | $ 6,910 | $ 31,359 | $ 13,368 | $ 51,637 |
| Depreciation (Note 17) | 581 | 2,065 | 455 | 3,101 |
| Balance, October 31, 2016 | 7,491 | 33,424 | 13,823 | 54,738 |
| Net book value, October 31, 2016 | $ 13,271 | $ 8,394 | $ 6,749 | $ 28,414 |

Included as part of leasehold improvements is an amount for $2,052 (2016: $6,341) relating to systems development costs and work in progress not yet in operation and on which no depreciation has been charged.

## Note 10 Retirement Benefit Assets and Obligations

The Bank has an insured group health plan and a pension plan. The pension plan is a mixture of defined benefit and defined contribution schemes.

### Plan characteristics, funding and risks

The benefits that members receive at retirement under the defined contribution plan depend on their account balances at retirement and the cost of purchasing an annuity. The defined benefit pension plan is non-contributory and allows for additional voluntary contributions with benefits dependent on either highest average annual pensionable earnings in the last ten years of membership or highest inflation adjusted salary in any one of the last three years of membership. The defined benefit plan is fully integrated with the benefits provided by local national insurance or social security schemes. The insured health plan allows for retirees to continue receiving health benefits during retirement. The plans require contributions to separate funds, are administered independently and are valued by independent actuaries every three years using the projected unit credit method.

### Benefit changes

There were no material changes to the terms of our defined benefit pension or post-retirement medical benefit plans in 2017 or 2016.

### 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) risk and health care cost inflation risk.

### Plan governance

The Bank is responsible for the establishment of the plans and oversight of their administration. The Group's Board of Directors has delegated powers and authorities to a Pension Steering Committee ("PSC") as set out in its mandate to that committee. The PSC has established Management Committees ("MC") 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 relevant plans and the investment of plan assets. A separate trust fund has been established for each plan to receive and invest contributions and pay benefits due under each plan. All benefits are calculated and paid out in accordance with the rules of the pension plan. Funds are physically held by a trustee or trustees (whether corporate or individual) as appointed in accordance with the Trust Deeds. Each year, the PSC with input from the ISC and MC reviews the level of funding in the plans. Such a review includes the asset-liability matching strategy and investment risk management policy. The PSC decides its contribution based on the results of this annual review. The plan assets include significant investments in quoted equity shares and bonds.

### Amounts recognised on the consolidated statement of financial position

The following tables present the financial position of our defined benefit pension and post-retirement medical benefit plans in which the Bank operates.

The total expense relating to the contributory plan charged for the year was $453 (2016: $408), which represents contributions to the defined contribution plan by the Bank at rates specified in the rules of the plan. Refer to Note 17.

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

| | Defined Benefit Pension Plans | | Post Retirement Medical Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Fair value of the plan assets | $ 126,418 | $ 116,135 | $ - | $ - |
| Present value of the obligations | (106,357) | (92,018) | (10,818) | (11,427) |
| Net retirement benefit asset/(obligations) | $ 20,061 | $ 24,117 | $ (10,818) | $ (11,427) |

The Retirement Benefit Assets reported on the statement of financial position comprises of the Bahamas Defined Benefit Pension Plan's net asset of $22,610 (2016: $28,154).

The Retirement Benefit Obligations reported on the statement of financial position comprises of the Turks and Caicos Islands (TCI) Defined Benefit Pension Plan's net obligation of $2,549 (2016: $4,037) and the Post-Retirement Medical Benefits obligation of $10,818 (2016: $11,427).

The pension plan assets include 100,000 (2016: 100,000) ordinary shares in the Bank, with a fair value of $860 (2016: $850).

Changes in the fair value of the defined benefit pension plan assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| Opening fair value of plan assets | $ 116,135 | $ 99,960 |
| Contributions by employer | 2 | 10,000 |
| Benefits paid | (3,393) | (3,900) |
| Actuarial gains/(losses) | 13,806 | 10,238 |
| Plan administration costs | (132) | (163) |
| Closing fair value of plan assets | $ 126,418 | $ 116,135 |

Changes in the present value of the obligations for defined benefit pension plans are as follows:

| | 2017 | 2016 |
|---|---|---|
| Opening obligations | $ (92,018) | $ (88,915) |
| Interest costs | (5,335) | (5,277) |
| Current service costs | (2,197) | (2,097) |
| Benefits paid | 3,393 | 3,900 |
| Actuarial (losses)/gains on obligations | (10,200) | 371 |
| Closing obligations | $ (106,357) | $ (92,018) |

*(Expressed in thousands of Bahamian dollars)*

Changes in the present value of the obligations for post-retirement medical benefits are:

| | 2017 | 2016 |
|---|---|---|
| Opening obligations | $ (11,427) | $ (17,415) |
| Interest costs | (661) | (1,045) |
| Benefits paid | 494 | 578 |
| Actuarial gains on obligations | 776 | 6,455 |
| Closing obligations | $ (10,818) | $ (11,427) |

The Bank does not expect to contribute to its defined benefit pension plan in the following year (2016: $nil).

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

| | Defined Benefit Pension Plans | | Post-Retirement Medical Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Current service costs | $ 2,197 | $ 2,097 | $ - | $ - |
| Interest costs | 5,335 | 5,277 | 661 | 1,045 |
| Interest income on plan assets | (6,942) | (6,064) | - | - |
| Plan administration costs | 132 | 163 | - | - |
| Total amount included in staff costs (Note 17) | $ 722 | $ 1,473 | $ 661 | $ 1,045 |
| Actual return on plan assets | $ (13,806) | $ (10,238) | $ - | $ - |

The net re-measurement gains recognised in other comprehensive income are as follows:

| | Defined Benefit Pension Plans | | Post-Retirement Medical Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Actuarial (gains)/losses on defined benefit obligation arising from: | | | | |
| Financial assumptions | $ 11,293 | $ 1,544 | $ 497 | $ (87) |
| Experience adjustments | (1,093) | (1,915) | (1,273) | (6,368) |
| Return on plan assets excluding interest income | (6,864) | (4,174) | - | - |
| Net re-measurement losses/(gains) recognised in OCI | $ 3,336 | $ (4,545) | $ (776) | $ (6,455) |

*(Expressed in thousands of Bahamian dollars)*

The movements in the net asset/(obligations) recognised on the consolidated statement of financial position are as follows:

| | Defined Benefit Pension Plans | | Post-Retirement Medical Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of year | $ 24,117 | $ 11,045 | $ (11,427) | $ (17,415) |
| Charge for the year (Note 17) | (722) | (1,473) | (661) | (1,045) |
| Contributions by employer | 2 | 10,000 | 494 | 578 |
| Effect on statement of Other Comprehensive Income | (3,336) | 4,545 | 776 | 6,455 |
| Balance, end of year | $ 20,061 | $ 24,117 | $ (10,818) | $ (11,427) |

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

| | Defined Benefit Pension Plans | | Post-Retirement Medical Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Active members | $ 57,599 | $ 49,550 | $ - | $ - |
| Inactive and retired members | 48,758 | 42,468 | 10,818 | 11,427 |
| | $ 106,357 | $ 92,018 | $ 10,818 | $ 11,427 |

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

| | Defined Benefit Pension Plans | | Post-Retirement Medical Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Average duration, in years | 20 | 21 | 16 | 16 |

The major categories of the plan assets and the actual ($ in thousands and %) fair value of total plan assets are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Quoted equity instruments | | | | |
| - International | 669 | 1 | 1,164 | 1 |
| Quoted debt | | | | |
| - Government | 280 | - | 1,629 | 1 |
| - Corporate bonds | - | - | 1,334 | 1 |
| - Inflation Adjust. bonds | - | - | 667 | 1 |
| Investment Funds | | | | |
| - U.S. Equity | 83,867 | 66 | 11,232 | 10 |
| - International Equity | 3,004 | 2 | 74,026 | 64 |
| - Fixed Income | 35,148 | 28 | 22,014 | 19 |
| Other assets | 3,450 | 3 | 4,069 | 3 |
| | 126,418 | 100 | 116,135 | 100 |

The overall expected rates of return on assets are determined based on the market prices, including published brokers' forecasts prevailing on the date of valuation, applicable to the period that the obligation is to be settled.

The principal actuarial assumptions used at the reporting date are as follows:

| | Defined Benefit Pension Plans | |
|---|---|---|
| | 2017 | 2016 |
| Discount rate (TCI, Bahamas) | 4.1% , 5.4% | 3.8% , 6.3% |
| Expected return on plan assets (TCI, Bahamas) | 4.1% , 5.4% | 3.8% , 6.3% |
| Future salary increases | 4.0% | 4.0% |
| Future pension increases | 2.5% | 2.5% |

| | Post-Retirement Medical Benefit | |
|---|---|---|
| | 2017 | 2016 |
| Discount rate (TCI, Bahamas) | 4.1% , 5.4% | 3.8% , 6.3% |
| Premium escalation rate | 6.0% | 6.0% |
| Existing retiree age | 60 | 60 |

*(Expressed in thousands of Bahamian dollars)*

A quantitative sensitivity analysis for significant assumptions as at October 31, 2017 is as shown below:

| Assumption | Sensitivity level | Impact on net defined benefit pension plans | | Impact on Post-retirement medical benefits | |
|---|---|---|---|---|---|
| | | Increase | Decrease | Increase | Decrease |
| Discount rate | 1.0% | 88,969 | 128,980 | 9,494 | 12,456 |
| Future salary increases | 0.5% | 109,526 | 103,464 | n/a | n/a |
| Future pension increases | 0.5% | 111,878 | 101,441 | n/a | n/a |
| Premium escalation rate | 1.0% | n/a | n/a | 12,381 | 9,525 |
| Existing retiree age | 1 year | 109,511 | n/a | 11,291 | n/a |

- n/a – not applicable

The sensitivity analysis presented above is indicative only, and should be considered with caution as they have been calculated in isolation without changes in other assumptions. In practice, changes in one assumption may result in changes in another, which may magnify or counteract the disclosed sensitivities. The analysis has been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

| | 2017 | 2016 |
|---|---|---|
| Within the next 12 months | $ 2,287 | $ 2,159 |
| Between 1 and 5 years | 11,372 | 10,566 |
| Between 5 and 10 years | 21,345 | 19,954 |
| Total expected payments | $ 35,004 | $ 32,679 |

The last actuarial valuation was conducted as at November 1, 2016 and revealed a fund surplus of $21,133.

## Note 11 Goodwill

| | 2017 | 2016 |
|---|---|---|
| Cost | | |
| Balance, beginning and end of year | $ 187,747 | $ 187,747 |
| Accumulated impairment | | |
| Balance, beginning and end of year | $ 115,000 | $ 115,000 |
| Carrying amount, end of year | $ 72,747 | $ 72,747 |

### Impairment tests for goodwill

Goodwill is allocated to the Bank's cash-generating units ("CGUs") identified according to country of operation.

The carrying amount of goodwill is reviewed annually for impairment and whenever there are events or changes in circumstances which indicate that the carrying amount may not be recoverable. The goodwill impairment test is performed by comparing the recoverable amount of the CGU to which goodwill has been allocated, with the carrying amount of the CGU including goodwill, with any deficiency recognised as impairment to goodwill. The recoverable amount for each CGU has been determined using value-in-use calculations that are estimated using five year cash flow projections along with an estimate of capital required to support ongoing operations. The five year cash flow projections have been approved by FCIB's Executive Committee.

*(Expressed in thousands of Bahamian dollars)*

Based on the impairment testing performed during the fourth quarter of fiscal 2017, we have determined that the estimated recoverable amount of the CGU was in excess of the carrying amount. As a result, no impairment charge was recognised during 2017.

### Key assumptions used for value-in-use calculations

A description of each assumption on which management has based its cash flow projections for the period covered by the most recent forecasts is noted below. Key assumptions are those to which the CGU's recoverable amount is most sensitive, which include the discount and growth rates. The discount rates were determined based on the following primary factors: (i) the risk-free rate, (ii) an equity risk premium, (iii) beta adjustment to the equity risk premium based on a review of betas of comparable financial institutions in the region, and (iv) a country risk premium. The growth rates are based on management's expectations of real growth but do not exceed the long-term average growth rate for The Bahamas.

| | Discount rate | | Growth rate | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Bahamas | 13% | 13% | 1% | 2% |

Estimation of the recoverable amount is an area of significant judgment. Reductions in the estimated recoverable amount could arise from various factors, such as reductions in forecasted cash flows, an increase in the assumed level of required capital and any adverse changes to the discount rate or the growth rate, either in isolation or in any combination thereof. We estimated that a reduction in forecasted cash flows, or a rise in the discount rate, would not significantly impact the CGUs' recoverable amount to result in any further goodwill impairment at October 31, 2017.

## Note 12 Customer Deposits

| | Payable on Demand | Payable after Notice | Payable at a Fixed Date | 2017 Total | 2016 Total |
|---|---|---|---|---|---|
| Individuals | $ 215,557 | $ 276,191 | $ 385,839 | $ 877,587 | $ 813,389 |
| Business and governments | 1,152,645 | 28,561 | 409,203 | 1,590,409 | 1,409,100 |
| Banks | 3,875 | - | 276,411 | 280,286 | 267,044 |
| | 1,372,077 | 304,752 | 1,071,453 | 2,748,282 | 2,489,533 |
| Add: Interest payable | 170 | 29 | 2,367 | 2,566 | 2,414 |
| | $ 1,372,247 | $ 304,781 | $ 1,073,820 | $ 2,750,848 | $ 2,491,947 |

Included in deposits from banks are deposits from other Parent Group entities of $277,830 (2016: $265,367) (Note 22).

The effective rate of interest on deposits during the year was 0.33% (2016: 0.32%).

*(Expressed in thousands of Bahamian dollars)*

## Note 13 Other Liabilities

| | 2017 | 2016 |
|---|---|---|
| Accounts payable and accruals, including clearings | $ 29,467 | $ 17,443 |
| Restructuring costs | 110 | 842 |
| Amounts due to related parties (Note 22) | 25,817 | 30,783 |
| Due to brokers and others | 485 | 106 |
| | $ 55,879 | $ 49,174 |

The amount due to related parties refers to balances due to other Parent Group entities and is interest-free and unsecured, with no fixed terms of repayment.

During 2013, the Bank embarked on a restructuring plan which aimed to enhance its long term competitiveness through reductions in costs, duplication and complexity in the years ahead. Included in other liabilities is a related provision for severance of $110 (2016: $556) and other costs of $nil (2016: $286). Movement in the provision during the year related primarily to payments and accruals made by the Bank.

## Note 14 Issued Capital and Reserves

| | 2017 | 2016 |
|---|---|---|
| Issued capital, beginning and end of year | $ 477,230 | $ 477,230 |
| | | |
| Reserves | | |
| Statutory reserve fund – Turks and Caicos Islands | 46,425 | 42,726 |
| Revaluation reserve – Available-for-sale investment securities | (8,934) | (8,927) |
| Reverse acquisition reserve | (63,566) | (63,566) |
| Retirement benefit reserve | 12,881 | 15,441 |
| Total reserves | (13,194) | (14,326) |
| | | |
| Total issued capital and reserves | $ 464,036 | $ 462,904 |

The Bank's authorised capital is $20 million, comprising 150 million ordinary shares with a par value of $0.10 each and 50 million preference shares also having a par value of $0.10 each. All issued ordinary shares are fully paid. No preference shares were issued in 2017 and 2016. At October 31, 2017 and 2016, the issued share capital was as follows:

| | Number of shares | Share par value | Share premium | Total |
|---|---|---|---|---|
| Ordinary shares, voting | 120,216 | $ 12,022 | $ 465,208 | $ 477,230 |

## Capital

### Objectives, policies and procedures

Capital strength provides protection for depositors and creditors and allows the Bank to undertake profitable business opportunities as they arise.

The Bank's objective is to employ a strong and efficient capital base. Capital is managed in accordance with policies established by the Board of Directors (the "Board"). These policies relate to capital strength, capital mix, dividends and return of capital, and the unconsolidated capital adequacy of regulated entities. 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 guidelines issued by The Central Bank. These guidelines evolve from the framework of risk-based capital standards developed by the Basel Committee, Bank of International Settlement (BIS).

BIS standards require that banks maintain minimum Tier 1 and Total Capital ratios of 6% and 8%, respectively. The Central Bank has established that Bahamian deposit-taking financial institutions maintain Tier 1 and Total Capital ratios of 12.8% and 17%, respectively. During the year, the Bank has complied in full with all of our regulatory capital requirements.

### Regulatory capital

Regulatory capital consists of Tier 1 and Tier 2 Capital, less certain deductions. Tier 1 Capital is comprised of common stock, retained earnings and non-controlling interest in consolidated subsidiaries, less goodwill and other deductions. Tier 2 Capital principally comprises hybrid capital instruments such as subordinated debt and general provisions and 45% of revaluation reserves on available-for-sale investments.

In 2017, Tier 1 and Total Capital ratios were 27% and 28%, respectively (2016: 27% and 27%, respectively).

*(Expressed in thousands of Bahamian dollars)*

The movements in reserves were as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Statutory reserve fund – Turks and Caicos Islands | | | | |
| Balance, beginning of year | $ | 42,726 | $ | 39,128 |
| Transfers from retained earnings | | 3,699 | | 3,598 |
| Balance, end of year | $ | 46,425 | $ | 42,726 |

In accordance with the TCI Banking (Amendment) Ordinance 2002 and the regulations of the Turks and Caicos Islands Financial Services Commission, the Bank is required to maintain a statutory reserve fund of not less than the amount of its assigned capital of $24 million. Where the required reserve is less than the assigned capital, the Bank is required to annually transfer 25% of the net profits earned from its TCI operations to this fund. Although the statutory reserve exceeds the assigned capital, it has been the Bank's practice to make this transfer based on net profits of the preceding fiscal year with the remaining net profits being retained by the Bank. During the year the Bank transferred $3,699 (2016: $3,598) from retained earnings to the statutory reserve fund.

Banking Regulations of The Central Bank of The Bahamas require a general provision in respect of the performing loans of at least one percent of these loans. To the extent the inherent risk provision for loans and advances to customers is less than this amount, a statutory loan loss reserve is established and the required additional amount is to be appropriated from retained earnings, in accordance with IFRS. For the year ended October 31, 2017, no statutory loan loss reserve was required as the general provision was sufficient (2016: $nil).

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Revaluation reserve - available-for-sale investment securities | | | | |
| Balance, beginning of year | $ | (8,927) | $ | (10,605) |
| Net (loss)/gain from changes in fair value of available-for-sale investment securities (Note 20) | | (7) | | 1,678 |
| Balance, end of year | $ | (8,934) | $ | (8,927) |

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and are reflected in the revaluation reserve.

| Reverse acquisition reserve | | 2017 | | 2016 |
|---|---|---|---|---|
| Reverse acquisition reserve, beginning and end of year | $ | (63,566) | $ | (63,566) |

*(Expressed in thousands of Bahamian dollars)*

Under the combination on October 11, 2002, CIBC West Indies became the legal parent company with Barclays transferring its operations to subsidiaries of CIBC West Indies in exchange, ultimately, for common shares and newly created classes of non-voting and preference shares of CIBC West Indies. Barclays was identified as the acquirer as the fair value of its business prior to the combination was significantly greater than the fair value of CIBC West Indies' business and as a result Barclays had the greater economic interest. This situation is described by IFRS as a reverse acquisition.

In accordance with IFRS, the equity of the combined Bank at October 11, 2002, comprised the equity of the Barclays branches and subsidiaries ($211,295), together with the fair value of the CIBC Bahamas business ($196,966), for a total of $408,261. However, the legal share capital and premium of the Bank comprises the issued share capital and premium of CIBC Bahamas plus the shares issued to effect the combination recorded at fair value for a total of $472,828 at October 11, 2002.

The reverse acquisition reserve represents the difference at October 11, 2002, between the required share capital and premium of the Bank ($472,828) together with the retained earnings of the Barclays Branches and Subsidiaries ($1,001) and the equity of the Bank presented in accordance with IFRS ($408,261).

Retirement benefit reserve

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 15,441 | $ 4,441 |
| Re-measurement (loss)/gains on retirement benefit plans | (2,560) | 11,000 |
| Balance, end of year | $ 12,881 | $ 15,441 |

Gains and losses arising from re-measurement of retirement benefit plans in Other Comprehensive Income are reflected in the reserve.

## Note 15 | Net Interest Income

| | 2017 | 2016 |
|---|---|---|
| Interest and similar income | | |
| Cash and short-term funds | $ 3,800 | $ 3,432 |
| Investment securities | 23,546 | 23,258 |
| Loans and advances to customers | 121,908 | 120,018 |
| | $ 149,254 | $ 146,708 |
| | | |
| Interest and similar expense | | |
| Banks and customers | $ 8,420 | $ 8,208 |
| Derivative financial instruments | 2,020 | 3,425 |
| | $ 10,440 | $ 11,633 |
| | | |
| Net interest income | $ 138,814 | $ 135,075 |

*(Expressed in thousands of Bahamian dollars)*

## Note 16 | Operating Income

| | 2017 | 2016 |
|---|---|---|
| Fee and commission income | $ 29,780 | $ 26,901 |
| Foreign exchange commissions | 10,895 | 9,708 |
| Net foreign exchange revaluation losses | (1) | (52) |
| Net investment securities (loss)/gains (Note 20) | (16) | 827 |
| Net hedging gains (Note 5) | 1,231 | 1,041 |
| Net trading losses | (1,361) | (970) |
| Other operating income | 944 | 702 |
| | $ 41,472 | $ 38,157 |

Net investment securities losses and gains have arisen from disposals of investment securities held as available-for-sale.

Net hedging gains have arisen from the difference between the changes in fair value of hedged items in respect of the hedged risk against changes in fair value of the associated hedging instruments.

Net trading losses have arisen from either disposals and/or changes in the fair value on financial assets and liabilities at fair value through profit or loss, trading securities and derivatives held for trading, which include failed hedges.

Analysis of fee and commission income:

| | 2017 | 2016 |
|---|---|---|
| Underwriting | $ 287 | $ 681 |
| Deposit services | 9,211 | 8,325 |
| Credit services | 2,585 | 2,154 |
| Card services | 10,767 | 9,537 |
| Funds transfer | 4,811 | 4,432 |
| Other | 2,119 | 1,772 |
| | $ 29,780 | $ 26,901 |

## Note 17 | Operating Expenses

| | 2017 | 2016 |
|---|---|---|
| Staff costs | $ 29,251 | $ 31,747 |
| Business licence | 8,617 | 8,662 |
| Occupancy and maintenance | 10,437 | 11,470 |
| Depreciation (Note 9) | 4,532 | 3,101 |
| Other operating expenses | 38,382 | 36,233 |
| | $ 91,219 | $ 91,213 |

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

Analysis of staff costs:

| | 2017 | 2016 |
|---|---|---|
| Wages and salaries | $ 22,848 | $ 23,725 |
| Pension costs: | | |
| -defined benefit sections of the plan (Note 10) | 722 | 1,473 |
| -defined contribution section of the plan (Note 10) | 453 | 408 |
| Post-retirement medical benefits charge (Note 10) | 661 | 1,045 |
| Employee share purchase plan (Note 21) | 133 | 111 |
| Severance, including restructuring costs (Note 13) | 102 | 345 |
| Insurance and risk benefits | 2,933 | 3,226 |
| Other staff related costs | 1,399 | 1,414 |
| | $ 29,251 | $ 31,747 |

Analysis of other operating expenses:

| | 2017 | 2016 |
|---|---|---|
| Professional and management fees | $ 22,468 | $ 22,027 |
| Communications | 2,380 | 2,323 |
| Business development | 513 | 373 |
| Advertising and marketing | 176 | 202 |
| Consumer related expenses | 932 | 605 |
| Non-credit losses | 1,636 | 1,663 |
| Postage, courier and stationery | 1,963 | 1,656 |
| General insurances | 567 | 557 |
| Outside services | 2,756 | 2,351 |
| Other | 4,991 | 4,476 |
| | $ 38,382 | $ 36,233 |

Included in professional and management fees are allocation of costs from the Parent for support and direction provided to the Bank (Note 22).

*(Expressed in thousands of Bahamian dollars)*

## Note 18 Earnings per Share

**Basic earnings per share**

| | 2017 | 2016 |
|---|---|---|
| Net income attributable to shareholders | $ 76,759 | $ 70,573 |
| Weighted average number of ordinary shares in issue (Note 14) | 120,216 | 120,216 |
| Basic earnings per share (expressed in cents per share) | $ 63.9 | $ 58.7 |

There are no potentially dilutive instruments.

## Note 19 Dividends Paid

| | 2017 | 2016 |
|---|---|---|
| **Declared and paid during the year** | | |
| Interim dividend $0.15 (2016: $0.15) | $ 18,032 | $ 18,032 |
| Final dividend $0.15 (2016: $0.15) | 18,032 | 18,032 |
| Total dividends declared and paid | $ 36,064 | $ 36,064 |

At the Board of Directors meeting held on December 14, 2017, a final dividend for 2017 of $0.17 per share amounting to $20,437 was proposed and declared. The consolidated financial statements for the year ended October 31, 2017 do not reflect this resolution, which will be accounted for in equity as a distribution of retained earnings in the consolidated financial statements for the year ending October 31, 2018.

## Note 20 Components of Other Comprehensive Income

| | 2017 | 2016 |
|---|---|---|
| Available-for-sale investment securities: | | |
| Net (losses)/gains arising during the year | $ (23) | $ 2,505 |
| Less: reclassification adjustments for losses/(gains) included in the statement of income (Note 16) | 16 | (827) |
| Other comprehensive (loss)/income for the year (Note 14) | $ (7) | $ 1,678 |

*(Expressed in thousands of Bahamian dollars)*

## Note 21 Other Employee Benefits

**Employee share purchase plan**

Under our Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their eligible earnings withheld to purchase common shares in the Parent. The Bank matches 50% of the employee's 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, and all subsequent contributions vest immediately. 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 $133 in 2017 (2016: $111) (Note 17).

## Note 22 Related-Party Transactions and Balances

The Bank's Parent and major shareholder is FirstCaribbean International Bank Limited.

A number of banking transactions are entered into with related parties in the normal course of business. Included in Other liabilities is a dividend payable amounting to $4,323 (2016: Nil) to the Bank's Parent. The key related party balances and transactions included in the Bank's financial statements are disclosed below.

| | Directors and key management personnel | | Parent Group | | Ultimate Parent | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Asset balances** | | | | | | |
| Due from banks | $ - | $ - | $ 194,292 | $ 127,616 | $ 113,224 | $ 53,684 |
| Derivative financial instruments | - | - | - | - | 363 | 112 |
| Other assets | - | - | 25 | 24 | - | - |
| Loans and advances to customers | 5,778 | 4,688 | - | - | - | - |
| **Liability balances:** | | | | | | |
| Derivative financial instruments | - | - | - | - | 1,092 | 7,190 |
| Customer deposits | 4,297 | 3,092 | 277,830 | 265,367 | - | - |
| Other liabilities | - | - | 25,817 | 30,783 | - | - |
| **Revenue transactions:** | | | | | | |
| Interest income | 223 | 179 | 2,854 | 2,702 | - | 35 |
| Other income from derivative relationship | - | - | - | - | 1,875 | 993 |
| **Expense transactions:** | | | | | | |
| Interest expense | 87 | 78 | 1,505 | 1,267 | - | - |
| Other expenses* | - | - | 25,416 | 24,831 | - | - |

* Expenses incurred in relation to banking and support services.

*(Expressed in thousands of Bahamian dollars)*

| | 2017 | 2016 |
|---|---|---|
| Key management compensation | | |
| Salaries and short term benefits | $ 2,622 | $ 2,364 |

### Directors' remuneration

In 2017, total remuneration to the directors was $130 (2016: $124).

## Note 23 Commitments, Guarantees and Contingent Liabilities

The Bank conducts business involving letters of credit, guarantees, performance bonds and indemnities, which are not reflected in the consolidated statement of financial position. At the reporting date, the following contingent liabilities and commitments exist:

| | 2017 | 2016 |
|---|---|---|
| Letters of credit | $ 30,472 | $ 50,191 |
| Undrawn loan commitments | 249,381 | 240,176 |
| Guarantees and indemnities | 9,987 | 7,708 |
| Total (Note 26) | $ 289,840 | $ 298,075 |

The Bank is the subject of legal actions arising in the normal course of business. Management considers that the liability, if any, of these actions would not be material beyond what is already provided for in these financial statements.

The Bank currently has a $1 million line of credit with CIBC at LIBOR + 200bps per annum if 50% or less utilisation, or LIBOR + 250bps per annum if greater than 50% utilisation. The facility is renewable annually and expires on March 31, 2018. As of October 31, 2017, no advances were made from the facility and all balances are undrawn.

## Note 24 Future Rental Commitments under Operating Leases

As at October 31, 2017, the Bank held leases on buildings for extended periods. The minimum future rental commitments under these leases are as follows:

| | 2017 | 2016 |
|---|---|---|
| Not later than 1 year | $ 3,170 | $ 3,021 |
| Later than 1 year and less than 5 years | 6,764 | 6,851 |
| Later than 5 years | 2,311 | 3,806 |
| | $ 12,245 | $ 13,678 |

During the year $3,074 (2016: $3,891) of lease payments was included in occupancy and maintenance expenses (Note 17).

## Note 25 Business Segments

The Bank's operations are organised into four segments: Retail, Business and International Banking, Corporate and Investment Banking and Wealth Management, which are supported by the functional units within the Administration segment.

### Retail, Business and International Banking ("RBB")

Retail, Business and International Banking includes the Retail, Business Banking, International Banking and Cards businesses. This segment provides a full range of financial products and services to individuals, which can be accessed through our network of branches and ABMs, as well as through internet and telephone banking channels, inclusive of our recently launched Mobile Banking App. Business Banking clients are provided with products and services to satisfy their day to day operational and working capital business needs. International Banking is a specialised business that facilitates leveraging of legislation and incentives in the international financial services jurisdictions to offer international clients a wide range of products, services and financial solutions. Cards offering include both the issuing and acquiring business.

### Corporate and Investment Banking ("CIB")

Corporate and Investment Banking includes the Corporate Lending, Investment Banking and Client Solutions Group businesses.

(i) Corporate Lending provides a full range of corporate and commercial banking services to large and mid-sized corporate businesses, governments, financial institutions, international trading companies and private wealth vehicles throughout the Caribbean.

(ii) Investment Banking provides debt, equity, capital markets and corporate finance products and services to large corporations, financial institutions and governments.

(iii) **Client Solutions Group** provides derivative and other risk mitigating products to clients.

### Wealth Management ("WM")

Wealth Management comprises International Corporate Banking, Investment Management and Private Wealth Management businesses.

Wealth Management clients are provided investment advice and traditional banking services through a relationship management offer.

International Corporate Banking is a specialised business that facilitates leveraging of legislation and incentives in the international financial services jurisdictions to offer international clients a wide range of products, services and financial solutions.

### Administration ("Admin")

The Administration segment includes Finance, Human Resources, Risk, Technology & Operations, Treasury and other units which support the business segments. The revenues and expenses of the functional groups are generally allocated to the business segments. The Administration segment retail earnings on excess capital and the offset to capital charges allocated to the business segments.

Treasury manages the interest rate, foreign exchange and liquidity risks of the Bank. In addition, Treasury conducts foreign exchange and other derivative transactions on behalf of the Bank's clients. Securities and cash placements are normally held within the Treasury and within the Administration segment.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. During the year, the economic profit/(loss) measure was changed to net income to better align with enterprise-wide financial analysis and capital optimization models. The changes impacted the segment results, however there was no impact on consolidated net income resulting from these reclassifications. Prior period amounts were reclassified accordingly.

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*(Expressed in thousands of Bahamian dollars)*

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. We review our transfer pricing methodologies on an ongoing basis to ensure they reflect changing market environments and industry practices.

Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as goodwill (being unallocated assets)

### Changes made to business performance measurement

The following changes were made during 2017:

- Cost allocation methodology updated from a direct or indirect expense allocation to a service model allocation.
- Earnings on capital measure included to fund transfer of excess earnings from legal capital to SBU's.

### 2017 Segment Reporting

| | RBB | CIB | WM | Admin | 2017 |
|---|---|---|---|---|---|
| External revenue | $ 67,349 | $ 48,519 | $ (1,051) | $ 23,997 | $ 138,814 |
| Internal revenue | (12,544) | 7,410 | 9,309 | (4,175) | - |
| Net interest income | 54,805 | 55,929 | 8,258 | 19,822 | 138,814 |
| Operating income | 26,797 | 11,635 | 3,167 | (127) | 41,472 |
| | 81,602 | 67,564 | 11,425 | 19,695 | 180,286 |
| Depreciation | 1,644 | 2 | 70 | 2,816 | 4,532 |
| Operating expenses | 25,844 | 2,949 | 1,708 | 56,186 | 86,687 |
| Indirect expenses | 20,330 | 27,955 | 10,970 | (59,255) | - |
| Loan loss impairment | 9,557 | 2,712 | 39 | - | 12,308 |
| Net income/(loss) for the year | $ 24,227 | $ 33,946 | $ (1,362) | $ 19,948 | $ 76,759 |

Total assets and liabilities by segment are as follows:

| | RBB | CIB | WM | Admin | 2017 |
|---|---|---|---|---|---|
| Segment assets | $1,101,286 | $ 991,983 | $ 11,262 | $1,344,878 | $ 3,449,409 |
| Unallocated assets | - | - | - | 72,747 | 72,747 |
| Total assets | | | | | $ 3,522,156 |
| | | | | | |
| Segment liabilities | $1,064,222 | $1,025,726 | $ 581,447 | $ 157,617 | $ 2,829,012 |
| Total liabilities | | | | | $ 2,829,012 |

### 2016 Segment Reporting

| | RBB | CIB | WM | Admin | 2016 |
|---|---|---|---|---|---|
| External revenue | $ 70,675 | $ 42,768 | $ (586) | $ 22,217 | $ 135,074 |
| Internal revenue | (16,356) | 11,400 | 8,581 | (3,625) | - |
| Net interest income | 54,319 | 54,168 | 7,995 | 18,592 | 135,074 |
| Operating income | 24,501 | 10,065 | 2,823 | 769 | 38,157 |
| | 78,820 | 64,233 | 10,818 | 19,361 | 173,232 |
| Depreciation | 1,226 | 2 | 71 | 1,801 | 3,100 |
| Operating expenses | 24,796 | 3,284 | 1,987 | 58,046 | 88,113 |
| Indirect expenses | 25,921 | 23,483 | 11,606 | (61,010) | - |
| Loan loss impairment | 8,040 | 3,406 | - | - | 11,446 |
| Net income/(loss) for the year | $ 18,837 | $ 34,058 | $ (2,846) | $ 20,524 | $ 70,573 |

*(Expressed in thousands of Bahamian dollars)*

Total assets and liabilities by segment are as follows:

| | RBB | CIB | WM | Admin | 2016 |
|---|---|---|---|---|---|
| Segment assets | $1,081,629 | $ 955,802 | $ 10,566 | $1,108,190 | $ 3,156,187 |
| Unallocated assets | - | - | - | 72,747 | 72,747 |
| Total assets | | | | | $ 3,228,934 |
| | | | | | |
| Segment liabilities | $ 971,109 | $ 898,222 | $ 543,141 | $ 161,446 | $ 2,573,918 |
| Total liabilities | | | | | $ 2,573,918 |

Geographical segments are set out in Note 26 (B).

## Note 26 Financial Risk Management

### A. Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit, liquidity, market and operating risks.

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. The Bank also enters into guarantees and other commitments such as letters of credit, performance and other bonds.

### B. Credit risk

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

#### Process and control

The Risk Management Team is responsible for the provision of the Bank's adjudication, oversight and management of credit risk within its portfolios. The Credit Executive Committee (CrExCo) has responsibility for monitoring credit metrics, providing direction on credit issues and making recommendations on credit policy.

The Risk Management Team is guided by the Bank's Delegation of Authority policy which is based on the levels of exposure and risk. Credits above the discretion delegated to certain front line employees are approved by Risk Management and where applicable by the Credit Committee and the Finance Risk & Conduct Review Committee of the Board (FRCRC). The FRCRC also has the responsibility for approving credit policies and key risk limits, including portfolio limits, which are reviewed annually.

*(Expressed in thousands of Bahamian dollars)*

### Credit risk limits

Credit limits are established for all loans (mortgages, personal, business & government) for the purposes of diversification and managing concentration. Limits are also established for individual borrowers, groups of related borrowers, industry sectors, country and geographic regions, and also for products and portfolios. Such risks are monitored on a revolving basis and the limits are 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, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. 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.

### Credit Valuation Adjustment (CVA)

A CVA is determined using the fair value based exposure we have on derivative contracts. We believe that we have made appropriate fair value adjustments to date. The establishment of fair value adjustments involves estimates that are based on accounting processes and judgments by management. We evaluate the adequacy of the fair value adjustments on an ongoing basis. Market and economic conditions relating to derivative counterparties may change in the future, which could result in significant future losses. The CVA is driven off market-observed credit spreads or proxy credit spreads and our assessment of the net counterparty credit risk exposure. In assessing this exposure, we also take into account credit mitigants such as collateral, master netting arrangements, and settlements through clearing houses.

#### Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds 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, accounts receivable and equipment;
- 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 and 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.

#### Geographic distribution

The following table provides a distribution of gross drawn and undrawn loans and advances to customers, which therefore excludes provisions for impairment, interest receivable and unearned fee income.

| | Drawn | Undrawn | Gross Maximum Exposure 2017 | Drawn | Undrawn | Gross Maximum Exposure 2016 |
|---|---|---|---|---|---|---|
| Bahamas | $ 1,901,482 | $ 222,501 | $ 2,123,983 | $ 1,859,083 | $ 203,704 | $ 2,062,787 |
| Turks & Caicos Islands | 286,663 | 26,880 | 313,543 | 287,542 | 36,472 | 324,014 |
| | $ 2,188,145 | $ 249,381 | $ 2,437,526 | $ 2,146,625 | $ 240,176 | $ 2,386,801 |

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*(Expressed in thousands of Bahamian dollars)*

### Exposures by industry groups

The following table provides an industry-wide break down of gross drawn and undrawn loans and advances to customers, which therefore excludes provisions for impairment, interest receivables and unearned fee income. Amounts are before allowance for credit losses and after credit risk mitigation, valuation adjustments related to financial guarantors and collateral on agreements.

| | Drawn | Undrawn | Gross Maximum Exposure 2017 | Drawn | Undrawn | Gross Maximum Exposure 2016 |
|---|---|---|---|---|---|---|
| Agriculture | $ 2,573 | $ 141 | $ 2,714 | $ 2,939 | $ 46 | $ 2,985 |
| Construction | 41,976 | 5,830 | 47,806 | 53,155 | 17,129 | 70,284 |
| Distribution | 89,825 | 35,466 | 125,291 | 102,129 | 25,170 | 127,299 |
| Education | 318 | - | 318 | 362 | - | 362 |
| Fishing | 2,066 | 2,674 | 4,740 | 4,216 | 608 | 4,824 |
| Governments | 429,943 | 6,135 | 436,078 | 457,802 | 3,999 | 461,801 |
| Health & social work | 19,725 | - | 19,725 | 20,589 | - | 20,589 |
| Hotels & restaurants | 72,980 | 42,195 | 115,175 | 81,877 | 52,010 | 133,887 |
| Individuals & individual trusts | 1,088,916 | 97,952 | 1,186,868 | 1,063,823 | 78,165 | 1,141,988 |
| Manufacturing | 41,002 | 421 | 41,423 | 38,808 | 610 | 39,418 |
| Miscellaneous | 261,694 | 25,272 | 286,966 | 177,704 | 34,938 | 212,642 |
| Other financial corporations | 10,027 | 4,346 | 14,373 | 3,438 | 7,031 | 10,469 |
| Real estate, renting & other business activities | 105,889 | 306 | 106,195 | 119,550 | 4,920 | 124,470 |
| Transport, storage & communication | 21,211 | 28,643 | 49,854 | 20,233 | 15,550 | 35,783 |
| | $ 2,188,145 | $ 249,381 | $ 2,437,526 | $ 2,146,625 | $ 240,176 | $ 2,386,801 |

### 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 usually obtained for credit risk exposures on these instruments.

### Master-netting arrangements

The Bank restricts its exposure to credit losses by entering into master netting arrangements with counterparties with whom it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of consolidated statement of financial position assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if 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.

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*(Expressed in thousands of Bahamian dollars)*

### Credit-related instruments

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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipment of goods or appropriate assets to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent the unused portions of authorisations 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 following table shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral arrangements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

| | Gross maximum exposure | |
|---|---|---|
| | 2017 | 2016 |
| Balances with The Central Bank | $ 113,239 | $ 77,254 |
| Due from banks | 364,661 | 293,169 |
| Derivative financial instruments | 366 | 362 |
| Investment securities | | |
| - Equity securities - unquoted | 219 | - |
| - Government debt securities | 467,162 | 395,212 |
| - Other debt securities | 325,536 | 275,702 |
| - Interest receivable | 7,049 | 7,158 |
| Loans and advances to customers | | |
| - Mortgages | 1,013,870 | 1,022,511 |
| - Personal loans | 208,775 | 205,728 |
| - Business & Government loans | 965,500 | 918,386 |
| - Interest receivable | 14,130 | 19,173 |
| Other assets | 11,431 | 3,027 |
| Total | $ 3,491,938 | $ 3,217,682 |
| Commitments, guarantees and contingent liabilities (Note 23) | 289,840 | 298,075 |
| Total credit risk exposure | $ 3,781,778 | $ 3,515,757 |

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

### Geographical concentration

The following tables reflect additional geographical concentration information:

| | Total assets | Total liabilities | Commitments, guarantees and contingent liabilities | External revenues | Capital expenditure* | Non-current assets** |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Bahamas | $ 3,129,433 | $ 2,514,176 | $ 259,560 | $ 150,951 | $ 3,610 | $ 95,195 |
| Turks & Caicos Islands | 937,966 | 860,079 | 30,280 | 29,335 | 749 | 5,527 |
| | 4,067,399 | 3,374,255 | 289,840 | 180,286 | 4,359 | 100,722 |
| Eliminations | (545,243) | (545,243) | - | - | - | - |
| | $ 3,522,156 | $ 2,829,012 | $ 289,840 | $ 180,286 | $ 4,359 | $ 100,722 |

* Capital expenditure is shown by geographical area in which the property and equipment are located.
** Non-current assets relate only to property and equipment and goodwill.

| | Total assets | Total liabilities | Commitments, guarantees and contingent liabilities | External revenues | Capital expenditure* | Non-current assets** |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Bahamas | $ 2,950,938 | $ 2,372,094 | $ 258,994 | $ 147,323 | $ 4,568 | $ 95,285 |
| Turks & Caicos Islands | 755,111 | 678,939 | 39,081 | 25,909 | 1,619 | 5,876 |
| | 3,706,049 | 3,051,033 | 298,075 | 173,232 | 6,187 | 101,161 |
| Eliminations | (477,115) | (477,115) | - | - | - | - |
| | $ 3,228,934 | $ 2,573,918 | $ 298,075 | $ 173,232 | $ 6,187 | $ 101,161 |

* Capital expenditure is shown by geographical area in which the property and equipment are located.
** Non-current assets relate only to property and equipment and goodwill.

The Bank operates in two main geographical areas between which its exposure to credit risk is concentrated.

Geographic sector risk concentrations within the customer loan portfolio were as follows:

| | 2017 | 2017 | 2016 | 2016 |
|---|---|---|---|---|
| Bahamas | $ 1,797,609 | % 87 | $ 1,729,972 | % 86 |
| Turks & Caicos Islands | 274,891 | 13 | 278,353 | 14 |
| | $ 2,072,500 | 100 | 2,008,325 | 100 |

*(Expressed in thousands of Bahamian dollars)*

### Credit quality

A mapping between the grades used by the Bank and the external agencies' ratings 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 | Standard & 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 risk grading model is used for Commercial and Corporate customers. 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 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 high grade, including CIBC group entities.

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

| | Notes | High grade | Standard | Substandard | Impaired | 2017 |
|---|---|---|---|---|---|---|
| Loans and advances to customers | | | | | | |
| -Mortgages | | $ 807,874 | $ 71,084 | $ 24,523 | $ 110,389 | $ 1,013,870 |
| -Personal loans | | 179,296 | 7,560 | 1,620 | 20,299 | 208,775 |
| -Business & Government loans | | 926,896 | 18,963 | 1,488 | 18,153 | 965,500 |
| Total | 8 | $ 1,914,066 | $ 97,607 | $ 27,631 | $ 148,841 | $ 2,188,145 |

| | Notes | High grade | Standard | Substandard | Impaired | 2016 |
|---|---|---|---|---|---|---|
| Loans and advances to customers | | | | | | |
| -Mortgages | | $ 799,487 | $ 65,716 | $ 20,705 | $ 136,603 | $ 1,022,511 |
| -Personal loans | | 170,034 | 5,990 | 1,052 | 28,652 | 205,728 |
| -Business & Government loans | | 879,691 | 10,614 | 1,581 | 26,500 | 918,386 |
| Total | 8 | $ 1,849,212 | $ 82,320 | $ 23,338 | $ 191,755 | $ 2,146,625 |

For our Business & Government loans, we employ risk ratings in managing the credit portfolio. Business borrowers with elevated default risk are monitored on our Early Warning List. Early Warning List characteristics include borrowers exhibiting a significant decline in revenue, income, or cash flow or where we have doubts as to the continuing viability of the business. Early Warning List customers are often, but not always, also delinquent. As of October 31, 2017, Early Warning List customers in the medium to high risk category amounted to $29,743 (2016: $34,582).

## C. Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to the change in market variables. Market risk arises from positions in securities and derivatives as well as from our core Retail, Business and International Banking, Wealth Management and Corporate and Investment Banking businesses. The key risks to the Bank are foreign exchange ("FX"), interest rate and credit spread. Market Risk within the Bank is a centralised group that is independent from the front line. This mirrors the way that the hard currencies are managed by Business Units and although the local currencies are handled locally, these are still monitored, measured and controlled from a market risk perspective, centrally at the Parent Group level.

The following sections give a comprehensive review of the Bank's entire exposures.

### Policies and standards

The Parent Group has a comprehensive policy for market risk management related to the identification, measurement, monitoring and control of market risks. This policy is reviewed and approved every two years by the FRCRC of the Parent Group's Board. The Board limits, which are approved annually, are used by the Bank to establish explicit risk tolerances expressed in term of the three main risk measures mentioned below. There is a three tiered approach to limits at the Parent Group. The highest level is set at the Board. The second tier is delegated by the Chief Risk Officer and the third tier to the Business Unit, which limits traders to specific products and size of deals. Trading limits are documented through a formal delegation letter and monitored using the Group's treasury system.

### Process and control

Market risk measures are monitored with differing degrees of frequency, dependent upon the nature of the risk. FX positions and certain profit and loss (P&L) measures are all measured daily, whereas others such as stress tests and credit spread sensitivity are performed on a weekly, or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a monthly basis and a summary version supplied to the Board quarterly.

### Risk measurement

The Bank has three 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 risks;
- Stress scenarios based upon a combination of theoretical situations and historical events

### Position

This risk measure is used predominantly for the Bank's foreign exchange business. The measure, monitored daily, focuses on the outright long or short position in each currency from either the spot or trading position and on a structural basis. Any forward contracts or FX swaps are also incorporated. There are also notional position limits on the size of the bond portfolios.

### Sensitivity

The main two measures utilized by the Parent Group are the DV01 (delta value of a one basis point move, also known as the PV01 or present value of a one basis point move) and the CSDV01 (credit spread delta of a one basis point move).

The DV01 measure is calculated for a one basis point move down in the yield curve. This generates the change in economic value 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 on a post-structural basis that includes structural assumptions for core balances of non-contractual maturity positions.

The CSDV01 sensitivity is a way to measure the risk of the interest rate spread between Treasury securities and the non-Treasury securities in the bond portfolio widening or narrowing.

### 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 Parent Group has two distinct approaches to this, which are as follows:

- For the hard currency testing, it utilises the suite of measures that the Parent company has developed. The stress testing measures the effect on the 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 Parent Group's hard currency exposures simulates 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 economists, business leaders and risk managers. These tests are run on a daily basis.

- The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with Treasury considers the market data over approximately the last ten years and identifies the greatest curve or data point moves over both sixty and single days. These are then applied to the existing positions/sensitivities of the Parent Group. This is performed and reported on a monthly basis as they do not tend to change rapidly.

- For foreign exchange stresses, the Parent Group considers what the effect of a currency coming off a peg would have on the earnings of the Parent Group. This is largely judgmental, as it has happened so infrequently in the region and it is supplemented by some historical reviews both within the region and in other areas where pegged currency regimes have existed or do exist.

## Summary of key market risks

Of the market risks arising from the various currencies, yield curves and spreads throughout the regional and broader international markets, the following risks are considered by management the most significant for the Bank: (i) The risk of credit spreads widening in a similar fashion to the Credit Crisis of 2008 on bonds held within the investment portfolios and (ii) The low probability, high impact of a peg breaking between the USD and BSD, impacting the structural long position of the Bank. The largest interest rate risk run through multiple scenarios is that if the USD yield curve moves in a similar fashion to a sixty day period during the Subprime Crisis and Lehman Collapse. The following section highlights these key risks as well as some of the lesser ones that arise from the Bank's ongoing banking operations.

## 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. The local currency is pegged to the USD and hence the Value at Risk (VaR) measure is not appropriate and that is why more emphasis is put on the overall position limit and related stress tests. The Board has set limits on positions by currency and positions are monitored on a daily basis and the Forex & Derivatives Sales department is solely responsible for the hedging of the exposure of the Bank.

The Bank also uses a measure to quantify non-trading foreign exchange risk, also referred to as structural foreign exchange risk.

The following table highlights the Bank's significant currency exposures. It also highlights the metrics used by the Bank to measure, monitor, and control that risk.

| | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| Currency | Position (Short)/ Long vs BSD | Stressed Loss | Average Position* | Position Long/ (Short) vs BSD | Stressed Loss | Average Position * |
| US dollars | $ (2,413) | $ 724 | $ 1,697 | $ 1,055 | $ 316 | $ 1,286 |

(*) Averages are taken over a twelve-month period.

## Interest rate risk

Interest rate risk results from differences in the maturities or re-pricing dates of assets, both on and off the consolidated statement of financial position. The Bank utilises a combination of high level Board limits to monitor risk as well as the more granular Chief Risk Officer's limits. The key interest risk measures are shown in the table below highlighting the currency where the Bank has their most significant interest rate exposures.

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Currency | 60 day Stressed Loss | Currency | 60 day Stressed Loss |
| Bahamian dollars | $ 20,717 | $ 1,622 | $ 21,989 | $ 1,981 |

### Credit spread risk

Credit spread exists as the benchmark curve and the reference asset curves either converge or diverge. The Bank has two portfolios that have a material amount of credit spread risk. The risk is measured using an estimated CSDV01 and stress scenarios. The results of these are reported monthly to senior management.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Notional | Credit Spread DV01 | Stress Loss | Notional | Credit Spread DV01 | Stress Loss |
| Regional hard currency bond portfolio | $ 65,923 | $ 41 | $ 13,836 | $ 66,772 | $ 52 | $ 17,072 |
| Non-regional hard currency bond portfolio | 293,495 | 38 | 8,309 | 244,740 | 38 | 8,281 |
| Total | $ 359,418 | $ 79 | $ 22,145 | $ 311,512 | $ 90 | $ 25,353 |

### Derivatives held for asset and liability management (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 if the transactions meet the regulatory criteria, then the Bank applies hedge accounting. Derivative hedges that do not qualify for hedge accounting treatment are considered to be economic hedges and are recorded at market value on the consolidated statement of financial position with changes in the fair value reflected through the consolidated statement of income. 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.

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

Currency concentrations of assets, liabilities and commitments, guarantees and contingent liabilities:

| | BAH | US | Other | 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with The Central Bank | $ 136,885 | $ 10,740 | $ 450 | $ 148,075 |
| Due from banks | (110) | 280,063 | 84,708 | 364,661 |
| Derivative financial instruments | - | 366 | - | 366 |
| Other assets | 10,869 | 2,427 | (40) | 13,256 |
| Investment securities | 429,540 | 301,299 | 69,127 | 799,966 |
| Loans and advances to customers | 1,164,274 | 908,225 | 1 | 2,072,500 |
| Property and equipment | 22,247 | 5,648 | 80 | 27,975 |
| Retirement benefit assets | 22,610 | - | - | 22,610 |
| Goodwill | 71,582 | 1,165 | - | 72,747 |
| Total assets | $ 1,857,897 | $ 1,509,933 | $ 154,326 | $ 3,522,156 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ - | $ 7,710 | $ 1,208 | $ 8,918 |
| Customer deposits | 1,292,482 | 1,304,383 | 153,983 | 2,750,848 |
| Other liabilities | (20,625) | 82,320 | (5,816) | 55,879 |
| Retirement benefit obligations | 9,405 | 3,962 | - | 13,367 |
| Total liabilities | $ 1,281,262 | $ 1,398,375 | $ 149,375 | $ 2,829,012 |
| Net assets | $ 576,635 | $ 111,558 | $ 4,951 | $ 693,144 |
| Commitments, guarantees and contingent liabilities (Note 23) | $ 179,118 | $ 109,827 | $ 895 | $ 289,840 |

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

| | BAH | US | Other | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with The Central Bank | $ 99,358 | $ 14,733 | $ 683 | $ 114,774 |
| Due from banks | 1,166 | 199,941 | 92,062 | 293,169 |
| Derivative financial instruments | 115 | 247 | - | 362 |
| Other assets | 6,782 | (1,778) | (87) | 4,917 |
| Investment securities | 352,715 | 259,944 | 65,413 | 678,072 |
| Loans and advances to customers | 1,115,611 | 892,711 | 3 | 2,008,325 |
| Property and equipment | 22,337 | 5,997 | 80 | 28,414 |
| Retirement benefit assets | 28,154 | - | - | 28,154 |
| Goodwill | 71,582 | 1,165 | - | 72,747 |
| Total assets | $ 1,697,820 | $ 1,372,960 | $ 158,154 | $ 3,228,934 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ - | $ 16,012 | $ 1,321 | $ 17,333 |
| Customer deposits | 1,160,623 | 1,174,731 | 156,593 | 2,491,947 |
| Other liabilities | (37,103) | 89,058 | (2,781) | 49,174 |
| Retirement benefit obligations | 9,886 | 5,578 | - | 15,464 |
| Total liabilities | $ 1,133,406 | $ 1,285,379 | $ 155,133 | $ 2,573,918 |
| Net assets | $ 564,414 | $ 87,581 | $ 3,021 | $ 655,016 |
| Commitments, guarantees and contingent liabilities (Note 23) | $ 140,297 | $ 135,576 | $ 22,202 | $ 298,075 |

## D. 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 one month, which represent balances on current accounts considered by the Bank as a relatively stable core source of funding of its operations.

## E. 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 the consolidated statement of 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 consolidated 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 carrying amounts recognised in the consolidated statement of financial position. On a consolidated basis, 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 Asset Liability Management Team (ALMT) is responsible for recommending the liquidity ratio targets, the stress scenarios and the contingency funding plans. The Bank's Board 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. The Bank has internally established specific liquidity requirements that are approved by the Parent Group's Asset Liability Committee (ALCO) and reviewed annually.

*(Expressed in thousands of Bahamian dollars)*

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

| | 0-3 months | 3-12 months | 1-5 years | Over 5 years | 2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with The Central Bank | $ 148,075 | $ - | $ - | $ - | $ 148,075 |
| Due from banks | 326,700 | 37,961 | - | - | 364,661 |
| Derivative financial instruments | - | 77 | 250 | 39 | 366 |
| Other assets | 13,256 | - | - | - | 13,256 |
| Investment securities | 179,023 | 175,075 | 270,474 | 175,394 | 799,966 |
| Loans and advances to customers | 50,857 | 172,729 | 642,198 | 1,206,716 | 2,072,500 |
| Property and equipment | 910 | 294 | 8,409 | 18,362 | 27,975 |
| Retirement benefit assets | - | - | - | 22,610 | 22,610 |
| Goodwill | - | - | - | 72,747 | 72,747 |
| Total assets | $ 718,821 | $ 386,136 | $ 921,331 | $ 1,495,868 | $ 3,522,156 |
| **Liabilities** | | | | | |
| Derivative financial instruments | $ 1,934 | $ 39 | $ 771 | $ 6,174 | $ 8,918 |
| Customer deposits | 2,361,029 | 380,641 | 7,107 | 2,071 | 2,750,848 |
| Other liabilities | 55,879 | - | - | - | 55,879 |
| Retirement benefit obligations | - | - | - | 13,367 | 13,367 |
| Total liabilities | $ 2,418,842 | $ 380,680 | $ 7,878 | $ 21,612 | $ 2,829,012 |
| Net assets/(liabilities) | $(1,700,021) | $ 5,456 | $ 913,453 | $ 1,474,256 | $ 693,144 |
| Commitments, guarantees and contingent liabilities (Note 23) | $ 205,955 | $ 34,098 | $ 1,583 | $ 48,204 | $ 289,840 |

For the year ended October 31, 2017
*(Expressed in thousands of Bahamian dollars)*

| | 0-3 months | 3-12 months | 1-5 years | Over 5 years | 2016 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with The Central Bank | $ 114,774 | $ - | $ - | $ - | $ 114,774 |
| Due from banks | 243,169 | 50,000 | - | - | 293,169 |
| Derivative financial instruments | - | - | 362 | - | 362 |
| Other assets | 4,917 | - | - | - | 4,917 |
| Investment securities | 93,465 | 91,406 | 269,022 | 224,179 | 678,072 |
| Loans and advances to customers | 124,222 | 118,842 | 467,668 | 1,297,593 | 2,008,325 |
| Property and equipment | 909 | 133 | 11,033 | 16,339 | 28,414 |
| Retirement benefit assets | - | - | - | 28,154 | 28,154 |
| Goodwill | - | - | - | 72,747 | 72,747 |
| Total assets | $ 581,456 | $ 260,381 | $ 748,085 | $ 1,639,012 | $ 3,228,934 |
| **Liabilities** | | | | | |
| Derivative financial instruments | $ 2,536 | $ - | $ 6,106 | $ 8,691 | 17,333 |
| Customer deposits | 2,136,037 | 349,898 | 5,852 | 160 | 2,491,947 |
| Other liabilities | 49,174 | - | - | - | 49,174 |
| Retirement benefit obligations | - | - | - | 15,464 | 15,464 |
| Total liabilities | $ 2,187,747 | $ 349,898 | $ 11,958 | $ 24,315 | $ 2,573,918 |
| Net assets/(liabilities) | $(1,606,291) | $ (89,517) | $ 736,127 | $ 1,614,697 | $ 655,016 |
| Commitments, guarantees and contingent liabilities (Note 23) | $ 141,448 | $ 114,459 | $ 11,932 | $ 30,236 | $ 298,075 |

### F. Fair values of financial assets and liabilities

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 categorised 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.

*(Expressed in thousands of Bahamian dollars)*

The table below presents the level in the fair value hierarchy into which the fair values of financial instruments, that are carried and disclosed at fair value on the consolidated balance sheet, are categorised.

| | Level 1 | Level 2 | Level 3 | Total | Total |
|---|---|---|---|---|---|
| | Quoted market price | Valuation technique- observable market inputs | Valuation technique- non- observable market input | 2017 | 2016 |
| Financial Assets | | | | | |
| Cash and balances with The Central Bank* | $ 148,075 | $ - | $ - | $ 148,075 | $ 114,774 |
| Due from banks* | 364,661 | - | - | 364,661 | 293,169 |
| Derivative financial instruments | - | 366 | - | 366 | 362 |
| Investment securities | - | 799,747 | 219 | 799,966 | 678,072 |
| Loans and advances to customers | - | - | 2,074,038 | 2,074,038 | 2,001,712 |
| Total financial assets | $ 512,736 | $ 800,113 | $ 2,074,257 | $ 3,387,106 | $ 3,088,089 |
| Financial Liabilities | | | | | |
| Derivative financial instruments | $ - | $ 8,918 | $ - | $ 8,918 | $ 17,333 |
| Customer deposits | - | - | 2,752,543 | 2,752,543 | 2,864,442 |
| Total financial liabilities | $ - | $ 8,918 | $ 2,752,543 | $ 2,761,461 | $ 2,881,775 |

*Financial assets with carrying values that approximate fair value.

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, the Bank transferred $2,001,712 of loans and advances to customers and $2,847,442 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:

| | As at October 31,2017 | | | | Range of inputs | |
|---|---|---|---|---|---|---|
| | Amortised cost | Fair value | Valuation technique | Key non-observable inputs | Low | High |
| Loans and advances to customers | $ 2,072,500 | $ 2,074,038 | Market proxy or direct broker quote | Market proxy or direct broker quote | 3.3% | 18.5% |
| Customer deposits | $ 2,750,848 | $ 2,752,543 | Market proxy or direct broker quote | Market proxy or direct broker quote | 0% | 0.1% |
| Investment securities | $ 219 | $ 219 | n/a | n/a | n/a | n/a |

These financial assets and liabilities are carried at amortised cost and as such sensitivity analysis on the inter-relationships between significant non-observable inputs and the sensitivity of fair value to changes in those inputs is not necessary.

### 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:

### Derivative financial instruments

Derivative products valued using a valuation technique with market observable inputs are interest rate swaps and foreign exchange forward contracts. 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.

### 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 consolidated financial statements.

### Loans and advances to customers

Loans and advances to customers are stated net of specific and other provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

### Customer deposits

The estimated fair value of customer deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity.

### Financial assets and liabilities with carrying values that approximate fair value

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 value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

## Note 27 Fiduciary Activities

The Bank provides custody and trustee discretionary investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. At the reporting date, the Bank had investment assets under administration on behalf of third parties amounting to $132,396 (2016: $128,998).

## Note 28 Principal Subsidiary Undertakings

| Name | Country of incorporation |
|---|---|
| Sentry Insurance Brokers Ltd. | The Bahamas |
| FirstCaribbean International (Bahamas) Nominees Company Limited | The Bahamas |
| FirstCaribbean International Land Holdings (TCI) Limited | Turks & Caicos Islands |

All subsidiaries are wholly owned.

# Notice of Meeting

## Annual General Meeting

Notice is hereby given that the twenty-third annual general meeting ("the Meeting") of FirstCaribbean International Bank (Bahamas) Limited ("the Company") will be held at 6:00 p.m. on Thursday, April 12, 2018 at the British Colonial Hilton Nassau Hotel, Governor's Ballroom, One Bay Street, Nassau, Bahamas, for the following purposes:

1. To receive and consider the minutes of the last annual general meeting held on March 16, 2017.

2. To receive the Managing Director's review.

3. To receive audited accounts for the year November 1, 2016 to October 31, 2017 and the report of the directors and auditors thereon.

4. To re-elect the following directors who retire by rotation and, being eligible, offer themselves for re-election to serve until the next annual general meeting of the Company:

    i. Colette Delany
    ii. Gary Brown
    iii. Marie Rodland-Allen
    iv. Trevor Torzsas
    v. Felix Stubbs
    vi. Willie Moss
    vii. G. Diane Stewart

5. To appoint the auditors of the Company and to authorise the directors to fix their remuneration.

6. To ratify the dividend for fiscal 2017.

7. To discuss any other business which may be properly considered at the meeting.

BY ORDER OF THE BOARD

**Sherrylyn Bastian**
**Corporate Secretary**
FirstCaribbean International Bank (Bahamas) Limited
March 16, 2018

## Record Date

Holders of FirstCaribbean International Bank (Bahamas) Limited's ordinary shares of record at the close of business on Monday, March 8, 2018 are entitled to vote at the Meeting.

## Financial Statements

The Company's audited financial statements for the year November 1, 2016 to October 31, 2017 are included in the Company's 2017 annual report.

## Proxies

Shareholders are entitled to attend and vote at the meeting and appoint one or more proxies to attend and in a poll, vote instead of them. A proxy need not be a shareholder of the Company. Any instrument appointing a proxy must be deposited at the office of CIBC Trust Company (Bahamas) Limited, Registrar and Transfer Agent, Goodman's Bay Corporate Centre, West Bay Street, P.O. Box N-3933, Nassau, Bahamas, no later than 48 hours before the time for holding the Meeting. Shareholders who return completed proxy forms are not precluded, if subsequently they so wish, from attending the Meeting instead of their proxies and voting in person. In the event of a poll, their proxy votes deposited with CIBC Trust Company (Bahamas) Limited the Registrar and Transfer Agent will be excluded.

## Dividend

An interim dividend of fifteen cents ($0.15) per ordinary share was paid on August 31, 2017. A final dividend of seventeen cents ($0.17) per ordinary share for the fiscal year 2017 was approved by the directors on December 14, 2016, and paid to shareholders on February 1, 2018. The total dividends paid for fiscal 2017 was thirty cents ($0.30).

Registered Office: FirstCaribbean International Bank Financial Centre, 2nd Floor, Shirley Street, Nassau, Bahamas.

# Directors' Report

## Directors

In accordance with the memorandum and articles of association, the shareholders are requesting to re-elect the following directors who retire by rotation, and being eligible, offer themselves for re-election to serve as directors until the next annual general meeting of the Company:-

1. Colette Delaney
2. Gary Brown
3. Marie Rodland-Allen
4. Trevor Torzsas
5. Willie Moss
6. G. Diane Stewart
7. Felix Stubbs

## Financial Results and Dividends

The directors report that the Company had Net Income of BSD $76.8 million for the year ended October 31, 2017. All statutory requirements for the year ended October 31, 2017 have been fulfilled.

An interim dividend of fifteen cents ($0.15) per ordinary share was paid on August 31, 2017. A final dividend of seventeen cents ($0.17) per ordinary share for the fiscal year 2017 was approved by the directors on December 14, 2017, and paid to shareholders on February 1, 2018. The total dividends paid for fiscal 2017 was thirty-two cents ($0.32) per ordinary share.

## Share Capital

Substantial Interest as at October 31, 2017*
Ordinary shares of 0.10 par value

FirstCaribbean International Bank Limited – 114,463,600 (95.21%)

*Substantial Interest means a holding of 5% or more of the Company's issued share capital.

BY ORDER OF THE BOARD

**Sherrylyn Bastian**
**Corporate Secretary**
FirstCaribbean International Bank (Bahamas) Limited
March 16, 2018

We are providing these proxy materials in connection with the solicitation by the board of directors of FirstCaribbean International Bank (Bahamas) Limited, of proxies to be voted at the Company's 2018 annual general meeting ("the Meeting") and at any Meeting following adjournment thereof.

Shareholders are advised that no shareholder proposal has been filed and no action is proposed by the board of directors which would create the possibility of a "dissenting shareholder" under Section 168 of The Companies Act, 1992. The board of directors is also not aware of any solicitation of proxies by a person or group adverse to present management of this Company.

You are cordially invited to attend the Meeting on Thursday, April 12, 2018, beginning at 6:00 p.m. Shareholders will be admitted beginning at 5:30 p.m. The Meeting will be held at the British Colonial Hilton Nassau Hotel, Governor's Ballroom, One Bay Street, Nassau, Bahamas.

This financial year of FirstCaribbean International Bank (Bahamas) Limited began on November 1, 2016 and ended October 31, 2017. References in this proxy statement to the year 2017 or financial 2017 refer to the period as mentioned above.

We are mailing this proxy statement and accompanying forms of proxy and voting instructions on Friday, March 16, 2018 to holders of the Company's ordinary shares as at the close of business on Thursday March 8, 2018, the record date for the Meeting.

## Proxies and voting Procedures

The board of directors and the management of the Company do not contemplate the solicitation of proxies otherwise than by mail.

A shareholder has the right to appoint a person or company (who need not be a shareholder), other than the persons designated by the directors as proxy holders in the accompanying form of proxy, to represent the shareholder at the Meeting by striking out the names of the persons so designated and inserting the name of the chosen proxy holder in the blank space provided for that purpose in the form of proxy, or by completing and signing another proper form of proxy. A proxy must be in writing and must be executed by the shareholder or by an attorney authorized in writing and deposited at the office of CIBC Trust Company (Bahamas) Limited, Registrar and Transfer Agent, Goodman's Bay Corporate Centre, West Bay Street, P.O. Box N-3933, Nassau, Bahamas no later than 48 hours before the time for holding the Meeting. A shareholder who executes and returns the accompanying form of proxy may revoke it by an instrument in writing executed by such shareholder or attorney authorized in writing and deposited at the office of CIBC Trust Company (Bahamas) Limited, Registrar and Transfer Agent at Goodman's Bay Corporate Centre, West Bay Street, P. O. Box N-3933, Nassau, Bahamas at any time up to and including the last business day preceding the day of the Meeting, or with the Chair of the Meeting on the day of the Meeting prior to the commencement thereof, or in any other manner permitted by law.

All shares entitled to vote and represented by properly completed proxies received prior to the Meeting and not revoked will be voted at the Meeting in accordance with your instructions. If you do not indicate how your shares should be voted on a matter, the shares represented by your properly completed proxy will be voted as the board of directors recommends.

If any other matters are properly presented at the Meeting for consideration, including, among other things, consideration of a motion to adjourn the Meeting to another time or place, the persons named as proxies and acting thereunder will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. At the date this proxy statement went to press, we did not anticipate that any other matters would be raised at the Meeting.

## Shareholders entitled to Vote

Shareholders at the close of business on the record date are entitled to notice of and to vote at the Meeting.

On March 8, 2018 there were 120,216,204 ordinary shares of par value ($0.10) each outstanding. Each shareholder is entitled to one vote on each matter properly brought before the Meeting.

At close of business on March 8, 2018 FirstCaribbean International Bank Limited beneficially owned or controlled directly or indirectly 114,463,600 shares which represents 95.21% of the Company's issued ordinary shares.

## Quorum and Required Votes

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote generally for the election of directors is necessary to constitute a quorum at the Meeting. For purposes of determining a quorum, abstentions are counted as present and are entitled to vote. Pursuant to the articles of association, three persons, each being a member entitled to attend and vote at the Meeting, or a proxy for such a member, or the duly authorized representative of a corporate member so entitled, shall be a quorum.

## Election of Directors

The articles of association currently provide that the board of directors of the Company shall consist of a minimum of five (5) directors and a maximum of twelve (12) directors, with the actual number of directors to be determined from time to time by the board of directors.

Directors can be either elected annually by the shareholders at the annual general meeting or, subject to the articles of associaton of the Company and applicable law, appointed by the board of directors between annual general meetings. Each director shall hold office until the close of the next annual general meeting of the Company or until he or she ceases to be a director by operation of law or articles of association of the Company or until his or her resignation becomes effective. The board of directors held seven (7) Meetings in 2017.

The persons designated as proxy holders in the accompanying form of proxy will vote ordinary shares represented by such form of proxy, properly executed, for the re-election of the nominees whose names are set forth herein, unless specifically directed to withhold a vote. All the nominees were previously elected by the shareholders of the Company as directors of the Company.

If any nominee is for any reason unavailable to serve (which management has no reason to believe to be the case), the persons designated as proxy holders in the accompanying form of proxy shall have the right to exercise their discretion by voting for another qualified nominee.

The following table sets out the names of all persons proposed to be nominated for re-election as directors, along with other relevant information. The nominees are now members of the board of directors.

| Name | Principal Occupation | Director Since | Number of Shares Beneficially Owned or Controlled Directly or Indirectly |
|---|---|---|---|
| Colette Delaney | Chief Operating Officer | 2017 | Nil |
| Gary Brown | Chief Executive Officer | 2016 | Nil |
| Marie Rodland-Allen | Managing Director | 2011 | Nil |
| Trevor Torzsas | Managing Director, Customer Relationship Management & Strategy | 2013 | Nil |
| Willie Moss | Attorney-at-law | 1998 | Nil |
| G. Diane Stewart | Attorney-at-law | 2002 | Nil |
| Felix Stubbs | Business Executive | 2014 | Nil |

## Compensation of Directors

Each director who is not an employee of the Company is paid an annual fee of thirty-five thousand dollars ($35,000.00) for his or her services. Directors are also entitled to reimbursement for reasonable travel and living expenses incurred by them in attending any board of directors or committee Meetings.

No special remuneration was paid to any director during financial year 2017.

## Senior Management Compensation

The senior management of the Company received aggregate compensation amounting to $ 2,621,861.64 in the financial year 2017.

## Indebtedness of Management

There is a total indebtedness of approximately $5,777,977.50 due to the Company from members of the senior management and directors. This represents loans and mortgages.

## Management's Interest in Transactions

No director, executive officer, or senior officer of the Company, or proposed nominee for re-election as a director of the Company, has held or currently holds a material interest in any transaction entered into by the Company or its subsidiaries.

## Share Option Plan

There is no share option plan.

## Shareholder Feedback and Communication

The Company communicates with its shareholders through press releases and annual reports. At the Company's annual general meetings, a full opportunity is afforded to permit shareholders to ask questions concerning the Company's activities. Investor and shareholder concerns are addressed on an on-going basis through the office of the Corporate Secretary.

## Appointment of Auditors

At the Meeting, the shareholders will be called upon to appoint auditors of the Company at a remuneration to be fixed by the board of directors and to serve until the close of the next annual general meeting of the Company. To be effective, the resolution appointing auditors of the Company must be approved by the majority of the votes cast by the holders of ordinary shares present in person, or represented by proxy, at the Meeting.

Arrangements will be made for one or more representatives of the proposed auditors to attend the Meeting.

## Other Business

The management of the Company knows of no matters to come before the Meeting other than the matters referred to in the notice of Meeting. However, if any other matters which are not known to the management of the Company should properly come before the Meeting, forms of proxy given pursuant to this solicitation by the management of the Company will be voted on such matters in accordance with the best judgment of the person voting the proxy.

## Directors' Approval and Certificate

The contents and the sending of this information circular and proxy form have been approved by the board of directors of the Company. The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Dated at Nassau, Bahamas this March 16, 2018.

Marie Rodland-Allen

MARIE RODLAND-ALLEN
Managing Director

Sherrylyn Bast

SHERRYLYN BASTIAN
Corporate Secretary

## Proxy Form

The undersigned ___________________________(please print) of________________________ (please print) being a shareholder of FirstCaribbean International Bank (Bahamas) Limited ("the Company") hereby appoint Ms. Colette Delaney, or failing her, Mrs. Marie Rodland-Allen, or instead of either of them, ____________________ or ___________________as proxy of the undersigned to attend and vote at the annual general meeting of the Company ("the Meeting") to be held on Thursday April 12, 2018 and at any adjournment thereof, notice of the Meeting, together with the accompanying financial statements and the information circular having been received by the undersigned to vote as specifically directed below.

1. Specified in the accompanying information circular:

| | |
|---|---|
| Colette Delaney | VOTE FOR _____WITHHOLD FROM VOTING_____ |
| Gary Brown | VOTE FOR _____WITHHOLD FROM VOTING_____ |
| Marie Rodland-Allen | VOTE FOR _____WITHHOLD FROM VOTING_____ |
| Trevor Torzsas | VOTE FOR _____WITHHOLD FROM VOTING_____ |
| Willie Moss | VOTE FOR _____WITHHOLD FROM VOTING_____ |
| G. Diane Stewart | VOTE FOR _____WITHHOLD FROM VOTING_____ |
| Felix Stubbs | VOTE FOR _____WITHHOLD FROM VOTING_____ |

2. To vote for or withhold from voting on the adoption of the audited consolidated financial statements of the Company for the year November 1, 2016 to October 31, 2017:

   VOTE FOR ___ WITHHOLD FROM VOTING ___

3. To vote for or withhold from voting on the appointment of auditors of the Company and to authorize the directors to fix their remuneration:

   VOTE FOR ___ WITHHOLD FROM VOTING ___

4. To vote for or withhold from voting for the ratification of dividends for fiscal 2017:

   VOTE FOR ___ WITHHOLD FROM VOTING ___

5. To vote in their discretion upon any other business which may properly come before the Meeting or any adjournment thereof.

The undersigned revokes any prior proxies to vote the shares covered by this proxy.

This proxy is solicited on behalf of the management of the Company and will be voted as directed in the spaces provided above or, if no direction is given it will be voted in the affirmative for each of the above proposals.

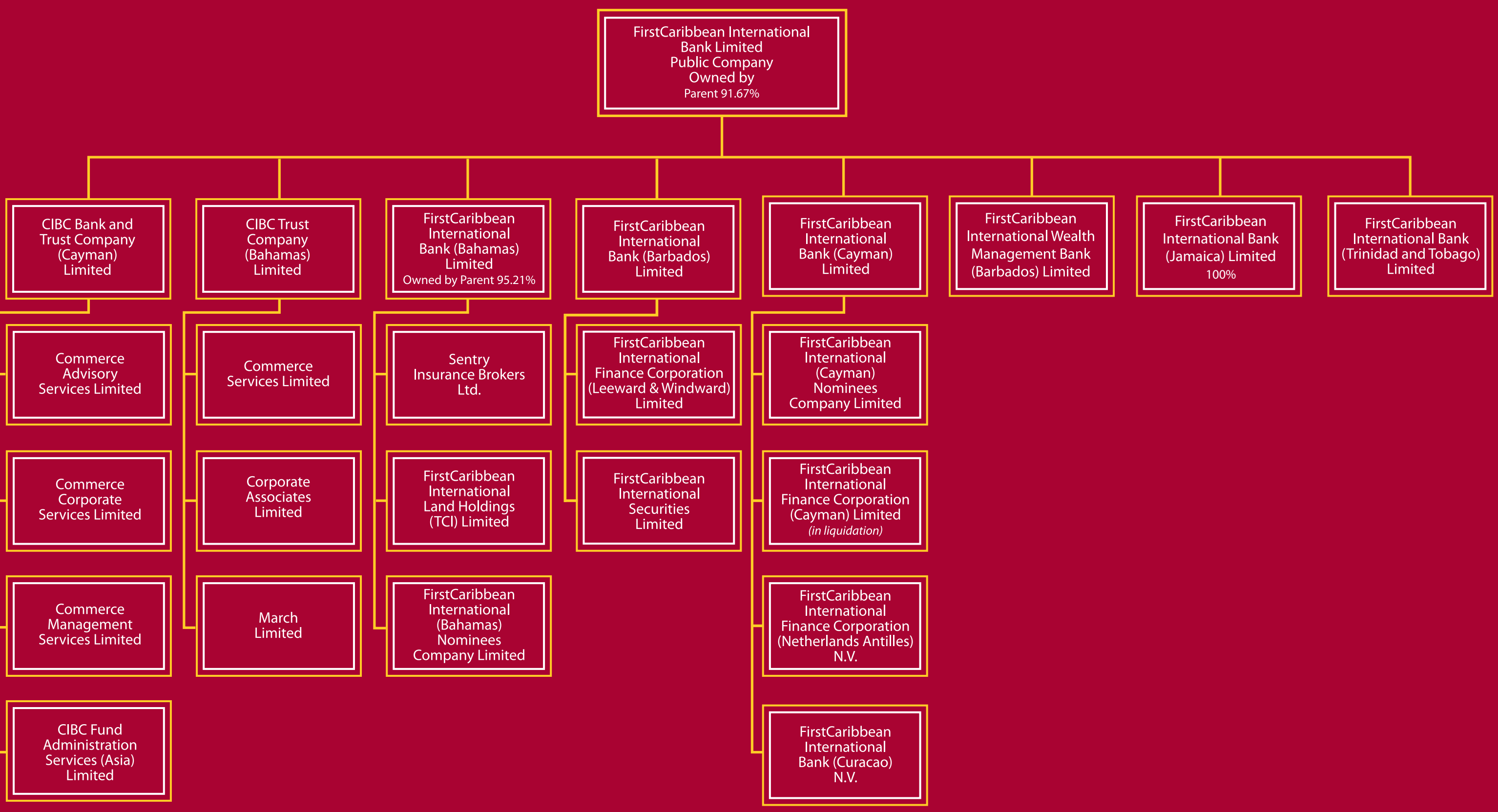
Dated this .......................................... day of ...............................................2018

Corporate Seal ...................................................................................................

## Notes

The persons named in this proxy are directors of the Company. Each shareholder submitting the proxy shall have the right to appoint a person or company to represent him/her at the Meeting other than the persons designated above. To exercise this right, the shareholder may insert the name of the desired representative in the blank space provided and strike out the other names or may submit another appropriate proxy.

In order for this form of proxy or other appropriate forms of proxy to be valid, it must be signed and should be dated by the shareholder or the shareholder's attorney. The signature should be exactly the same as the name in which the shares are registered. The proxy must be sent by mail or hand delivered to the office of CIBC Trust Company (Bahamas) Limited, Registrar and Transfer Agent, Goodman's Bay Corporate Centre, West Bay Street, P.O. Box N-3933, Nassau, Bahamas no later than 48 hours before the time for holding the Meeting. If this form of proxy is received undated but otherwise properly executed, it will for all purposes be deemed to be dated April 9, 2018.




CIBC FirstCaribbean International Bank

# Main Branches and Centres

Abaco

## Marsh Harbour
P O Box AB-20402
Marsh Harbour
Tel: (242) 300-0002
Fax: (242) 367-2156

Eleuthera

## Governor's Harbour
P O Box EL-25022
Governor's Harbour
Tel: (242) 300-0002
Fax: (242) 332-2318

Grand Bahama

## East Mall Branch, Freeport
P O Box F-42556
East Mall
Tel: (242) 502-6834
Fax: (242) 352-6655

New Providence

## Bay Street
P O Box N-8350
Bay Street
Nassau
Tel: (242) 502-6834
Fax: (242) 328-7979

## Carmichael Road
Carmichael & Baillou Hill Road
P O Box N-8350
Nassau
Tel: (242) 502-6834
Fax: (242) 361-1346

## Harbour Bay
P O Box N-8350
East Bay Street
Nassau
Tel: (242) 502-6834
Fax: (242) 393-7171

## Marathon Mall
P O Box N-8329
Robinson & Marathon Road
Nassau
Tel: (242) 502-6834
Fax: (242) 393-0218

## Palmdale
P O Box N-8350
Madeira Street
Nassau
Tel: (242) 502-6834
Fax: (242) 322-1121

## RND Plaza West
P O Box N-8329
John F. Kennedy Drive
Nassau
Tel: (242) 502-6834
Fax: (242) 322-7851

## Sandyport
P O Box N-7125
Old Towne Mall
West Bay Street
Nassau
Tel: (242) 502-6834
Fax: (242) 327-4955

## Shirley Street
P O Box N-7125
Shirley Street
Nassau
Tel: (242) 502-6834
Fax: (242) 326-6552

## Corporate and Investment Banking Centre
P O Box N-7125
Shirley Street
Nassau
Tel: (242) 356-1764
Fax: (242) 328-1690

## Wealth Management/ International Banking Centre
P O Box N-8350
Goodman's Bay
Corporate Centre
Tel: (242) 302-6000
Fax: (242) 302-6091
Tel: (242) 502-6834

## Private Wealth Management
P O Box N-8350
Goodman's Bay
Corporate Centre
West Bay Street
Nassau, Bahamas
Tel: (242) 397-8206

## Card Services Centre
P O Box N-8350
Nassau Business Centre,
Airport Industrial Park
Nassau
Tel: (242) 328-0405
Fax: (242) 394-3655

## Customer Service Centre
P O Box N-8350
Nassau Business Centre,
Airport Industrial Park
Nassau
Tel: (242) 502-6834
Fax: (242) 394-8238

## Sentry Insurance Brokers Ltd.
P O Box N-8350
Shirley Street
Nassau
Tel: (242) 502-6834
Fax: (242) 323-4450

## Managing Director's Office
P O Box N-3221
Shirley Street
Nassau
Tel: (242) 325-7384
Fax: (242) 323-1087

Turks & Caicos Islands

## Grand Turk
P O Box 258
Cockburn Town
Grand Turk
Tel: (649) 946-2831
Fax: (649) 946-2695

## Providenciales
P O Box 236
Leeward Highway
Providenciales
Tel: (649) 946-4007
Fax (649) 946-4573

## Grace Bay
P O Box 236
Salt Mills Plaza
Grace Bay
Providenciales
Tel: (649) 941-4558
Fax: (649) 941-3017

## South Caicos
P O Box 236
Lee Street
Cockburn Harbour
South Caicos
Tel: (649) 231-5103

## Notes

# Notes

## Notes

# Notes


FirstCaribbean
International Bank
THE BAHAMAS
TURKS AND
CAICOS ISLANDS
HONG KONG
THE CAYMAN ISLANDS
JAMAICA
BRITISH
VIRGIN ISLANDS
ANGUILLA
ST. MAARTEN
ST. KITTS & NEVIS
ANTIGUA
& BARBUDA
DOMINICA
CARIBBEAN SEA
ST. LUCIA
BARBADOS
ST. VINCENT AND
THE GRENADINES
ARUBA
CURAÇAO
GRENADA &
CARRIACOU
TRINIDAD
& TOBAGO

CIBC FirstCaribbean International Bank