FIRSTCARIBBEAN INTERNATIONAL BANK (JAMAICA) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2017

(Expressed in Jamaican dollars unless otherwise indicated)

FirstCaribbean International Bank (Jamaica) Limited

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Year ended 31 October 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FirstCaribbean International Bank (Jamaica) Limited ("the Bank") which comprise the statement of financial position as at 31 October 2017, the statements of changes in equity, income, comprehensive income, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 October 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

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 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.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that presents a true and fair view.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Report on the Audit of the Financial Statements (Continued)

We communicate with 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.

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

Ernst & Young

Chartered Accountants
Kingston, Jamaica

14 December 2017

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and balances with Central Bank	3	18,995,026	8,461,927
Due from other banks	4	11,151,319	23,649,548
Other assets	5	287,877	193,882
Investment securities	6	5,104,616	5,230,271
Loans and advances to customers	7	50,402,324	44,227,631
Property and equipment	8	1,503,385	1,335,929
Deferred tax assets	9	407,715	399,307
Retirement benefit asset	10	729,342	636,282
TOTAL ASSETS		88,581,604	84,134,777

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	72,212,855	65,031,488
Other liabilities	12	798,957	1,355,197
Taxation payable		112,584	54,905
Debt securities in issue	13	4,996,922	3,059,915
Retirement benefit obligation	10	75,727	82,939
TOTAL LIABILITIES		78,197,045	69,584,444
EQUITY			
Share capital	14	4,930,258	8,465,258
Reserves	14	4,979,870	5,994,609
Retained earnings		474,431	90,466
TOTAL EQUITY		10,384,559	14,550,333
TOTAL LIABILITIES AND EQUITY		88,581,604	84,134,777

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

Approved for issue by the Board of Directors on 14 December 2017 and signed on its behalf by:

Mark St. Hill

Lincoln Eatmon

Nigel Holness

Allison Rattray

FirstCaribbean International Bank (Jamaica) Limited

Statement of Changes in Equity
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital $'000	Reserves $'000	Retained Earnings/ (Accumulated Deficit) $'000	Total $'000
Balance at 31 October 2015		8,465,258	5,769,507	(181,843)	14,052,922
Total comprehensive income for the year	29	-	88,297	409,114	497,411
Transfer to statutory reserve fund	18	-	30,000	(30,000)	-
Transfer to loan loss reserve	20	-	106,805	(106,805)	-
Balance at 31 October 2016		8,465,258	5,994,609	90,466	14,550,333
Total comprehensive income for the year	29	-	167,946	111,280	279,226
Return of share capital	14, 22	(3,535,000)	(910,000)	-	(4,445,000)
Transfer to statutory reserve fund	18	-	70,000	(70,000)	-
Transfer from loan loss reserve	20	-	(342,685)	342,685	-
Balance at 31 October 2017		4,930,258	4,979,870	474,431	10,384,559

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Income
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
Interest and similar income		4,991,358	4,324,980
Interest and similar expense		(1,604,387)	(1,367,486)
Net interest income	23	3,386,971	2,957,494
Other operating income	24	1,533,158	2,004,730
Total operating income		4,920,129	4,962,224
Loan loss impairment	7	(193,504)	3,328
Net operating income		4,726,625	4,965,552
Operating expenses	25	(4,545,618)	(4,305,153)
Profit before taxation	26	181,007	660,399
Income tax expense	27	(69,727)	(251,285)
NET PROFIT FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	28	111,280	409,114
BASIC AND DILUTED EARNINGS PER STOCK UNIT	28	0.14	0.52

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Comprehensive Income
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
Net profit for the year		111,280	409,114
Other comprehensive income, net of tax:			
Other comprehensive income, net of tax, to be reclassified to net income in subsequent periods:			
Net (losses)/gains on available-for-sale investment securities	29	(1,956)	8,322
Other comprehensive income, net of tax, not to be reclassified to net income in subsequent periods:			
Re-measurement gains on retirement benefit plans	29	169,902	79,975
		167,946	88,297
Comprehensive income for the year, attributable to equity holders of the parent		279,226	497,411

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Cash Flows
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
Cash Flows from Operating Activities			
Profit before taxation		181,007	660,399
Adjustments to reconcile profit to net cash provided by operating activities:			
Loan loss impairment	7	193,504	(3,328)
Loss/(Gain) on disposal of property and equipment		274	(1,741)
Depreciation	8	306,389	216,925
Interest income	23	(4,991,358)	(4,324,980)
Interest expense	23	1,604,387	1,367,486
Unrealised foreign exchange losses/(gains)		110,751	(511,330)
		(2,595,046)	(2,596,569)
Changes in operating assets and liabilities:			
Loans to customers		(6,675,358)	(4,998,300)
Customer deposits		7,630,459	6,444,368
Retirement benefit asset		63,591	55,747
Retirement benefit obligations		7,341	6,820
Other assets		(85,744)	(5,939)
Other liabilities		(464,135)	72,538
Statutory reserves at Bank of Jamaica		(2,301,162)	(1,032,208)
		(4,420,054)	(2,053,543)
Interest received		4,885,769	4,313,005
Interest paid		(1,518,670)	(1,287,987)
Income tax paid		(104,429)	(42,658)
Cash (used in)/provided by operating activities		(1,157,384)	928,817
Cash Flows from Investing Activities			
Investment securities, net		109,761	6,477
Money market placements		7,806,701	(11,351,611)
Additions to property and equipment	8	(474,119)	(417,827)
Proceeds from disposal of property and equipment		-	3,049
Net cash provided by/(used in) investing activities		7,442,343	(11,759,912)
Cash Flows from Financing Activities			
Proceeds from issue of debt securities	13	1,875,000	-
Return of share capital	14, 22	(4,445,000)	-
Net cash used in financing activities		(2,570,000)	-
Net increase/(decrease) in cash and cash equivalents		3,714,959	(10,831,095)
Effect of exchange rate changes on cash and cash equivalents		(174,550)	1,724,053
Cash and cash equivalents at beginning of year		14,187,970	23,295,012
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	17,728,379	14,187,970

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

1. Corporate Information

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

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

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

The Board of Directors has the power to amend these financial statements after issue, if required.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

(i) Statement of compliance

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

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

(ii) Basis of measurement

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

(iii) Judgements and estimates

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

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

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

- Capital management - Note 14
- Financial risk management and policies - Note 35
- Sensitivity analyses disclosures - Notes 10 and 35

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

2. Summary of Significant Accounting Policies

(b) Changes in accounting policies

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

The accounting policies adopted are consistent with those of the previous financial year. There were no new standards and amendments which apply for the first time in 2017 that affect the annual financial statements of the Bank.

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

The relevant 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

Introduction
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, who has elected to early adopt due to an Office of the Superintendent of Financial Institutions (OSFI) 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, the Bank will not restate the prior period comparative financial statements when it adopts the requirements of the new standard. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized in opening November 1, 2017 retained earnings and accumulated other comprehensive income (AOCI) as if the Bank had always followed the new requirements.
As permitted, the Bank elected to continue to apply the hedge accounting requirements of IAS 39. The key changes to the Bank's accounting policies and the expected impact resulting from the adoption of IFRS 9 are described below.
The application of IFRS 9 is expected to increase the Bank's equity by approximately $476,224,000 on an after tax basis as at 1 November 2017. The impact to the Bank's regulatory capital is not expected to be material.

Classification and measurement
The IFRS 9 classification and measurement 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 operate 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 amortized cost.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

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

Classification and measurement (Continued)

Subsequent measurement of instruments classified at FV-OCI and amortized 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 amortized 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 realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized 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, the Bank concluded:

- The loans and advances to customers that are classified as loans and receivables under IAS 39 are expected to be measured at amortized cost under IFRS 9.

- The debt securities classified as available for sale under IAS 39 are expected to be measured at FV-OCI.

Impairment of financial assets

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

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

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

Expected Credit Loss Methodology
The application of ECL will significantly change the Bank's 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 recognizes 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 recognize 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 recognize 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 recognizing 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 recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

For the Bank's Business and Government portfolio, the individually assessed allowances for impaired instruments recognized 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 the Bank's Retail portfolio, the portion of the 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 such as macroeconomic factors (e.g. unemployment, GDP growth and interest rates) and other economic forecasts.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

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

IFRS 15 Revenue from Contracts with Customers

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 instruments 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 and 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 income.

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 1 January 2017. This amendment is not expected to have a significant impact on the Bank's financial statements.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

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

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Bank is currently assessing the impact of these amendments and plans to adopt on the required effective date.

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 1 January 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.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax. The Interpretation specifically addresses (i) Whether an entity considers uncertain tax treatments separately (ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities (iii) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (iv) How an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Applying the Interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the Interpretation and make the required disclosures. The Bank will assess the potential effect of these amendments in 2018.

2. Summary of Significant Accounting Policies (Continued)

(c) Segment reporting

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

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

(d) Foreign currency translation

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

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

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

(e) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments

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

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

Management determines the classification of its investments at initial recognition.

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

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

(i) Loans and receivables

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

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

(ii) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2017
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments (Continued)

(iii) Available-for-sale financial assets (Continued)

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

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

(g) Cash and cash equivalents

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

(h) Offsetting financial instruments

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

(i) Impairment of financial assets

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (Continued)

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

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

(j) Derecognition of financial assets and liabilities

(i) Financial assets

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

(ii) Financial liabilities

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

(k) Sale and repurchase agreements and lending of securities

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

(l) Loans and provision for impairment losses

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

(m) Leases

(i) As lessee

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

(ii) As lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(n) Financial guarantees

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

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

(o) Property and equipment

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

All other property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

The annual rates used are:

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

2. Summary of Significant Accounting Policies (Continued)

(o) Property and equipment (Continued)

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

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

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

(p) Transactions with jointly controlled entities

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

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

(q) Provisions

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

(r) Income taxes

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

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

2. Summary of Significant Accounting Policies (Continued)

(r) Income taxes (Continued)

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

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

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

(s) Customer loyalty programme

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

(t) Retirement benefit obligations

(i) Pension obligations

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(t) Retirement benefit obligations (Continued)

(i) Pension obligations (Continued)

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

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

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

(ii) Other post-retirement obligations

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

(iii) Annual leave and other benefits

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

(u) Borrowings

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

2. Summary of Significant Accounting Policies (Continued)

(v) Recognition of income and expenses

(i) Interest and similar income and expense

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

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

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

(ii) Fee and commission income

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

(w) Earnings per stock unit

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

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(x) Fair value measurement

The Bank measures financial instruments, such as, derivatives, and available for sale investment securities at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 35. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

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

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

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

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3. Cash and Balances with Central Bank

	2017 $'000	2016 $'000
Cash	1,063,796	962,896
Deposits with Central Bank – interest bearing	13,557,460	4,158,371
Deposits with Central Bank – non-interest bearing	4,368,602	3,338,304
	18,989,858	8,459,571
Interest receivable	5,168	2,356
	18,995,026	8,461,927

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

	2017	2016
Jamaica dollar denominated cash reserves	12%	12%
Foreign currency denominated reserves	15%	10%

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

	2017 $'000	2016 $'000
Cash and balances with Central Bank	18,995,026	8,461,927
Less: Mandatory reserve deposits with Central Bank (Note 33)	(8,873,056)	(6,571,894)
	10,121,970	1,890,033
Due from other banks (Note 4)	11,151,319	23,649,548
	21,273,289	25,539,581
Less: Balances with maturity dates over 90 days	(3,544,910)	(11,351,611)
	17,728,379	14,187,970

4. Due From Other Banks

	2017 $'000	2016 $'000
Money market placements	11,136,281	23,620,698
Interest receivable	15,038	28,850
	11,151,319	23,649,548

Included in money market placements are deposits with the ultimate parent company of $834,147,000 (2016 – $586,276,000) (Note 30).

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
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5. Other Assets

	2017 $'000	2016 $'000
Prepayments and deferred items	68,879	65,293
Due from related parties	33,212	2,619
Items in transit, net	89,933	-
Other	95,853	125,970
	287,877	193,882

6. Investment Securities

	2017 $'000	2016 $'000
Securities available-for-sale:		
Equity securities – unquoted (see note below)	5,034	5,034
Issued or guaranteed by the Government of Jamaica –		
Bonds & debentures	5,069,653	5,182,348
	5,074,687	5,187,382
Interest receivable	29,929	42,889
Total	5,104,616	5,230,271

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

The movement in investment securities may be summarised as follows:

Securities available-for-sale:

	$'000
Balance at 31 October 2015	5,181,376
Gains from changes in fair value (Note 29)	12,483
Amortisation of premium on purchases	(5,477)
Disposals	(1,000)
Balance at 31 October 2016	5,187,382
Additions	200,000
Gains from changes in fair value (Note 29)	(2,934)
Amortisation of premium on purchases	(7,261)
Disposals	(302,500)
Balance at 31 October 2017	5,074,687

FirstCaribbean International Bank (Jamaica) Limited

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7. Loans and Advances to Customers

	2017				2016			
	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Performing loans	9,546,041	9,059,224	31,833,631	50,438,896	9,206,203	6,819,679	27,801,151	43,827,033
Impaired loans	353,089	255,384	109,537	718,010	607,510	447,784	296,537	1,351,831
Gross loans	9,899,130	9,314,608	31,943,168	51,156,906	9,813,713	7,267,463	28,097,688	45,178,864
Less: Provision for credit losses	(286,923)	(46,740)	(370,767)	(704,430)	(375,555)	(217,456)	(317,235)	(910,246)
	9,612,207	9,267,868	31,572,401	50,452,476	9,438,158	7,050,007	27,780,453	44,268,618
Add: Interest receivable				394,269				275,719
Less: Unearned fee income				(444,421)				(316,706)
				50,402,324				44,227,631

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7. Loans and Advances to Customers (Continued)

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

As at 31 October 2017	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Less than 30 days	31,878	134,596	102,339	268,813
31 – 60 days	277,920	133,711	188,106	599,737
61- 90 days	140,162	67,804	15,812	223,778
	449,960	336,111	306,257	1,092,328

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

Provision for credit losses comprise:-

	2017 $'000	2016 $'000
Specific provision	65,947	186,907
General provision	638,483	723,339
	704,430	910,246

As at 31 October 2017, loans with principal balances outstanding of $718,010,000 (2016 - $1,351,831,000) were in non-performing status. Interest receivable on these loans amounted to $123,742,000 (2016 - $30,015,000). Interest taken to income in respect of these loans amounted to $126,643,000 (2016 - $10,779,000).

7. Loans and Advances to Customers (Continued)

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

	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
As at 31 October 2017				
Balance, beginning of year	375,555	217,456	317,235	910,246
Individual impairment	(37,200)	102,065	(7,326)	57,539
Collective impairment	(17,140)	38,935	114,170	135,965
Recoveries & write offs	(34,292)	(311,716)	(53,312)	(399,320)
Balance, end of year	286,923	46,740	370,767	704,430

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

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

	2017 $'000	2016 $'000
Specific provision	466,292	1,260,921
General provision	638,483	392,355
	1,104,775	1,653,276
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 20)	400,345	743,030

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8. Property and Equipment

	Land $'000	Buildings $'000	Leasehold Improvements $'000	Equipment, Furniture and Vehicles $'000	Total $'000
			2017		
Cost					
1 November 2016	55,000	206,212	391,581	2,648,090	3,300,883
Additions	-	866	1,789	471,464	474,119
Disposals	-	(383)	-	(388)	(771)
Transfers	-	17,168	16,464	(33,632)	-
31 October 2017	55,000	223,863	409,834	3,085,534	3,774,231
Accumulated depreciation					
1 November 2016	-	52,238	232,601	1,680,115	1,964,954
Charge for the year	-	5,481	29,869	271,039	306,389
Relieved on disposals	-	(109)	-	(388)	(497)
31 October 2017	-	57,610	262,470	1,950,766	2,270,846
Net book value					
31 October 2017	55,000	166,253	147,364	1,134,768	1,503,385
			2016		
Cost					
1 November 2015	55,000	206,212	353,115	2,288,949	2,903,276
Additions	-	-	34,697	383,130	417,827
Disposals	-	-	-	(20,220)	(20,220)
Transfers	-	-	3,769	(3,769)	-
31 October 2016	55,000	206,212	391,581	2,648,090	3,300,883
Accumulated depreciation					
1 November 2015	-	47,236	201,533	1,518,172	1,766,941
Charge for the year	-	5,002	31,068	180,855	216,925
Relieved on disposals	-	-	-	(18,912)	(18,912)
31 October 2016	-	52,238	232,601	1,680,115	1,964,954
Net book value					
31 October 2016	55,000	153,974	158,980	967,975	1,335,929

Included in the table above are amounts totaling $14,430,000 (2016 – $14,430,000) representing the revalued amount of land and buildings which has been used as the deemed cost of these assets under the provision of IFRS 1 on transition to IFRS on 1 November 2002. Subsequent additions and other property and equipment are shown at cost. Equipment, furniture and vehicles include $238,050,000 (2016 - $312,561,000) relating to work-in-progress on which no depreciation has been charged.

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9. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the statutory tax rate of 33⅓% (2016 - 33⅓%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

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

	2017 $'000	2016 $'000
Balance as at 1 November	399,307	567,143
Charge to the statement of income (Note 27)	92,381	(123,687)
Charge to other comprehensive income (Note 29)	(83,973)	(44,149)
Balance as at 31 October	407,715	399,307

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

	2017 $'000	2016 $'000
Deferred tax assets:		
Accelerated tax depreciation	40	18,428
Loan loss provisions	212,828	241,113
Post-retirement medical and insurance benefits	25,242	27,646
Unearned fees	148,140	108,781
Foreign exchange revaluation losses	36,915	-
Other provisions	16,839	11,624
Tax losses carried forward	218,683	383,174
	658,687	790,766
Deferred tax liabilities:		
Retirement benefit asset	243,114	212,094
Available for sale investments	7,829	8,807
Foreign exchange revaluation gains	-	170,334
Other provisions	29	224
	250,972	391,459
Net deferred tax asset	407,715	399,307

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9. Deferred Income Taxes (continued)

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

The Bank has tax losses, subject to agreement with the Commissioner General of Tax Administration Jamaica, amounting to $656,050,000 (2016 - $1,149,523,000). If unutilized, these tax losses can be carried forward indefinitely, however, the amount that can be utilized is restricted to 50% of chargeable income (before prior year losses) in any one year.

10. Retirement Benefit Asset (Obligation)

Plan Characteristics, funding and risks

The Bank operates a pension scheme covering all permanent employees. The pension benefit is based on the average of the best five consecutive years' earnings in the last ten years, multiplied by the years of credited service. The assets of the plan are held independently of the Bank's assets in a separate trustee fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation for IFRS purposes was carried out as at 31 October 2017.

Benefit changes

There were no material changes to the terms of the 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 risks) and health care cost inflation risks arising in the relevant sectors.

Plan Governance

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

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10. Retirement Benefit Asset (Obligation) (Continued)

Amounts recognized in the statement of financial position:

	2017 $'000	2016 $'000
Defined benefit pension scheme (Note 10(a))	729,342	636,282
Other post retirement benefits (Note 10(b))	(75,727)	(82,939)

(a) Defined benefit pension scheme

	2017 $'000	2016 $'000
Fair value of plan asset	4,487,954	4,110,997
Present value of funded obligation	(3,758,612)	(3,474,715)
Asset in the statement of financial position	729,342	636,282

At 31 October 2017, pension plan assets include the Parent's ordinary stock units with a fair value of $56,812,000 (2016 – $46,821,000).

	2017 $'000	2016 $'000
Balance at 1 November	636,282	644,486
Charge for the year (Note 25)	(63,591)	(55,747)
Transfer of assets to pay contributions for defined contribution plan	(86,739)	(74,270)
Effect on statement of other comprehensive income (Note 29)	243,340	121,763
Contributions paid	50	50
Balance at 31 October	729,342	636,282

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

	2017 $'000	2016 $'000
Current service cost	98,511	88,053
Interest cost	307,698	261,669
Interest income	(364,966)	(319,675)
Adminstration and other non-plan investment management expenses	22,348	25,700
Included in staff costs (Note 25)	63,591	55,747
Actual return on plan assets	597,694	713,657

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (Continued)

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

	2017 $'000	2016 $'000
Fair value of plan asset at start of year	4,110,997	3,606,573
Asset transferred out of the plan	(86,739)	(74,270)
Actual return on plan asset	597,694	713,657
Contributions	50	50
Benefits paid during year	(111,700)	(109,313)
Administration and other non-plan investment management expenses	(22,348)	(25,700)
Fair value of plan asset at end of year	4,487,954	4,110,997

Changes in the present value of obligation are as follows:

	2017 $'000	2016 $'000
Present value of obligation at start of year	3,474,715	2,962,087
Interest cost	307,698	261,669
Current service cost	98,511	88,053
Benefits paid during year	(111,700)	(109,313)
Actuarial gain on plan obligation	(10,612)	272,219
Present value of obligation at end of year	3,758,612	3,474,715

The Bank expects to contribute $50,000 (2016 - $50,000) to its defined benefit pension plan in the next year.

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

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

	2017 $'000	2016 $'000
Actuarial gains/(losses) on defined benefit obligation arising from:		
- Financial assumptions	76,293	(56,425)
- Experience adjustments	(65,681)	(215,794)
Return on plan assets excluding interest income	232,728	393,982
Net remeasurement gains recognized in OCI	243,340	121,763

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

	2017 $'000	2016 $'000
Active members	2,462,225	2,123,873
Inactive and retired members	1,296,387	1,350,842
	3,758,612	3,474,715

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

	2017	2016
Average duration, in years	19	19

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

	2017 %	2016 %
Quoted equity instruments:		
Local	17	11
International	1	1
Quoted debt instruments:		
Government bonds	32	38
Corporate bonds	7	2
Real estate	26	25
Other assets	17	23
	100	100

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The principal actuarial assumptions used were as follows:

	2017	**2016**
	%	%
Discount rate	9.00	9.00
Future salary increases	7.50	7.50
Future pension increases	4.75	5.50

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

	2017	**2016**	**2015**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Fair value of plan assets	4,487,954	4,110,997	3,606,573	3,332,615	3,407,373
Present value of obligation	(3,758,612)	(3,474,715)	(2,962,087)	(2,668,245)	(2,312,611)
	729,342	636,282	644,486	664,370	1,094,762

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

Assumption	**Sensitivity level**	**Impact on net defined benefit pension plans**	
		Increase	**Decrease**
		$'000	**$'000**
Discount rate	1.00%	3,149,456	4,543,600
Future salary increases	0.50%	3,882,123	3,642,309
Future pension increases	0.50%	3,980,111	3,555,726
Existing retiree age	1 year	3,973,107	N/A

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

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

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

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

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

	2017	2016
	$'000	$'000
Within the next 12 months	71,623	68,489
Between 1 and 5 years	409,723	375,669
Between 5 and 10 years	966,372	844,893
Total expected payment	1,447,718	1,289,051

(b) Post-retirement medical benefits

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

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 6% - 7% per year (2016: 6.5% - 7.5%).

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

Assumption	Sensitivity level	Impact on post-retirement medical benefits	
		Increase	Decrease
		$'000	$'000
Discount rate	1.00%	69,632	82,808
Medical premium inflation	1.00%	82,850	69,503
Existing retiree age	1 year	78,217	N/A

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

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

	2017	2016
	$'000	$'000
Present value of unfunded obligations and liability in the statement of financial position	75,727	82,939

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

(b) Post-retirement medical benefits (continued)

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

	2017 $'000	2016 $'000
Within the next 12 months	5,891	6,517
Between 1 and 5 years	27,502	30,462
Between 5 and 10 years	35,662	39,113
Total expected payment	69,055	76,092

	2017 $'000	2016 $'000
Obligation at beginning of year	82,939	77,164
Charge for the year (Note 25)	7,341	6,820
Employer contributions	(3,040)	(2,845)
Effect of statement of other comprehensive income (Note 29)	(11,513)	1,800
Obligation at end of year	75,727	82,939

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

	2017 $'000	2016 $'000
Interest cost	7,341	6,820
Total included in staff costs (Note 25)	7,341	6,820

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

	2017 $'000	2016 $'000
Actuarial gains(losses) on defined benefit obligation arising from:		
- Financial adjustments	(3,215)	2,354
- Experience adjustments	14,728	(4,154)
Net re-measurement gains/(losses) recognized in OCI	11,513	(1,800)

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

(b) Post-retirement medical benefits (continued)

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

	2017 $'000	2016 $'000
Active members	-	-
Inactive and retired members	75,727	82,939
	75,727	82,939

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

	2017	2016
Average duration, in years	9	9

11. Customer Deposits

	2017 $'000	2016 $'000
Individuals	26,445,250	24,799,797
Business and Government	34,323,384	32,183,586
Banks	11,154,512	7,782,105
	71,923,146	64,765,488
Interest payable	289,709	266,000
	72,212,855	65,031,488

12. Other Liabilities

	2017 $'000	2016 $'000
Accounts payable and accruals	731,035	679,062
Due to related parties	-	74,612
Items in transit, net	-	509,807
Other taxation payable	29,005	24,674
Other	38,917	67,042
	798,957	1,355,197

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13. Debt Securities in Issue

	2017 $'000	2016 $'000
Notes due 2018 (1)	3,000,000	3,000,000
Notes due 2019 (2)	1,875,000	-
Add: interest payable	121,922	59,915
	4,996,922	3,059,915

(1) This redeemable medium term bond ("the bond") has a par value of $3,000,000,000 and is denominated in Jamaican dollars. The interest rate on the bond is fixed at 9.25% for one year; and variable at the 6-month Jamaica Treasury Bill Tender (WATBY) plus 190 basis points for years 2 and 3. The interest on the bond is payable semi-annually in arrears. The average effective interest rate during 2017 was 8.05% (2016: 8.16%). The principal repayment of the bond is due at maturity in January 2018. However, the Bank has the option of redeeming the bond without penalty, after the passing of two interest payment periods. The bond and any interest payable thereon, are guaranteed by the ultimate parent.

(2) On 9 December 2016 the Bank completed a private bond issue amounting to J$1.875 billion. The bond is repayable by 9 December 2019, with a fixed interest rate at 7.65% and constitutes senior unsecured debt with a Guarantee by the ultimate parent.

14. Share Capital and Reserves

	2017 No. of Shares (000)	2016 No. of shares (000)
Share Capital		
Authorised -		
Ordinary shares of no par value [1]	300,000	300,000
'A' ordinary shares of no par value [1]	900,000	900,000
	1,200,000	1,200,000

[1] These shares rank pari passu.

	2017 $'000	2016 $'000
Issued and fully paid -		
265,756,730 (2016 – 265,756,730) ordinary stock units of no par value	1,396,667	1,396,667
264,000,000 (2016 – 528,000,000) 'A' ordinary shares of no par value:		
At beginning of year	7,068,591	7,068,591
Re-purchased during year	(3,535,000)	-
At end of year	3,533,591	7,068,591
	4,930,258	8,465,258

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14. Share Capital and Reserves (Continued)

At an Extra-Ordinary General Meeting of the Bank, held on April 6, 2017, a resolution was passed approving the purchase and subsequent cancellation of 264 million of "A Ordinary Shares" for a total consideration of US$35 million. After meeting all regulatory and other requirements, the return of capital to the Parent was completed in October 2017. The consideration was paid for in United States dollars. (Note 22).

It is expected that the Bank will continue to be adequately capitalized to meet its growth needs as well as satisfy its supervisory capital requirements.

Objectives, policies and procedures

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

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

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

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

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

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

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

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

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

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

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14. Share Capital and Reserves (Continued)

Objectives, policies and procedures (Continued)

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

Tier 1 and Total Capital ratios were 15.57% and 15.57%, respectively (2016: 24.2% and 24.2%).

Reserves

	2017 $'000	2016 $'000
Capital reserves (Note 15)	12,833	12,833
Fair value reserves – available-for-sale investment securities (Note 16)	15,659	17,615
Retirement benefit reserve (Note 17)	152,681	(17,221)
Statutory reserve fund (Note 18)	2,646,667	2,576,667
Retained earnings reserve (Note 19)	2,616,163	2,616,163
Loan loss reserve (Note 20)	400,345	743,030
General reserve (Note 21)	45,522	45,522
Other share capital reserve (Note 22)	(910,000)	-
Total reserves at end of the year	4,979,870	5,994,609

15. Capital Reserves

	2017 $'000	2016 $'000
Comprised:		
Unrealised –		
Surplus on revaluation of premises	5,493	5,493
Realised –		
Profit on sale of property and equipment	7,340	7,340
Balance at end of year	12,833	12,833

16. Fair Value Reserves – Available For Sale Investment Securities

	2017 $'000	2016 $'000
Balance at beginning of year	17,615	9,293
Net fair value (losses)/gains on available-for-sale investments during the year (Note 29)	(1,956)	8,322
Balance at end of the year	15,659	17,615

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17. Retirement Benefit Reserve

	2017 $'000	2016 $'000
Balance at beginning of year	(17,221)	(97,196)
Re-measurement gains on retirement benefit plans during the year (Note 29)	169,902	79,975
Balance at end of year	152,681	(17,221)

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

18. Statutory Reserve Fund

	2017 $'000	2016 $'000
Balance at beginning of the year	2,576,667	2,546,667
Transfer from retained earnings	70,000	30,000
Balance at end of the year	2,646,667	2,576,667

The fund is maintained in accordance with the Banking Services Act, 2014. The Bank is required to make transfers of a minimum of 15% of net profit until the amount in the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the reserve fund is not less than paid up share capital. On 14 December 2017 the Board of Directors approved the transfer of $20,000,000 (2016: $70,000,000) from retained earnings to the statutory reserve fund effective 31 January 2018. The transfer will be done based on the net profits for the year ended 31 October 2017.

19. Retained Earnings Reserve

	2017 $'000	2016 $'000
Balance at beginning and end of year	2,616,163	2,616,163

Section 42(1) of the Banking Services Act, 2014, permits the transfer of any portion of net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

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

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20. Loan Loss Reserve

	2017 $'000	2016 $'000
Balance at beginning of year	743,030	636,225
Transfer (to)/from retained earnings	(342,685)	106,805
Balance at end of the year	400,345	743,030

This is a non-distributable reserve representing the excess of the provision for loan losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 7).

21. General Reserve

	2017 $'000	2016 $'000
Balance at beginning and end of the year	45,522	45,522

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

22. Other Share Capital Reserve

The 'A' ordinary shares were denominated in United States Dollars when issued. The rate of exchange used to record the US$70 million capital injection on 29 August 2013 was J$101/US$1, and equity are not set to revalue with changes in exchange rates. The rate of exchange on 26 October 2017 used to retranslate the 264,000,000 'A' ordinary shares that were repurchased and cancelled, was J$127/US$1. The effect of the change in the exchange rate from J$101 to J$127 is therefore recognized directly in equity in accordance with IFRS (Note 14).

23. Net Interest Income

	2017 $'000	2016 $'000
Interest and similar income:		
Cash and balances due from banks	324,006	227,581
Investment securities	329,446	365,579
Loans and advances	4,337,906	3,731,157
Repurchase agreements and other	-	663
	4,991,358	4,324,980
Interest and similar expense:		
Customer deposits	(1,226,943)	(1,116,315)
Debt securities in issue	(376,679)	(250,849)
Other	(765)	(322)
	(1,604,387)	(1,367,486)
Net interest income	3,386,971	2,957,494

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24. Other Operating Income

	2017 $'000	2016 $'000
Net fees and commissions	938,324	958,585
Foreign exchange transactional net gains	638,453	480,345
Foreign exchange revaluation net (losses)/gains	(110,751)	511,330
Securities net losses	(9,831)	(9,530)
Other operating income	76,963	64,000
	1,533,158	2,004,730

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

25. Operating Expenses

	2017 $'000	2016 $'000
Staff costs	1,384,060	1,417,917
Depreciation	306,389	216,925
Occupancy costs	392,609	382,564
Other operating expenses	2,462,560	2,287,747
	4,545,618	4,305,153

Analysis of staff costs:

	2017 $'000	2016 $'000
Wages and salaries	950,161	968,734
Pension costs –		
Defined benefit plan (Note 10)	63,591	55,747
Defined contribution plan	40,520	63,049
Other post retirement benefits (Note 10)	7,341	6,820
Other share and cash-based benefits (Note 37)	7,295	9,039
Other staff-related costs	315,152	314,528
	1,384,060	1,417,917

26. Profit Before Taxation

Profit before taxation is stated after charging:

	2017 $'000	2016 $'000
Depreciation	306,389	216,925
Directors' emoluments-		
Fees	9,625	8,992
Management remuneration	43,170	35,841
Management fees	821,141	845,320
Auditors' remuneration- Current year	14,347	13,320

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27. Income Tax Expense

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

	2017 $'000	2016 $'000
Current year income tax	160,081	125,405
Prior year under/(over) accrual	3	(3,364)
Tax on income at source	2,024	5,557
	162,108	127,598
Deferred tax charge (Note 9)	(92,381)	123,687
	69,727	251,285

Income tax is calculated at the rate of 33⅓%.

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

	2017 $'000	2016 $'000
Profit before taxation	181,007	660,399
Tax calculated at 33⅓%	60,336	220,133
Effect of :		
Income not subject to tax	(54,274)	(23,733)
Expenses not deductible for tax	61,643	52,835
Prior year under/(over) accrual	3	(3,364)
Other charges and allowances	2,019	5,414
	69,727	251,285

28. Earnings Per Stock Unit

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

	2017	2016
Net profit for the year ($'000)	111,280	409,114
Weighted average number of ordinary stock units in issue ('000)	790,140	793,757
Earnings per stock unit ($)	0.14	0.52

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29. Components of Other Comprehensive Income

	2017 $'000	2016 $'000
Available-for-sale investment securities:		
(Losses)/Gains arising during the year (Note 6)	(2,934)	12,483
Less: Deferred tax	978	(4,161)
Other comprehensive gains for the year (Note 16)	(1,956)	8,322
Re-measurement on retirement benefit plans:		
Gains arising during the year	254,853	119,963
Less: Deferred tax	(84,951)	(39,988)
Other comprehensive gains for the year (Note 17)	169,902	79,975
Total other comprehensive gains for the year, net of tax	167,946	88,297

30. Related Party Transactions

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

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

	2017 $'000	2016 $'000
The Parent, FirstCaribbean International Bank Limited:		
Net receivable/(payable)	23,862	(74,612)
Management fee expense	821,141	845,320
Affiliates, other FirstCaribbean entities:		
Interest income	102,598	81,991
Interest expense	354,504	326,802
Net receivable	9,350	2,619
Deposits by other FirstCaribbean entities	11,229,749	7,744,415
Money market placements	4,135,660	15,447,819
The ultimate parent, CIBC:		
Interest income	12,487	481
Customer deposits	12,635	7,037
Money market placements (Note 4)	834,147	586,276
Loans and advances to customers	95	95
Interest expense derivative	-	88

The net payable to the Parent includes an amount of $NIL (US$NIL) (2016: $14,135,000 (US$110,000)) related to loan losses recovered.

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30. Related Party Transactions (Continued)

(b) Transactions and balances with directors

	2017 $'000	2016 $'000
Loans outstanding	22,201	18,798
Deposits	32,228	28,998
Interest income	800	734
Interest expense	1,118	530
Directors' fees	9,625	8,992
Post retirement benefits	4,846	3,357
Management remuneration paid (included below)	43,170	35,841

(c) Key management remuneration paid during the year

	2017 $'000	2016 $'000
Wages and salaries	92,079	87,400
Statutory contributions	9,086	8,696
Post retirement benefits	11,304	9,371
	112,469	102,110

31. Commitments

(a) Future rental commitments under operating leases

At 31 October 2017, the Bank held leases on buildings for extended periods. The future rental commitments under these leases were as follows:

	2017 $'000	2016 $'000
Not later than 1 year	276,483	305,086
Later than 1 year and less than 5 years	796,037	886,346
Later than 5 years	30,605	194,596
	1,103,125	1,386,028

During the year, $277,979,000 (2016 - $279,229,000) of lease payments was charged to net income.

(b) Other

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

	2017 $'000	2016 $'000
Guarantees and indemnities	1,476,946	942,705
Letters of credit	3,014,268	3,218,387
Loan commitments	9,319,245	6,487,104
	13,810,459	10,648,196

32. Contingencies

The Bank, because of the nature of its business, is subject to various threatened or filed legal actions. At 31 October 2017 material claims filed amounted to approximately $2,136,943,000 (2016 - $2,094,044,000). The majority of this amount relates to a specific counter claim of approximately $2,002,734,000 (2016 - $2,003,112,000), filed by a former customer against the Bank. Another counter claim was brought against the former customer by the Bank for approximately $600,614,000 (2016 – $610,110,000). Although the amount of the ultimate exposure, if any, cannot be determined at this time, the Directors are of the opinion, based upon the advice of Counsel, that the final outcome of threatened or filed suits will not have a material adverse effect on the financial position of the Bank.

33. Pledged Assets

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

	2017	**2016**
	$'000	**$'000**
Cash and balances with Central Bank		
Statutory reserves at Bank of Jamaica (Note 3)	8,873,056	6,571,894
Investment securities – bonds & debentures:		
Pledged as collateral for clearing services	155,858	131,641
	9,028,914	6,703,535

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34. Business Segments

The Bank’s operations are organised into two business segments, Retail and Business Banking (RBB); and Corporate and Investment Banking (CIB) which are supported by the functional units within the Administration segment (which includes Finance, Human Resources, Technology and Operations, Treasury, Risk and Other). The Administration segment results include credits or capital charges for Treasury market-based cost of funds on assets, liabilities and capital; the offset of the same for RBB and CIB earnings unattributed capital remains in Administration.

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

Corporate and Investment Banking
This line of business comprises three sub-segments: Corporate Banking, Investment Banking and Forex & Derivatives Sales.

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

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment.

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 net income resulting from these reclassifications. Prior period amounts were reclassified accordingly.

Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties. The Bank reviews its transfer pricing methodologies on an ongoing basis to ensure they reflect changing market environments and industry practices.

Income taxes are managed on a Bank basis. Transactions between the business segments are on normal commercial terms and conditions.

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

Changes made to business performance measurement

The following changes were made during 2017:
- Costs allocation methodology updated from a direct or indirect expense allocation to a service model allocation
- Earnings on capital measure included to fund transfer excess earnings from legal capital to SBU's.

The Bank’s operations are located solely in Jamaica.

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34. Business Segments (Continued)

	Retail & Business Banking	Corporate & Investment Banking	Administration	Total
	$'000	$'000	$'000	$'000
31 October 2017				
External revenues	1,940,778	1,527,387	(81,194)	3,386,971
Revenues from/(to) other segments	1,059,534	134,409	(1,193,943)	-
Net interest income	3,000,312	1,661,796	(1,275,137)	3,386,971
Operating Income	713,595	850,621	(31,058)	1,533,158
Total Revenue	3,713,907	2,512,417	(1,306,195)	4,920,129
Depreciation	169,260	593	136,536	306,389
Other operating expenses	1,699,836	266,229	2,273,164	4,239,229
Total Operating Expenses	1,869,096	266,822	2,409,700	4,545,618
Loan loss expense	86,660	106,844	-	193,504
Indirect expenses	1,184,619	1,224,474	(2,409,093)	-
Net income (loss) before tax	573,532	914,277	(1,306,802)	181,007
Income taxes				69,727
Net income after taxes				111,280
Total Assets and Liabilities				
Segment assets	21,728,501	29,593,543	36,851,845	88,173,889
Unallocated assets				407,715
Total assets				88,581,604
Segment liabilities	38,979,255	22,504,343	16,600,863	78,084,461
Unallocated liabilities				112,584
Total liabilities				78,197,045
Other segment information				
Interest income	3,407,108	2,124,741	(540,491)	4,991,358
Interest expense	406,796	462,945	734,646	1,604,387
Capital expenditure	288,127	-	185,992	474,119

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34. Business Segments (Continued)

	Retail & Business Banking $'000	Corporate & Investment Banking $'000	Administration $'000	Total $'000
31 October 2016				
External revenues	1,588,479	1,355,927	13,088	2,957,494
Revenues from/(to) other segments	941,333	127,416	(1,068,749)	-
Net interest income	2,529,812	1,483,343	(1,055,661)	2,957,494
Operating income	648,647	693,004	663,079	2,004,730
Total revenue	3,178,459	2,176,347	(392,582)	4,962,224
Depreciation	118,046	2,258	96,621	216,925
Other operating expenses	1,572,242	243,109	2,272,876	4,088,227
Total operating expenses	1,690,288	245,367	2,369,498	4,305,153
Loan loss expense	22,702	(26,030)	-	(3,328)
Indirect expenses	(1,165,149)	(1,204,348)	2,369,497	-
Net income (loss) before tax	2,630,618	3,161,358	(5,131,577)	660,399
Income taxes				251,285
Net income after taxes				409,114
Total Assets and Liabilities				
Segment assets	18,976,959	25,961,240	38,797,271	83,735,470
Unallocated assets				399,307
Total assets				84,134,777
Segment liabilities	34,830,106	22,805,995	11,893,438	69,529,539
Unallocated liabilities				54,905
Total liabilities				69,584,444
Other segment information				
Interest income	2,800,154	1,757,963	(233,137)	4,324,980
Interest expense	379,128	408,427	579,931	1,367,486
Capital expenditure	198,521	-	219,306	417,827

35. Financial Risk Management

(a) Strategy in using financial instruments

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

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

(b) Credit risk

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

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

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

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

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

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

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

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

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35. Financial Risk Management (Continued)

(b) Credit risk (continued)

Exposures by Industry Groups

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

	2017			2016		
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2017	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2016
	$'000	$'000	$'000	$'000	$'000	$'000
Agriculture, fishing and mining	876,363	3,074	879,437	354,726	132,852	487,578
Construction	6,735,716	-	6,735,716	4,702,099	184,900	4,886,999
Distribution	4,236,847	4,143,694	8,380,541	5,260,391	2,109,931	7,370,322
Electricity, gas and water	3,975,660	2,413,912	6,389,572	4,325,521	682,050	5,007,571
Financial institutions	19,542	-	19,542	44,560	500	45,060
Government and public entities	2,872,802	188,815	3,061,617	3,379,557	877,318	4,256,875
Manufacturing and production	1,376,531	6,150	1,382,681	1,363,841	247,733	1,611,574
Personal	20,484,225	4,812,523	25,296,748	17,387,698	4,114,313	21,502,011
Professional and other services	2,166,117	2,237,891	4,404,008	2,357,085	2,292,407	4,649,492
Tourism and entertainment	5,133,413	-	5,133,413	3,192,710	275	3,192,985
Transport, storage and communication	3,279,690	4,400	3,284,090	2,810,676	5,917	2,816,593
Total	51,156,906	13,810,459	64,967,365	45,178,864	10,648,196	55,827,060
Provision for credit losses			(704,430)			(910,246)
			64,262,935			54,916,814

Impaired Financial Assets and Provision for Credit Losses

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

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

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

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35. Financial Risk Management (Continued)

(b) Credit risk (continued)

Derivatives

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

Master Netting Arrangements

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

Credit Related Commitments

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

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

Maximum Exposure to Credit Risk

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

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35. Financial Risk Management (Continued)

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

The Bank operates in only the Jamaican geographical market.

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

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

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

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

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

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

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

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35. Financial Risk Management (Continued)

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

Credit Quality (Continued)

	2017				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**Total $'000**
Loans and advances to customers:					
Mortgages	9,100,635	305,244	140,162	353,089	9,899,130
Personal loans	8,795,958	196,861	66,405	255,384	9,314,608
Business & government loans	31,553,651	264,072	15,908	109,537	31,943,168
Total	49,450,244	766,177	222,475	718,010	51,156,906

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

For business and government loans, the Bank further employs risk ratings in managing the credit portfolio. Business and government borrowers with elevated default risk are monitored on the Early Warning List. Early Warning List characteristics include borrowers exhibiting a significant decline in revenue, income, or cash flow or where the Bank has doubts as to the continuing viability of the business. Early Warning List customers are often also delinquent, but this is not always the case. As of 31 October 2017, Early Warning List customers in the medium to high risk category amounted to $589,490,000 (2016 - $649,617,000).

35. Financial Risk Management (Continued)

(e) Market risk

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

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

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

<u>Risk Measurement:</u>
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 risk,
§ Stress scenarios based upon a combination of theoretical situations and historical events.

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

35. Financial Risk Management (Continued)

(e) Market risk (continued)

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

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

The Bank has two distinct approaches as follows:

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

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

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35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk

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

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

Foreign exchange exposure and risk

31 October 2017:

Currency	Position Long (Short) vs USD	6% Deval	2% Reval	Average Position
	$'000	$'000	$'000	$'000
Jamaican dollar	9,980	(599)	30	1,428

31 October 2016:

Currency	Position Long (Short) vs USD	10% Deval	1% Reval	Average Position
	$'000	$'000	$'000	$'000
Jamaican dollar	4,707	(282)	28	3,824

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

The Bank will occasionally trade non-USD/JMD currencies, but these are quickly hedged. There were no material balances at either 2017 or 2016 fiscal year end.

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35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

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

Concentrations of assets, liabilities and credit commitments:

	2017							
	EC	**BDS**	**CAY**	**BAH**	**US**	**JA**	**Other**	**Total**
As at 31 October 2017	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	89	1,013	913	-	4,750,455	13,950,708	291,848	18,995,026
Due from banks	846	13,610	5,327	1,790	9,844,482	62,516	1,222,748	11,151,319
Other assets	-	-	-	-	(242,374)	473,022	57,229	287,877
Investment securities	-	-	-	-	-	5,104,616	-	5,104,616
Deferred tax assets	-	-	-	-	-	407,715	-	407,715
Retirement benefit asset	-	-	-	-	-	729,342	-	729,342
Loans and advances to customers	-	-	-	-	25,340,480	25,031,240	30,604	50,402,324
Property and equipment	-	-	-	-	-	1,503,385	-	1,503,385
Total assets	935	14,623	6,240	1,790	39,693,043	47,262,544	1,602,429	88,581,604
Liabilities								
Customer deposits	-	-	-	-	36,559,006	34,061,474	1,592,375	72,212,855
Other liabilities	-	-	-	-	292,342	506,615	-	798,957
Taxation payable	-	-	-	-	-	112,584	-	112,584
Debt securities in issue	-	-	-	-	-	4,996,922	-	4,996,922
Retirement benefit obligation	-	-	-	-	-	75,727	-	75,727
Total liabilities	-	-	-	-	36,851,348	39,753,322	1,592,375	78,197,045
Net assets/(liabilities)	935	14,623	6,240	1,790	2,841,695	7,509,222	10,054	10,384,559
Credit commitments	-	-	-	-	5,915,309	7,287,244	607,906	13,810,459

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35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

	2016							
	EC	**BDS**	**CAY**	**BAH**	**US**	**JA**	**Other**	**Total**
As at 31 October 2016	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	-	-	155	-	3,275,722	5,001,316	184,734	8,461,927
Due from banks	2,668	(7,331)	3,865	1,818	22,031,582	430,702	1,186,244	23,649,548
Other assets	-	-	-	-	7,750	186,180	(48)	193,882
Investment securities	-	-	-	-	-	5,230,271	-	5,230,271
Deferred tax assets	-	-	-	-	-	399,307	-	399,307
Retirement benefit asset	-	-	-	-	-	636,282	-	636,282
Loans and advances to customers	-	-	-	-	22,066,149	22,130,436	31,046	44,227,631
Property and equipment	-	-	-	-	-	1,335,929	-	1,335,929
Total assets	2,668	(7,331)	4,020	1,818	47,381,203	35,350,423	1,401,976	84,134,777
Liabilities								
Customer deposits	-	-	-	-	34,842,004	28,778,080	1,411,404	65,031,488
Other liabilities	-	772	-	-	5,179,800	(3,750,163)	(75,212)	1,355,197
Taxation payable	-	-	-	-	-	54,905	-	54,905
Debt securities in issue	-	-	-	-	-	3,059,915	-	3,059,915
Retirement benefit obligation	-	-	-	-	-	82,939	-	82,939
Total liabilities	-	772	-	-	40,021,804	28,225,676	1,336,192	69,584,444
Net assets/(liabilities)	2,668	(8,103)	4,020	1,818	7,359,399	7,124,747	65,784	14,550,333
Credit commitments	-	-	-	-	3,380,208	6,601,273	666,715	10,648,196

35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)
Analysis was conducted to determine the sensitivity to reasonable possible movements of selected currencies against the Jamaican dollar to which the Bank had significant exposure at 31 October 2017 in respect of its assets and liabilities holding all other variables constant. The results revealed that as of 31 October 2017, if the Jamaican dollar had depreciated by 6% (2016 – 6%) against foreign currencies, profit before tax for the year would have been $204,000,000 higher (2016 - $751,957,000 higher) and shareholders' equity would have been $204,000,000 higher (2016 - $751,957,000 higher). Similarly, if the Jamaican dollar had revalued by 2% (2016 – 1%) against foreign currencies, profit before tax for the year would have been $68,000,000 lower (2016 - $125,326,000 lower) and shareholders' equity would have been $67,528,000 lower (2016 - $125,326,000 lower).

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

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

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

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

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

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

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35. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

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

	1 to 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 October 2017					
Cash and balances with Central Bank	18,995,026	-	-	-	18,995,026
Due from other banks	11,151,319	-	-	-	11,151,319
Other assets	287,877	-	-	-	287,877
Deferred tax assets	-	-	407,715	-	407,715
Investment securities	228,032	3,078,090	1,085,496	712,998	5,104,616
Loans and advances to customers	2,632,818	4,749,992	17,023,211	25,996,303	50,402,324
Property and equipment	-	-	1,066,012	437,373	1,503,385
Retirement benefit asset	-	-	-	729,342	729,342
Total assets	33,295,072	7,828,082	19,582,434	27,876,016	88,581,604
Customer deposits	59,981,129	5,594,817	4,956,935	1,679,974	72,212,855
Other liabilities	798,957	-	-	-	798,957
Taxation payable	-	112,584	-	-	112,584
Debt securities in issue	3,061,403	60,519	1,875,000	-	4,996,922
Retirement benefit obligation	-	-	-	75,727	75,727
Total liabilities	63,841,489	5,767,920	6,831,935	1,755,701	78,197,045
Net assets/(liabilities)	(30,546,417)	2,060,162	12,750,499	26,120,315	10,384,559
Commitments, guarantees and contingent liabilities	11,072,899	2,064,297	2,813	670,450	13,810,459

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35. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

	1 to 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 October 2016					
Cash and balances with Central Bank	8,461,927	-	-	-	8,461,927
Due from other banks	16,967,548	6,682,000	-	-	23,649,548
Other assets	193,882	-	-	-	193,882
Deferred tax assets	-	-	399,307	-	399,307
Investment securities	42,889	304,908	4,168,803	713,671	5,230,271
Loans and advances to customers	4,004,825	2,982,666	18,758,294	18,481,846	44,227,631
Property and equipment	-	-	910,135	425,794	1,335,929
Retirement benefit asset	-	-	-	636,282	636,282
Total assets	29,671,071	9,969,574	24,236,539	20,257,593	84,134,777
Customer deposits	60,087,228	3,971,042	724,066	249,152	65,031,488
Other liabilities	1,355,197	-	-	-	1,355,197
Taxation payable	-	54,905	-	-	54,905
Debt securities in issue	59,915	-	3,000,000	-	3,059,915
Retirement benefit obligation	-	-	-	82,939	82,939
Total liabilities	61,502,340	4,025,947	3,724,066	332,091	69,584,444
Net assets/(liabilities)	(31,831,269)	5,943,627	20,512,473	19,925,502	14,550,333
Commitments, guarantees and contingent liabilities	7,343,949	2,617,621	5,575	681,051	10,648,196

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35. Financial Risk Management (Continued)

(g) Interest rate risk

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

As at 31 October 2017, there are no market risk limits against the VaR.

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

31 October 2017

Currency	Post Structural DV01 $	Increase 100 basis points $'000	Decrease 100 basis points $'000	60 day Stressed Loss $'000
Jamaican dollar	(5,326)	536	(536)	1,530

31 October 2016

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

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35. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

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

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

31 October 2017

Currency	Post Structural DV01	Increase 100 basis points	Decrease 50 basis points	60-Day Stressed Loss
	$'000	$'000	$'000	$'000
USD	(17,787)	1,779	(889)	3,632

31 October 2016

Currency	Post Structural DV01	Increase 100 basis points	Decrease 50 basis points	60-Day Stressed Loss
	$'000	$'000	$'000	$'000
USD	(20,911)	2,091	(1,046)	4,293

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

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35. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

Derivatives held for ALM purposes

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

(h) Cash flow and fair value interest rate risk

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

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

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35. Financial Risk Management (Continued)

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

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

	Immediately Rate Sensitive[1]	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive[2&3]	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2017							
Cash and balances with Central Bank	-	13,562,628	-	-	-	5,432,398	18,995,026
Due from other banks	405,826	9,832,965	-	-	-	912,528	11,151,319
Other assets	-	-	-	-	-	287,877	287,877
Investment securities	-	4,415,430	-	684,152	-	5,034	5,104,616
Loans and advances to customers	1,929,698	1,587,256	4,749,680	16,595,065	25,540,625	-	50,402,324
Property and equipment	-	-	-	-	-	1,503,385	1,503,385
Deferred tax assets	-	-	-	-		407,715	407,715
Retirement benefit asset	-	-	-	-		729,342	729,342
Total assets	2,335,524	29,398,279	4,749,680	17,279,217	25,540,625	9,278,279	88,581,604
Customer deposits	43,706,806	16,138,375	9,919,367	768,333	1,679,974	-	72,212,855
Other liabilities	-	-	-	-	-	798,957	798,957
Taxation payable	-	-	-	-	-	112,584	112,584
Debt securities in issue	-	3,061,403	60,519	1,875,000	-	-	4,996,922
Retirement benefit obligation	-	-	-	-	-	75,727	75,727
Total liabilities	43,706,806	19,199,778	9,979,886	2,643,333	1,679,974	987,268	78,197,045
Total interest rate sensitivity gap	(41,371,282)	10,198,501	(5,230,206)	14,635,884	23,860,651	8,291,011	10,384,559
Cumulative gap	(41,371,282)	(31,172,781)	(36,402,987)	(21,767,103)	2,093,548	10,384,559	-

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

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35. Financial Risk Management (Continued)

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

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

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

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35. Financial Risk Management (Continued)

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

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

	2017					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and balances with Central Bank	-	2.45	-	-	-	2.45
Due from other banks	-	1.26	-	-	-	1.26
Investment securities[1]	-	5.06	-	8.50	-	5.53
Loans to customers [2]	37.40	8.26	5.39	8.43	7.87	8.97
Debt securities in issue	-	8.05	7.65	7.65	-	7.90
Customer deposits[3]	0.10	3.09	5.01	6.78	4.83	1.63

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

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

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35. Financial Risk Management (Continued)

(i) Fair value of financial instruments

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

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

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

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

31 October 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment securities:				
Government debt securities	-	5,099,582	-	5,099,582
Total financial assets	-	5,099,582	-	5,099,582

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

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

35. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

Financial instruments recorded at fair value

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

a) Available-for-sale investment securities

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

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

Fair value of financial instruments not carried at fair value

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

i. Due from other banks

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

ii. Loans and advances to customers

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

iii. Customer deposits

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

iv. Debt securities in issue

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

v. Financial assets and liabilities with carrying values that approximate fair values

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

35. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

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

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

	Carrying value 2017 $'000	Fair value 2017 $'000	Carrying value 2016 $'000	Fair value 2016 $'000
Loans and advances to customers (1)	50,402,324	49,767,600	44,227,631	44,273,682
Customer deposits (1)	72,212,855	72,619,304	65,031,488	65,303,463
Debt securities in issue (2)	4,996,922	5,125,633	3,059,915	3,154,481

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

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the year in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. During 2017, we transferred $NIL (2016: $44,273,682,000) of loans and advances to customers and $NIL (2016: $65,303,463,000) of customer deposits from Level 2 to Level 3 due to reduced observability in the inputs used to value these instruments.

Quantitative information about significant non-observable inputs

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

			Range of inputs			
			2017		2016	
As at 31 October	**Valuation technique**	**Key non-observable inputs**	**Low**	**High**	**Low**	**High**
Loans and advances to customers	Market proxy or direct broker quote	Market proxy or direct broker quote	0%	40.0%	0%	40.0%
Customer deposits	Market proxy or direct broker quote	Market proxy or direct broker quote	-	14.5%	-	14.5%

36. Critical Accounting Judgements and Estimates in Applying Accounting Policies

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

(a) Impairment losses on loans and advances

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

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

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

(b) Retirement benefit obligation

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

(c) Property and equipment

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

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

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

(d) Income taxes

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

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

(e) Impairment of available-for-sale investments

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

(f) Fair value of financial instruments

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

37. Employee Share Ownership Plan

Under the employee share ownership plan, qualifying employees can choose each year to have up to 6% of their eligible earnings withheld to purchase common shares in the Parent. The Bank matches 50% of the employee contribution amount, up to a maximum contribution of 6% of eligible earnings, depending upon length of service and job level. The Bank's contributions vest after employees have two years of continuous participation in the plan. All contributions are paid into a trust and used by the plan trustees to purchase common shares in the open market. The Bank's contributions are expensed as incurred and totalled $7,295,000 (2016 - $9,039,000) (Note 25).