FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Audited Consolidated Financial Statements
Year ended October 31, 2018
with Independent Auditors' Report

FirstCaribbean International Bank (Bahamas) Limited

Audited Consolidated Financial Statements

October 31, 2018

Contents

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Independent Auditors' Report

The Shareholders and Directors
FirstCaribbean International Bank (Bahamas) Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of FirstCaribbean International Bank (Bahamas) Limited (the "Bank") which comprise the consolidated statement of financial position as at October 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matter	How our Audit Addressed the Key Audit Matter
Expected credit loss allowances	
Related disclosures in the consolidated financial statements are included in Note 2.3, Adoption of new accounting policies, Note 2.4, Summary of significant accounting policies–Impairment of financial assets, Note 7, Securities, Note 8, Loans and advances to customers and Note 27, Financial risk management. The Bank early adopted IFRS 9: Financial Instruments effective 1 November 2017. The standard changes the evaluation of credit losses from an incurred approach to an expected credit loss model ("ECL") which requires significantly greater management judgement and incorporation of forward looking information. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and advances to customers and other financial assets not held at fair value through profit and loss, together with loan commitments and financial guarantee contracts. The Bank estimated a total ECL allowance of $124M as at October 31, 2018. This is a key audit matter as the estimation of ECLs is inherently uncertain and requires the application of judgement and use of subjective assumptions by management. Furthermore, models used to determine credit impairments are complex, and certain inputs used are not fully observable. Management compensates for any model and data deficiencies by applying judgmental overlays to ECL model outputs.	• We evaluated the modelling techniques and methodologies developed by the Bank in order to estimate ECLs, and assessed their compliance with the requirements of IFRS 9. • We assessed and tested the design and operating effectiveness of management's controls over the process for estimation of ECLs. • We tested the completeness and accuracy of input data to the models used to determine the ECLs. We assessed the methodologies and assumptions applied in determining 12 month and lifetime probabilities of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and staging. We assessed external source of data and assumptions, particularly with respect to forward looking information ("FLI") by testing to independent sources. • We involved our internal financial services risk management and economics specialists to evaluate the methodology for validating models and analyzing modelling accuracy and consistency of impairment parameters. They also assessed the generation of FLI. We used our internal real estate specialists to access the methodology used and values obtained for the third party appraisals for real estate held as collateral for loans. • We assessed the qualitative adjustments or overlays derived outside of specific model output. • We assessed the adequacy of the related disclosures in the consolidated financial statements.

Key Audit Matter	How our Audit Addressed the Key Audit Matter
Goodwill	
Related disclosures in the consolidated financial statements are included in Note 2.4, Summary of significant accounting policies–Goodwill and Note 11, Goodwill. Goodwill of $73M represents the excess of the cost of an acquisition over the fair value of the identifiable net assets of the acquired subsidiary and in accordance with International Accounting Standard 36, management is required to annually test goodwill for impairment. Goodwill is deemed to be impaired if the carrying value of a cash generating unit ("CGU") is in excess of its recoverable amount. This is a key audit matter since impairment requires significant estimation and judgement relative to assumptions used for projected cash flows for CGU (e.g. growth rates, terminal values and discount rates). This impairment testing is sensitive to variations in estimates and assumptions that can result in significantly different conclusions.	• We assessed key assumptions used by management in the determination of cash flow projections and discount rates. We compared these assumptions to historical performance, growth rates in light of expected future economic conditions and independent sources of information. • We evaluated whether the impairment testing methodology met the requirements of International Accounting Standard 36, Impairment of Assets. • We assessed the sensitivity of the assumptions to reasonable possible changes that could result in the carrying value of CGU exceeding their recoverable amount. • We assessed the accuracy of management's historic forecasting performance in light of actual results. • We involved an internal valuation specialist to assist us in evaluating the methodology and assumptions used by management in performing the impairment test. • We assessed the adequacy of the related disclosures in the consolidated financial statements.

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Key Audit Matter	How our Audit Addressed the Key Audit Matter
Fair value of investment securities	
Related disclosures in the consolidated financial statements are included in Note 2.4, Summary of significant accounting policies–debt instruments at FVOCI–equity instruments at FVOCI, Note 7, Securities and Note 27, Financial risk management. This is a key audit matter due to the complexity of valuation models used to determine fair value. The valuation models can be subjective in nature and involve observable and unobservable data and various assumptions. These include the valuation of financial instruments with higher estimation uncertainty for which observable market prices or market parameters are not available. The use of different valuation techniques and assumptions could result in significantly different estimates of fair value. The associated risk management disclosure is also complex and dependent upon high quality data.	• We assessed and tested the design and operating effectiveness of management's controls over the investment securities valuation process • We reviewed the market prices applied to the Bank's debt securities by comparing the prices used to an independent external source. • We involved internal valuation specialists to assess the fair value of investment securities which did not have observable market prices. • We assessed the adequacy of the related disclosures in the consolidated financial statements.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditors' report is LaNishka F. McSweeney.

Ernst + Young

February 15, 2019

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31
(Expressed in thousands of Bahamian dollars)

	Notes	2018 $	2017 $
ASSETS			
Cash and balances with The Central Bank	3	166,113	148,075
Due from banks	4	409,997	364,661
Derivative financial instruments	5	647	366
Other assets	6	18,257	13,256
Securities	7	782,708	799,966
Loans and advances to customers	8	2,001,401	2,072,500
Property and equipment	9	29,578	27,975
Retirement benefit assets	10	18,179	22,610
Goodwill	11	72,747	72,747
Total assets		3,499,627	3,522,156
LIABILITIES			
Derivative financial instruments	5	5,784	8,918
Customer deposits	12	2,762,770	2,750,848
Other liabilities	13	65,945	55,879
Retirement benefit obligations	10	12,560	13,367
Total liabilities		2,847,059	2,829,012
EQUITY			
Issued capital	14	477,230	477,230
Reserves	14	(6,627)	(13,194)
Retained earnings		181,965	229,108
Total equity		652,568	693,144
Total liabilities and equity		3,499,627	3,522,156

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

Approved by the Board of Directors on February 13, 2019, and signed on its behalf by:

Managing Director　　　　Director

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED OCTOBER 31
(Expressed in thousands of Bahamian dollars)

	Notes	2018 $	2017 $
Interest and similar income		158,067	149,254
Interest and similar expense		10,031	10,440
Net interest income	15	148,036	138,814
Operating income	16	40,086	41,472
		188,122	180,286
Operating expenses	17	90,977	91,219
Credit loss expense on financial assets	7, 8	12,085	12,308
		103,062	103,527
Net income for the year		85,060	76,759
Basic and diluted earnings per share (expressed in cents per share)	18	70.8	63.9

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED OCTOBER 31
(Expressed in thousands of Bahamian dollars)

	Notes	2018 $	2017 $
Net income for the year		**85,060**	**76,759**
Other comprehensive loss to be reclassified to net income or loss in subsequent periods:			
Net losses on available-for-sale investment securities	20	-	(7)
Net losses on debt instruments at fair value through OCI	20	(4,164)	-
Net other comprehensive loss to be reclassified to net income or loss in subsequent periods		(4,164)	(7)
Other comprehensive loss not to be reclassified to net income or loss in subsequent periods:			
Re-measurement losses on retirement benefit plans	10	(2,043)	(2,560)
Net other comprehensive loss not to be reclassified to net income or loss in subsequent periods		(2,043)	(2,560)
Other comprehensive loss for the year		(6,207)	(2,567)
Comprehensive income for the year		78,853	74,192

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED OCTOBER 31
(Expressed in thousands of Bahamian dollars)

	Notes	Issued capital $	Reserves $	Retained earnings $	Total equity $
Balance at October 31, 2016		477,230	(14,326)	192,112	655,016
Net income for the year		-	-	76,759	76,759
Other comprehensive loss for the year		-	(2,567)	-	(2,567)
Total comprehensive income		-	(2,567)	76,759	74,192
Dividends	19	-	-	(36,064)	(36,064)
Transfer to statutory reserve fund – Turks & Caicos Islands	14	-	3,699	(3,699)	-
Balance at October 31, 2017		477,230	(13,194)	229,108	693,144
Impact of adopting IFRS 9 at November 1, 2017	2.3	-	10,108	(23,746)	(13,638)
Restated balance at November 1, 2017 after adopting IFRS 9		477,230	(3,086)	205,362	679,506
Net income for the year		-	-	85,060	85,060
Other comprehensive loss for the year		-	(6,207)	-	(6,207)
Total comprehensive income		-	(6,207)	85,060	78,853
Dividends	19	-	-	(105,791)	(105,791)
Transfer to statutory reserve fund – Turks & Caicos Islands	14	-	2,666	(2,666)	-
Balance at October 31, 2018		**477,230**	**(6,627)**	**181,965**	**652,568**

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31
(Expressed in thousands of Bahamian dollars)

	Notes	2018 $	2017 $
Cash flows from operating activities			
Net income for the year		85,060	76,759
Adjustments to reconcile net income to net cash from/(used in) operating activities			
Credit loss expense on financial assets	7, 8	12,085	12,308
Depreciation of property and equipment	9	4,562	4,532
Net write-off of property and equipment	9	-	266
Net (gains)/losses on sale and redemption of securities	16	(498)	16
Net hedging gains	5	(259)	(1,231)
Interest income earned on securities	15	(24,822)	(23,546)
Interest expense incurred on derivative financial instruments	15	860	2,020
Net cash flows from net income before changes in operating assets and liabilities		76,988	71,124
Changes in operating assets and liabilities:			
- net decrease in due from banks greater than 90 days	4	52,154	13,201
- net increase in mandatory reserves with The Central Bank	3	(173)	(4,870)
- net decrease/(increase) in loans and advances to customers		47,725	(76,483)
- net increase in other assets		(854)	(2,799)
- net increase in customer deposits		11,922	258,901
- net increase/(decrease) in other liabilities		7,194	(5,738)
Net cash from operating activities		194,956	253,336
Cash flows from investing activities			
Purchases of property and equipment	9	(6,165)	(4,359)
Purchases of securities	7	(821,799)	(775,678)
Proceeds from sale and redemption of securities	7	829,701	653,652
Interest income received on securities		25,797	23,655
Interest expense paid on derivative financial instruments		(1,344)	(1,418)
Net cash from/(used in) investing activities		26,190	(104,148)
Cash flows from financing activities			
Dividends paid	19	(105,791)	(36,064)
Net cash used in financing activities		(105,791)	(36,064)
Net increase in cash and cash equivalents		115,355	113,124
Cash and cash equivalents, beginning of year		378,837	265,713
Cash and cash equivalents, end of year	3	494,192	378,837

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

1. Corporate Information

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

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

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

These consolidated financial statements have been authorised for issue by the Board of Directors on February 13, 2019. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

2. Basis of Preparation and Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

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

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at October 31, 2018 (the "reporting date"). The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

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

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

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

All inter-company transactions, balances and unrealised surpluses and deficits on transactions and balances have been eliminated.

2.2 Significant accounting judgments and estimates

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

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

Other disclosures relating to the Bank's exposure to risks and uncertainties include:
- Capital management – Note 14
- Financial risk management and policies – Note 27
- Sensitivity analysis disclosures – Notes 10, 11, 27

The estimates and judgments that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

Impairment losses on financial assets
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's expected credit loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:
- The Bank's internal credit grading model, which assigns Probable Defaults ("PDs") to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk, and so allowances for financial assets should be measured on a Lifetime ECL ("LTECL") basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default ("EAD") and Loss Given Defaults ("LGD")
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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

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

Taxes

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

Value Added Tax (VAT)
Effective January 1, 2015, the Government of The Commonwealth of The Bahamas implemented a value added tax (VAT). VAT is an indirect tax which is considered a broadly based consumption tax charged on the value added to goods and services. It applies to almost all goods and services that are imported, bought and sold for use or consumption. Conversely, exported goods and services supplied to customers abroad are exempted or zero-rated. Effective July 1, 2018, the VAT rate was increased from 7.5% to 12%. The Company is a VAT registrant.

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

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

2.3 Adoption of new accounting policies

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

New and amended standards and interpretations
In these consolidated financial statements, the Bank early adopted IFRS 9 and the related IFRS 7R which are effective for annual periods beginning on or after January 1, 2018. These standards were applied on a retrospective basis, with certain exceptions. As permitted, prior period comparative consolidated financial statements were not restated. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 are recognised 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 has elected to continue to apply the hedge accounting requirements of IAS 39.

In addition, the Bank applied amendments to IAS 7 *Statement of Cash Flows*.

The nature and the impact of the new standards and amendments are described below:

IFRS 9 *Financial Instruments*
IFRS 9 replaces IAS 39 as at November 1, 2017. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of November 1, 2017 and are disclosed below.

Changes to classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the consolidated statement of income.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms, as explained in Note 2.3. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Bank's accounting policies for embedded derivatives are set out in Note 2.3.

The Bank's classification of its financial assets and liabilities is explained in Note 2.3. The quantitative impact of applying IFRS 9 as at November 1, 2017 is disclosed in this Note.

Changes to the impairment calculation
The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 2.3. The quantitative impact of applying IFRS 9 as at November 1, 2017 is disclosed in this Note.

IFRS 7R *Financial Instruments: Disclosures*
To reflect the differences between IFRS 9 and IAS 39, IFRS 7 was updated and the Bank has adopted it, together with IFRS 9, for the year beginning November 1, 2017. Changes include transition disclosures as shown in Note 2.3, and detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in this Note.

Transition disclosures
The following pages set out the impact of adopting IFRS 9 on the consolidated statement of financial position, and retained earnings, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of November 1, 2017 is as follows:

(Expressed in thousands of Bahamian dollars)

	IAS 39 carrying amount as at Oct 31, 2017 $	Reclassification $	Re-measurements $	IFRS 9 carrying amount as at Nov 1, 2017 $
Financial assets				
Cash and balances with The Central Bank	148,075	-	-	148,075
Due from banks	364,661	-	-	364,661
Derivative financial instruments	366	-	-	366
Securities				
Available-for-sale (AFS) securities				
Opening balance	799,966	-	-	799,966
To debt securities measured at FVOCI	-	(799,966)	-	(799,966)
Closing balance	799,966	(799,966)	-	-
Debt securities measured at FVOCI				
Opening balance	-	-	-	-
From AFS securities	-	799,966	-	799,966
Closing balance	-	799,966	-	799,966
Loans and advances to customers	2,072,500	-	(13,638)	2,058,862
Non-financial assets	136,588	-	-	136,588
Total assets	3,522,156	-	(13,638)	3,508,518
Financial liabilities				
Derivative financial instruments	8,918	-	-	8,918
Customer deposits	2,750,848	-	-	2,750,848
Non-financial liabilities	69,246	-	-	69,246
Total liabilities	2,829,012	-	-	2,829,012

(Expressed in thousands of Bahamian dollars)

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and Retained Earnings $
Fair value reserve	
Closing balance under IAS 39 *(October 31, 2017)*	(8,934)
Recognition of impact of adopting IFRS 9 on debt financial assets at FVOCI	10,108
Opening balance under IFRS 9 *(November 1, 2017)*	1,174
Retained earnings	
Closing balance under IAS 39 *(October 31, 2017)*	229,108
Recognition of impact of adopting IFRS 9 (see below)	(23,746)
Opening balance under IFRS 9 *(November 1, 2017)*	205,362
Total change in equity due to adopting IFRS 9	(13,638)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

Impairment allowance for:	Loan loss provision under IAS 39/IAS 37 at October 31, 2017 $	Re-measurement $	ECLs under IFRS 9 as at November 1, 2017 $
Loans and receivables at amortised cost per IAS 39/financial assets at amortised costs under IFRS 9[(1)]	119,917	13,638	133,555
Available-for-sale debt instrument securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	10,108	10,108
		23,746	

(1) Includes financial guarantees, letters of credit for customers and other commitments.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not materially impact the Bank's disclosures.

2.4 Summary of significant accounting policies

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

Foreign currency translation

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

Transactions and balances

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

Derivative financial instruments and hedge accounting

Initial Recognition and subsequent measurement

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

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

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

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk).

- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

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

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

- *Fair value hedge*
  For hedging relationships which are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, changes in the fair value of the derivatives are recorded in the consolidated statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk. If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the remaining period to maturity.

- *Cash flow hedge*
  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income. Amounts accumulated in other comprehensive income are recycled to the consolidated statement of income in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of income. As at October 31, 2018, the Bank did not have hedge relationships classified as cash flow hedges.

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

Interest income and expense
Under both IFRS 9 and IAS 39, interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39, is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the EIR, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the statement of income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 8) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 8) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate.

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

Customer loyalty programmes
The Bank offers customer loyalty 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 are expired.

Financial instruments: initial recognition

Date of recognition
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the settlement date, which is the date that an asset is delivered to or by the Bank. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL. Transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities
From November 1, 2017, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortised cost
- FVOCI
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in the summary of significant accounting policies. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before November 1, 2017, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, or available-for-sale. Financial liabilities, other than loan commitments and financial guarantees, continue to be measured at amortised cost or at FVPL when they are held for trading, and derivative instruments or the fair value designation is applied.

Financial assets and liabilities

Due from banks, Loans and advances to customers, Financial investments at amortised cost

Before November 1, 2017, Due from banks and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank might not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale

From November 1, 2017, the Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below:

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test
As a second step of its classification process, the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Derivatives recorded at fair value through profit or loss
A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These may include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 5. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 5.

Debt instruments at FVOCI (Policy applicable from November 1, 2017)
The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available-for- sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 7. The ECL calculation for debt instruments at FVOCI is explained in Note 7. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI (Policy applicable from November 1, 2017)
Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets and liabilities at fair value through profit or loss
Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria is met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or

- The liabilities (and assets until November 1, 2017 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or

- The liabilities (and assets until November 1, 2017 under IAS 39) contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered, that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate as explained in Note 5. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial guarantees, letters of credit and undrawn loan commitments
The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL allowance.

The premium received is recognised in the consolidated statement of income in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from November 1, 2017, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 8.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised as outlined in Note 8.

Available-for-sale financial investments (Policy applicable before November 1, 2017)
Available-for-sale investment securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices.

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

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

Available-for-sale financial investments and financial assets or liabilities at fair value through profit or loss are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Loans and receivables are carried at amortised cost using the effective interest method, less any provisions for impairment. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in operating income as net gains and losses on disposals and redemptions of securities.

Unquoted equity instruments for which fair values cannot be measured reliably are recognised at cost less impairment. All gains and losses from disposals and/or changes in the fair value of financial assets and liabilities at fair value through profit or loss and derivatives held for trading are included in operating income as net trading gains or losses. All gains and losses from disposals of investment securities classified as available-for-sale are included in operating income as net gains and losses on disposals and redemptions of securities. Where certain financial assets are hedged and there is ineffectiveness, this is included in operating income as net hedging gains or losses. Dividends are recorded on the accrual basis when declared and are included in interest and similar income - securities.

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

Reclassification of financial assets and liabilities
From November 1, 2017, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018.

Derecognition of financial assets and liabilities
Derecognition due to substantial modification of terms and conditions
The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank transfers its contractual rights to receive cash flows from the financial asset, or
- It retains the right to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement'.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Impairment of financial assets (Policy applicable from November 1, 2017)
Overview of the ECL principles
As described in Note 2.3, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From November 1, 2017, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 8. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 2.3.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 27.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 8). The Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs
The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 27.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 27.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 27.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI assets: Financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on probability-weighting scenarios, discounted by the credit adjusted EIR.

- Loan commitments and letters of credit: When estimating 12mECL for undrawn loan commitments, the Bank applies the PD and LGD to the undrawn amount, and this amount is discounted at an approximation to the expected EIR on the loan.

  For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

- Financial guarantee contracts: The Bank estimates ECLs by applying the PD and LGD to the exposure, and this amount is discounted at an approximation to the interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within credit loss on financial assets.

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

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Credit cards and other revolving facilities
The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade or history of delinquency, as explained in Note 27, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 27, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Forward looking information
In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:
- GDP growth
- Consumer price index and inflation
- Interest rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 27.

Collateral valuation
To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non- financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. Details of the impact of the Bank's various credit enhancements are disclosed in Note 8.

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

Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From November 1, 2017, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 27. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum probation period according to the regulatory rules in The Bahamas and the TCI. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due

Details of forborne assets are disclosed in Note 27. If modifications are substantial, the loan is derecognised.

Impairment of financial assets (Policy applicable before November 1, 2017)
Loans and receivables
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset, or group of financial assets, is impaired includes observable data that comes to the attention of the Bank about the following loss events:

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

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the recoverable amount, being the estimated present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate. Credit cards are not classified as impaired and are fully written off at the earlier of the notice of bankruptcy, settlement, proposal, or when the payment is contractually 180 days in arrears.

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

Loans are written off, in whole or in part, against the related provision for impairment upon settlement (realisation) of collateral or in advance of settlement (no realisation) where the determination of the recoverable value is completed and there is no realistic prospect of recovery above the recoverable value. Any subsequent recoveries are credited to the consolidated statement of income. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the consolidated statement of income. In circumstances where The Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is disclosed as an appropriation of retained earnings and is included in a non-distributable general banking reserve.

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

AFS equity instruments
Objective evidence of impairment for an investment in an AFS equity instrument exists if there has been a significant or prolonged decline in the fair value of the investment below its cost, or if there is information about significant adverse changes in the technological, market, economic, or legal environment in which the issuer operates, or if the issuer is experiencing significant financial difficulty.

When an AFS equity instrument is determined to be impaired, an impairment loss is recognised by reclassifying the cumulative unrealised losses in other comprehensive income to the consolidated statement of income. Impairment losses previously recognised in the consolidated statement of income cannot be subsequently reversed. Further decreases in fair value subsequent to the recognition of an impairment loss are recognised directly in the consolidated statement of income, and subsequent increases in fair value are recognised in other comprehensive income.

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

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

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

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

Property and equipment
Property and equipment is stated at historical cost less accumulated depreciation, with the exception of land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Land and buildings comprise mainly of branches and offices. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Depreciation on property and equipment is computed using the straight-line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful lives.

The annual rates used are:

- Buildings	2½%
- Leasehold improvements	10% or over the life of the lease
- Equipment, furniture and vehicles	20 – 50%

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

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

Gains and losses on disposal of property and equipment are determined by reference to its carrying amount and are taken into account in determining net income.

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

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

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

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

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

Provisions
Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more than likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Retirement benefit obligations

Pension obligations
The Bank operates a pension plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries. The plan has defined benefit and defined contribution sections. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The asset or liability recognised in the consolidated statement of financial position in respect of the defined benefit sections of the plan is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets, together with adjustments for unrecognised actuarial gains/losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. The pension plan is a final salary plan and the charge, representing the net periodic pension cost less employee contributions, is included in staff costs.

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

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

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

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

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

For the defined contribution section of the plan, the Bank makes contributions to a private trustee-administered fund. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. The Bank's contributions to the defined contribution section of the plan are charged to the consolidated statement of income in the year to which they relate.

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

Share capital

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

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

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

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

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

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

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

Fair value measurement
The Bank measures financial instruments, such as derivatives and FVOCI debt securities, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 27. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

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

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

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

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

2.5 Standards issued but not yet effective

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

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the modified retrospective application. During 2018, the Bank performed a detailed assessment of IFRS 15 and the impact on the Bank.

The Bank is in the business of accepting deposits from customers and entering into lending activities. The Bank also provides payment services and executes wealth management services, credit and loyalty programmes for its clients.

Based on this assessment, the impact of IFRS 15 adoption is expected to be immaterial to the Bank.

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 consolidated statement of income.

IFRS 16 is effective for annual periods beginning on or after January 1, 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 adoption of IFRS 16 and is currently evaluating its impact.

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 began on or after January 1, 2018, and early application is permitted. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Bank does not expect any effect on its consolidated financial statements.

IAS 19 *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

Annual Improvements 2015 – 2017 Cycle

The improvements in this cycle include:

IFRS 3 *Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer re-measures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

IFRS 11 *Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

(Expressed in thousands of Bahamian dollars)

IAS 23 *Borrowing Costs*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its consolidated financial statements.

3. Cash and Balances with The Central Bank

	2018 $	2017 $
Cash	42,144	34,836
Deposits with The Central Bank - non-interest bearing	123,969	113,239
Cash and balances with The Central Bank	166,113	148,075
Less: Mandatory reserve deposits with The Central Bank	(50,407)	(50,234)
Included in cash and cash equivalents, as per below	115,706	97,841

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

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

Cash and cash equivalents

	2018 $	2017 $
Cash and balances with The Central Bank, as per above	115,706	97,841
Due from banks, included in cash and cash equivalents *(Note 4)*	378,486	280,996
	494,192	378,837

(Expressed in thousands of Bahamian dollars)

4. Due from Banks

	2018 $	2017 $
Included in cash and cash equivalents *(Note 3)*	378,486	280,996
Greater than 90 days maturity from date of acquisition	31,511	83,665
Due from banks	409,997	364,661

Due from banks comprises deposit placements and include amounts placed with other FirstCaribbean International Bank entities of $281,160 (2017: $194,292) and deposit placements with CIBC entities of $21,204 (2017: $113,224) (Note 22). Placements with other FirstCaribbean International Bank entities include amounts with FCIB Jamaica totalling $26,461 (2017: $37,730), which are pledged in favour of that bank in support of loans granted to certain of its customers.

The average effective yield on deposit placements during the year was 1.88 % (2017: 1.85%).

5. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate, or index that is the basis upon which changes in the value of derivatives are measured.

	Notional Amount		Fair Values	
	Assets $	Liabilities $	Assets $	Liabilities $
2018				
Interest rate swaps	23,717	40,187	647	5,784
			647	5,784
2017				
Interest rate swaps	34,023	144,008	366	8,918
			366	8,918

The Bank has positions in the following types of derivatives and they are measured at fair value through profit or loss:

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

(Expressed in thousands of Bahamian dollars)

Cash collateral pledged with counterparties that have one-way collateral posting arrangements total $5,261 (2017: $7,521) and are included in Due from Banks (Note 4).

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

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

In 2018, the Bank recognised gains of $nil (2017: $3,667) as a result of failed hedges, along with associated fees of $nil (2017: $4,000), which are included within operating income as part of net trading gains/losses as these derivatives are classified as trading derivatives upon failure.

Hedged items currently designated:

2018

	Carrying amount of the hedged items	**Cumulative amount of fair value of hedging adjustment included in the carrying amount of the hedged items**
	$	**$**
Consolidated statement of financial position in which the hedged item is included:		
Loans & advances to customers	6,432	755
Securities	25,310	2,300
	31,742	3,055

The following table shows the net gains and losses recognised in income related to derivatives in fair value hedging relationships for the periods ended October 31:

	2018	**2017**
	$	**$**
Gains/(Losses) recorded in operating income:		
Recognised gains on hedging instruments	2,623	3,616
Recognised losses on hedged item	(2,364)	(2,385)
Net gains recognised on fair value hedges	259	1,231

(Expressed in thousands of Bahamian dollars)

6. Other Assets

	2018 $	2017 $
Clearings and suspense	9,129	7,983
Other accounts receivables *(Note 22)*	7,109	3,448
Prepayments and deferred items	2,019	1,825
	18,257	13,256

Included in other accounts receivables are balances due from other Parent Group entities amounting to $25 (2017: $25) and the Bank's retirement benefit pension plan amounting to $4,841 (2017: $2,918), which represents amounts paid to pensioners on the plan's behalf.

7. Securities

	2018 $	2017 $
Available-for-sale securities		
Equity securities - unquoted	-	219
Government debt securities		
- Barbados	-	20,155
- Bahamas	-	426,883
- Other	-	20,124
Total government debt securities	-	467,162
Other debt securities		
Financial institutions	-	325,536
Total other debt securities	-	325,536
Total available-for-sale securities	-	792,917
Add: Interest receivable	-	7,049
	-	799,966

(Expressed in thousands of Bahamian dollars)

	2018 $	2017 $
Securities measured at FVOCI		
Equity securities - unquoted	219	-
Government debt securities		
- Barbados	12,303	-
- Bahamas	342,783	-
- Other	21,838	-
Total government debt securities	376,924	-
Other debt securities		
Financial institutions	362,429	-
Non-financial institutions	37,062	-
Total other debt securities	399,491	-
Total securities measured at FVOCI	776,634	-
Add: Interest receivable	6,074	-
	782,708	-

(Expressed in thousands of Bahamian dollars)

Allowance for credit losses on securities

The table below provides a reconciliation of the opening balance to the closing balance of the ECL allowances under IFRS 9 for debt securities measured at FVOCI:

	Stage 1	Stage 2	Stage 3	2018 In accordance with IFRS 9
	Collective provision 12 month ECL performing	Collective provision lifetime ECL performing	Collective and individual provision lifetime ECL credit-impaired	Total
	$	$	$	$
Debt securities at FVOCI				
Balance at November 1, 2017	7,795	2,313	-	10,108
Originations net of repayments and other derecognitions	363	(8)	-	355
Net remeasurement	(472)	(1,847)	4,617	2,298
Credit loss (credit)/expense	(109)	(1,855)	4,617	2,653
Balance, end of year	7,686	458	4,617	12,761

The average effective yield during the year on debt securities and treasury bills was 3.25% (2017: 3.14%). The Bank has a regulatory reserve requirement to maintain a percentage of deposit liabilities in cash or in the form of certain government securities. At October 31, 2018, the reserve requirement amounted to $209,009 (2017: $206,716) of which $158,602 (2017: $156,482) is in the form of government securities and $50,407 (2017: $50,234) is included within cash and balances with The Central Bank (Note 3).

The movement in debt instruments at FVOCI (excluding interest receivable) is summarised as follows:

	2018	2017
	$	$
Balance, beginning of year	792,917	670,914
Additions (purchases, changes in fair value and foreign exchange)	813,418	775,655
Disposals (sales and redemptions)	(829,701)	(653,652)
Balance, end of year	776,634	792,917

(Expressed in thousands of Bahamian dollars)

8. Loans and Advances to Customers

In accordance with IFRS 9:

	Mortgages $	Personal Loans $	Business & Government Loans $	2018 Total $
Performing loans *(Note 27)*	924,757	193,971	882,029	2,000,757
Impaired loans *(Note 27)*	81,273	16,371	12,734	110,378
Gross loans *(Note 27)*	1,006,030	210,342	894,763	2,111,135
Less: Expected credit loss allowances	(67,084)	(16,448)	(28,117)	(111,649)
	938,946	193,894	866,646	1,999,486
Add: Interest receivable				13,086
Less: Unearned fee income				(11,171)
				2,001,401

In accordance with IAS 39:

	Mortgages $	Personal Loans $	Business & Government Loans $	2017 Total $
Performing loans *(Note 27)*	903,481	188,476	947,347	2,039,304
Impaired loans *(Note 27)*	110,389	20,299	18,153	148,841
Gross loans *(Note 27)*	1,013,870	208,775	965,500	2,188,145
Less: Provisions for impairment	(73,486)	(23,749)	(22,682)	(119,917)
	940,384	185,026	942,818	2,068,228
Add: Interest receivable				14,130
Less: Unearned fee income				(9,858)
				2,072,500

(Expressed in thousands of Bahamian dollars)

				2018 In accordance with IFRS 9
	Stage 1	Stage 2	Stage 3	
	Collective provision 12-month ECL performing $	Collective provision lifetime ECL performing $	Collective and individual provision lifetime ECL credit-impaired $	Total $
Mortgages				
Balance at November 1, 2017	6,814	11,615	67,734	86,163
Originations net of repayments and other derecognitions	339	89	(776)	(348)
Changes in model	(1,004)	155	3,718	2,869
Net remeasurement	(2,620)	(861)	1,193	(2,288)
Transfers				
- to 12-month ECL	1,859	(1,348)	(511)	-
- to lifetime ECL non-credit-impaired	(304)	1,755	(1,451)	-
- to lifetime ECL credit-impaired	(19)	(606)	625	-
Credit loss (credit)/expense	(1,749)	(816)	2,798	233
Net write-offs	-	-	(17,697)	(17,697)
Interest income on impaired loans	-	-	(1,615)	(1,615)
Balance, end of year	5,065	10,799	51,220	67,084
Personal loans				
Balance at November 1, 2017	3,539	421	13,830	17,790
Originations net of repayments and other derecognitions	82	(55)	(357)	(330)
Changes in model	(525)	504	46	25
Net remeasurement	(213)	1	2,637	2,425
Transfers				
- to 12-month ECL	112	(68)	(44)	-
- to lifetime ECL non-credit-impaired	(113)	261	(148)	-
- to lifetime ECL credit-impaired	(19)	(347)	366	-
Credit loss (credit)/expense	(676)	296	2,500	2,120
Net write-offs	-	-	(2,866)	(2,866)
Interest income on impaired loans	-	-	(596)	(596)
Balance, end of year	2,863	717	12,868	16,448

(Expressed in thousands of Bahamian dollars)

				2018 In accordance with IFRS 9
	Stage 1	**Stage 2**	**Stage 3**	
	Collective provision 12-month ECL performing	**Collective provision lifetime ECL performing**	**Collective and individual provision lifetime ECL credit-impaired**	**Total**
	$	**$**	**$**	**$**
Business & Government loans				
Balance at November 1, 2017	13,785	3,717	12,100	29,602
Originations net of repayments and other derecognitions	30	218	(217)	31
Changes in model	(2,578)	(2,037)	342	(4,273)
Net remeasurement	(588)	3,324	8,585	11,321
Transfers				
- to 12-month ECL	656	(656)	-	-
- to lifetime ECL non-credit-impaired	(1,175)	1,199	(24)	-
- to lifetime ECL credit-impaired	(3)	(44)	47	-
Credit loss (credit)/expense	(3,658)	2,004	8,733	7,079
Net write-offs	-	-	(7,036)	(7,036)
Interest income on impaired loans	-	-	(1,528)	(1,528)
Balance, end of year	10,127	5,721	12,269	28,117
Total Bank				
Balance at November 1, 2017	24,138	15,753	93,664	133,555
Originations net of repayments and other derecognitions	451	252	(1,350)	(647)
Changes in model	(4,107)	(1,378)	4,106	(1,379)
Net remeasurement	(3,421)	2,464	12,415	11,458
Transfers				
- to 12-month ECL	2,627	(2,072)	(555)	-
- to lifetime ECL non-credit-impaired	(1,592)	3,215	(1,623)	-
- to lifetime ECL credit-impaired	(41)	(997)	1,038	-
Credit loss (credit)/expense	(6,083)	1,484	14,031	9,432
Net write-offs	-	-	(27,599)	(27,599)
Interest income on impaired loans	-	-	(3,739)	(3,739)
Balance, end of year	18,055	17,237	76,357	111,649
Total ECL allowance comprises:				
- Loans	16,876	16,934	76,357	110,167
- Undrawn credit facilities	1,179	303	-	1,482

(Expressed in thousands of Bahamian dollars)

Movement in provisions for impairment for 2017 is as follows, in accordance with IAS 39:

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

Impaired Loans

	In accordance with IFRS 9			In accordance with IAS 39			
			2018				2017
	Gross impaired $	Stage 3 allowance $	Net impaired $	Gross impaired $	Individual allowance $	Collective allowance $	Net impaired $
Mortgages	81,273	51,220	30,053	110,389	62,288	-	48,101
Personal loans	16,371	12,868	3,503	20,299	8,003	1,828	10,468
Business & government loans	12,734	12,269	465	18,153	2,407	4,917	10,829
Total impaired loans	110,378	76,357	34,021	148,841	72,698	6,745	69,398

The average interest yield during the year on loans and advances was 6.29% (2017: 6.09%). Impaired loans as at October 31, 2018 amounted to $110,378 (2017: $148,841) and interest taken to income on impaired loans during the year amounted to $2,179 (2017: $1,283).

(Expressed in thousands of Bahamian dollars)

Contractually past due but not impaired loans

This comprises loans where repayment of principal or payment of interest is contractually in arrears. The following tables provide an aging analysis of the contractually past due loans:

				2018
	Mortgages	**Personal Loans**	**Business & Government Loans**	**Total**
	$	**$**	**$**	**$**
Less than 30 days	45,677	5,839	5,898	57,414
31 - 60 days	27,374	2,238	8,560	38,172
61 - 89 days	24,479	7,879	1,390	33,748
	97,530	15,956	15,848	129,334

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

(Expressed in thousands of Bahamian dollars)

9. Property and Equipment

	Land and Buildings $	Equipment, Furniture and Vehicles $	Leasehold Improvements $	Total $
Cost				
Balance, November 1, 2017	21,191	48,171	17,750	87,112
Purchases	1,295	4,215	655	6,165
Net transfers	-	1,039	(1,039)	-
Balance, October 31, 2018	22,486	53,425	17,366	93,277
Accumulated depreciation				
Balance, November 1, 2017	8,113	36,342	14,682	59,137
Depreciation *(Note 17)*	600	3,375	587	4,562
Balance, October 31, 2018	8,713	39,717	15,269	63,699
Net book value, October 31, 2018	13,773	13,708	2,097	29,578

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

Included as part of leasehold improvements is an amount for $1,067 (2017: $2,052) relating to systems development costs and work in progress which is incomplete, not yet in operation and on which no depreciation has been charged.

10. Retirement Benefit Assets and Obligations

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

Plan characteristics, funding and risks

The benefits that members receive at retirement under the defined contribution plan depend on their account balances at retirement and the cost of purchasing an annuity. The total expense relating to the contributory plan charged for the year was $472 (2017: $453), which represents contributions to the defined contribution plan by the Bank at rates specified in the rules of the plan. Refer to Note 17.

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

Benefit changes

There were no material changes to the terms of our defined benefit pension or post-retirement medical benefit plans in 2018 or 2017.

Risks

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

Plan governance

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

(Expressed in thousands of Bahamian dollars)

Amounts recognised on the consolidated statement of financial position

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

	Defined Benefit Pension Plans		Post-Retirement Medical Benefits	
	2018 $	2017 $	2018 $	2017 $
Fair value of the plan assets	125,455	126,418	-	-
Present value of the obligations	(109,321)	(106,357)	(10,515)	(10,818)
Net retirement benefit asset/(obligations)	16,134	20,061	(10,515)	(10,818)

The Retirement Benefit Assets reported on the statement of financial position comprises of the Bahamas Defined Benefit Pension Plan's net asset of $18,179 (2017: $22,610).

The Retirement Benefit Obligations reported on the statement of financial position comprises of the Turks and Caicos Islands (TCI) Defined Benefit Pension Plan's net obligation of $2,045 (2017: $2,549) and the Post-Retirement Medical Benefits obligation of $10,515 (2017: $10,818).

The pension plan assets include 100,000 (2017: 100,000) ordinary shares in the Bank, with a fair value of $925 (2017: $860).

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

	2018 $	2017 $
Opening fair value of plan assets	126,418	116,135
Contributions by employer	-	2
Benefits paid	(3,800)	(3,393)
Actuarial gains	3,005	13,806
Plan administration costs	(168)	(132)
Closing fair value of plan assets	125,455	126,418

(Expressed in thousands of Bahamian dollars)

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

	2018 $	2017 $
Opening obligations	(106,357)	(92,018)
Interest costs	(5,455)	(5,335)
Current service costs	(2,455)	(2,197)
Benefits paid	3,800	3,393
Actuarial gains/(losses) on obligations	1,146	(10,200)
Closing obligations	(109,321)	(106,357)

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

	2018 $	2017 $
Opening obligations	(10,818)	(11,427)
Interest costs	(549)	(661)
Benefits paid	479	494
Actuarial gains on obligations	373	776
Closing obligations	(10,515)	(10,818)

The Bank does not expect to contribute to its defined benefit pension plan in the following year (2017: $nil) as the plans are on a contribution holiday. The Plan Actuary of the Bank has recommended a Defined Benefit contribution holiday for the next three years. The contribution holiday is expected to last for six years if the existing surplus is to be fully amortised, and will be re-evaluated in the plan's next triennial valuation.

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

	Defined Benefit Pension Plans		Post-Retirement Medical Benefits	
	2018 $	2017 $	2018 $	2017 $
Current service costs	2,455	2,197	-	-
Interest costs	5,455	5,335	549	661
Interest income on plan assets	(6,567)	(6,942)	-	-
Plan administration costs	168	132	-	-
Total amount included in staff costs *(Note 17)*	1,511	722	549	661
Actual return on plan assets	(3,005)	(13,806)	-	-

(Expressed in thousands of Bahamian dollars)

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

	Defined Benefit Pension Plans		**Post-Retirement Medical Benefits**	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Actuarial (gains)/losses on defined benefit obligation arising from:				
- Financial assumptions	1,629	11,293	169	497
- Experience adjustments	(2,775)	(1,093)	(542)	(1,273)
Return on plan assets excluding interest income	3,562	(6,864)	-	-
Net re-measurement losses/(gains) recognised in OCI	2,416	3,336	(373)	(776)

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

	Defined Benefit Pension Plans		**Post-Retirement Medical Benefits**	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Balance, beginning of year	20,061	24,117	(10,818)	(11,427)
Charge for the year *(Note 17)*	(1,511)	(722)	(549)	(661)
Contributions by employer	-	2	479	494
Effect on statement of other comprehensive income	(2,416)	(3,336)	373	776
Balance, end of year	16,134	20,061	(10,515)	(10,818)

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

	Defined Benefit Pension Plans		**Post-Retirement Medical Benefits**	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Active members	60,194	57,599	-	-
Inactive and retired members	49,127	48,758	10,515	10,818
	109,321	106,357	10,515	10,818

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

	Defined Benefit Pension Plans		Post-Retirement Medical Benefits	
	2018	**2017**	**2018**	**2017**
Average duration, in years	20	20	15	16

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

	2018		2017	
	$	**%**	**$**	**%**
Quoted equity instruments				
- International	905	1	669	1
Quoted debt				
- Government bonds	32,712	26	280	-
- Inflation Adjust. bonds	906	1	-	-
Investment Funds				
- U.S. Equity	86,137	69	83,867	66
- International Equity	1,906	1	3,004	2
- Fixed Income	-	-	35,148	28
Other assets	2,889	2	3,450	3
	125,455	100%	126,418	100%

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

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

	Defined Benefit Pension Plans	
	2018	**2017**
Discount rate (TCI, Bahamas)	4.3%, 5.2%	4.1%, 5.4%
Expected return on plan assets (TCI, Bahamas)	4.3%, 5.2%	4.1%, 5.4%
Future salary increases	4.0%	4.0%
Future pension increases	2.5%	2.5%

(Expressed in thousands of Bahamian dollars)

	Post-Retirement Medical Benefit	
	2018	**2017**
Discount rate (TCI, Bahamas)	4.3%, 5.2%	4.1%, 5.4%
Premium escalation rate	6.0%	6.0%
Existing retiree age	60	60

A quantitative sensitivity analysis for significant assumptions as at October 31, 2018 is as shown below:

Assumption	Sensitivity level	Impact on net defined benefit pension plans		Impact on Post-retirement medical benefits	
		Increase	**Decrease**	**Increase**	**Decrease**
Discount rate	1.0%	91,745	132,089	9,251	12,078
Future salary increases	0.5%	112,421	106,427	n/a	n/a
Future pension increases	0.5%	114,831	104,347	n/a	n/a
Premium escalation rate	1.0%	n/a	n/a	12,015	9,275
Existing retiree age	1 year	112,602	n/a	10,991	n/a

- n/a – not applicable

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

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

	2018 $	2017 $
Within the next 12 months	2,425	2,287
Between 1 and 5 years	12,031	11,372
Between 5 and 10 years	22,197	21,345
Total expected payments	36,653	35,004

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

(Expressed in thousands of Bahamian dollars)

11. Goodwill

	2018 $	2017 $
Cost		
Balance, beginning and end of year	187,747	187,747
Accumulated impairment		
Balance, beginning and end of year	115,000	115,000
Carrying amount, end of year	72,747	72,747

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

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

Based on the impairment testing performed during the fourth quarter of fiscal 2018, we have determined that the estimated recoverable amount of the CGU was in excess of the carrying amount. As a result, no impairment charge was recognised during 2018.

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

	Discount rate		Growth rate	
	2018	2017	2018	2017
Bahamas	12%	13%	2%	1%

(Expressed in thousands of Bahamian dollars)

Estimation of the recoverable amount is an area of significant judgment. Reductions in the estimated recoverable amount could arise from various factors, such as reductions in forecasted cash flows, an increase in the assumed level of required capital and any adverse changes to the discount rate or the growth rate, either in isolation or in any combination thereof. We estimated that a 10% reduction in forecasted cash flows, or a 1% rise in the discount rate, would not significantly impact the CGUs' recoverable amount to result in any further goodwill impairment at October 31, 2018.

These sensitivities are indicative only and should be considered with caution, as the effect of the variation in each assumption on the estimated recoverable amount is calculated in isolation without changing any other assumptions. In practice, changes in one factor may result in changes in another, which may magnify, counteract, or obfuscate the disclosed sensitivities.

12. Customer Deposits

	Payable on Demand $	Payable after Notice $	Payable at a Fixed Date $	2018 Total $	2017 Total $
Individuals	229,621	304,419	398,064	932,104	877,587
Business and governments	1,129,256	31,556	396,979	1,557,791	1,590,409
Banks	3,778	-	266,332	270,110	280,286
	1,362,655	335,975	1,061,375	2,760,005	2,748,282
Add: Interest payable	171	32	2,562	2,765	2,566
	1,362,826	336,007	1,063,937	2,762,770	2,750,848

These customer deposits are measured at amortised cost. Included in deposits from banks are deposits from other Parent Group entities of $267,947 (2017: $277,830) (Note 22).

The average effective rate of interest on deposits during the year was 0.34 % (2017: 0.33%).

(Expressed in thousands of Bahamian dollars)

13. Other Liabilities

	2018 $	2017 $
Accounts payable and accruals, including clearings	39,656	29,467
Restructuring costs	-	110
Amounts due to related parties *(Note 22)*	25,768	25,817
Due to brokers and others	521	485
	65,945	55,879

The amounts due to related parties refer to balances due to other Parent Group entities and are interest-free and unsecured, with no fixed terms of repayment.

During 2013, the Bank embarked on a restructuring plan which aimed to enhance its long term competitiveness through reductions in costs, duplication and complexity in the years ahead. As at October 31, 2018, the provision for severance was $nil (2017: $110). Movement in the provision during the year related to payments made by the Bank.

14. Issued Capital and Reserves

	2018 $	2017 $
Issued capital, beginning and end of year	477,230	477,230
Reserves		
Statutory reserve fund – Turks and Caicos Islands	49,091	46,425
Revaluation reserve – available-for-sale securities	-	(8,934)
Revaluation reserve – debt securities measured at FVOCI	(2,990)	-
Retirement benefit reserve	10,838	12,881
Reverse acquisition reserve	(63,566)	(63,566)
Total reserves	(6,627)	(13,194)
Total issued capital and reserves	470,603	464,036

(Expressed in thousands of Bahamian dollars)

The Bank's authorised capital is $20 million, comprising 150 million ordinary shares with a par value of $0.10 each and 50 million preference shares also having a par value of $0.10 each. All issued ordinary shares are fully paid. No preference shares were issued in 2018 and 2017. At October 31, 2018 and 2017, the issued share capital was as follows:

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

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

The Bank's objective is to employ a strong and efficient capital base. Capital is managed in accordance with policies established by the Board of Directors (the "Board"). These policies relate to capital strength, capital mix, dividends and return of capital, and the unconsolidated capital adequacy of regulated entities. Each policy has associated guidelines and capital is monitored continuously for compliance.

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

Regulatory requirements
The Bank's regulatory capital requirements are determined in accordance with guidelines issued by The Central Bank. These guidelines evolve from the framework of risk-based capital standards developed by the Basel Committee, Bank of International Settlement (BIS).

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

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

(Expressed in thousands of Bahamian dollars)

In 2018, Tier 1 and Total Capital ratios were 25% and 25%, respectively (2017: 27% and 28%, respectively).

The movements in reserves were as follows:

Statutory reserve fund – Turks and Caicos Islands

	2018	2017
	$	$
Balance, beginning of year	46,425	42,726
Transfers from retained earnings	2,666	3,699
Balance, end of year	49,091	46,425

In accordance with the TCI Banking (Amendment) Ordinance 2002 and the regulations of the Turks and Caicos Islands Financial Services Commission, the Bank is required to maintain a statutory reserve fund of not less than the amount of its assigned capital of $24 million. Where the required reserve is less than the assigned capital, the Bank is required to annually transfer 25% of the net profits earned from its TCI operations to this fund. Although the statutory reserve exceeds the assigned capital, it has been the Bank's practice to make this transfer based on net profits of the preceding fiscal year with the remaining net profits being retained by the Bank. During the year, the Bank transferred $2,666 (2017: $3,699) from retained earnings to the statutory reserve fund.

Statutory loan loss reserve - Bahamas

Banking Regulations of The Central Bank of The Bahamas require a general provision in respect of the performing loans of at least one percent of these loans. To the extent the inherent risk provision for loans and advances to customers is less than this amount, a statutory loan loss reserve is established and the required additional amount is to be appropriated from retained earnings, in accordance with IFRS. For the year ended October 31, 2018, no statutory loan loss reserve was required as the general provision was sufficient (2017: $nil).

Revaluation reserve – available-for-sale investment securities

	2018	2017
	$	$
Balance, beginning of year	(8,934)	(8,927)
Net losses on available-for-sale securities *(Note 20)*	-	(7)
Reclassification to debt securities measured at FVOCI	8,934	-
Balance, end of year	-	(8,934)

(Expressed in thousands of Bahamian dollars)

Revaluation reserve – debt securities measured at FVOCI

	2018	2017
	$	$
Balance, beginning of year on adopting IFRS 9	-	-
Reclassification from available-for-sale securities	(8,934)	-
Recognition of expected credit losses under IFRS 9	10,108	-
	1,174	-
Net losses on debt securities measured at FVOCI *(Note 20)*	(4,164)	-
Balance, end of year	(2,990)	-

Unrealised gains and losses arising from changes in the fair value of debt instruments measured at fair value are recognised in other comprehensive income and are reflected in the revaluation reserve.

Retirement benefit reserve

	2018	2017
	$	$
Balance, beginning of year	12,881	15,441
Re-measurement losses on retirement benefit plans	(2,043)	(2,560)
Balance, end of year	10,838	12,881

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

Reverse acquisition reserve

	2018	2017
	$	$
Reverse acquisition reserve, beginning and end of year	(63,566)	(63,566)

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

(Expressed in thousands of Bahamian dollars)

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

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

15. Net Interest Income

	2018 $	2017 $
Interest and similar income		
Cash and due from banks	6,265	3,800
Securities	24,822	23,546
Loans and advances to customers	126,980	121,908
	158,067	149,254
Interest and similar expense		
Banks and customers	9,171	8,420
Derivative financial instruments	860	2,020
	10,031	10,440
Net interest income	148,036	138,814

16. Operating Income

	2018 $	2017 $
Fee and commission income	31,522	29,780
Foreign exchange commissions	11,697	10,895
Net foreign exchange revaluation losses	(33)	(1)
Net gains/(losses) on disposals and redemption of securities *(Note 20)*	498	(16)
Net hedging gains *(Note 5)*	259	1,231
Net trading losses	(4,827)	(1,361)
Other operating income	970	944
	40,086	41,472

Net gains/(losses) on disposals and redemption of securities have arisen from disposals of FVOCI debt securities.

(Expressed in thousands of Bahamian dollars)

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

Net trading losses have arisen from either disposals and/or changes in the fair value on trading securities and derivatives held for trading, which include failed hedges.

Analysis of fee and commission income:

	2018 $	2017 $
Underwriting	297	287
Deposit services	9,393	9,211
Credit services	961	2,585
Card services	13,070	10,767
Funds transfer	5,871	4,811
Other	1,930	2,119
	31,522	29,780

17. Operating Expenses

	2018 $	2017 $
Staff costs	30,484	29,251
Business licence	8,719	8,617
Occupancy and maintenance	10,421	10,437
Depreciation *(Note 9)*	4,562	4,532
Other operating expenses	36,791	38,382
	90,977	91,219

Analysis of staff costs:

	2018 $	2017 $
Wages and salaries	23,248	22,848
Pension costs:		
- defined benefit sections of the plan *(Note 10)*	1,511	722
- defined contribution section of the plan *(Note 10)*	472	453
Post-retirement medical benefits charge *(Note 10)*	549	661
Employee share purchase plan *(Note 21)*	152	133
Severance, including restructuring costs *(Note 13)*	263	102
Insurance and risk benefits	2,844	2,933
Other staff related costs	1,445	1,399
	30,484	29,251

(Expressed in thousands of Bahamian dollars)

Analysis of other operating expenses:

	2018 $	2017 $
Professional and management fees	23,293	22,468
Communications	2,423	2,380
Business development	329	513
Advertising and marketing	267	176
Consumer related expenses	981	932
Non-credit losses	723	1,636
Postage, courier and stationery	1,842	1,963
General insurances	624	567
Outside services	2,750	2,756
Other	3,559	4,991
	36,791	38,382

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

18. Earnings per Share

The following table shows the income and share data used in the basic earnings per share calculations:

Basic earnings per share

	2018 $	2017 $
Net income attributable to shareholders	85,060	76,759
Weighted average number of ordinary shares in issue *(Note 14)*	120,216	120,216
Basic earnings per share (expressed in cents per share)	70.8	63.9

There are no potentially dilutive instruments.

(Expressed in thousands of Bahamian dollars)

19. Dividends Paid

	2018 $	2017 $
Declared and paid during the year		
Interim dividend $0.17 (2017: $0.15)	20,437	18,032
Special dividend $0.54 (2017: $nil)	64,917	-
Final dividend $0.17 (2017: $0.15)	20,437	18,032
Total dividends declared and paid	105,791	36,064

During the third quarter of 2018, the Board approved the change to our dividend payment policy to pay dividends quarterly instead of bi-annually. At its meetings held on September 13, 2018 and December 17, 2018, the Board approved a regular, quarterly dividend of $0.09 per share, amounting to $10,820. The consolidated financial statements for the year ended October 31, 2018 do not reflect these resolutions, which will be accounted for in equity as distributions of retained earnings in the consolidated financial statements for the year ending October 31, 2019.

20. Components of Other Comprehensive Loss

	2018 $	2017 $
Available-for-sale investment securities:		
Net losses arising during the year	-	(23)
Reclassification adjustments for losses included in the statement of income *(Note 16)*	-	16
	-	(7)
Debt instruments at fair value through other comprehensive income:		
Net losses arising during the year	(3,666)	-
Reclassification to the statement of income *(Note 16)*	(498)	-
	(4,164)	-
Other comprehensive loss for the year *(Note 14)*	(4,164)	(7)

21. Other Employee Benefits

Employee share purchase plan

Under our Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their eligible earnings withheld to purchase common shares in the Parent. The Bank matches 50% of the employee's contribution amount, up to a maximum contribution of 6% of eligible earnings, depending upon length of service and job level. The Bank's contributions vest after employees have two years of continuous participation in the plan, and all subsequent contributions vest immediately. All contributions are paid into a trust and used by the plan trustees to purchase common shares in the open market. The Bank's contributions are expensed as incurred and totalled $152 in 2018 (2017: $133) (Note 17).

(Expressed in thousands of Bahamian dollars)

22. Related-Party Transactions and Balances

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

A number of banking transactions are entered into with related parties in the normal course of business. Included in Other liabilities is a dividend payable amounting to $22,228 (2017: $4,323) to the Bank's Parent. The key related party balances and transactions included in the Bank's financial statements are disclosed below.

	Directors and key management personnel		Parent Group		Ultimate Parent	
	2018 $	2017 $	2018 $	2017 $	2018 $	2017 $
Asset balances:						
Due from banks	-	-	281,160	194,292	21,204	113,224
Derivative financial Instruments	-	-	-	-	648	363
Other assets	-	-	25	25	-	-
Loans and advances to customers	5,408	5,778	-	-	-	-
Liability balances:						
Derivative financial Instruments	-	-	-	-	85	1,092
Customer deposits	5,135	4,297	267,947	277,830	-	-
Other liabilities	-	-	25,768	25,817	-	-
Revenue transactions:						
Interest income	244	223	5,027	2,854	304	-
Other income/(loss) from derivative relationship	-	-	-	-	876	1,875
Expense transactions:						
Interest expense	77	87	2,436	1,505	-	-
Other expenses*	-	-	22,262	21,660	-	-

* Expenses incurred in relation to banking and support services.

	2018 $	2017 $
Key management compensation		
Salaries and short term benefits	2,598	2,622

(Expressed in thousands of Bahamian dollars)

Directors' remuneration
A listing of the members of the Board of Directors is included within the Bank's Annual Report. In 2018, total remuneration for the non-executive directors was $105 (2017: $130). The executive directors' remuneration is included under key management compensation.

23. Commitments, Guarantees and Contingent Liabilities

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

	2018 $	2017 $
Letters of credit	32,573	30,472
Undrawn loan commitments	235,323	249,381
Guarantees and indemnities	11,745	9,987
Total *(Note 27)*	279,641	289,840

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

The Bank currently has a $1 million line of credit with CIBC at LIBOR + 200bps per annum if 50% or less utilisation, or LIBOR + 250bps per annum if greater than 50% utilisation. The facility is renewable annually and expires on March 31, 2019. As of October 31, 2018, no advances were made from the facility and all balances are undrawn.

24. Future Rental Commitments under Operating Leases

As at October 31, 2018, the Bank held leases on buildings for extended periods. The minimum future rental commitments under these leases are as follows:

	2018 $	2017 $
Not later than 1 year	3,244	3,170
Later than 1 year and less than 5 years	6,523	6,764
Later than 5 years	1,705	2,311
	11,472	12,245

During the year $3,226 (2017: $3,074) of lease payments was included in occupancy and maintenance expenses (Note 17).

25. Fiduciary Activities

The Bank provides custody and trustee discretionary investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. At the reporting date, the Bank had investment assets under administration on behalf of third parties amounting to $121,392 (2017: $132,396).

26. Business Segments

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

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

Corporate and Investment Banking ("CIB")
Corporate and Investment Banking includes the Corporate Lending, Investment Banking and Client Solutions Group businesses.

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

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

- **Client Solutions Group** provides derivative and other risk mitigating products to clients.

Wealth Management ("WM")
Wealth Management comprises International Corporate Banking, Investment Management and Private Wealth Management businesses.

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

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

Administration ("Admin")
The Administration segment includes Finance, Human Resources, Risk, Technology & Operations, Treasury and other units which support the business segments. The revenues and expenses of the functional groups are generally allocated to the business segments. The Administration segment 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, CIB, and WM earnings unattributed capital remains in Admin.

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

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. We review our transfer pricing methodologies on an ongoing basis to ensure they reflect changing market environments and industry practices.

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

(Expressed in thousands of Bahamian dollars)

2018 Segment Reporting

	RBB $	CIB $	WM $	Admin $	2018 $
External revenue	69,490	51,701	(1,204)	28,049	148,036
Internal revenue	(10,575)	5,483	11,992	(6,900)	-
Net interest income	58,915	57,184	10,788	21,149	148,036
Operating income	30,027	10,324	3,674	(3,939)	40,086
	88,942	67,508	14,462	17,210	188,122
Depreciation	1,574	2	70	2,916	4,562
Operating expenses	23,561	3,105	2,174	57,575	86,415
Indirect expenses	23,804	24,457	11,710	(59,971)	-
Credit loss expense on financial assets	8,120	1,202	110	2,653	12,085
Net income for the year	**31,883**	**38,742**	**398**	**14,037**	**85,060**

Total assets and liabilities by segment are as follows:

	RBB $	CIB $	WM $	Admin $	2018 $
Segment assets	1,098,521	920,592	17,052	1,463,462	3,499,627
Segment liabilities	1,102,747	995,582	591,436	157,294	2,847,059

(Expressed in thousands of Bahamian dollars)

2017 Segment Reporting

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

Total assets and liabilities by segment are as follows:

	RBB $	CIB $	WM $	Admin $	2017 $
Segment assets	1,101,286	991,983	11,262	1,417,625	3,522,156
Segment liabilities	1,064,222	1,025,726	581,447	157,617	2,829,012

Geographical segments are set out in Note 27 (B).

27. Financial Risk Management

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

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

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

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

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

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

Credit risk limits
Credit limits are established for all loans (mortgages, personal, business & government) for the purposes of diversification and managing concentration. Limits are also established for individual borrowers, groups of related borrowers, industry sectors, country and geographic regions, and also for products and portfolios. Such risks are monitored on a revolving basis and the limits are subject to an annual or more frequent review.

The exposure to any one counterparty, including banks and brokers, is further restricted by sub-limits which include exposures not recognised in the consolidated statement of financial position, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

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

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

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

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

As at October 31, 2018, 87% of stage 3 impaired loans were either fully or partially collateralised.

(Expressed in thousands of Bahamian dollars)

Geographic distribution

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

	Drawn $	Undrawn $	Gross Maximum Exposure 2018 $	Drawn $	Undrawn $	Gross Maximum Exposure 2017 $
Bahamas	1,831,135	212,900	2,044,035	1,901,482	222,501	2,123,983
Turks & Caicos Islands	280,000	22,423	302,423	286,663	26,880	313,543
	2,111,135	235,323	2,346,458	2,188,145	249,381	2,437,526

Exposures by industry groups

The following table provides an industry-wide break down of gross drawn and undrawn loans and advances to customers, which therefore excludes provisions for impairment, interest receivable and unearned fee income.

	Drawn $	Undrawn $	Gross Maximum Exposure 2018 $	Drawn $	Undrawn $	Gross Maximum Exposure 2017 $
Agriculture	549	81	630	2,573	141	2,714
Construction	34,026	17,518	51,544	41,976	5,830	47,806
Distribution	98,443	22,994	121,437	89,825	35,466	125,291
Education	287	60	347	318	-	318
Fishing	2,311	2,313	4,624	2,066	2,674	4,740
Governments	358,758	3,333	362,091	429,943	6,135	436,078
Health & social work	18,783	-	18,783	19,725	-	19,725
Hotels & restaurants	70,165	54,278	124,443	72,980	42,195	115,175
Individuals & individual trusts	1,097,239	106,952	1,204,191	1,088,916	97,952	1,186,868
Manufacturing	22,238	386	22,624	41,002	421	41,423
Miscellaneous	276,788	23,394	300,182	261,694	25,272	286,966
Other financial corporations	9,498	996	10,494	10,027	4,346	14,373
Real estate, renting & other business activities	84,583	2,149	86,732	105,889	306	106,195
Transport, storage & communication	37,467	869	38,336	21,211	28,643	49,854
	2,111,135	235,323	2,346,458	2,188,145	249,381	2,437,526

Derivatives
The Bank maintains strict control limits on net open derivative positions, that is, the difference between purchase and sale contracts, by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is usually obtained for credit risk exposures on these instruments.

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

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

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

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

(Expressed in thousands of Bahamian dollars)

	Gross maximum exposure 2018 $	2017 $
Balances with The Central Bank	123,969	113,239
Due from banks	409,997	364,661
Derivative financial instruments	647	366
Securities		
– Equity securities - unquoted	219	219
– Government debt securities	376,924	467,162
– Other debt securities	399,491	325,536
– Interest receivable	6,074	7,049
Loans and advances to customers		
– Mortgages	1,006,030	1,013,870
– Personal loans	210,342	208,775
– Business & Government loans	894,763	965,500
– Interest receivable	13,086	14,130
Other assets	16,237	11,431
Total	**3,457,779**	**3,491,938**
Commitments, guarantees and contingent liabilities (Note 23)	279,641	289,840
Total credit risk exposure	**3,737,420**	**3,781,778**

Geographical concentration

The following tables reflect additional geographical concentration information:

2018	Total assets $	Total liabilities $	Commitments, guarantees and contingent liabilities $	External revenue $	Capital expenditure* $	Non-current assets** $
Bahamas	3,051,314	2,493,286	253,829	150,736	4,289	95,763
Turks & Caicos Islands	929,218	834,678	25,812	37,386	1,876	6,562
	3,980,532	3,327,964	279,641	188,122	6,165	102,325
Eliminations	(480,905)	(480,905)	-	-	-	-
	3,499,627	2,847,059	279,641	188,122	6,165	102,325

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

(Expressed in thousands of Bahamian dollars)

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

* Capital expenditure is shown by geographical area in which the property and equipment are located.

** Non-current assets relate only to property and equipment and goodwill.

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

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

	2018 $	2018 %	2017 $	2017 %
Bahamas	1,732,674	87	1,797,609	87
Turks & Caicos Islands	268,727	13	274,891	13
	2,001,401	100	2,072,500	100

Impairment assessment (Policy applicable for November 1, 2017)

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. This section should be read in conjunction with the Summary of significant accounting policies.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations, or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the obligor risk rating (ORR) if available, or the days past due and delinquency criteria in the Bank's policy, at the time of the cure, and whether this indicates that there has been a significant increase in credit risk compared to initial recognition.

The Bank's internal rating and PD estimation process

The Group's Credit Risk Department operates the Bank's internal rating models. The Bank monitors all corporate facilities with a value exceeding $250,000 which are assigned an ORR of 1 to 9 under the Bank's internal rating system. The models used incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilises supplemental external information that could affect the borrower's behaviour. This internal rating system is also mapped to Moody's and Standard and Poor's ratings. Movement in a facility's ORR from origination to the reporting date is what determines the stage assigned to that facility. Staging for facilities that do not have an ORR is based on historical days past due and delinquency. The Bank calculates 12-month and lifetime PDs on a product by country basis. 12-month PDs are determined using historical default data and then incorporate forward looking information. Lifetime PDs are determined using historical data.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's and Standard and Poors, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Credit quality

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

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

(Expressed in thousands of Bahamian dollars)

A credit scoring methodology is used to assess Personal customers and a risk grading model is used for Commercial and Corporate customers. This risk rating system is used for portfolio management, risk limit setting, product pricing and in the determination of economic capital.

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

At the reporting date, securities were all rated standard or high grade, with the exception of Barbados Government securities which were classified as purchased originated credit impaired 'POCI' in 2018. Cash balances and amounts due from banks are held with counterparties that are high grade, including CIBC group entities.

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

	High Grade $	Standard $	Sub-Standard $	Impaired $	2018 Total $
Loans and advances to customers					
- Mortgages	839,485	60,793	24,479	81,273	1,006,030
- Personal loans	179,897	6,195	7,879	16,371	210,342
- Business & Government loans	867,237	13,401	1,391	12,734	894,763
Total *(Note 8)*	1,886,619	80,389	33,749	110,378	2,111,135

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

For our Business & Government loans, we employ risk ratings in managing the credit portfolio. Business borrowers with elevated default risk are monitored on our Early Warning List. Early Warning List characteristics include borrowers exhibiting a significant decline in revenue, income, or cash flow or where we have doubts as to the continuing viability of the business. Early Warning List customers are often, but not always, also delinquent. As of October 31, 2018, Early Warning List customers in the medium to high risk category amounted to $33,357 (2017: $29,743).

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset which involves assessment of a customer's historical days past due and delinquency pattern. If contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly. When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principals for assessing whether there has been a significant increase in credit risk since initial recognition.

At the beginning of the year, the Bank reassesses the key economic indicators used in its ECL models.

Model adjustments
The Bank considers the use and nature of material additional adjustments which are used to capture factors not specifically embedded in the models used. While many adjustments are part of the normal modelling process (e.g., to adjust PDs as defined for capital purposes to accounting requirements or to incorporate forward-looking information), management may determine that additional, post-modelling adjustments are needed to reflect macro-economic or other factors which are not adequately addressed by the current models such as management overlays for unexpected events, e.g. hurricanes. Such adjustments would result in an increase or decrease in the overall ECLs.

Impact on regulatory capital
Annually, the base Capital Plan is assessed under a central stress scenario with ranges (mild & severe) as part of stress testing. Stress ranges determined by regulators are reviewed and approved annually by management. The results of the stress tests are taken into consideration when setting the annual capital targets and may, by extension, have an effect on the quantum or timing of planned capital initiatives. However, stress testing results that drives the capital ratio below threshold(s) do not immediately imply an automatic increase in required capital, provided there is comfort that the Bank would remain well-capitalized even under plausible stressed ranges.

The recession scenario ranges are as follows:
i. mild recession; and
ii. severe recession.

Under each range within the recession scenario, the following key assumptions are varied adversely/negatively to arrive at Capital Plan results:

i. Changes in GDP growth rates are assumed to directionally affect performing loan growth rates and fee & commission income levels.
ii. Changes in interest rate are assumed to impact net interest income based on the proportion of hard vs. soft currency balance split for interest earning and bearing assets and liabilities, namely cash placements, securities, loans and deposit liabilities.
iii. Changes in GDP growth rates are assumed to impact non-performing loans growth rates which in turn affect interest income and loan loss expenses.
iv. Changes in inflation rates are assumed to directionally impact expense growth.

The Bank meets each key regulatory ratio such as the net stable funding ratio, liquidity coverage ratio and leverage ratio.

- Net Stable Funding Ratio and the Liquidity Coverage Ratio: The Bank was not required to monitor these ratios during 2018 and is currently in the process of developing an automated solution for calculation of the ratios.
- Leverage Ratio: The Bank reports the leverage ratio monthly. The leverage ratio is also provided to the Board in quarterly reporting.

Modified financial assets
From time to time, we may modify the contractual terms of loans classified as stage 2 and stage 3 for which the borrower has experienced financial difficulties, through the granting of a concession in the form of below-market rates or terms that we would not otherwise have considered. Changes to the present value of the estimated future cash payments through the expected life of the modified loan discounted at the loan's original effective interest rate are recognised through changes in the ECL allowance and provision for credit losses. During the year ended October 31, 2018, loans classified as stage 2 with an amortised cost of $10,484 and loans classified as stage 3 with an amortised cost of $1,063, in each case before the time of modification, were modified through the granting of a financial concession in response to the borrower having experienced financial difficulties. In addition, the gross carrying amount of previously modified stage 2 or stage 3 loans that have returned to stage 1 during the year ended October 31, 2018 was $22,632.

C. Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to the change in market variables. Market risk arises from positions in securities and derivatives as well as from our core retail, wealth and corporate businesses. The key risks to the Bank are foreign exchange ("FX"), interest rate and credit spread. Market Risk within the Bank is a centralised group that is independent from the front line. The following sections give a comprehensive review of the Bank's entire exposures.

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

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

Risk measurement
The Bank has three main measures of market risk:
- Outright position, used predominantly for FX;
- Sensitivity to a 1 basis point move in a curve, used for both interest rate and credit spread risks; and
- Stress scenarios based upon a combination of theoretical situations and historical events.

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

Sensitivity
The main two measures utilised by the Parent Group 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 change in economic value by individual currency of a parallel shift down in the related yield curve. As curves rarely move in a parallel fashion, it is measured across different tenors to ensure that there is no further curve risk of having, for example, a long position in the short end of the curve, offset by a short position in the longer tenors. This is then utilised within the scenario analysis. The sensitivities are calculated on a post-structural basis that includes structural assumptions for core balances of non-contractual maturity positions. The CSDV01 sensitivity is a way to measure the risk of the interest rate spread between Treasury securities and the non-Treasury securities in the bond portfolio widening or narrowing.

Stress testing & scenario analysis
Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern. The Parent Group uses the following approaches which are as follows:
- For the hard currency testing, it utilises the suite of measures that the Ultimate Parent has developed. The stress testing measures the effect on the hard currency portfolio values over a wide range of extreme moves in market prices. The stress testing methodology assumes no actions are taken or are able to be taken during the event to mitigate the risk, reflecting the decreased liquidity that frequently accompanies market shocks. The scenario analysis approach for Parent Group's hard currency exposures simulates an impact on earnings of extreme market events up to a period of one quarter. Scenarios are developed using actual historical data during periods of market disruption, or are based upon hypothetical occurrence of economic or political events or natural disasters and are designed by economists, business leaders and risk managers. These tests are run on a monthly basis.

- The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with Treasury considers the market data over approximately the last 10 years and identifies the greatest curve or data point moves over both sixty and single days. These are then applied to the existing positions/sensitivities of the Parent Group. This is performed and reported on a monthly basis as they do not tend to change rapidly.

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

(Expressed in thousands of Bahamian dollars)

Summary of key market risks
Of the market risks arising from the various currencies, yield curves and spreads throughout the regional and broader international markets, the following risks are considered by management the most significant for the Bank: (i) the risk of credit spreads widening in a similar fashion to the Credit Crisis of 2008 on bonds held within the investment portfolios, and ii) the low probability, high impact of a peg breaking between the USD and BSD, impacting the structural long position of the Bank. The largest interest rate risk run through multiple scenarios is that if the USD yield curve moves in a similar fashion to a 60 day period during the Subprime Crisis and Lehman Collapse. The following section highlights these key risks as well as some of the lesser ones that arise from the Bank's ongoing banking operations.

Foreign exchange risk
Foreign exchange (or currency) risk is defined as the risk that the value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The local currency is pegged to the USD and hence the Value at Risk (VaR) measure is not appropriate, and that is why more emphasis is put on the overall position limit and related stress tests. The Board has set limits on positions by currency. These positions are monitored on a daily basis and the Forex & Derivatives Sales department are solely responsible for the hedging of the Bank's exposure.

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

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

	2018			2017		
Currency	**Trading Position Short vs BSD**	**Stressed Loss**	**Average Position***	**Trading Position Short vs BSD**	**Stressed Loss**	**Average Position***
	$	**$**	**$**	**$**	**$**	**$**
US dollars	(1,512)	(454)	(637)	(2,413)	724	1,697

* Averages are taken over a twelve-month period.

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

	2018		2017	
	Currency	**60 day Stressed Loss**	**Currency**	**60 day Stressed Loss**
	$	**$**	**$**	**$**
Bahamian dollar	19,211	1,378	20,717	1,622

(Expressed in thousands of Bahamian dollars)

Credit spread risk

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

	2018			2017		
	Notional $	Credit Spread DV01 $	Stress Loss $	Notional $	Credit Spread DV01 $	Stress Loss $
Regional hard currency bond portfolio	83,210	37	12,675	65,923	41	13,836
Non-regional hard currency bond portfolio	359,500	76	15,584	293,495	38	8,309
Total	442,710	113	28,259	359,418	79	22,145

At fiscal year end the weighted average rating of the positions in the Regional Hard Currency Portfolio is BB+. The average weighted maturity is 5 years. The weighted average rating of the positions in the Non-Regional Hard Currency Portfolio is AA-. The average weighted maturity is 2 years.

Derivatives held for asset and liability management (ALM) purposes

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

(Expressed in thousands of Bahamian dollars)

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

	BAH $	US $	Other $	2018 Total $
Assets				
Cash and balances with The Central Bank	151,031	14,705	377	166,113
Due from banks	(253)	305,965	104,285	409,997
Derivative financial instruments	-	647	-	647
Other assets	15,837	2,434	(14)	18,257
Securities	345,269	437,439	-	782,708
Loans and advances to customers	1,183,274	818,125	2	2,001,401
Property and equipment	22,811	6,686	81	29,578
Retirement benefit assets	18,179	-	-	18,179
Goodwill	71,582	1,165	-	72,747
Total assets	1,807,730	1,587,166	104,731	3,499,627
Liabilities				
Derivative financial instruments	-	5,784	-	5,784
Customer deposits	1,298,585	1,358,045	106,140	2,762,770
Other liabilities	(10,668)	83,008	(6,395)	65,945
Retirement benefit obligations	9,165	3,395	-	12,560
Total liabilities	1,297,082	1,450,232	99,745	2,847,059
Net assets	510,648	136,934	4,986	652,568
Commitments, guarantees and contingent liabilities *(Note 23)*	150,179	128,589	873	279,641

Notes to the Consolidated Financial Statements
For the year ended October 31, 2018
(Expressed in thousands of Bahamian dollars)

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

D. Cash flow and fair value interest rate risk

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

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

E. Liquidity risk

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

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

Process and control

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

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

Risk measurement

The Bank's liquidity measurement system provides daily liquidity risk exposure reports for monitoring and review by the Treasury department. The Bank's Asset Liability Management Team (ALMT) is responsible for recommending the liquidity ratio targets, the stress scenarios and the contingency funding plans. The Bank's Board is ultimately responsible for the Bank's liquidity.

The Bank manages liquidity risk by maintaining a significant base of core customer deposits, liquid assets, and access to contingent funding as part of its management of risk. The Bank has internally established specific liquidity requirements that are approved by the Parent Group's Asset Liability Committee (ALCO) and reviewed annually.

(Expressed in thousands of Bahamian dollars)

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

	0-3 months $	3-12 months $	1-5 years $	Over 5 years $	2018 Total $
Assets					
Cash and balances with The Central Bank	166,113	-	-	-	166,113
Due from banks	383,747	26,250	-	-	409,997
Derivative financial instruments	1	-	339	307	647
Other assets	18,257	-	-	-	18,257
Securities	124,863	94,673	397,361	165,811	782,708
Loans and advances to customers	23,196	635,124	115,641	1,227,440	2,001,401
Property and equipment	953	383	8,422	19,820	29,578
Retirement benefit assets	-	-	-	18,179	18,179
Goodwill	-	-	-	72,747	72,747
Total assets	717,130	756,430	521,763	1,504,304	3,499,627
Liabilities					
Derivative financial instruments	1,603	-	258	3,923	5,784
Customer deposits	2,387,587	367,900	5,245	2,038	2,762,770
Other liabilities	65,945	-	-	-	65,945
Retirement benefit obligations	-	-	-	12,560	12,560
Total liabilities	2,455,135	367,900	5,503	18,521	2,847,059
Net assets/(liabilities)	(1,738,005)	388,530	516,260	1,485,783	652,568
Commitments, guarantees and contingent liabilities *(Note 23)*	206,195	37,202	2,255	33,989	279,641

(Expressed in thousands of Bahamian dollars)

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

F. Fair value of financial assets and liabilities

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction in the principal market (or most advantageous market) at the measurement date under current market conditions (i.e., the exit price). The determination of fair value requires judgment and is based on market information, where available and appropriate. Fair value measurements are categorised into three levels within a fair value hierarchy (Level 1, 2 or 3) based on the valuation inputs used in measuring the fair value, as outlined below:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities we can access at the measurement date. Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.

- Level 2 - Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation technique where all significant inputs are observable. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.

- Level 3 - Non-observable or indicative prices or use of valuation technique where one or more significant inputs are non-observable.

(Expressed in thousands of Bahamian dollars)

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

	Level 1	Level 2	Level 3	Total	Total
	Quoted market price	Valuation technique-observable market inputs	Valuation technique-non-observable market inputs	2018 $	2017 $
Financial Assets					
Cash and balances with The Central Bank*	166,113	-	-	166,113	148,075
Due from banks*	409,997	-	-	409,997	364,661
Derivative financial instruments	-	647	-	647	366
Available-for-sale securities	-	-	-	-	799,966
Debt securities at FVOCI	-	782,489	219	782,708	-
Loans and advances to customers	-	-	1,998,556	1,998,556	2,074,038
Total financial assets	**526,110**	**783,136**	**1,998,775**	**3,358,021**	**3,387,106**
Financial Liabilities					
Derivative financial instruments	-	5,784	-	5,784	8,918
Customer deposits	-	-	2,760,776	2,760,776	2,752,543
Total financial liabilities	**-**	**5,784**	**2,760,776**	**2,766,560**	**2,761,461**

*Financial assets with carrying values that approximate fair value.

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the year in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. There were no transfers between levels in 2018 or 2017.

(Expressed in thousands of Bahamian dollars)

	Carrying value	Fair value	Fair value over/(under) carrying value
2018	**$**	**$**	**$**
Financial assets			
Cash and balances with The Central Bank	166,113	166,113	-
Due from banks	409,997	409,997	-
Derivative financial instruments	647	647	-
Debt securities at FVOCI	782,708	782,708	-
Loans and advances to customers	2,001,401	1,998,556	(2,845)
Total financial assets	3,360,866	3,358,021	(2,845)
Financial liabilities			
Derivative financial instruments	5,784	5,784	-
Customer deposits	2,762,770	2,760,776	(1,994)
Total financial liabilities	2,768,554	2,766,560	(1,994)
2017			
Financial assets			
Cash and balances with The Central Bank	148,075	148,075	-
Due from banks	364,661	364,661	-
Derivative financial instruments	366	366	-
Available-for-sale (AFS) securities	799,966	799,966	-
Loans and advances to customers	2,072,500	2,074,038	1,538
Total financial assets	3,385,568	3,387,106	1,538
Financial liabilities			
Derivative financial instruments	8,918	8,918	-
Customer deposits	2,750,848	2,752,543	1,695
Total financial liabilities	2,759,766	2,761,461	1,695

(Expressed in thousands of Bahamian dollars)

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

	As at October 31, 2018				Range of inputs	
	Amortised cost $	Fair Value $	Valuation technique	Key non-observable inputs	Low	High
Loans and advances to customers	2,001,401	1,998,556	Market proxy or direct broker quote	Market proxy or direct broker quote	4.0%	17.8%
Customer deposits	2,762,770	2,760,776	Market proxy or direct broker quote	Market proxy or direct broker quote	-	0.1%
Equity securities	219	219	Market proxy or direct broker quote	Market proxy or direct broker quote	n/a	n/a

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

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

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

- *Debt instruments at FVOCI*
  Debt instruments at FVOCI valued using a valuation technique or pricing models primarily consist of debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions about liquidity and price disclosure, counterparty credit spreads and sector specific risks.

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

- *Loans and advances to customers*
  Loans and advances to customers are stated net of expected credit loss allowances. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

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

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

28. Principal Subsidiary Undertakings

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

All subsidiaries are wholly owned.

29. Events After the Reporting Period

There were no events occurring after the reporting period that requires adjustment to or disclosure in the consolidated financial statements, except as indicated in Note 19.