

**FIRSTCARIBBEAN INTERNATIONAL BANK
(BAHAMAS) LIMITED**

**Audited Consolidated Financial Statements
Year ended October 31, 2020
with Independent Auditor's Report**

FirstCaribbean International Bank (Bahamas) Limited

Audited Consolidated Financial Statements

October 31, 2020

Contents

Page

Independent Auditor's Report.....	1
Audited Consolidated Financial Statements	
Consolidated Statement of Financial Position.....	8
Consolidated Statement of (Loss)/Income.....	9
Consolidated Statement of Comprehensive (Loss)/Income.....	10
Consolidated Statement of Changes in Equity	11
Consolidated Statement of Cash Flows.....	12
Notes to the Consolidated Financial Statements	13

Independent Auditor's Report

The Shareholders and Directors
FirstCaribbean International Bank (Bahamas) Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of FirstCaribbean International Bank (Bahamas) Limited (the "Bank") which comprise the consolidated statement of financial position as at October 31, 2020, and the consolidated statement of (loss)/income, consolidated statement of comprehensive (loss)/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, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matter

How our Audit Addressed the Key Audit Matter

Expected credit loss allowances

Related disclosures in the consolidated financial statements are included in 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.

IFRS 9: Financial Instruments uses an expected credit loss (“ECL”) model which requires significant management judgment 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 \$169M as at October 31, 2020.

This is a key audit matter as the estimation of ECLs is inherently uncertain and requires the application of judgment and use of subjective assumptions by management. Furthermore, models used to determine credit impairment are complex, and certain inputs used are not fully observable. Management compensates for any model and data deficiencies by applying management’s judgmental adjustments overlays to ECL model outputs.

- We obtained an understanding, evaluated the design and tested the operating effectiveness of management’s controls over the process for estimation of ECLs.
- 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 tested the completeness and accuracy of data input to the models used to determine the ECLs. We assessed the reasonableness of the methodologies and assumptions applied in determining 12 month and lifetime probabilities of default (PD), loss given default (LGD), exposure at default (EAD) and the determination of when a loan has experienced a significant increase in credit risk (SICR) by performing the procedures, amongst others, as described below. Management has applied significant judgment in the areas noted above and in their assessment of the impact of COVID-19 on the ECL allowance. In this regard, we adjusted the nature, timing and extent of our procedures including increasing the involvement of our specialists and audit executives.
- We involved our internal credit risk specialists to assist us in evaluating the methodology and assumptions used in the significant models that estimate ECL in comparison to the requirements of IFRS, the Bank’s own historical data and industry standards. This included an assessment of the thresholds used to determine a SICR and the evaluation of management’s judgmental adjustments by evaluating that the amounts recorded were reflective of the credit quality and macroeconomic trends, including the impact of COVID-19, amongst other factors.

Key Audit Matter	How our Audit Addressed the Key Audit Matter
	<ul style="list-style-type: none"> • We also assessed the reasonableness of the generation of forward-looking information (FLI) by comparing a sample of management's FLI variables to independently derived forecasts and publicly available information and evaluated the probability weights used in the ECL models. On a sample basis, we recalculated the ECL to test the mathematical accuracy of management's models. • We used our internal valuation specialists to assess the methodology used and values obtained for third party appraisals of real estate held as collateral for loans. • We assessed the adequacy of disclosures in the consolidated financial statements.

Key Audit Matter

How our Audit Addressed the Key Audit Matter

Goodwill impairment

Related disclosures in the consolidated financial statements are included in Note 2.4, Summary of significant accounting policies–Goodwill, and Note 11, Goodwill.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary undertaking and in accordance with IAS 36, management is required to annually test goodwill for impairment. Goodwill is deemed to be impaired if the carrying amount of a cash generating unit (CGU) is in excess of its recoverable amount. The recoverable amount is defined as the higher of the CGU's estimated fair value less cost to sell and its value in use. The Bank estimated a total goodwill impairment of \$73M as at October 31, 2020, which represented the entire goodwill balance.

This is a key audit matter since impairment testing requires significant estimation and judgement relative to assumptions used for projected cash flows for CGUs (e.g. growth rates), terminal values and discount rates.

This impairment testing is sensitive to variations in estimates and assumptions that can result in significantly different conclusions.

- We assessed the reasonableness of the key assumptions used by management in the determination of cash flow projections, terminal values and discount rates. We compared these assumptions to historical performance, growth rates in light of future economic conditions and independent sources of information.
- With the assistance of our valuation specialists, we tested the recoverable amount of the CGUs which were determined based on a value in use calculation. We performed audit procedures that included, amongst others, assessing the methodology applied, testing the significant assumptions discussed above and testing the completeness, accuracy and relevance of underlying data used by management in their assessment. We compared the significant assumptions and inputs used by the Bank to externally available industry and economic trends, which considered the impact of COVID-19. We evaluated the reasonableness of management's estimates by performing a comparison of management's prior year projections to actual results and current performance and performed sensitivity analysis over the significant assumptions.
- We assessed the adequacy of disclosures in the consolidated financial statements.

Key Audit Matter	How our Audit Addressed the Key Audit Matter
<p><i>Fair value of investment securities</i></p> <p>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.</p> <p>This is a key audit matter due to the complexity of valuation models used to determine fair value. These 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.</p>	
	<ul style="list-style-type: none"> • We obtained an understanding, evaluated the design and tested the 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 by management to an independent external source. • We involved internal valuation specialists to assess the reasonableness of the fair value of investment securities which did not have observable market prices by testing a sample of modelling assumptions and significant inputs used in the Bank's valuation methodologies to estimate the fair value. • We assessed the adequacy of the disclosures in the consolidated financial statements.

Other information included in the Bank's 2020 Annual Report

Management is responsible for the other information. The other information consists of the 2020 Highlights, Message from the Managing Director and Management's Discussion and Analysis included in the Bank's 2020 Annual Report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

Ernst & Young Ltd.

January 29, 2021

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

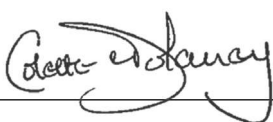
AS AT OCTOBER 31


(Expressed in thousands of Bahamian dollars)

	Notes	2020 \$	2019 \$
ASSETS			
Cash and balances with The Central Bank	3	286,949	159,489
Due from banks	4	319,333	433,985
Derivative financial instruments	5	33	49
Other assets	6	11,267	19,680
Securities	7	917,925	936,576
Loans and advances to customers	8	2,031,739	2,023,654
Property and equipment	9	45,400	30,593
Retirement benefit assets	10	42,285	28,483
Goodwill	11	-	72,747
Total assets		3,654,931	3,705,256
LIABILITIES			
Derivative financial instruments	5	21	273
Customer deposits	12	2,953,593	2,903,742
Other liabilities	13	65,443	62,053
Retirement benefit obligations	10	16,059	15,616
Total liabilities		3,035,116	2,981,684
EQUITY			
Issued capital	14	477,230	477,230
Reserves	14	48,159	19,810
Retained earnings		94,426	226,532
Total equity		619,815	723,572
Total liabilities and equity		3,654,931	3,705,256

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

Approved by the Board of Directors on January 26, 2021, and signed on its behalf by:


Director


Director

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

CONSOLIDATED STATEMENT OF (LOSS)/INCOME

FOR THE YEAR ENDED OCTOBER 31

(Expressed in thousands of Bahamian dollars, except as noted)

	Notes	2020 \$	2019 \$
Interest and similar income		153,804	169,968
Interest and similar expense		9,665	13,172
Net interest income	15	144,139	156,796
Operating income	16	46,874	48,619
		191,013	205,415
Operating expenses	17	111,782	106,524
Credit loss expense on financial assets	7,8	70,027	4,515
Impairment of goodwill	11	72,747	-
		254,556	111,039
Net (loss)/income for the year		(63,543)	94,376
Basic and diluted (loss)/earnings per share (expressed in cents per share)	18	(52.9)	78.5

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME
FOR THE YEAR ENDED OCTOBER 31
(Expressed in thousands of Bahamian dollars)**

	Notes	2020 \$	2019 \$
Net (loss)/income for the year		(63,543)	94,376
Other comprehensive income to be reclassified to net income or loss in subsequent periods:			
Net gains on debt securities at fair value through OCI	20	6,494	10,866
Net other comprehensive income to be reclassified to net income or loss in subsequent periods		6,494	10,866
Other comprehensive income not to be reclassified to net income or loss in subsequent periods:			
Re-measurement gains on retirement benefit plans	10	14,600	9,042
Net other comprehensive income not to be reclassified to net income or loss in subsequent periods		14,600	9,042
Other comprehensive income for the year		21,094	19,908
Comprehensive (loss)/income for the year		(42,449)	114,284

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

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, 2018		477,230	(6,627)	181,965	652,568
Net income for the year		-	-	94,376	94,376
Other comprehensive income for the year		-	19,908	-	19,908
Total comprehensive income		-	19,908	94,376	114,284
Dividends	19	-	-	(43,280)	(43,280)
Transfer to statutory reserve fund - Turks & Caicos Islands	14	-	6,529	(6,529)	-
Balance at October 31, 2019		477,230	19,810	226,532	723,572
Net loss for the year		-	-	(63,543)	(63,543)
Other comprehensive income for the year		-	21,094	-	21,094
Total comprehensive loss		-	21,094	(63,543)	(42,449)
Dividends	19	-	-	(61,308)	(61,308)
Transfer to statutory reserve fund - Turks & Caicos Islands	14	-	7,255	(7,255)	-
Balance at October 31, 2020		477,230	48,159	94,426	619,815

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	2020 \$	2019 \$
Cash flows from operating activities			
Net (loss)/income for the year		(63,543)	94,376
Adjustments to reconcile net income to net cash from operating activities			
Credit loss expense on financial assets	7, 8	70,027	4,515
Depreciation of property and equipment	9	7,875	4,021
Net losses on write-off of property and equipment	9	-	370
Impairment of goodwill	11	72,747	-
Net gains on disposals and redemption of securities	16	(60)	-
Net hedging losses	16	-	29
Interest income earned on securities	15	(25,407)	(28,076)
Interest (income)/expense (earned)/incurred on derivative financial instruments	15	(24)	131
Interest expense incurred on lease liabilities	15	725	-
Net cash flows from operating income before changes in operating assets and liabilities		62,340	75,366
Changes in operating assets and liabilities:			
- net decrease in due from banks greater than 90 days	4	1,150	5,261
- net increase in mandatory reserves with The Central Bank	3	(9,185)	(3,812)
- net increase in loans and advances to customers		(80,454)	(23,080)
- net decrease/(increase) in other assets		9,227	(11,129)
- net increase in customer deposits		49,851	140,972
- net (decrease)/increase in other liabilities		(2,426)	18,136
Net cash from operating activities		30,503	201,714
Cash flows from investing activities			
Purchases of property and equipment	9	(7,296)	(5,406)
Purchases of investment securities	7	(1,946,930)	(976,229)
Proceeds from disposals and redemption of securities	7	1,970,652	832,523
Interest income received on investment securities		29,232	26,320
Interest expense paid on derivative financial instruments		(86)	(1,469)
Net cash from/(used in) investing activities		45,572	(124,261)
Cash flows from financing activities			
Dividends paid		(68,176)	(58,640)
Payment of principal portion of lease liabilities		(3,126)	-
Net cash used in financing activities		(71,302)	(58,640)
Net increase in cash and cash equivalents		4,773	18,813
Cash and cash equivalents, beginning of year		513,005	494,192
Cash and cash equivalents, end of year	3	517,778	513,005

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 1 | Corporate Information

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

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

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

These consolidated financial statements have been authorised for issue by the Board of Directors on January 26, 2021. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

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

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 consolidated 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 consolidated 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, 2020 (the “reporting date”). The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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 judgements 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. The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments and asset impairment.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Impairment losses on financial assets

The measurement of impairment losses 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 a Probability of Default ("PD") to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk, and therefore 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 Default ("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)

The Bank is required to pay value added tax (VAT) at a rate of 12% on goods and services as prescribed by the Value Added Tax Act of the Commonwealth of The Bahamas. 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. 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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.

In these consolidated financial statements, the Bank adopted IFRS 16 *Leases* as at November 1, 2019 which supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The nature and the impact of the new standard is described below.

Several other amendments and interpretations apply for the first time in 2020, but did not have an impact on the Bank's consolidated financial statements. The Bank has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 *Leases*

The Bank applied IFRS 16 as at November 1, 2019 using the modified retrospective method of adoption (alternative 2) without restatement of comparative periods as permitted by the standard. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Therefore comparative figures for 2019 are not restated.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, the Bank recognised right-of-use assets and lease liabilities for its leases previously recognised as operating leases per IAS 17. Depreciation expense on the right-of-use asset and interest expense on the lease liability replaces the previous operating lease expense. IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

On initial recognition, the lease liability related to leases previously recognised as operating leases was measured at an amount equal to the present value of the outstanding lease payments at the date of initial application, considering extension and termination options, discounted at the Bank's incremental borrowing rate in the economic environment of the lease. The weighted average incremental borrowing rate applied on our existing lease portfolio was 5.2%. The capitalised right-of-use assets mainly consist of office property, namely the retail branches and some warehouses used for storage. The standard includes two recognition exemptions for lessees which were applied by the Bank - leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months). Additionally as a practical expedient, each lease component and associated non-lease components was accounted for as a single lease component.

The Bank excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application and also used hindsight in determining the lease term where the contract contained options to extend or terminate the lease. The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Based on the above as at November 1, 2019:

- Right-of-use assets of \$15.3 million were recognised and presented in the consolidated statement of financial position within 'Property and equipment'
- Additional lease liabilities of \$15.3 million (included in 'Other liabilities') were recognised
- The adoption of IFRS 16 had no impact on the Bank's retained earnings

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

The lease liabilities as at November 1, 2019 can be reconciled to the operating lease commitments as of October 31, 2019 as follows:

	\$
Operating lease commitments as at October 31, 2019	9,601
Adjustments as a result of renewal and termination assumptions	8,859
Impact of discounting	(3,160)
Lease liability recognised as at November 1, 2019	<u>15,300</u>

For the impact of IFRS 16 on profit or loss for the year, see Note 9. For further details of the Bank's accounting policy for leases under IFRS 16 see Note 2.4.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the consolidated financial statements 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 remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures 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 and had no impact on the consolidated financial statements 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 remeasured.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (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. These amendments had no impact on the consolidated financial statements of the Bank.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

The amendment clarifies that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Entities must apply the amendments retrospectively, with certain exceptions. These amendments are currently not applicable to the Bank but may apply to future transactions.

Amendments to 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 and they had no impact on the consolidated financial statements of the Bank.

2.4 Summary of significant accounting policies

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

Foreign currency translation

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

Transactions and balances

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Derivative financial instruments and hedge accounting

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. A hedge is considered to be highly effective if the changes in fair value of cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- Derivatives used as hedging instruments having a non-nil factor value at the time of designation
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

transferred to the consolidated statement of income. As at October 31, 2020, 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

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 fair value through profit or loss ("FVPL"). Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, 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 recognises 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 consolidated 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

The recognition of fee and commission income is determined by the purpose of the fee or commission and the terms specified in the contract with the customer. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of the service to the customer, in the amount of the consideration to which we expect to be entitled. Revenue may therefore be recognised at a point in time upon completion of the service or over time as the services are provided. When revenue is recognised over time, we are generally required to provide the services each period and we therefore measure our progress towards completion of the service based upon the time elapsed. When another party is involved in providing a service to a customer, we determine whether the nature of our performance obligation is that of a principal or an agent. If we control the service before it is transferred to the customer, we are acting as the principal and present revenue separately from the amount paid to the other party; otherwise we are the agent and present revenue net of the amount paid to the other party. Income which forms an integral part of the effective interest rate of a financial instrument continues to be recognised as an adjustment to the effective interest rate.

Underwriting and advisory fees are earned on debt and equity securities placements and transaction-based advisory services. Underwriting fees are typically recognised at the point in time when the transaction is completed. Advisory fees are generally recognised as revenue over the period of the engagement as the related services are provided or at the point in time when the transaction is completed.

Deposit services fees arise from personal and business deposit accounts and cash management services. Monthly and annual fees are recognised over the period that the related services are provided. Transactional fees are recognised at the point in time the related services are provided.

Credit services fees consist of loan syndication fees, loan commitment fees, negotiation & collection fees, credit advisory fees, letters of credit and guarantees & bonds fees. Credit fees are generally recognised over the period that the related services are provided, except for loan syndication fees, which are typically recognised at the point in

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

time that the financing placement is completed. Letters of credit and guarantees & bonds fees are charged annually and cover a one-year period starting on the date that the contract was first issued.

Card fees primarily include interchange income, over limit fees, cash advance fees, and annual fees. Card fees are recognised at the point in time the related services are provided, except for annual fees, which are recognised over the 12-month period to which they relate. The cost of credit card loyalty points is recognised as a reduction of interchange income when the loyalty points are issued for both self-managed and third-party loyalty points programs. Credit card loyalty point liabilities are recognised for self-managed loyalty point programs and are subject to periodic re-measurement to reflect the expected cost of redemption as this expectation changes over time.

Investment management fees (reported as part of underwriting fees in Note 16) are primarily based on the respective value of the assets under management (AUM) or assets under administration (AUA) and are recognised over the period that the related services are provided. Investment management fees are generally calculated based on point-in-time AUM and AUA balances. Custodial fees are recognised as revenue over the applicable service period, which is generally the contract term.

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, 2018, 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

Financial assets and liabilities

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

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 (solely payments of principal and interest) 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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

The Bank applies the category 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

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. The ECL calculation for debt instruments at FVOCI is shown 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

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 or loss. 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 financial 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 are part of a group of financial liabilities, 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 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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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. The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation and an ECL allowance.

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. These contracts are in the scope of the ECL requirements and attract allowances based on credit quality.

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.

Reclassification of financial assets and liabilities

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 2020.

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 purchased or originated credit impaired (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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Impairment of financial assets

Overview of the ECL principles

The Bank records 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 27.

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. ECL allowances for POCI assets are reported in Stage 3.

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.
- 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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 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: These are 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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 calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 27, on a collective basis for corporate and 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 but not limited to:

- GDP growth or nominal GDP
- Unemployment rate
- Consumer price index and inflation
- Interest rates

For the majority of our loan portfolios, our forecast of forward-looking information variables is established from a "base case" or most likely scenario. In forming the "base case" scenario, we consider the forecasts of monetary authorities such as the International Monetary Fund (IMF), World Bank and local regulatory/statutory bodies. We then derive reasonably possible "upside case" and "downside case" scenarios using the historical performance of variables that are above and below our "base case" along with the application of management judgment. A probability weighting is assigned to our "base case", "upside case" and "downside case" scenarios based on management judgment.

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. The use of management overlays requires the application of significant expert judgment that may impact on the amount and timing of the ECL allowance being recognised. As such, overlays are continuously reviewed for relevance and accuracy.

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. 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 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Write-offs

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.

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.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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. Right-of-use assets are presented together with property and equipment in the consolidated statement of financial position. Refer to the accounting policy for leases below.

Depreciation of owned assets 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 - 67%

Right-of-use assets are depreciated over the life of the lease.

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

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank leases various buildings for extended periods. Contracts may contain both lease and non-lease components, however where the Bank has a lease, it has elected not to separate these components and instead accounts for these as a single lease component.

As a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 9 *Property and equipment* and are subject to similar impairment in line with the Bank's impairment policy for non-financial assets.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease liabilities are presented within Other liabilities on the consolidated statement of financial position.

Determination of the lease term for lease contracts with renewal and termination options (As a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

To determine the incremental borrowing rate, the Bank uses a build-up approach which incorporates internal Funds Transfer Pricing (FTP) methodology to derive the discount rates which are further duration adjusted to better reflect the amortizing nature of the lease portfolio. The approach makes adjustments specific to the lease, e.g. term, country and currency.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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 common shares

Dividends on common shares are deemed declared, and recognised in equity, in the period in which the dividends are approved by the Board and receive the applicable regulatory approvals.

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 Executive Committee 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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 are adjusted to comply with changes in presentation in the current year.

2.5 Standards issued but not yet effective

The new and amended 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.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument. As indicated in the accounting policies, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty about whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. We continue to evaluate the impact of the amendments to IAS 39 and IFRS 7 on the Bank's consolidated financial statements.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Covid-19 related Rent Concessions – Amendments to IFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 *Leases* which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. An entity applies the amendments for annual reporting periods beginning on or after June 30, 2020, with early application permitted. These amendments are not expected to have any material impact on the consolidated financial statements of the Bank and no specific disclosures are required.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (“IFRS 17”), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (“IFRS 4”). IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 was originally effective for reporting periods beginning on or after January 1, 2021, with comparative figures required, but has been extended to January 1, 2023 by the IASB. This standard is not applicable to the Bank.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2020, with early application permitted. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2020, with early application permitted. The amendments to the definition of material are not expected to have a significant impact on the Bank’s consolidated financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 *Presentation of Financial Statements* clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the ‘settlement’ of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management’s intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments from January 1, 2022 to January 1, 2023. The amendments related to the classification of

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

liabilities as current or non-current are not expected to have a significant impact on the Bank's consolidated financial statements.

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 *Property, Plant and Equipment* (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2022, with early application permitted. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 *Business Combinations* to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21 *Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2022, with early application permitted. The amendments to IFRS 3 *Business Combinations* are not expected to have any impact on the Bank's consolidated financial statements.

Onerous Contracts: Cost of Fulfilling a Contract - Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2022, with early application permitted. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

IFRS 9 Financial Instruments

The amendment clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

IFRS 16 Leases

The amendment removes the illustration of payments from the lessor relating to leasehold improvements in illustrative example 13, to remove any confusion about the treatment of lease incentives. These amendments are currently not applicable to the Bank.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. These amendments are currently not applicable to the Bank.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 3 | Cash and Balances with The Central Bank

	2020 \$	2019 \$
Cash	34,654	38,075
Deposits with The Central Bank - non-interest bearing	252,295	121,414
Cash and balances with The Central Bank	286,949	159,489
Less: Mandatory reserve deposits with The Central Bank	(63,404)	(54,219)
Included in cash and cash equivalents, as per below	223,545	105,270

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

	2020 \$	2019 \$
Cash and balances with The Central Bank, as per above	223,545	105,270
Due from banks, included in cash and cash equivalents (Note 4)	294,233	407,735
	517,778	513,005

Note 4 | Due from Banks

	2020 \$	2019 \$
Included in cash and cash equivalents (Note 3)	294,233	407,735
Greater than 90 days maturity from date of acquisition	25,100	26,250
Due from banks	319,333	433,985

Due from banks comprises deposit placements and include amounts placed with other FirstCaribbean International Bank entities of \$192,348 (2019: \$246,833) and deposit placements with CIBC entities of \$69,145 (2019: \$40,589) (Note 22). Placements with other FirstCaribbean International Bank entities include amounts with FCIB Jamaica totalling \$25,100 (2019: \$26,438), 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 0.91% (2019: 2.14%).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 5 | Derivative Financial Instruments

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

	Notional Amount		Fair Values	
	Assets \$	Liabilities \$	Assets \$	Liabilities \$
2020				
Interest rate swaps	2,345	2,345	33	21
			33	21
2019				
Interest rate swaps	11,129	5,357	49	273
			49	273

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.

As at 2020 and 2019, there was no cash collateral pledged with counterparties that have one-way collateral posting arrangements.

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 are hedged by interest rate swaps.

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

During the year, the Bank did not recognise any gains or losses as a result of failed hedges. In 2019, the Bank recognised gains of \$4,737 as a result of failed hedges, along with associated fees of \$4,704, which are included within operating income as part of net trading losses as these derivatives are classified as trading derivatives upon failure.

There are no hedged items currently designated as of October 31, 2020 (2019: \$nil).

As at October 31, 2020, the accumulated fair value hedge adjustments remaining on the consolidated statement of financial position related to discontinued fair value hedges were \$286 net gain (2019: \$82 net loss).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 6 | Other Assets

	2020 \$	2019 \$
Clearings and suspense	3,886	12,591
Other accounts receivables	3,670	4,894
Prepayments and deferred items	3,711	2,195
	<u>11,267</u>	<u>19,680</u>

Included in other accounts receivables are balances due from the Bank's retirement benefit pension plan amounting to \$2,649 (2019: \$2,994), which represents amounts paid to pensioners on the plan's behalf.

Note 7 | Securities

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2020 Total \$
Securities measured at FVOCI:				
Government securities				
- Regional	539,644	1,436	-	541,080
- Non Regional	43,998	-	-	43,998
Total Government securities	<u>583,642</u>	<u>1,436</u>	<u>-</u>	<u>585,078</u>
Corporate debt securities	282,947	25,559	-	308,506
Total debt securities	<u>866,589</u>	<u>26,995</u>	<u>-</u>	<u>893,584</u>
Equity securities - unquoted	219	-	-	219
Total securities measured at FVOCI	<u>866,808</u>	<u>26,995</u>	<u>-</u>	<u>893,803</u>
Debt securities at amortised cost:				
Government securities at amortised cost	-	-	20,117	20,117
Total securities at amortised cost	<u>-</u>	<u>-</u>	<u>20,117</u>	<u>20,117</u>
Total securities at FVOCI & amortised cost	<u>866,808</u>	<u>26,995</u>	<u>20,117</u>	<u>913,920</u>
Add: Interest receivable				4,005
Total				<u>917,925</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2019 Total \$
Securities measured at FVOCI:				
Government securities				
- Regional	489,438	19,195	17,047	525,680
- Non Regional	23,974	-	-	23,974
Total Government securities	513,412	19,195	17,047	549,654
Corporate debt securities	352,977	25,896	-	378,873
Total debt securities	866,389	45,091	17,047	928,527
Equity securities - unquoted	219	-	-	219
Total securities measured at FVOCI	866,608	45,091	17,047	928,746
Add: Interest receivable				7,830
Total				936,576

Barbados Government debt restructuring

On June 1, 2018, the newly elected Barbados government announced its intention to restructure its public debt, and that debt payments to foreign creditors would be suspended and payments to domestic creditors would be made on a best-efforts basis while the government finalised a comprehensive economic reform plan.

On October 18, 2019, the Government of Barbados and the Barbados External Creditor Committee reached an agreement in principle to exchange certain of the Government's US dollar denominated debt for new bonds to be issued by Barbados.

On May 18, 2020, the Government of Barbados and the Barbados External Creditor Committee finalised the exchange of the Government US dollar denominated debt in the final phase of the debt restructuring program. The security measured as FVOCI with a par amount of \$23.0 million and an expected credit loss of \$4.8 million was exchanged for a longer dated security with a par amount of \$25.2 million. The instrument is measured as a POCI amortised cost security at an initial carrying value equal to the estimated fair value of \$21.4 million with no initial allowance for expected credit losses as risk of future losses was reflected in the acquisition date discount. A one-time cash payment of \$0.5 million was also received.

Impact of COVID-19 pandemic on expected credit losses

To address the uncertainties inherent in the current environment, management overlays were utilised for the impact that the COVID-19 pandemic will have on the migration of exposures that are most susceptible to these risks. This resulted in an ECL increase of approximately \$5 million during the year.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Allowance for credit losses on securities

The tables below provide a reconciliation of the opening balance to the closing balance of the ECL allowances for debt securities measured at FVOCI and at amortised cost:

				2020
	Stage 1 Collective provision 12 month ECL performing \$	Stage 2 Collective provision lifetime ECL performing \$	Stage 3 Collective and individual provision lifetime ECL credit- impaired \$	Total \$
Debt securities at FVOCI				
Balance, beginning of year	7,218	626	4,806	12,650
Originations net of repayments and other derecognitions	(236)	(32)	804	536
Changes in model	(1,016)	(5)	-	(1,021)
Net remeasurement	3,619	(403)	-	3,216
Credit loss expense/(credit)	2,367	(440)	804	2,731
Write-offs	-	-	(5,610)	(5,610)
Balance, end of year	9,585	186	-	9,771
Debt securities at amortised cost				
Balance, beginning of year	-	-	-	-
Net remeasurement	-	-	536	536
Credit loss expense	-	-	536	536
Balance, end of year	-	-	536	536

				2019
	Stage 1 Collective provision 12 month ECL performing \$	Stage 2 Collective provision lifetime ECL performing \$	Stage 3 Collective and individual provision lifetime ECL credit- impaired \$	Total \$
Balance, beginning of year	7,686	458	4,617	12,761
Originations net of repayments and other derecognitions	(52)	-	-	(52)
Net remeasurement	(416)	168	3,558	3,310
Credit loss (credit)/expense	(468)	168	3,558	3,258
Other*	-	-	(3,369)	(3,369)
Balance, end of year	7,218	626	4,806	12,650

* Other represents the write-off of basis adjustments on an ineffective hedge due to the Barbados Government debt restructuring.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

The average effective yield during the year on debt securities was 2.73% (2019: 3.23%). 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, 2020, the reserve requirement amounted to \$274,754 (2019: \$246,143) of which \$211,350 (2019: \$191,924) is in the form of government securities and \$63,404 (2019: \$54,219) 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:

	2020 \$	2019 \$
Balance, beginning of year	928,746	776,634
Additions (purchases and changes in fair value)	1,955,826	984,635
Disposals (sales and redemptions)	(1,970,652)	(832,523)
Balance, end of year	913,920	928,746

The higher volume of securities trades in 2020 was driven by increased deployment to short-term US Government securities for management of surplus liquidity.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 8 | Loans and Advances to Customers

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2020 Total \$
Residential Mortgages				
Gross loans	552,236	367,720	73,942	993,898
Expected credit loss allowances	11,266	40,709	47,992	99,967
Net residential mortgages	540,970	327,011	25,950	893,931
Personal loans				
Gross loans	130,564	56,773	15,179	202,516
Expected credit loss allowances	4,697	5,570	11,019	21,286
Net personal loans	125,867	51,203	4,160	181,230
Business & Government loans				
Gross loans	827,378	155,821	11,788	994,987
Expected credit loss allowances	22,935	12,705	2,052	37,692
Net business & government loans	804,443	143,116	9,736	957,295
Total net loans	1,471,280	521,330	39,846	2,032,456
Add: Interest receivable				10,475
Less: Unearned fee income				(11,192)
				<u>2,031,739</u>
	Stage 1 \$	Stage 2 \$	Stage 3 \$	2019 Total \$
Residential Mortgages				
Gross loans	787,787	119,898	74,339	982,024
Expected credit loss allowances	5,946	4,420	46,350	56,716
Net residential mortgages	781,841	115,478	27,989	925,308
Personal loans				
Gross loans	176,554	11,348	15,713	203,615
Expected credit loss allowances	2,904	1,023	12,478	16,405
Net personal loans	173,650	10,325	3,235	187,210
Business & Government loans				
Gross loans	794,658	123,626	19,959	938,243
Expected credit loss allowances	11,157	3,540	12,244	26,941
Net business & government loans	783,501	120,086	7,715	911,302
Total net loans	1,738,992	245,889	38,939	2,023,820
Add: Interest receivable				9,784
Less: Unearned fee income				(9,950)
				<u>2,023,654</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	2020			
	Stage 1 Collective provision 12- month ECL performing	Stage 2 Collective provision lifetime ECL performing	Stage 3 Collective and individual provision lifetime ECL credit- impaired	Total
	\$	\$	\$	\$
Residential Mortgages				
Balance, beginning of year	5,946	4,420	46,350	56,716
Originations net of repayments and other derecognitions	728	158	(1,153)	(267)
Changes in model	-	1,142	(36)	1,106
Net remeasurement	10,361	28,676	1,717	40,754
Transfers				
- to 12-month ECL	2,242	(2,010)	(232)	-
- to lifetime ECL non-credit- impaired	(8,006)	8,690	(684)	-
- to lifetime ECL credit-impaired	(5)	(367)	372	-
Credit loss expense/(credit)	5,320	36,289	(16)	41,593
Net recoveries	-	-	3,601	3,601
Interest income on impaired loans	-	-	(1,943)	(1,943)
Balance, end of year	11,266	40,709	47,992	99,967
Personal loans				
Balance, beginning of year	2,904	1,023	12,478	16,405
Originations net of repayments and other derecognitions	879	(9)	(146)	724
Changes in model	-	(216)	26	(190)
Net remeasurement	2,651	2,979	(731)	4,899
Transfers				
- to 12-month ECL	414	(319)	(95)	-
- to lifetime ECL non-credit- impaired	(2,145)	2,202	(57)	-
- to lifetime ECL credit-impaired	(6)	(90)	96	-
Credit loss expense/(credit)	1,793	4,547	(907)	5,433
Net write-offs	-	-	(212)	(212)
Interest income on impaired loans	-	-	(340)	(340)
Balance, end of year	4,697	5,570	11,019	21,286

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	Stage 1	Stage 2	Stage 3	2020
	Collective provision 12- month ECL performing \$	Collective provision lifetime ECL performing \$	Collective and individual provision lifetime ECL credit- impaired \$	Total \$
Business & government loans				
Balance, beginning of year	11,157	3,540	12,244	26,941
Originations net of repayments and other derecognitions	3,011	1,839	(452)	4,398
Changes in model	(744)	(374)	27	(1,091)
Net remeasurement	12,616	4,617	(806)	16,427
Transfers				
- to 12-month ECL	2,126	(2,092)	(34)	-
- to lifetime ECL non-credit-impaired	(5,220)	5,229	(9)	-
- to lifetime ECL credit-impaired	(11)	(54)	65	-
Credit loss expense/(credit)	11,778	9,165	(1,209)	19,734
Net write-offs	-	-	(8,484)	(8,484)
Interest income on impaired loans	-	-	(499)	(499)
Balance, end of year	22,935	12,705	2,052	37,692
Total Bank				
Balance, beginning of year	20,007	8,983	71,072	100,062
Originations net of repayments and other derecognitions	4,618	1,988	(1,751)	4,855
Changes in model	(744)	552	17	(175)
Net remeasurement	25,628	36,272	180	62,080
Transfers				
- to 12-month ECL	4,782	(4,421)	(361)	-
- to lifetime ECL non-credit-impaired	(15,371)	16,121	(750)	-
- to lifetime ECL credit-impaired	(22)	(511)	533	-
Credit loss expense/(credit)	18,891	50,001	(2,132)	66,760
Net write-offs	-	-	(5,095)	(5,095)
Interest income on impaired loans	-	-	(2,782)	(2,782)
Balance, end of year	38,898	58,984	61,063	158,945
Total ECL allowance comprises:				
- Loans	36,011	58,358	61,063	155,432
- Undrawn credit facilities	2,887	626	-	3,513

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

As a result of the impact of the COVID-19 pandemic and the potential negative impact on the Bank's loan portfolio arising from the decline in economic activity, a heightened application of judgment in a number of areas was required in the determination of whether a significant increase in credit risk (SICR) has occurred. This included the careful evaluation of the evolving macroeconomic environment and the various client relief programs that were provided to clients. Interest or principal deferments pursuant to various relief programs provided in some cases, resulted in a SICR that would trigger migration to stage 2 as it was determined that there was a SICR based on an assessment of related forward-looking indicators. Management overlays to ECL allowance estimates are adjustments which the Bank uses in circumstances where existing inputs, assumptions and model techniques are determined to not capture all relevant risk factors. To address the uncertainties inherent in the current environment, management overlays were utilised for the impact that the COVID-19 pandemic will have on the migration of exposures that are most susceptible to these risks. Based on the COVID-19 management overlay assessment performed, the Bank has made high level assumptions related to the probability of default, stage migration and loss given default rates and estimated an increase in ECL of approximately \$62 million during the year.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	2019		
	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 \$
Residential Mortgages			
Balance, beginning of year	5,065	10,799	51,220
Originations net of repayments and other derecognitions	633	(207)	(956)
Changes in model	39	(3,652)	(3,014)
Net remeasurement	(1,878)	(2,761)	5,693
Transfers			
- to 12-month ECL	2,430	(2,164)	(266)
- to lifetime ECL non-credit-impaired	(343)	2,978	(2,635)
- to lifetime ECL credit-impaired	-	(573)	573
Credit loss expense/(credit)	881	(6,379)	(605)
Net recoveries	-	-	377
Interest income on impaired loans	-	-	(4,642)
Balance, end of year	5,946	4,420	46,350
Personal loans			
Balance, beginning of year	2,863	717	12,868
Originations net of repayments and other derecognitions	346	(60)	(205)
Changes in model	21	(114)	140
Net remeasurement	(529)	147	2,808
Transfers			
- to 12-month ECL	365	(333)	(32)
- to lifetime ECL non-credit-impaired	(154)	444	(290)
- to lifetime ECL credit-impaired	(8)	222	(214)
Credit loss expense	41	306	2,207
Net write-offs	-	-	(1,118)
Interest income on impaired loans	-	-	(1,479)
Balance, end of year	2,904	1,023	12,478

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	Stage 1	Stage 2	Stage 3 Collective and individual provision lifetime ECL credit- impaired	2019 Total \$
	Collective provision 12- month ECL performing \$	Collective provision lifetime ECL performing \$		
Business & Government loans				
Balance, beginning of year	10,127	5,721	12,269	28,117
Originations net of repayments and other derecognitions	3,107	(30)	(498)	2,579
Changes in model	(735)	(1,164)	(63)	(1,962)
Net remeasurement	(1,658)	(658)	6,505	4,189
Transfers				
- to 12-month ECL	755	(647)	(108)	-
- to lifetime ECL non-credit- impaired	(434)	550	(116)	-
- to lifetime ECL credit-impaired	(5)	(232)	237	-
Credit loss expense/(credit)	1,030	(2,181)	5,957	4,806
Net write-offs	-	-	(4,214)	(4,214)
Interest income on impaired loans	-	-	(1,768)	(1,768)
Balance, end of year	11,157	3,540	12,244	26,941
Total Bank				
Balance, beginning of year	18,055	17,237	76,357	111,649
Originations net of repayments and other derecognitions	4,086	(297)	(1,659)	2,130
Changes in model	(675)	(4,930)	(2,937)	(8,542)
Net remeasurement	(4,065)	(3,272)	15,006	7,669
Transfers				
- to 12-month ECL	3,550	(3,144)	(406)	-
- to lifetime ECL non-credit- impaired	(931)	3,972	(3,041)	-
- to lifetime ECL credit-impaired	(13)	(583)	596	-
Credit loss expense/(credit)	1,952	(8,254)	7,559	1,257
Net write-offs	-	-	(4,955)	(4,955)
Interest income on impaired loans	-	-	(7,889)	(7,889)
Balance, end of year	20,007	8,983	71,072	100,062
Total ECL allowance comprises:				
- Loans	18,633	8,811	71,072	98,516
- Undrawn credit facilities	1,374	172	-	1,546

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

Impaired Loans

	Gross impaired \$	Stage 3 allowance \$	2020 Net impaired \$	Gross impaired \$	Stage 3 allowance \$	2019 Net impaired \$
Residential mortgages	73,942	47,992	25,950	74,339	46,350	27,989
Personal loans	15,179	11,019	4,160	15,713	12,478	3,235
Business & government loans	11,788	2,052	9,736	19,959	12,244	7,715
Total impaired loans	100,909	61,063	39,846	110,011	71,072	38,939

The average interest yield during the year on loans and advances was 5.92% (2019: 6.47%). Gross impaired loans as at October 31, 2020 amounted to \$100,909 (2019: \$110,011) and interest taken to income on those loans during the year amounted to \$2,782 (2019: \$3,091).

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:

	Residential Mortgages \$	Personal Loans \$	Business & Government Loans \$	2020 Total \$
Less than 30 days	38,754	8,533	89,711	136,998
31 - 60 days	51,379	8,423	14,316	74,118
61 - 89 days	16,772	7,326	1,934	26,032
	106,905	24,282	105,961	237,148

	Residential Mortgages \$	Personal Loans \$	Business & Government Loans \$	2019 Total \$
Less than 30 days	45,494	7,977	4,046	57,517
31 - 60 days	20,757	2,434	24,254	47,445
61 - 89 days	15,925	791	60,977	77,693
	82,176	11,202	89,277	182,655

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 9 | Property and Equipment

	Land and Buildings \$	Equipment, Furniture and Vehicles \$	Leasehold Improvements \$	Right-of-Use Assets (Buildings) \$	2020 Total \$
Cost					
Balance, beginning of year	23,331	55,491	19,861	-	98,683
Effect of adoption of IFRS 16	-	-	-	15,300	15,300
Purchases	-	4,544	2,729	23	7,296
Disposals	-	-	-	(86)	(86)
Modifications/net transfers	-	733	(733)	172	172
Balance, end of year	23,331	60,768	21,857	15,409	121,365
Accumulated depreciation					
Balance, beginning of year	9,863	43,743	14,484	-	68,090
Depreciation (Note 17)	537	3,676	779	2,883	7,875
Disposals	-	-	-	(7)	(7)
Modifications	-	-	-	7	7
Balance, end of year	10,400	47,419	15,263	2,883	75,965
Net book value, end of year	12,931	13,349	6,594	12,526	45,400
	Land and Buildings \$	Equipment, Furniture and Vehicles \$	Leasehold Improvements \$	Right-of-Use Assets (Buildings) \$	2019 Total \$
Cost					
Balance, beginning of year	22,486	53,425	17,366	-	93,277
Purchases	580	2,045	2,781	-	5,406
Net transfers	265	21	(286)	-	-
Balance, end of year	23,331	55,491	19,861	-	98,683
Accumulated depreciation					
Balance, beginning of year	8,713	39,717	15,269	-	63,699
Depreciation (Note 17)	732	4,074	(785)	-	4,021
Net transfers/write-offs	418	(48)	-	-	370
Balance, end of year	9,863	43,743	14,484	-	68,090
Net book value, end of year	13,468	11,748	5,377	-	30,593

This note also provides information for operating leases where the Bank is a lessee. There are no operating leases where the Bank is a lessor. Included as part of leasehold improvements is an amount for \$5,184 (2019: \$3,187) relating to systems development costs and work in progress which is incomplete, not yet in operation and on which no depreciation has been charged.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 10 Retirement Benefit Assets and Obligations

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

Plan characteristics, funding and risks

The benefits that members receive at retirement under the defined contribution plan depend on their account balances at retirement and the cost of purchasing an annuity. The total expense relating to the contributory plan charged for the year was \$416 (2019: \$446), 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 the Bank's defined benefit pension or post-retirement medical benefit plans in 2020 or 2019.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Amounts recognised on the consolidated statement of financial position

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

	Defined Benefit Pension Plans		Post-Retirement Medical Benefits	
	2020 \$	2019 \$	2020 \$	2019 \$
Fair value of the plan assets	143,482	134,938	-	-
Present value of the obligations	(107,706)	(111,676)	(9,550)	(10,395)
Net retirement benefit asset/(obligations)	35,776	23,262	(9,550)	(10,395)

The Retirement Benefit Assets reported on the statement of financial position comprises of the Bahamas Defined Benefit Pension Plan's net asset of \$42,285 (2019: \$28,483).

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 \$6,509 (2019: \$5,221) and the Post-Retirement Medical Benefits obligation of \$9,550 (2019: \$10,395).

The pension plan assets include 100,000 (2019: 100,000) ordinary shares in the Bank, with a fair value of \$1,126 (2019: \$1,106).

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

	2020 \$	2019 \$
Opening fair value of plan assets	134,938	125,455
Benefits paid	(3,265)	(3,357)
Actuarial gains	12,017	13,042
Plan administration costs	(208)	(202)
Closing fair value of plan assets	143,482	134,938

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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

	2020 \$	2019 \$
Opening obligations	(111,676)	(109,321)
Interest costs	(5,769)	(5,513)
Current service costs	(2,414)	(2,432)
Benefits paid	3,265	3,357
Actuarial gains on obligations	8,888	2,233
Closing obligations	(107,706)	(111,676)

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

	2020 \$	2019 \$
Opening obligations	(10,395)	(10,515)
Interest costs	(529)	(524)
Benefits paid	503	504
Actuarial gains on obligations	871	140
Closing obligations	(9,550)	(10,395)

The Bank expects to contribute \$nil (2019: \$nil) to its defined benefit pension plans in the following year 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 this will be re-evaluated in the plans' next triennial valuation.

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

	Defined Benefit Pension Plans		Post-Retirement Medical Benefits	
	2020 \$	2019 \$	2020 \$	2019 \$
Current service costs	2,414	2,432	-	-
Interest costs	5,769	5,513	529	524
Interest income on plan assets	(7,201)	(6,373)	-	-
Plan administration costs	208	202	-	-
Total amount included in staff costs (Note 17)	1,190	1,774	529	524
Actual return on plan assets	(12,017)	(13,042)	-	-

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (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	
	2020 \$	2019 \$	2020 \$	2019 \$
Actuarial (gains)/losses on defined benefit obligation arising from:				
- Financial assumptions	(6,934)	(1,828)	(317)	(97)
- Experience adjustments	(1,954)	(405)	(581)	(45)
Return on plan assets excluding interest income	(4,816)	(6,669)	2	2
Net re-measurement gains recognised in OCI	<u>(13,704)</u>	<u>(8,902)</u>	<u>(896)</u>	<u>(140)</u>

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	
	2020 \$	2019 \$	2020 \$	2019 \$
Balance, beginning of year	23,262	16,134	(10,395)	(10,515)
Charge for the year (<i>Note 17</i>)	(1,190)	(1,774)	(529)	(524)
Contributions by employer	-	-	478	504
Effect on statement of other comprehensive income	<u>13,704</u>	<u>8,902</u>	<u>896</u>	<u>140</u>
Balance, end of year	<u>35,776</u>	<u>23,262</u>	<u>(9,550)</u>	<u>(10,395)</u>

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	
	2020 \$	2019 \$	2020 \$	2019 \$
Active members	59,980	61,345	-	-
Inactive and retired members	<u>47,726</u>	<u>50,331</u>	<u>9,550</u>	<u>10,395</u>
	<u>107,706</u>	<u>111,676</u>	<u>9,550</u>	<u>10,395</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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	
	2020	2019	2020	2019
Average duration, in years	19	20	15	15

The major categories of the plan assets and the actual fair value of total plan assets (\$ in thousands and %) are as follows (see Note 2.4):

	2020		2019	
	\$	%	\$	%
Quoted equity instruments				
- International	1,140	1	1,168	1
Quoted debt				
- Government bonds	1,939	1	1,768	1
Investment Funds				
- U.S. Equity	64,143	45	64,909	48
- International Equity	27,937	19	28,866	21
- Fixed Income	46,696	33	36,423	27
Other assets	1,627	1	1,804	2
	143,482	100%	134,938	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	
	2020	2019
Discount rate (TCI, Bahamas)	2.7%, 6.1%	3.1%, 5.6%
Expected return on plan assets (TCI, Bahamas)	2.7%, 6.1%	3.1%, 5.6%
Future salary increases	4.0%	4.0%
Future pension increases	2.5%	2.5%

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	Post-Retirement Medical Benefit	
	2020	2019
Discount rate (TCI, Bahamas)	2.7%, 6.1%	3.1%, 5.6%
Premium escalation rate	6.0%	6.0%
Existing retiree age	60	60

A quantitative sensitivity analysis for significant assumptions as at October 31, 2020 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%	91,486	128,483	8,476	10,864
Future salary increases	0.5%	110,348	105,232	n/a	n/a
Future pension increases	0.5%	113,042	102,878	n/a	n/a
Premium escalation rate	1.0%	n/a	n/a	10,810	8,497
Existing retiree age	1 year	110,877	n/a	9,992	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:

	2020	2019
	\$	\$
Within the next 12 months	2,658	2,602
Between 1 and 5 years	13,994	12,972
Between 5 and 10 years	25,706	24,165
Total expected payments	42,358	39,739

The last actuarial valuation was conducted as at November 1, 2019 and revealed a fund surplus of \$35,448.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 11 | Goodwill

	2020 \$	2019 \$
Cost		
Balance, beginning and end of year	187,747	187,747
Accumulated impairment		
Balance, beginning of year	115,000	115,000
Impairment	72,747	-
Balance, end of year	187,747	115,000
Carrying amount, end of year	-	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.

During 2020, the COVID-19 pandemic led to significant volatility in financial markets across the world and prompted material reductions in interest rates. Based on impairment testing, the recoverable amount of the CGU was less than the carrying value and as a result, management recognised an impairment charge of \$72,747 against goodwill with a carrying amount of \$72,747 as at October 31, 2019. The impairment charge is recorded in the consolidated statement of loss.

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	
	2020	2019	2020	2019
Bahamas	15%	14%	2%	2%

Estimation of the recoverable amount is an area of significant judgment. Reductions in the estimated recoverable amount could arise from various factors, such as, reductions in forecasted cash flows, an increase in the assumed level of required capital, and any adverse changes to the discount rate or the growth rate, either in isolation or in any combination thereof.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 12 | Customer Deposits

	Payable on Demand \$	Payable after Notice \$	Payable at a Fixed Date \$	2020 Total \$	2019 Total \$
Individuals	343,768	380,634	361,702	1,086,104	1,008,667
Business and governments	1,351,299	20,318	376,099	1,747,716	1,733,510
Banks	3,723	-	113,021	116,744	158,281
	1,698,790	400,952	850,822	2,950,564	2,900,458
Add: Interest payable	138	37	2,854	3,029	3,284
	1,698,928	400,989	853,676	2,953,593	2,903,742

These customer deposits are measured at amortised cost. Included in deposits from banks are deposits from other Parent Group entities of \$116,487 (2019: \$157,615) (Note 22).

The average effective rate of interest on deposits during the year was 0.29% (2019: 0.46%).

Note 13 | Other Liabilities

	2020 \$	2019 \$
Accounts payable and accruals, including clearings	44,929	33,414
Lease liabilities	12,843	-
Amounts due to related parties (Note 22)	7,671	28,639
	65,443	62,053

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Lease Liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020 \$
As at November 1, 2019 - effect of adoption of IFRS 16	15,300
Additions	23
Terminations	(79)
Modifications	172
Accretion of interest	725
Payments	(3,298)
As at October 31, 2020	<u>12,843</u>

The maturity analysis of lease liabilities are disclosed in Note 27 and the future rental commitments (undiscounted) under these leases in Note 24.

Total expenditure related to leases which are not recognised on balance sheet due to the recognition exemption per the IFRS 16 practical expedients are outlined below:

	2020 \$
Expenses relating to short-term leases included in administrative expenses	43
Expenses relating to leases of low-value assets not shown above as short-term	1,037
Expenses relating to variable lease payments not included in lease liability payments	(11)
	<u>1,069</u>

The Bank had total cash outflows for leases of \$3,125 as at October 31, 2020. The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of \$15.3 million at November 1, 2019.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 14 Issued Capital and Reserves

	2020 \$	2019 \$
Issued capital, beginning and end of year	477,230	477,230
Reserves		
Statutory reserve fund - Turks and Caicos Islands	62,875	55,620
Revaluation reserve - debt securities measured at FVOCI	14,370	7,876
Retirement benefit reserve	34,480	19,880
Reverse acquisition reserve	(63,566)	(63,566)
Total reserves	48,159	19,810
Total issued capital and reserves	525,389	497,040

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 2020 and 2019. At October 31, 2020 and 2019, the issued share capital was as follows:

	Number of shares	Share par value \$	Share premium \$	Total \$
Ordinary shares, voting	120,216,204	12,022	465,208	477,230

Capital

Objectives, policies and procedures

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

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

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

Regulatory requirements

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

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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.

In 2020, Tier 1 and Total Capital ratios were 26% and 26%, respectively (2019: 28% and 28%, respectively).

The movements in reserves were as follows:

Statutory reserve fund - Turks and Caicos Islands

	2020 \$	2019 \$
Balance, beginning of year	55,620	49,091
Transfers from retained earnings	7,255	6,529
Balance, end of year	62,875	55,620

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 \$7,255 (2019: \$6,529) 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, 2020, no statutory loan loss reserve was required as the general provision was sufficient (2019: \$nil).

Revaluation reserve - debt securities measured at FVOCI

	2020 \$	2019 \$
Balance, beginning of year	7,876	(2,990)
Net gains on debt securities measured at FVOCI (Note 20)	6,494	10,866
Balance, end of year	14,370	7,876

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Retirement benefit reserve

	2020	2019
	\$	\$
Balance, beginning of year	19,880	10,838
Re-measurement gains on retirement benefit plans	14,600	9,042
Balance, end of year	34,480	19,880

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

Reverse acquisition reserve

	2020	2019
	\$	\$
Balance, 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.

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).

Note 15 | Net Interest Income

	2020	2019
	\$	\$
Interest and similar income		
Cash and due from banks	3,560	8,857
Securities	25,407	28,076
Loans and advances to customers	124,813	133,035
Derivative financial instruments	24	-
	153,804	169,968
Interest and similar expense		
Banks and customers	8,940	13,041
Derivative financial instruments	-	131
Lease liabilities	725	-
	9,665	13,172
Net interest income	144,139	156,796

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 16 | Operating Income

	2020 \$	2019 \$
Fee and commission income	34,235	35,047
Foreign exchange commissions	11,716	13,197
Net foreign exchange revaluation losses	(11)	(36)
Net gains on disposal and redemption of securities (Note 20)	60	-
Net hedging losses (Note 5)	-	(29)
Net trading losses	(137)	(585)
Other operating income	1,011	1,025
	<u>46,874</u>	<u>48,619</u>

Net gains on disposal and redemption of securities have arisen from disposals of FVOCI debt securities.

Net hedging losses 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 derivatives held for trading, which include failed hedges.

Analysis of fee and commission income:

	2020 \$	2019 \$
Underwriting	796	614
Deposit services	9,992	10,223
Credit services	3,198	1,946
Card services	13,499	14,484
Funds transfer	5,686	6,303
Other	1,064	1,477
	<u>34,235</u>	<u>35,047</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 17 | Operating Expenses

	2020 \$	2019 \$
Staff costs	27,533	28,962
Business licence	8,447	8,842
Occupancy and maintenance	5,956	11,334
Depreciation (Note 9)	7,875	4,021
Other operating expenses	61,971	53,365
	<u>111,782</u>	<u>106,524</u>

Analysis of staff costs:

	2020 \$	2019 \$
Wages and salaries	21,122	21,681
Pension costs:		
- defined benefit sections of the plan (Note 10)	1,190	1,774
- defined contribution section of the plan (Note 10)	416	446
Post-retirement medical benefits charge (Note 10)	529	524
Employee share purchase plan (Note 21)	150	145
Severance	359	94
Insurance and risk benefits	2,566	2,657
Other staff related costs	1,201	1,641
	<u>27,533</u>	<u>28,962</u>

Analysis of other operating expenses:

	2020 \$	2019 \$
Group service charges (Note 22)	42,436	35,876
Professional fees	1,363	1,795
Communications	2,329	1,971
Business development	148	325
Advertising and marketing	104	177
Consumer related expenses	896	1,247
Non-credit losses	1,080	676
Postage, courier and stationery	1,436	1,935
General insurances	650	638
Outside services	3,714	3,849
Other	7,815	4,876
	<u>61,971</u>	<u>53,365</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 18 | (Loss)/earnings per Share

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

Basic (loss)/earnings per share

	2020 \$	2019 \$
Net (loss)/income attributable to shareholders	(63,543)	94,376
Weighted average number of common shares in issue (Note 14)	120,216,204	120,216,204
Basic (loss)/earnings per share (expressed in cents per share)	(52.9)	78.5

There are no potentially dilutive instruments.

Note 19 | Dividends

The Directors previously declared dividends totalling \$0.78 per share, which are not reflected in these consolidated financial statements as they are subject to regulatory approvals and are pending the Central Bank of The Bahamas' lifting of its current suspension of dividend approvals for domestic banks.

Note 20 | Components of Other Comprehensive Income

	2020 \$	2019 \$
Debt securities at fair value through other comprehensive income:		
Net gains arising during the year	6,554	10,866
Reclassification to the statement of income (Note 16)	(60)	-
	6,494	10,866
Other comprehensive income for the year (Note 14)	6,494	10,866

Note 21 | Other Employee Benefits

Employee share purchase plan

Under the Bank's 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 \$150 in 2020 (2019: \$145) (Note 17).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 22 | Related Party Transactions and Balances

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

A number of banking transactions are entered into with related parties in the normal course of business. Included in Other liabilities is a dividend payable to the Bank's Parent of \$nil (2019: \$6,868). 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	
	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
Asset balances:						
Due from banks	-	-	192,348	246,833	69,145	40,589
Derivative financial instruments	-	-	-	-	-	34
Loans and advances to customers	3,484	3,326	-	-	-	-
Liability balances:						
Derivative financial instruments	-	-	-	-	9	99
Customer deposits	3,036	2,266	116,487	157,615	-	-
Other liabilities	-	-	7,671	28,639	-	-
Revenue transactions:						
Interest income	139	118	2,788	6,282	99	749
Other income/(loss) from derivative relationship	-	-	-	-	59	(709)
Expense transactions:						
Interest expense	16	23	1,418	4,553	-	-
Other expenses*	-	-	42,442	39,669	-	-

* Expenses incurred in relation to banking and support services.

	2020 \$	2019 \$
Key management compensation		
Salaries and short term benefits	2,270	2,265

Directors' remuneration

A listing of the members of the Board of Directors is included within the Bank's Annual Report. In 2020, total remuneration for the non-executive directors was \$105 (2019: \$105). The executive director's remuneration is included under key management compensation.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 23 | Commitments, Guarantees and Contingent Liabilities

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

	2020 \$	2019 \$
Letters of credit	32,396	36,904
Undrawn loan commitments	244,876	303,846
Guarantees and indemnities	12,766	12,697
Total (Note 27)	290,038	353,447

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 US\$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, 2021. As of October 31, 2020, no advances were made from the facility and all balances are undrawn.

Note 24 | Future Rental Commitments under Operating Leases

As at October 31, the Bank held leases on buildings for extended periods. The leases have an average life of between 1 and 15 years. There are no restrictions placed upon the lessee by entering into these contracts. The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised (refer to Note 2.2). As at October 31, 2020, there are no material extension options expected not to be exercised or termination options expected to be exercised. The future rental commitments (undiscounted) under these leases were as follows:

	2020 \$	2019 \$
Not later than 1 year	3,078	2,778
Later than 1 year and less than 5 years	7,860	5,708
Later than 5 years	4,343	1,115
	15,281	9,601

As at October 31, 2020, there are no leases to which the Bank is committed that have not yet commenced.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 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 and management on behalf of third parties amounting to \$101,835 (2019: \$178,394).

Note 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 Treasury, Finance, Human Resources, Technology & Operations, Risk and other units which support the business segments. The Admin 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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. Transfer pricing methodologies are reviewed 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.

In 2020, the Bank enhanced its reporting relating to the allocation of assets and liabilities. Prior period disclosures have been amended to conform to this current presentation basis.

2020 Segment Reporting

	RBB \$	CIB \$	WM \$	Admin \$	2020 \$
External revenue	69,787	47,679	(190)	26,863	144,139
Internal revenue	(6,188)	18,265	10,391	(22,468)	-
Net interest income	63,599	65,944	10,201	4,395	144,139
Operating income	24,307	19,520	4,034	(987)	46,874
	87,906	85,464	14,235	3,408	191,013
Depreciation	1,779	17	60	6,019	7,875
Operating expenses	24,941	5,339	2,409	71,218	103,907
Indirect expenses	29,464	29,243	15,734	(74,441)	-
Credit loss expense on financial assets	50,381	15,667	712	3,267	70,027
Impairment of goodwill	-	-	-	72,747	72,747
Net (loss)/income for the year	(18,659)	35,198	(4,680)	(75,402)	(63,543)

Total assets and liabilities by segment are as follows:

	RBB \$	CIB \$	WM \$	Admin \$	2020 \$
Segment assets	1,053,118	964,290	24,649	1,612,874	3,654,931
Segment liabilities	1,295,545	1,191,684	568,776	(20,889)	3,035,116

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

2019 Segment Reporting

	RBB \$	CIB \$	WM \$	Admin \$	2019 \$
External revenue	71,957	53,790	(1,304)	32,353	156,796
Internal revenue	(9,849)	7,782	14,868	(12,801)	-
Net interest income	62,108	61,572	13,564	19,552	156,796
Operating income	26,567	18,611	4,421	(980)	48,619
	88,675	80,183	17,985	18,572	205,415
Depreciation	2,300	12	69	1,640	4,021
Operating expenses	23,925	4,469	2,720	71,389	102,503
Indirect expenses	25,970	30,845	17,624	(74,439)	-
Credit loss expense on financial assets	(224)	1,437	47	3,255	4,515
Net income/(loss) for the year	36,704	43,420	(2,475)	16,727	94,376

Total assets and liabilities by segment are as follows:

	RBB \$	CIB \$	WM \$	Admin \$	2019 \$
Segment assets	1,097,425	916,183	21,827	1,669,821	3,705,256
Segment liabilities	1,165,744	1,232,988	544,713	38,239	2,981,684

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Note 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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, 2020, 83% (2019: 87%) of stage 3 impaired loans were either fully or partially collateralised.

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 2020 \$	Drawn \$	Undrawn \$	Gross Maximum Exposure 2019 \$
Bahamas	1,895,094	186,565	2,081,659	1,853,767	260,269	2,114,036
Turks & Caicos Islands	296,307	58,311	354,618	270,115	43,577	313,692
	2,191,401	244,876	2,436,277	2,123,882	303,846	2,427,728

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Exposure 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 2020 \$	Drawn \$	Undrawn \$	Gross Maximum Exposure 2019 \$
Agriculture	12	25	37	539	76	615
Construction	54,345	36,614	90,959	34,791	25,230	60,021
Distribution	67,812	29,908	97,720	66,538	33,248	99,786
Education	438	46	484	-	60	60
Fishing	279	76	355	1,790	1,617	3,407
Governments	365,129	3,060	368,189	366,730	38,057	404,787
Health & social work	16,559	-	16,559	17,731	-	17,731
Hotels & restaurants	68,473	14,241	82,714	50,455	47,668	98,123
Individuals & individual trusts	1,133,352	126,988	1,260,340	1,120,871	113,928	1,234,799
Manufacturing	25,333	1,631	26,964	26,475	609	27,084
Mining & Quarrying	50,000	-	50,000	50,000	-	50,000
Miscellaneous	289,113	24,088	313,201	270,103	27,642	297,745
Other financial corporations	2,826	1,208	4,034	3,194	1,053	4,247
Real estate, renting & other business activities	59,699	4,164	63,863	69,198	4,764	73,962
Transport, storage & communication	58,031	2,827	60,858	45,467	9,894	55,361
	2,191,401	244,876	2,436,277	2,123,882	303,846	2,427,728

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Credit-related instruments

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

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

Maximum exposure to credit risk

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

	Gross maximum exposure	
	2020	2019
	\$	\$
Balances with The Central Bank	252,295	121,414
Due from banks	319,333	433,985
Derivative financial instruments	33	49
Securities		
– Equity securities - unquoted	219	219
– Government debt securities	605,206	549,654
– Other debt securities	308,495	378,873
– Interest receivable	4,005	7,830
Loans and advances to customers		
– Mortgages	993,898	982,024
– Personal loans	202,516	203,615
– Business & Government loans	994,987	938,243
– Interest receivable	10,475	9,784
Other assets	7,556	17,485
Total	3,699,018	3,643,175
Commitments, guarantees and contingent liabilities (Note 23)	290,038	353,447
Total credit risk exposure	3,989,056	3,996,622

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Geographical concentration

The following tables reflect additional geographical concentration information:

	Total assets \$	Total liabilities \$	Commitments, guarantees and contingent liabilities \$	Total revenues \$	Capital expenditure* \$	Non- current assets** \$
2020						
Bahamas	3,301,217	2,760,850	228,123	158,819	5,720	37,717
Turks & Caicos Islands	972,034	892,586	61,915	32,194	1,576	7,683
	4,273,251	3,653,436	290,038	191,013	7,296	45,400
Eliminations	(618,320)	(618,320)	-	-	-	-
	3,654,931	3,035,116	290,038	191,013	7,296	45,400

	Total assets \$	Total liabilities \$	Commitments, guarantees and contingent liabilities \$	Total revenues \$	Capital expenditure* \$	Non- current assets** \$
2019						
Bahamas	3,125,957	2,503,219	306,083	161,647	4,675	96,983
Turks & Caicos Islands	999,365	898,531	47,364	43,768	731	6,357
	4,125,322	3,401,750	353,447	205,415	5,406	103,340
Eliminations	(420,066)	(420,066)	-	-	-	-
	3,705,256	2,981,684	353,447	205,415	5,406	103,340

* 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:

	2020 \$	2020 %	2019 \$	2019 %
Bahamas	1,753,968	86	1,760,914	87
Turks & Caicos Islands	277,771	14	262,740	13
	2,031,739	100	2,023,654	100

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

Impairment assessment

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 unlikelihood 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 Parent 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 by applying a scaling factor to the 12-month PDs' forward looking factor.

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 credit quality table.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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

For the retail portfolio, which includes residential mortgages and personal loans, the Bank's assessment of credit quality is in line with the IFRS 9 methodology for staging which is based on days past due and trends to support significant increases in credit risk on a more forward looking basis. The trends are established in order to avoid volatility in the movement of significant increases in credit risk. All retail loans on which repayment of principal or payment of interest is contractually 30 days in arrears are automatically migrated to Stage 2.

For the business & government loans and securities, a mapping between the obligor risk rating 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. Deterioration or improvement in the risk ratings or adjustments to the risk rating downgrade thresholds used to determine a significant increase in credit risk can cause significant migration of loans and securities between Stage 1 and Stage 2, which in turn can have a significant impact on the amount of ECL allowances recognised.

Loans and advances to customers

Grade description	Days past due
Very low (Stage 1)	0
Low (Stage 1)	1 - 29
Medium (Stage 2)	30 - 60 ¹
High (Stage 2)	61 - 89
Default (Stage 3)	90+

¹ Includes accounts subject to trends for significant increases in credit risk less than 29 days past due at the reporting date

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

Business & Government loans and Securities			
Grade description	Standard & Poor's equivalent	Moody's Investor Services	Internal ORRs
Investment grade	AAA to BBB-	Aaa to Baa3	1.0 to 4.0
Non-investment grade	BB+ to C	Ba to C	5.0 to 8.0
Default	D	D	9.0
Not rated	No obligor risk rating (ORR)		

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.

The table below shows the credit quality by class of asset for gross loans and advances to customers, based on the risk rating, systems, trends and the methodology to support performing credits, along with significant increases in credit risk. Amounts provided are before allowance for credit losses, and after credit risk mitigation, valuation adjustments related to the financial guarantors and collateral on agreements.

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2020 Total \$
Residential mortgages				
- Very low	534,756	-	-	534,756
- Low	17,480	-	-	17,480
- Medium	-	357,199	-	357,199
- High	-	10,521	-	10,521
- Default	-	-	73,942	73,942
Gross residential mortgages	552,236	367,720	73,942	993,898
Personal loans				
- Very low	122,869	-	-	122,869
- Low	7,695	-	-	7,695
- Medium	-	52,893	-	52,893
- High	-	3,880	-	3,880
- Default	-	-	15,179	15,179
Gross personal loans	130,564	56,773	15,179	202,516
Business & Government loans				
- Investment grade	179,525	-	-	179,525
- Non-Investment grade*	600,029	147,464	-	747,493
- Default	-	-	11,788	11,788
- Not rated*	47,824	8,357	-	56,181
Gross business & government loans	827,378	155,821	11,788	994,987
Total gross amount of loans	1,510,178	580,314	100,909	2,191,401

*During 2020, the Bank changed its IFRS 9 methodology for certain classes of Business & Government loans. These loans, previously assessed on a collective basis, are now individually risk rated. The impact of the change in methodology was a reduction in the "Not rated" category and corresponding increase in the "Non-Investment grade" category.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2019 Total \$
Residential mortgages				
- Very low	644,592	-	-	644,592
- Low	143,195	-	-	143,195
- Medium	-	104,664	-	104,664
- High	-	15,234	-	15,234
- Default	-	-	74,339	74,339
Gross residential mortgages	787,787	119,898	74,339	982,024
Personal loans				
- Very low	151,046	-	-	151,046
- Low	25,508	-	-	25,508
- Medium	-	10,649	-	10,649
- High	-	699	-	699
- Default	-	-	15,713	15,713
Gross personal loans	176,554	11,348	15,713	203,615
Business & Government loans				
- Investment Grade	233,648	-	-	233,648
- Non-Investment Grade	465,773	116,025	-	581,798
- Default	-	-	19,959	19,959
- Not rated	95,237	7,601	-	102,838
Gross business & government loans	794,658	123,626	19,959	938,243
Total gross amount of loans	1,758,999	254,872	110,011	2,123,882

For Business & Government loans, the Bank employs 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, 2020, Early Warning List customers in the medium to high risk category amounted to \$11,549 (2019: \$12,203).

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 and the trends of delinquency over the lifetime of the loan indicates increased risk, 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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

The following table highlights credit quality of securities based on the risk rating, systems, trends and the methodology to support performing securities, along with significant increases in credit risk.

Securities	Stage 1 \$	Stage 2 \$	Stage 3 \$	2020 Total \$
Investment grade	330,355	-	-	330,355
Non-Investment grade	536,234	26,995	-	563,229
Default	-	-	20,117	20,117
Not rated	219	-	-	219
Gross securities	866,808	26,995	20,117	913,920

Securities	Stage 1 \$	Stage 2 \$	Stage 3 \$	2019 Total \$
Investment grade	379,344	-	-	379,344
Non-Investment grade	487,045	45,091	-	532,136
Default	-	-	17,047	17,047
Not rated	219	-	-	219
Gross securities	866,608	45,091	17,047	928,746

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 and the COVID-19 pandemic. Such adjustments would result in an increase or decrease in the overall ECLs.

Modified financial assets and client relief moratorium programs

During the financial year, the COVID-19 pandemic significantly impacted the world resulting in economic and financial fallout. The Bahamas and the Turks & Caicos Islands were negatively affected, and the Bank was able to respond by providing support to clients via the COVID-19 relief program. As at October 31, 2020 the gross outstanding balance of loans in the moratorium program was \$86 million for residential mortgages, \$13 million for personal loans and \$327 million for business & government loans. Of the loans that were under the program as at October 31, 2020, the gross outstanding balance of loans that received extension of an initial deferral, or in the process of being provided an extension, was \$205 million.

The Bank's regulators have provided guidance stating that clients who have entered into the COVID-19 moratorium programs should be frozen at their days past due position prior to entry into the program until expiry of the moratorium period. Additionally, no loans which have greater than 90 days past due (non-performing) should be granted entry into the program.

The following table provides the aging profile of accounts under moratorium by product as at October 31, 2020.

	Clean \$	1-30 days \$	31-60 days \$	61-90 days \$	Total \$
Residential mortgages	73,100	8,419	3,656	398	85,573
Personal loans	10,358	2,113	121	133	12,725
Business & government loans	320,710	2,223	2,160	1,429	326,522
Total	404,168	12,755	5,937	1,960	424,820

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

From time to time, the Bank 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.

During the year ended October 31, 2020, loans classified as stage 2 or stage 3 with an amortised cost of \$152 million (2019: \$10 million) were either modified through the granting of a financial concession in response to the borrower having experienced financial difficulties or were subject to the client relief programs in response to COVID-19, in each case before the time modification, or deferred. In addition, the gross carrying amount of previously modified or deferred stage 2 or stage 3 loans that have returned to stage 1 during the year ended October 31, 2020 was \$17 million (2019: \$6 million).

Impact on regulatory capital

Annually, the base Capital Plan is assessed under a central stress scenario with ranges (mild recession & severe recession) as part of stress testing. 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 drive 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-capitalised even under plausible stressed ranges.

Under each range within the recession scenario (mild & severe), 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 rates 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 loan 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 regulatory ratio and policy liquidity metrics such as the Structural Liquidity Ratio and Liquidity Horizon. The Bank anticipates that its regulators will continue implementation of the Net Stable Funding Ratio and the Liquidity Coverage Ratio in the near future and is developing automated solutions to calculate these ratios.

The Bank also monitors and reports to senior management its leverage ratio monthly with quarterly reporting to the Board of Directors.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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. The Market Risk Group, which is a centralised group that is independent from the front line, monitors this risk within the Bank. 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. There are also notional position limits on the size of the bond portfolios.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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:

- 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.

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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.

Currency	2020			2019		
	Position	Stressed Loss	Average Position*	Position	Stressed Loss	Average Position*
	Long/(Short) vs BSD			Long/(Short) vs BSD		
	\$	\$	\$	\$	\$	\$
US dollars	29,531	8,859	13,122	7,655	2,296	(137)

* 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 the most significant interest rate exposures.

	2020		2019	
	Currency	60 day Stressed Loss	Currency	60 day Stressed Loss
		\$		\$
Bahamian dollar	5,893	734	13,638	1,120

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.

	2020			2019		
	Notional	Credit Spread	Stress Loss	Notional	Credit Spread	Stress Loss
		DV01			DV01	
	\$	\$	\$	\$	\$	\$
Regional hard currency bond portfolio	75,432	19	5,005	87,960	32	11,782
Non-regional hard currency bond portfolio	257,500	34	6,964	334,500	59	12,076
Total	332,932	53	11,969	422,460	91	23,858

At the fiscal year end the weighted average rating of the positions in the Regional Hard Currency Portfolio is A. The average weighted maturity is 2 years. The weighted average rating of the positions in the Non-Regional Hard Currency Portfolio remained AA. The average weighted maturity is 1 year.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

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.

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

	BAH \$	US \$	Other \$	2020 Total \$
Assets				
Cash and balances with The Central Bank	275,387	11,004	558	286,949
Due from banks	-	244,561	74,772	319,333
Derivative financial instruments	-	33	-	33
Other assets	7,671	3,596	-	11,267
Securities	536,949	380,976	-	917,925
Loans and advances to customers	1,266,748	765,026	(35)	2,031,739
Property and equipment	37,512	7,807	81	45,400
Retirement benefit assets	42,285	-	-	42,285
Total assets	2,166,552	1,413,003	75,376	3,654,931
Liabilities				
Derivative financial instruments	-	21	-	21
Customer deposits	1,654,835	1,222,555	76,203	2,953,593
Other liabilities	(5,258)	71,368	(667)	65,443
Retirement benefit obligations	7,784	8,275	-	16,059
Total liabilities	1,657,361	1,302,219	75,536	3,035,116
Net assets	509,191	110,784	(160)	619,815
Commitments, guarantees and contingent liabilities (Note 23)	155,955	133,943	140	290,038

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	BAH \$	US \$	Other \$	2019 Total \$
Assets				
Cash and balances with The Central Bank	148,876	10,152	461	159,489
Due from banks	-	345,975	88,010	433,985
Derivative financial instruments	-	49	-	49
Other assets	13,778	5,890	12	19,680
Securities	486,495	450,081	-	936,576
Loans and advances to customers	1,233,168	790,484	2	2,023,654
Property and equipment	24,031	6,481	81	30,593
Retirement benefit assets	28,483	-	-	28,483
Goodwill	71,582	1,165	-	72,747
Total assets	2,006,413	1,610,277	88,566	3,705,256
Liabilities				
Derivative financial instruments	-	273	-	273
Customer deposits	1,492,394	1,322,178	89,170	2,903,742
Other liabilities	(31,563)	99,422	(5,806)	62,053
Retirement benefit obligations	8,694	6,922	-	15,616
Total liabilities	1,469,525	1,428,795	83,364	2,981,684
Net assets	536,888	181,482	5,202	723,572
Commitments, guarantees and contingent liabilities (<i>Note 23</i>)	161,348	187,449	4,650	353,447

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.

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

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.

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (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 \$	2020 Total \$
Assets					
Cash and balances with The Central Bank	286,949	-	-	-	286,949
Due from banks	319,333	-	-	-	319,333
Derivative financial instruments	-	33	-	-	33
Other assets	11,267	-	-	-	11,267
Securities	367,980	163,093	217,786	169,066	917,925
Loans and advances to customers	116,681	107,293	470,867	1,336,898	2,031,739
Property and equipment	3,586	2,606	19,502	19,706	45,400
Retirement benefit assets	-	-	-	42,285	42,285
Total assets	1,105,796	273,025	708,155	1,567,955	3,654,931
Liabilities					
Derivative financial instruments	-	21	-	-	21
Customer deposits	2,548,926	378,226	24,262	2,179	2,953,593
Other liabilities	53,235	1,855	6,447	3,906	65,443
Retirement benefit obligations	-	-	-	16,059	16,059
Total liabilities	2,602,161	380,102	30,709	22,144	3,035,116
Net assets/(liabilities)	(1,496,365)	(107,077)	677,446	1,545,811	619,815
Commitments, guarantees and contingent liabilities (Note 23)	169,771	74,568	10,908	34,791	290,038

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (Expressed in thousands of Bahamian dollars)

	0-3 Months \$	3-12 months \$	1-5 years \$	Over 5 years \$	2019 Total \$
Assets					
Cash and balances with The Central Bank	159,489	-	-	-	159,489
Due from banks	433,985	-	-	-	433,985
Derivative financial instruments	3	14	32	-	49
Other assets	19,680	-	-	-	19,680
Securities	244,655	189,038	336,199	166,684	936,576
Loans and advances to customers	214,810	457,108	59,765	1,291,971	2,023,654
Property and equipment	2,856	933	9,468	17,336	30,593
Retirement benefit assets	-	-	-	28,483	28,483
Goodwill	-	-	-	72,747	72,747
Total assets	1,075,478	647,093	405,464	1,577,221	3,705,256
Liabilities					
Derivative financial instruments	264	9	-	-	273
Customer deposits	2,467,106	22,728	411,674	2,234	2,903,742
Other liabilities	62,053	-	-	-	62,053
Retirement benefit obligations	-	-	-	15,616	15,616
Total liabilities	2,529,423	22,737	411,674	17,850	2,981,684
Net assets/(liabilities)	(1,453,945)	624,356	(6,210)	1,559,371	723,572
Commitments, guarantees and contingent liabilities (Note 23)	217,594	39,775	64,500	31,578	353,447

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 characterised 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.

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (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 input	Valuation technique-non-observable market input	2020 \$	2019 \$
Financial Assets					
Cash and balances with The Central Bank*	286,949	-	-	286,949	159,489
Due from banks*	319,333	-	-	319,333	433,985
Derivative financial instruments	-	33	-	33	49
Debt securities at FVOCI	-	897,320	219	897,539	936,576
Debt securities at amortised cost	-	18,440	-	18,440	-
Loans and advances to customers	-	-	2,033,381	2,033,381	2,019,713
Total financial assets	606,282	915,793	2,033,600	3,555,675	3,549,812
Financial Liabilities					
Derivative financial instruments	-	21	-	21	273
Customer deposits	-	-	2,950,512	2,950,512	2,906,707
Total financial liabilities	-	21	2,950,512	2,950,533	2,906,980

*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 in 2020 or 2019.

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

	Carrying value	Fair value	Fair value over/(under) carrying value
	\$	\$	\$
2020			
Financial assets			
Cash and balances with The Central Bank	286,949	286,949	-
Due from banks	319,333	319,333	-
Derivative financial instruments	33	33	-
Debt securities at FVOCI	897,539	897,539	-
Debt securities at amortised cost	20,386	18,440	(1,946)
Loans and advances to customers	2,031,739	2,033,381	1,642
Total financial assets	3,555,979	3,555,675	(304)
Financial liabilities			
Derivative financial instruments	21	21	-
Customer deposits	2,953,593	2,950,512	(3,081)
Total financial liabilities	2,953,614	2,950,533	(3,081)
2019			
Financial assets			
Cash and balances with The Central Bank	159,489	159,489	-
Due from banks	433,985	433,985	-
Derivative financial instruments	49	49	-
Debt securities at FVOCI	936,576	936,576	-
Loans and advances to customers	2,023,654	2,019,713	(3,941)
Total financial assets	3,553,753	3,549,812	(3,941)
Financial liabilities			
Derivative financial instruments	273	273	-
Customer deposits	2,903,742	2,906,707	2,965
Total financial liabilities	2,904,015	2,906,980	2,965

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements For the year ended October 31, 2020 (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, 2020		Valuation technique	Key non-observable inputs	Range of inputs	
	Amortised cost \$	Fair Value \$			Low	High
Loans and advances to customers	2,031,739	2,033,381	Market proxy	Market proxy	3.5%	18.5%
Customer deposits	2,953,593	2,950,512	Market proxy	Market proxy	0.1%	0.1%
Equity securities	219	219	n/a	n/a	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.

FIRST CARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

For the year ended October 31, 2020

(Expressed in thousands of Bahamian dollars)

Financial assets and liabilities with carrying values that approximate fair value

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

Note 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.