FirstCaribbean International Bank (Barbados) Limited

Consolidated Financial Statements

For the year ended October 31, 2020
(Expressed in thousands of Barbados Dollars)

Ernst & Young Ltd
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of FirstCaribbean International Bank (Barbados) Limited ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at October 31, 2020, and the consolidated statement of (loss)/income, statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group 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 ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International 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.

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 the 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 Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED (Continued)

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 scepticism 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 Group'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 Group'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 Group 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

Ernst & Young Ltd

BARBADOS
January 25, 2021

FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED

CONSOLIDATED STATEMENT OF (LOSS)/ INCOME
FOR THE YEAR ENDED OCTOBER 31, 2020
(expressed in thousands of Barbados dollars)

	Notes	**2020 $**	**2019 $**
Interest and similar income		244,688	249,704
Interest and similar expense		27,785	29,828
Net interest income	3	216,903	219,876
Operating income	4	96,272	104,922
		313,175	324,798
Operating expenses	5	242,319	248,005
Credit loss/(recovery) on financial assets	13,14	81,350	(3,084)
		323,669	244,921
(Loss)/income before taxation		(10,494)	79,877
Income tax (credit)/expense	6	(5,867)	64,792
Net (loss)/income for the year		(4,627)	15,085

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED OCTOBER 31, 2020
(expressed in thousands of Barbados dollars)

	Notes	2020 $	2019 $
Net (loss)/income for the year		(4,627)	15,085
Other comprehensive income (net of tax), to be reclassified to net income or loss in subsequent periods			
Net gains on debt securities at fair value through OCI		13,204	17,361
Net exchange losses on translation of foreign operations		(549)	(895)
Net other comprehensive income (net of tax), to be reclassified to net income or loss in subsequent periods	7, 8	12,655	16,466
Other comprehensive income (net of tax), not to be reclassified to net income or loss in subsequent periods			
Re-measurement gains on retirement benefit plans		11,202	7,327
Net other comprehensive income (net of tax) not to be reclassified to net income or loss in subsequent periods		11,202	7,327
Other comprehensive income for the year, (net of tax)		23,857	23,793
Total comprehensive income for the year, (net of tax)		19,230	38,878

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF OCTOBER 31, 2020
(expressed in thousands of Barbados dollars)

	Notes	2020 $	2019 $
ASSETS			
Cash and balances with Central Banks	9	1,192,477	989,211
Due from banks	10	165,628	451,604
Derivative financial instruments	11	4,922	61
Other assets	12	63,121	44,047
Taxation recoverable		41,924	45,833
Securities	13	1,588,778	1,424,427
Loans and advances to customers	14	3,041,472	2,973,596
Property and equipment	15	155,280	126,956
Deferred tax assets	16	30,848	14,083
Retirement benefit assets	17	114,155	98,678
TOTAL ASSETS		6,398,605	6,168,496
LIABILITIES			
Customer deposits	18	5,780,318	5,600,147
Derivative financial instruments	11	4,838	11
Other liabilities	19	104,031	88,307
Corporation tax payable		159	-
Deferred tax liabilities	16	18,805	8,526
Retirement benefit obligations	17	8,364	8,645
TOTAL LIABILITIES		5,916,515	5,705,636
EQUITY			
Issued capital	20	635,396	635,396
Reserves	20	(117,005)	(140,862)
Accumulated Deficit		(36,301)	(31,674)
TOTAL EQUITY		482,090	462,860
TOTAL LIABILITIES AND EQUITY		6,398,605	6,168,496

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

Approved by the Board of Directors on December 14th 2020.

Mark St. Hill
Director

Donna Wellington
Managing Director

FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED OCTOBER 31, 2020
(expressed in thousands of Barbados dollars)

	Issued capital $	Reserves $	Accumulated Deficit $	Total equity $
Balance at October 31, 2018	635,396	(168,412)	(43,002)	423,982
Net income for the year	-	-	15,085	15,085
Other comprehensive income for the year, net of tax	-	23,793	-	23,793
Total comprehensive income for the year	-	23,793	15,085	38,878
Transfer to reserves	-	3,757	(3,757)	-
Balance as at October 31, 2019	635,396	(140,862)	(31,674)	462,860
Net loss for the year	-	-	(4,627)	(4,627)
Other comprehensive income for the year, net of tax	-	23,857	-	23,857
Total comprehensive income for the year	-	23,857	(4,627)	19,230
Balance as at October 31, 2020	635,396	(117,005)	(36,301)	482,090

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BARBADOS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2020
(expressed in thousands of Barbados dollars)

	2020 $	2019 $
Cash flows from operating activities		
(Loss)/income before taxation	(10,494)	79,877
Credit losses/(recovery) on financial assets	81,350	(3,084)
Net gains on disposals of property and equipment	-	(1,687)
Net gain on disposals and redemption of investment securities	18	-
Interest income earned on investment securities	(60,946)	(60,885)
Interest expense incurred on lease liabilities, other borrowed funds and debt securities	845	6
Depreciation of property and equipment	32,137	23,899
Cash flows from operating activities before changes in operating assets and liabilities	42,910	38,126
Changes in operating assets and liabilities:		
- net decrease/(increase) in due from banks	3,711	(5,870)
- net (increase) in loans and advances to customers	(126,518)	(211,450)
- net decrease in other assets	(27,340)	35,132
- net increase in customer deposits	180,171	156,955
- net (decrease)/ increase in other liabilities	(6,765)	19,468
Cash from operating activities	66,169	32,361
Corporate taxes paid	(347)	(20,232)
Net cash from operating activities	65,822	12,129
Cash flows from investing activities		
Purchase of property and equipment	(27,302)	(23,558)
Proceeds from sale of property, plant and equipment	465	3,883
Purchase of investment securities	(1,448,294)	(5,955,930)
Proceeds from disposals and redemption of investment securities	1,277,310	5,910,231
Interest income received on investment securities	60,746	60,134
Net cash from investing activities	(137,075)	(5,240)
Cash flows used in financing activities		
Interest expense paid on other borrowed funds and debt securities	(845)	(6)
Payment of principal portion of lease liabilities	(6,352)	-
Net cash used in financing activities	(7,197)	(6)
Net (decrease)/ increase in cash and cash equivalents for the year	(78,450)	6,883
Effect of exchange rate changes on cash and cash equivalents translation of foreign operations	(549)	(895)
Cash and cash equivalents, beginning of year	1,148,733	1,142,745
Cash and cash equivalents, end of year (note 9)	1,069,734	1,148,733

The accompanying notes are an integral part of these consolidated financial statements

1. General information

FirstCaribbean International Bank (Barbados) Limited and its subsidiaries (the "Bank") are registered under the relevant financial and corporate legislations of eight (8) countries in the Caribbean to carry on banking and other related activities. The "Bank" is incorporated in Barbados, and the registered office of the Bank is located at Warrens, St. Michael in Barbados.

The bank is a wholly-owned subsidiary of FirstCaribbean International Bank Limited, a company incorporated and domiciled at Warrens, St Michael, Barbados. The parent company and controlling party of the Bank is CIBC Investments (Cayman) Limited, which holds 91.7% of the Bank's issued shares and is a company incorporated in Cayman. The ultimate parent company is Canadian Imperial Bank of Commerce ("CIBC"). FirstCaribbean International Bank Limited and its subsidiaries are registered under the relevant financial and corporate legislations of 16 countries in the Caribbean to carry on banking and other related activities.

These consolidated financial statements have been authorised for issue by the Board of Directors on December 14, 2020. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

2. Basis of presentation and summary of significant accounting policies

2.1 Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for fair value through other comprehensive income (FVOCI) debt instruments, financial assets and liabilities at fair value through profit or loss and derivative financial instruments, which have all been measured at fair value. The carrying value 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 Barbados dollars, and all values are rounded to the nearest thousand except where otherwise indicated.

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

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at October 31, 2020 (the "reporting date"). The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

2. Basis of presentation and summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

Subsidiaries

All subsidiaries, which are those companies controlled by Bank have been fully consolidated. The principal subsidiaries of the Bank are disclosed in Note 27.

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 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 uses 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; 3) The Bank's voting rights and potential voting rights.

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

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

Prior to November 1, 2009, losses incurred by the Bank were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these. With effect from November 1, 2009, losses are attributed to the non-controlling interests even if that results in a deficit balance.

2. Basis of presentation and summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

Transactions with jointly controlled entities

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

The Bank accounts for the acquisition of commonly controlled entities as follows:

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

2.2 Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make certain significant estimates and judgements 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 20
- Financial risk management and policies Note 26
- Sensitivity analyses disclosures Notes 17, 26

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

2. Basis of presentation and summary of significant accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

(1) 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 and liquidity spread and limitations in the model.

(2) Impairment losses on financial assets

The measurement of impairment losses across all categories of all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and 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 judgements and estimates include:

- The Bank's internal credit grading model, which assigns Probability of Default (PDs) to individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default (EADs) and Loss Given Defaults (LGDs)
- Selection on 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.2 Significant accounting judgements and estimates (continued)

(3) Retirement benefit obligations

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

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 for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. Further details about pension obligations are given in Note 17.

(4) Income taxes

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

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

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 affected by new and amended standards and interpretations:

In these financial statements, the Bank adopted IFRS 16 "Leases" as at November 1, 2018 which supercedes 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies (continued)

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 is not yet effective.

IFRS 16 Leases

We 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 recognized 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 recognized right-of-use assets and lease liabilities for its leases previously recognized 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 recognized 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 2.75%. The capitalized 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 $33.6 million were recognised and presented in the consolidated statement of financial position within 'Property and equipment'
- Additional lease liabilities of $33.6 million (included in 'Other liabilities') were recognized
- The adoption of IFRS 16 had no impact on the Bank's retained earnings

(expressed in thousands of Barbados dollars)

2. Basis of presentation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies (continued)

IFRS 16 Leases (continued)

Operating lease commitments as at October 31, 2019	31,300
Adjustments as a result of renewal and termination assumptions	6,379
Impact of discounting	(4,055)
Lease liability recognised as at November 1, 2019	33,624

For the impact of IFRS 16 on profit or loss for the year, see Note 15. For further details of the Bank's accounting policy for leases under IFRS 16 see Note 2.4.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Bank considered whether it as any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Bank and its subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Bank.

2. Basis of presentation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies (continued)

Amendments to IFR9: Prepayment Feature 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies (continued)

Annual Improvements 2015 – 2017 Cycle (continued)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Bank.

IAS 23 Borrowing Costs

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, they 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.3 Adoption of new accounting policies (continued)

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:

(1) Foreign currency translation

Each entity in the Bank determines its own functional currency, and items included in the consolidated financial statements of each entity are measured using that currency. The functional currency of the Bank is Barbados dollars. These consolidated financial statements are presented in Barbados dollars as this is the single largest currency of use throughout the Bank and is universally accepted and recognised in all the territories in which the Bank operates.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Bank entities at their respective 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 and then converted to the Bank's presentation 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 securities at FVOCI, are included in the securities revaluation reserve in equity.

(ii) Bank entities

The results and financial position of all the Bank entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date.

(b) Income and expenses for each statement of comprehensive income or statement of income presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of income as part of the gain or loss on sale.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(2) 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 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 or 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:

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

- 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 fair 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:

(a) *Fair value hedge*

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

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income.

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

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

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

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(3) 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 FVPL. Interest income on financial assets measured at FVOCI, are also recorded by 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 income statement.

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 14) 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 assets cures (as outlined in Note 14) 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(4) 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 recognized 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 recognized at a point in time upon completion of the service or over time as the services are provided. When revenue is recognized 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 recognized 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 recognized at the point in time when the transaction is completed. Advisory fees are generally recognized 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 recognized over the period that the related services are provided. Transactional fees are recognized 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 recognized over the period that the related services are provided, except for loan syndication fees, which are typically recognized at the point in time that the financing placement is completed. Letters of credit and guarantees & bonds fees are charged annually and covers 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 recognized at the point in time the related services are provided, except for annual fees, which are recognized over the 12-month period to which they relate. The cost of credit card loyalty points is recognized 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 recognized 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(4) Fee and commission income (continued)

Investment management fees are primarily based on the respective value of the assets under management (AUM) or assets under administration (AUA) and are recognized 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 recognized as revenue over the applicable service period, which is generally the contract term.

(5) Customer loyalty programmes

The Bank offers a customer points programme 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.

(6) Financial instruments: initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and customer deposits, are initially recognized 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.

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, 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(6) Financial instruments (continued)

Day1 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 recognizes 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

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 summary of accounting policies. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

(7) 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(7) Financial assets and liabilities (continued)

The details of these conditions are outlined below.

(i) 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 the 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.

(ii) The SPPI (solely payments of principle and interest) test

As a second step of its classification process the Bank assesses the contractual terms of financial 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 perform the SPPI assessment, the Bank applies judgement 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 measures at FVPL.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(7) Financial assets and liabilities (continued)

(iii) Derivatives recorded at fair value through profit and 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 derivatives transactions with various counterparties. These 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 as 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 11. 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 11.

(iv) 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 as explained in Note 13. The ECL calculation for debt instruments at FVOCI is explained in Note 13. 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(7) Financial assets and liabilities (continued)

(v) 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 not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

(vi) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

(8) Financial assets and financial liabilities at fair value through profit and 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 containing 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(8) Financial assets and financial liabilities at fair value through profit and loss (continued)

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Bank's own credit reserve through OCI and do not get recycled to the profit and 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 the instrument. 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.

(9) Financial guarantees, letters of credit and undrawn commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance.

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. 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, is not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 14.

The Bank occasionally issues loan commitments at below market interest rates. 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 14.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(10) 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 reclassified any one of its financial assets from loans and advances to debt instruments at amortised costs. No financial liabilities were reclassified.

(11) Derecognition of financial assets and liabilities

D*erecognition 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, the Bank considers the following factors:

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

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

Derecognition other than for substantial modification
Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial 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 has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights 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

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(11) Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

Financial assets (continued)

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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(11) Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)
Financial assets (continued)

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 recognised in profit or loss.

(12) Impairment of financial assets

Overview of the ECL principles

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has 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 14). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 2.2.

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 26.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(12) Impairment of financial assets (continued)
Overview of the ECL principles (continued)

Based on the above process, the Bank allocates 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 14). The Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

The calculation of ECLs

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 26.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 26.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(12) Impairment of financial assets (continued)
Overview of the ECL principles (continued)

The calculation of ECLs (continued)

- LGD – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 26.

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%.

Purchased or originated credit impaired financial assets (POCI)

POCI assets 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 a 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 losses on financial assets.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(12) Impairment of financial assets (continued)

Overview of the ECL principles (continued)

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 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

Credit cards and other revolving facilities

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

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade or history of delinquency, as explained in Note 26, 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 26, on a collective basis for corporate and retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(12) Impairment of financial assets (continued)

Overview of the ECL principles (continued)

Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth 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. For most of the forward-looking information variables related to the Bank’s businesses, we have forecast scenarios by individual territories. In forming the “base case” scenario, we consider the forecasts of monetary authorities such as the International Monetary Fund (IMF), World Bank and regional 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 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 recognized. 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 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 14.

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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(12) Impairment of financial assets (continued)

Overview of the ECL principles (continued)

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 statement of financial position.

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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(12) Impairment of financial assets (continued)

Overview of the ECL principles (continued)

Forborne and modified loans (continued)

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 26. 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 each country. 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 has 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

If modifications are substantial, the loan is derecognized.

(13) Offsetting financial instruments

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

(14) Sale and repurchase agreements

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

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(15) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. An intangible asset is only recognized when its cost can be reliably measured and it is probable that the expected future economic benefits attributable to it will flow to the Bank. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

Intangible assets acquired in business combinations prior to November 1, 2009 are accounted for as follows:

(16) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition and is reported in the statement of financial position as an intangible asset. 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.

(17) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probably. They are stated at the lower of carrying amount and fair value less costs to sell.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(18) Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation, with the exception of land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Land and buildings comprise mainly branches and offices.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the 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 on owned assets is computed on the straight-line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful lives.

The annual rates used are:

- Buildings	2½%
- Leasehold improvements	10% or over the life of the lease
- Equipment, furniture and vehicles	20% - 50%
- Software	25%

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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(19) 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 16 Property and equipment and are subject to similar impairment in line with the Bank's impairment policy for non-financial assets.

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:

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(19) Leases (continued)

- 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 re-measured 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 re-measured 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 re-measured 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.

As a lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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 judgement 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 customization of the leased asset).

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(19) Leases (continued)

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.

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.

Finance leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases mainly relate to the leasing of vehicles & equipment and are recorded under loans and advances to customers in the consolidated statement of financial position at the amount of the net investment in the leases.

At the commencement of the lease term, the Bank recognizes finance leases at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. To calculate the present value of the lease payments the interest rate stipulated in the finance lease is used. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment in the lease.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(20) Restructuring provisions

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

(21) Retirement benefit obligations

(i) Pension obligations

The Bank operates a number of pension plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from the relevant Bank companies, taking account of the recommendations of independent qualified actuaries. The Bank has both defined benefit plans and defined contribution plans. 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 obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans 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 cost.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability. Most of the pension plans are final salary plans and the charge for such pension plans, 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 retained earnings through Other Comprehensive Income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(21) Retirement benefit obligations (continued)

(i) Pension obligations (continued)

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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 defined contribution plans, the Bank makes contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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 pension plans are charged to the statement of income in the year to which they relate.

(ii) Other post-retirement obligations

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

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(22) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation on property and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Currently enacted tax rates are used to determine deferred taxes. Tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Deferred tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised.

Deferred tax related to fair value re-measurement of FVOCI debt securities, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the statement of income together with the realised gain or loss.

(23) Share capital

(i) 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.

(ii) Dividends on common shares
Dividends on common shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are not reflected in these financial statements.

(24) Fiduciary activities

The Bank commonly acts as trustees 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 financial statements, as they are not assets of the Bank.

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(25) 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 26. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The principal or the most advantageous market must be accessible to by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

2. Basis of presentation and summary of significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(26) Comparatives

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

2.5 Standards issued but not yet effective

The 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 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.

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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.5 Standards issued but not yet effective (continued)

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 1 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 on, 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.

2. Basis of presentation and summary of significant accounting policies (continued)

2.5 Standards issued but not yet effective (continued)

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 waver 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 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 not expected to have a significant impact on the Bank's consolidated financial statements.

2. Basis of presentation and summary of significant accounting policies (continued)

2.5 Standards issued but not yet effective (continued)

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 finalized 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.

(expressed in thousands of Barbados dollars)

3. Net interest income

Interest and similar income	**2020 $**	**2019 $**
Cash and balances with Central Banks and due from banks	2,765	8,529
Investment securities	60,946	60,885
Loans and advances to customers	180,977	180,290
	244,688	249,704
Interest and similar expense		
Customer deposits	26,940	29,822
Subordinated debt	6	6
Lease liability and other	839	-
	27,785	29,828
	216,903	219,876

4. Operating income

	2020 $	**2019 $**
Net fee and commission income	55,989	55,536
Foreign exchange commissions	35,314	40,214
Foreign exchange revaluation net gain	498	690
Net trading losses	(368)	(598)
Other operating income	4,839	9,080
	96,272	104,922

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

Net Investment securities losses/gains have arisen from disposals of FVOCI debt securities.

Net hedging gains/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.

(expressed in thousands of Barbados dollars)

4. Operating income (continued)

	2020 $	2019 $
Analysis of net fee and commission income:		
Underwriting	2,260	3,257
Deposit services	32,957	31,661
Credit services	4,030	5,902
Card services	16,403	14,121
Other	339	595
	55,989	55,536

5. Operating expenses

	2020 $	2019 $
Staff costs	56,110	56,490
Property and equipment expenses	10,371	27,967
Depreciation (note 15)	32,137	23,899
Other operating expenses	143,701	139,649
	242,319	248,005

	2020 $	2019 $
Analysis of staff costs:		
Wages and salaries	47,796	50,130
Pension costs		
- defined contribution plan (note 17)	1,285	1,167
- defined benefit plan (note 17)	(3,567)	(1,288)
Post retirement medical benefits charge (note 17)	687	732
Other share and cash-based benefits	575	557
Risk benefits	1,857	1,970
Severance including restructuring costs	4,553	-
Other staff related costs	2,924	3,222
	56,110	56,490

(expressed in thousands of Barbados dollars)

5. Operating expenses (continued)

Analysis of other operating expenses:

	2020 $	2019 $
Business taxes	32,588	30,771
Professional fees	2,436	3,558
Advertising and marketing	233	266
Business development and travel	343	836
Communications	8,480	7,925
Net gains on disposal of assets	-	(1,687)
Consumer related expenses	2,892	4,814
Non-credit losses	1,426	993
Outside services	9,482	9,494
Other	85,821	82,679
	143,701	139,649

Other operating expenses include expenses relating to short-term leases of $nil and to leases of low-value assets of $2,022.

6. Income tax expense

	2020 $	2018 $
The components of income tax expense for the year are:		
Current tax charge	4,689	20,765
Deferred tax (credit)/charge (note 16)	(10,282)	44,027
Prior year tax credit	(274)	-
	(5,867)	64,792

(expressed in thousands of Barbados dollars)

6. Income tax expense (continued)

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

	2020 **$**	**2019** **$**
(Loss)/income before taxation from continuous operation	(10,494)	79,877
Tax calculated at the statutory tax rate of 5.5% (2019: 5.5%)	(577)	4,393
Effect of different tax rates in other countries	(4,582)	7,319
Over provision of prior year corporation tax liability	(1,693)	-
Over provision of current year corporation tax liability	(5)	-
Effect of tax rate changes	-	43,238
Effect of sliding scale rate	(239)	-
Effect of WHT adjustments	(707)	8,333
Effect of income not subject to tax	(3,018)	(12,096)
Effect of income subject to tax at 12.5%	(6)	-
(Over)/under provision of prior year deferred tax liability	(328)	477
Write off of prior year withholding tax	-	10,168
Movement in deferred tax asset not recognised	1,314	(597)
Effect of expenses not deductible for tax purposes	3,974	3,557
	(5,867)	64,792

7. Components of other comprehensive income, net of tax

	2020	**2019**
Debt securities at fair value through other comprehensive income, net of tax:		
Net change in fair value during the year	13,204	17,361
Net exchange losses on translation of foreign operations, net of tax	(549)	(895)
Other comprehensive income for the year, net of tax	12,655	16,466

(expressed in thousands of Barbados dollars)

8. Income tax effects relating to other comprehensive income/ (loss)

	2020	2019
Debt securities at fair value through other comprehensive income, net of tax:		
Before	15,875	18,518
Tax charge	(2,671)	(1,157)
After tax	13,204	17,361
Net exchange losses on translation of foreign operations, net of tax		
Before and after tax	(549)	(895)
Other comprehensive income for the year, net of tax	12,655	16,466

9. Cash and balances with Central Banks

	2020 $	2019 $
Cash	81,228	71,786
Deposits with Central Banks - interest bearing	9,790	9,790
Deposits with Central Banks - non-interest bearing	1,101,459	907,635
Cash and balances with Central Banks	1,192,477	989,211
Less: Mandatory reserve deposits with Central Banks (note 13)	(288,371)	(282,082)
Included in cash and cash equivalents as per below	904,106	707,129

Mandatory reserve deposits with Central Banks represent the Bank's regulatory requirement to maintain a percentage of deposit liabilities as cash and/or deposits with Central Banks. 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 cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise the following:

	2020 $	2019 $
Cash and balances with Central Banks as above	904,106	707,129
Due from banks (note 10)	165,628	441,604
	1,069,734	1,148,733

(expressed in thousands of Barbados dollars)

10. Due from banks

	2020 $	2019 $
Included in cash and cash equivalents (note 9)	165,628	441,604
Greater than 90 days maturity from date of acquisition	-	10,000
	165,628	451,604

Included in due from banks are deposits with CIBC and FirstCaribbean entities amounting to $47,724 (2019 - $186,499). The average effective yield on these amounts during the year was 1.45% (2019 - 1.67%) per annum.

11. 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.

October 31, 2020	Notional Amount	Assets $	Liabilities $
Commodity options	24,358	4,922	(4,838)
		4,922	(4,838)

October 31, 2019	Notional Amount	Assets $	Liabilities $
Commodity options	5,340	61	(11)
		61	(11)

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

Commodity options
Commodity options are contractual agreements which convey the right, but not the obligation, to pay or receive a specified amount calculated with reference to changes in commodity prices.

Cash collateral pledged with counterparties that have one-way collateral posting arrangements represent $nil (2019: $nil)

(expressed in thousands of Barbados dollars)

11. Derivative financial instruments (continued)

In 2020 and 2019, the Bank did not recognise any gains or losses as a result of failed hedges which are included within operating income as part of net trading gains as these derivatives are classified as trading derivatives upon failure.

12. Other assets

	2020 $	2019 $
Amounts due from related parties	36,888	34,838
Other accounts receivable	23,012	3,477
Prepayments and deferred items	3,221	5,732
	63,121	44,047

The amounts due from related parties are due from FirstCaribbean entities and are interest-free with no fixed terms of repayment.

(expressed in thousands of Barbados dollars)

13. Securities

Debt Securities measured at FVOCI

	Stage 1	Stage 2	Stage 3	2020
Debt securities at FVOCI:	**$**	**$**	**$**	**$**
Government securities				
- Regional	150,846	44,416	-	195,262
- Non-regional	133,160	-	-	133,160
Total Government securities	284,006	44,416	-	328,422
Corporate debt securities	530,930	-	-	530,930
Total debt securities	814,936	44,416	-	859,352
Equity securities - unquoted	1,554	-	-	1,554
Total debt securities at FVOCI	816,490	44,416	-	860,906
Debt securities amortized cost				
Government debt securities at amortized cost	136,584	-	584,478	721,062
Total debt securities amortized	136,584	-	584,478	721,062
Total debt securities FVOCI & amortized cost	953,074	44,416	584,478	1,581,968
Add: Interest receivable	-	-	-	6,810
Total	-	-	-	1,588,778

(expressed in thousands of Barbados dollars)

13. Securities (continued)

	Stage 1	**Stage 2**	**Stage 3**	**2019**
Debt securities at FVOCI:	**$**	**$**	**$**	**$**
Government securities				
- Regional	190,348	53,136	-	243,484
- Non-regional	99,166	-	-	99,166
Total Government securities	289,514	53,136	-	342,650
Corporate debt securities	365,764	14,216	-	379,980
Total debt securities	655,278	67,352	-	722,630
Equity securities - unquoted	1,552	-	-	1,552
Total debt securities at FVOCI	656,830	67,352	-	724,182
Debt securities amortized cost				
Government debt securities at amortized cost	113,697	-	579,938	693,635
Total debt securities amortized	113,697	-	579,938	693,635
Total debt securities FVOCI & amortized cost	770,527	67,352	579,938	1,417,817
Add: Interest receivable	-	-	-	6,610
Total	-	-	-	1,424,427

On October 18, 2019, the Government of Barbados and the Barbados External Creditor Committee reached an agreement in principle to exchange certain Government's US dollar denominated debt for new bonds to be issued by Barbados. Pursuant to the debt restructuring agreement, on December 11, 2019, the Bank exchanged a security measured as FVOCI with a par amount of $16.2 million and an expected credit loss of $1.8 million for two longer dated securities with a par amount totaling $15.2 million. The instruments are measured as POCI amortised cost securities at an initial carrying value equal to the estimated fair value of $14.6 million with no initial allowance for expected credit loss allowance as risk of future losses was reflected in the acquisition date discount.

Impact of COVID-19 pandemic on expected credit losses

To address the uncertainties inherent in the current environment, management overlays were utilized 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 $24 million during the year.

(expressed in thousands of Barbados dollars)

13. Securities (continued)

Allowance for credit losses on securities

The table below provides a reconciliation of the opening balance to the closing balance of the ECL allowance for debt securities measured at FVOCI and at amortised cost:

Allowance for credit losses – Debt Securities at FVOCI

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 measured at FVOCI	**$**	**$**	**$**	**$**
Balance at beginning of period	1,736	666	-	2,402
Originations net of repayments and other de-recognitions	296	(341)	-	(45)
Changes in model	(913)	(169)	-	(1,082)
Net re-measurement	553	3,490	-	4,043
Credit loss (credit)/expense	(64)	2,980	-	2,916
Foreign exchange and other	8	619	-	627
Balance at end of period	1,680	4,265	-	5,945

(expressed in thousands of Barbados dollars)

13. Securities (continued)

Allowance for credit losses – Debt Securities at FVOCI (continued)

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**
Debt securities measured at FVOCI	**$**	**$**	**$**	**$**
Balance at beginning of period	1,499	2,355	-	3,854
Originations net of repayments and other de-recognitions	124	(290)	-	(166)
Net re-measurement	114	(1,506)	-	(1,392)
Credit loss expense (credit)	238	(1,796)	-	(1,558)
Foreign exchange and other	(1)	107	-	106
Balance at end of period	1,736	666	-	2,402

(expressed in thousands of Barbados dollars)

13. Securities (continued)

Allowance for credit losses – Debt Securities at amortised cost

2020	**Stage 1 Collective provision 12-month ECL**	**Stage 2 Collective provision lifetime ECL Performing**	**Stage 3 Collective and individual provision lifetime ECL credit impaired**	**Total**
Debt securities measured at amortised cost	**$**	**$**	**$**	**$**
Balance at beginning of period	1,568	-	-	1,568
Net re-measurement	432	-	19,360	19,792
Credit loss expense	432	-	19,360	19,792
Other	(1)	-	-	(1)
Balance at end of period	1,999	-	19,360	21,359
Total ECL Allowance	3,679	4,265	19,360	27,304

2019	**Stage 1 Collective provision 12-month ECL**	**Stage 2 Collective provision lifetime ECL Performing**	**Stage 3 Collective and individual provision lifetime ECL credit impaired**	**Total**
Debt securities measured at amortised cost	**$**	**$**	**$**	**$**
Balance at beginning of period	1,074	-	-	1,074
Net re-measurement	314	-	-	314
Credit loss expense	314	-	-	314
Other	180	-	-	180
Balance at end of period	1,568	-	-	1,568
Total ECL Allowance	3,304	666	-	3,970

(expressed in thousands of Barbados dollars)

13. **Securities** (continued)

The average effective yield during the year on debt securities and treasury bills was 3.96% (2019 - 4.48%) The Bank has a regulatory reserve requirement to maintain a percentage of deposit liabilities in cash or in the form of Government securities. As at October 31, 2020 the reserve requirement amounted to $288,371 (2019 - $282,082) is included within cash and balances with Central Banks (note 9).

The movement in debt securities at FVOCI and amortised cost (excluding interest receivable) is summarised as follows:

	2020 **$**	**2019** **$**
Balance, beginning of year	1,417,817	1,352,393
Additions (purchases, changes in fair value and foreign exchange)	1,464,169	5,975,655
Disposals (sales and redemptions)	(1,300,018)	(5,910,231)
Balance, end of year	1,581,968	1,417,817

There were no securities pledged as collateral as at October 31.

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers

2020	Stage 1	Stage 2	Stage 3	Total
Residential mortgages	**$**	**$**	**$**	**$**
Gross Loans	615,584	155,364	44,496	815,444
ECL allowance	(9,480)	(16,968)	(17,560)	(44,008)
Net residential mortgages	606,104	138,396	26,936	771,436
Personal				
Gross Loans	371,612	64,536	16,644	452,792
ECL allowance	(7,792)	(4,142)	(11,962)	(23,896)
Net personal	363,820	60,394	4,682	428,896
Business and government				
Gross Loans	1,539,348	337,790	53,214	1,930,352
ECL allowance	(40,764)	(27,630)	(27,570)	(95,964)
Net business and government	1,498,584	310,160	25,644	1,834,388
Total net loans	2,468,508	508,950	57,262	3,034,720
Add: Interest receivable				14,442
Less: Unearned fee income				(7,690)
Total				3,041,472

2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Gross loans	726,008	36,138	45,878	808,024
ECL allowance	(5,626)	(1,258)	(15,966)	(22,850)
Net residential mortgages	720,382	34,880	29,912	785,174
Personal				
Gross loans	424,500	15,834	15,835	456,169
ECL allowance	(5,758)	(1,566)	(9,444)	(16,768)
Net personal	418,742	14,268	6,391	439,401
Business and government				
Gross loans	1,513,262	240,643	71,251	1,825,156
ECL allowance	(35,346)	(14,216)	(26,444)	(76,006)
Net business and government	1,477,916	226,427	44,807	1,749,150
Total net loans	2,617,040	275,575	81,110	2,973,725
Add: Interest receivable				8,795
Less: Unearned fee income				(8,924)
Total				2,973,596

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 at beginning of period	5,626	1,258	15,966	22,850
Originations net of repayments and other de-recognitions	674	36	(514)	196
Changes in model	(1,006)	356	(98)	(748)
Net re-measurement	5,547	13,639	3,650	22,836
Transfers				
- to 12 month ECL	1,873	(1,251)	(622)	-
- to lifetime ECL non-credit impaired	(3,222)	3,222	-	-
- to lifetime ECL credit impaired	(2)	(297)	299	-
Credit loss expense	3,864	15,705	2,715	22,284
Write-offs	-	-	252	252
Interest income on impaired loans	-	-	(1,864)	(1,864)
Foreign exchange and other	(10)	5	491	486
Balance at end of period	9,480	16,968	17,560	44,008

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $**
Personal				
Balance at beginning of period	3,380	284	9,048	12,712
Originations net of repayments and other de-recognitions	1,353	(56)	(174)	1,123
Changes in model	(238)	(16)	(68)	(322)
Net re-measurement	2,496	808	2,392	5,696
Transfers				
- to 12 month ECL	377	(355)	(22)	-
- to lifetime ECL non-credit impaired	(1,950)	1,950	-	-
- to lifetime ECL credit impaired	(17)	(76)	93	-
Credit loss expense	2,021	2,255	2,221	6,497
Write-offs	-	-	922	922
Interest income on impaired loans	-	-	(654)	(654)
Foreign exchange and other	6	1	(3)	4
Balance at end of period	5,407	2,540	11,534	19,481

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 judgement 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 our clients. Consistent with guidance issued by the IASB, interest or principal deferments pursuant to various relief programs provided have not automatically resulted in a SICR that would trigger migration to stage 2 by reason only that a deferral under the program was granted. However, the inclusion of a loan in a relief program did not preclude its migration to stage 2 if we determined that there was a SICR based on our assessment of related forward looking indicators. Management overlays to ECL allowance estimates are adjustments which we use in circumstances where our 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 utilized 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 $74 million during the year.

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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
	$	$	$	$
Credit Card				
Balance at beginning of period	2,378	1,282	396	4,056
Originations net of repayments and other de-recognitions	(37)	-	-	(37)
Changes in model	-	(147)	-	(147)
Net re-measurement	43	469	962	1,474
Credit loss expense	6	322	962	1,290
Write-offs	-	-	(3,660)	(3,660)
Recoveries	-	-	2,726	2,726
Foreign exchange and other	1	(2)	4	3
Balance at end of period	2,385	1,602	428	4,415

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $**
Business and government				
Balance at beginning of period	35,346	14,216	26,444	76,006
Originations net of repayments and other de-recognitions	4,460	(292)	(1,356)	2,812
Changes in model	(5,488)	(2,986)	72	(8,402)
Net re-measurement	13,690	9,345	11,126	34,161
Transfers				
- to 12 month ECL	2,635	(2,620)	(15)	-
- to lifetime ECL non-credit impaired	(9,844)	10,230	(386)	-
- to lifetime ECL credit impaired	(26)	(266)	292	-
Credit loss expense	5,427	13,411	9,733	28,571
Write-offs	-	-	(3,692)	(3,692)
Interest income on impaired loans	-	-	(2,854)	(2,854)
Foreign exchange and other	(9)	3	(2,061)	(2,067)
Balance at end of period	40,764	27,630	27,570	95,964

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $**
Total Bank				
Balance at beginning of period	46,730	17,040	51,854	115,624
Originations net of repayments and other de-recognitions	6,450	(312)	(2,044)	4,094
Changes in model	(6,732)	(2,793)	(94)	(9,619)
Net re-measurement	21,776	24,261	18,130	64,167
Transfers				
- to 12 month ECL	4,885	(4,226)	(659)	-
- to lifetime ECL non-credit impaired	(15,016)	15,402	(386)	-
- to lifetime ECL credit impaired	(45)	(639)	684	-
Credit loss expense	11,318	31,693	15,631	58,642
Write-offs	-	-	(6,178)	(6,178)
Recoveries	-	-	2,726	2,726
Interest income on impaired loans	-	-	(5,372)	(5,372)
Foreign exchange and other	(12)	7	(1,569)	(1,574)
Balance at end of period	58,036	48,740	57,092	163,868
Comprises:				
Loans	49,601	47,074	57,092	153,767
Undrawn credit facilities	8,435	1,666	-	10,101

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $**
Residential Mortgages				
Balance at beginning of period	9,573	2,578	22,762	34,913
Originations net of repayments and other de-recognitions	582	(19)	(1,100)	(537)
Changes in model	(4,120)	(46)	(382)	(4,548)
Net re-measurement	(2,048)	(705)	4,108	1,355
Transfers				
- to 12 month ECL	1,841	(630)	(1,211)	-
- to lifetime ECL non-credit impaired	(201)	318	(117)	-
- to lifetime ECL credit impaired	(2)	(234)	236	-
Credit loss (recovery)/expense	(3,948)	(1,316)	1,534	(3,730)
Write-offs	-	-	(2,284)	(2,284)
Interest income on impaired loans	-	-	(5,930)	(5,930)
Foreign exchange and other	1	(4)	(116)	(119)
Balance at end of period	5,626	1,258	15,966	22,850

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $**
Personal				
Balance at beginning of period	3,947	263	11,940	16,150
Originations net of repayments and other de-recognitions	784	(24)	(1,184)	(424)
Changes in model	(798)	(66)	1,398	534
Net re-measurement	(682)	126	2,358	1,802
Transfers				
- to 12 month ECL	272	(112)	(160)	-
- to lifetime ECL non-credit impaired	(134)	152	(18)	-
- to lifetime ECL credit impaired	(10)	(56)	66	-
Credit loss expense/(recovery)	(568)	20	2,460	1,912
Write-offs	-	-	(3,464)	(3,464)
Recoveries	-	-	6	6
Interest income on impaired loans	-	-	(1,888)	(1,888)
Foreign exchange and other	1	1	(6)	(4)
Balance at end of period	3,380	284	9,048	12,712

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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**
	$	**$**	**$**	**$**
Credit Card				
Balance at beginning of period	2,329	896	(167)	3,058
Originations net of repayments and other de-recognitions	(50)	-	-	(50)
Net re-measurement	100	386	2,656	3,142
Credit loss expense	50	386	2,656	3,092
Write-offs	-	-	(4,716)	(4,716)
Recoveries	-	-	2,622	2,622
Foreign exchange and other	(1)	-	1	-
Balance at end of period	2,378	1,282	396	4,056

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $
Business and government				
Balance at beginning of period	37,263	18,310	51,408	106,981
Originations net of repayments and other de-recognitions	7,116	(35)	(1,729)	5,352
Changes in model	(10,670)	(2,181)	2,601	(10,250)
Net re-measurement	1,402	(1,552)	1,934	1,784
Transfers				
- to 12 month ECL	1,174	(1,148)	(26)	-
- to lifetime ECL non-credit impaired	(896)	906	(10)	-
- to lifetime ECL credit impaired	(44)	(78)	122	-
Credit loss (recovery)/ expense	(1,918)	(4,088)	2,892	(3,114)
Write-offs	-	-	(11,042)	(11,042)
Interest income on impaired loans	-	-	(17,336)	(17,336)
Foreign exchange and other	1	(6)	522	517
Balance at end of period	35,346	14,216	26,444	76,006

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

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 $**
Total Bank				
Balance at beginning of period	53,112	22,047	85,943	161,102
Originations net of repayments and other de-recognitions	8,432	(78)	(4,013)	4,341
Changes in model	(15,587)	(2,293)	3,617	(14,263)
Net re-measurement	(1,229)	(1,745)	11,056	8,082
Transfers				
- to 12 month ECL	3,287	(1,890)	(1,397)	-
- to lifetime ECL non-credit impaired	(1,231)	1,376	(145)	-
- to lifetime ECL credit impaired	(56)	(368)	424	-
Credit loss (recovery)/ expense	(6,384)	(4,998)	9,542	(1,840)
Write-offs	-	-	(21,506)	(21,506)
Recoveries	-	-	2,628	2,628
Interest income on impaired loans	-	-	(25,154)	(25,154)
Foreign exchange and other	2	(9)	401	394
Balance at end of period	46,730	17,040	51,854	115,624
Comprises:				
Loans	40,910	16,258	51,854	109,022
Undrawn credit facilities	5,820	782	-	6,602

(expressed in thousands of Barbados dollars)

14. Loans and advances to customers (continued)

Impaired loans

			2020			**2019**
	Gross impaired	Stage 3 allowance	Net impaired	Gross impaired	Stage 3 allowance	Net impaired
	$	**$**	**$**	**$**	**$**	**$**
Residential mortgages	44,496	17,560	26,936	45,878	15,966	29,912
Personal	16,644	11,962	4,682	15,835	9,444	6,391
Business and government	53,214	27,570	25,644	71,251	26,444	44,807
Total impaired loans	114,354	57,092	57,262	132,964	51,854	81,110

The average interest yield during the year on loans and advances to customers was 5.74% (2019 - 5.97%). Impaired loans as at October 31, 2020 amounted to $114,358 (2019 - $132,964) and the interest taken to income on impaired loans during the year amounted to $2,759 (2019 - $3,329).

Contractually past due loans but not impaired

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:

	Mortgages	**Personal Loans**	**Business & Sovereign**	**2020**
	$	**$**	**$**	**$**
Less than 30 days	21,932	14,522	118,670	155,124
31 – 60 days	23,994	12,278	53,994	90,266
61 – 90 days	5,308	7,968	5,848	19,124
	51,234	34,768	178,512	264,514

	Mortgages	**Personal Loans**	**Business & Sovereign**	**2019**
	$	**$**	**$**	**$**
Less than 30 days	7,308	3,088	25,786	36,182
31 – 60 days	17,690	4,938	15,324	37,952
61 – 90 days	5,414	2,512	1,154	9,080
	30,412	10,538	42,264	83,214

(expressed in thousands of Barbados dollars)

15. Property and equipment

	Land and buildings $	Equipment, furniture and vehicles $	Leasehold improvements $	Right of use assets Buildings $	Total $
October 31, 2020					
Cost					
Balance, beginning of year	102,347	328,635	23,222	-	454,204
Effect of adoption of IFRS16				33,624	33,624
Purchases	153	26,993	-	156	27,302
Disposals	(57)	(2,346)	(894)	(1,116)	(4,413)
Modifications, net transfers/(write-offs) *	(1,519)	(1,115)	886	379	(1,369)
Balance, end of year	100,924	352,167	23,214	33,043	509,348
Accumulated depreciation					
Balance, beginning of year	42,212	268,187	16,849	-	327,248
Depreciation	2,283	21,872	1,942	6,040	32,137
Disposals	(57)	(2,198)	(894)	(305)	(3,454)
Modifications,net transfers/(write-offs) *	(2,030)	280	(113)	-	(1,863)
Balance, end of year	42,408	288,141	17,784	5,735	354,068
Net book value, end of year	58,516	64,026	5,430	27,308	155,280

(expressed in thousands of Barbados dollars)

15. Property and equipment (continued)

	Land and buildings $	Equipment, furniture and vehicles $	Leasehold improvements $	Right of use assets Buildings $	Total $
October 31, 2019					
Cost					
Balance, beginning of year	101,893	317,885	22,608	-	442,386
Purchases	113	23,445	-	-	23,558
Disposals	-	(11,740)	-	-	(11,740)
Net transfers/(write-offs) *	341	(955)	614	-	-
Balance, end of year	102,347	328,635	23,222	-	454,204
Accumulated depreciation					
Balance, beginning of year	40,373	257,368	15,152	-	312,893
Depreciation	1,839	20,363	1,697	-	23,899
Disposals	-	(9,544)	-	-	(9,544)
Balance, end of year	42,212	268,187	16,849	-	327,248
Net book value, end of year	60,135	60,448	6,373	-	126,956

* *This refers to transfers and net write-offs of fully depreciated assets which are no longer in use by the Bank.*

This note also provides information for operating leases where the group is a lessee. There are no operating leases where the group is a lessor.

Included as part of equipment, furniture and vehicles is an amount of $1,197 (2019 - $2,199) relating to systems development costs and work-in-progress, which are incomplete and not yet in operation and on which no depreciation has been charged. Also, included as part of equipment, furniture and vehicles is software with a net book value of $35,572 (2019 - $22,521).

(expressed in thousands of Barbados dollars)

16. Deferred income taxes

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

	2020 **$**	**2019** **$**
Net deferred tax position, beginning of year	5,557	58,126
Deferred tax (charge)/credit to other comprehensive income for the year	(3,796)	(8,542)
Deferred tax credit/(charge) to statement of (loss)/income for the year (note 5)	10,282	(44,027)
Net deferred tax position, end of year	12,043	5,557

Represented by:

	2020 **$**	**2019** **$**
Deferred tax assets	30,848	14,083
Deferred tax liabilities	(18,805)	(8,526)
Net deferred tax position, end of year	12,043	5,557

The components of the net deferred tax position are:

	2020 **$**	**2019** **$**
Accelerated tax depreciation	1,968	1,776
Pension and other post-retirement benefit assets	(14,002)	(10,965)
ECL allowances	19,480	8,594
Other provisions	1,303	598
Tax losses carried forward	6,888	6,271
Changes in fair value of debt securities in other comprehensive income	(3,594)	(717)
	12,043	5,557

The deferred tax assets include assets established on tax losses carried forward of $172,898 (2019 - $94,757) which will expire over the next seven years. The Bank has tax losses of $73,328 (2019 - $282,423) for which no deferred tax assets have been recognized due to the uncertainty of their recoverability. These losses will expire over the next seven years.

17. Retirement benefit assets and obligations

The Bank has insured group health plans and a number of pension schemes established and regulated by relevant legislation in the territories in which the Bank operates. The pension schemes are a mixture of defined benefit and defined contribution plans.

Plan Characteristics, funding and risks

The benefits that members receive at retirement under the defined contribution plans depend on their account balances at retirement and the cost of purchasing an annuity. Most of the defined benefit pension plans are non-contributory and allow 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 benefits plans are fully integrated with the benefits provided by any national insurance or social security schemes in the different countries that are covered by the plans. The insured health plans allow 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 arising in the relevant sectors.

Plan Governance

The Bank is responsible for the establishment of the plans and oversight of their administration. The Bank's Board of Directors has delegated powers and authorities to a Pension Steering Committee ("PSC") as set out in its mandate to that committee. The PSC has established Management Committees ("MC") and an Investment Sub-Committee ("ISC") as advisory sub-committees and delegated to each of them certain of its responsibilities in connection with the management and administration of the relevant plans and the investment of plan assets. A separate trust fund has been established for each plan to receive and invest contributions and pay benefits due under each plan.

All benefits are calculated and paid out in accordance with the rules of the pension plan. Funds are physically held by a Trustee or Trustees (whether corporate or individual) as appointed in accordance with the Trust Deeds. Each year, the PSC with input from the ISC and MC reviews the level of funding in the plans. Such a review includes the asset-liability matching strategy and investment risk management policy. The PSC decides its contribution based on the results of this annual review. The plan assets include significant investments in quoted equity shares and bonds.

(expressed in thousands of Barbados dollars)

17. Retirement benefit assets and obligations (continued)

Amounts recognized on the consolidated statement of financial position

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

The total expense relating to the contributory plans charged for the year was $1,285 (2019 - $1,167), which represents contributions to defined contribution plans by the Bank at rates specified in the rules of the plan. Refer to Note 5.

The amounts recognised on the statement of financial position were determined as follows:

	Defined benefit pension plans		**Post retirement medical benefits**	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Fair value of pension plan assets	327,453	308,673	-	-
Present value of obligations	(213,298)	(209,995)	(8,364)	(8,645)
Net retirement benefit assets/(obligations)	114,155	98,678	(8,364)	(8,645)

The pension plan assets include the Bank's common shares with a fair value of $180 (2019 - $252).

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

	2020	**2019**
	$	**$**
Opening fair value of plan assets	308,673	293,658
Actual return on plan assets	28,337	28,039
Benefits paid	(8,807)	(9,242)
Actuarial losses	(42)	(224)
Assets transferred in	-	511
Assets transferred out	-	(3,348)
Plan administration costs	(708)	(721)
Closing fair value of plan assets	327,453	308,673

(expressed in thousands of Barbados dollars)

17. Retirement benefit assets and obligations (continued)

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

	2020 $	2019 $
Opening obligations	209,995	209,892
Interest cost	15,592	15,264
Current service cost	3,219	3,137
Benefits paid	(8,807)	(9,242)
Liabilities transferred in	-	509
Liabilities transferred out	-	(2,386)
Actuarial gains – change in financial assumptions	(6,701)	(7,179)
Closing obligations	213,298	209,995

Changes in the present value of the obligations for post-retirement medical benefits were as follows:

	2020 $	2019 $
Opening obligations	8,645	9,320
Interest cost	644	684
Current service cost	43	48
Benefits paid	(247)	(248)
Actuarial loss on obligations	(721)	(1,159)
Closing obligations	8,364	8,645

The Bank expects to contribute $nil (2019 - $nil) to its defined benefit pension plan in the following year as the plan is 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 amortized, and will be re-evaluated in the plans next triennial valuation.

(expressed in thousands of Barbados dollars)

17. Retirement benefit and asset obligations (continued)

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

	Defined benefit pension plans		**Post retirement medical benefits**	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Current service costs	3,219	3,137	43	48
Interest cost on defined benefit obligation	15,592	15,264	644	684
Interest income on plan assets	(23,086)	(21,433)	-	-
Plan administration costs	708	721	-	-
Loss on settlement	-	1,023	-	-
Total amount included in staff costs (Note 5)	(3,567)	(1,288)	687	732
Actual return on plan assets	28,337	28,039	-	-

The net re-measurement gain recognized in the consolidated statement of other comprehensive income were as follows:

	Defined benefit pension plans		**Post retirement medical benefits**	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Actuarial (gains)/losses arising from				
- Financial assumptions	(2,094)	(4,176)	151	(166)
- Experience adjustments	(4,607)	(2,804)	(867)	(997)
Expected return on Plan assets	23,086	21,433	-	-
Return on plan assets excluding interest income	(28,337)	(28,039)	-	-
	(11,952)	(13,586)	(716)	(1,163)

(expressed in thousands of Barbados dollars)

17. Retirement benefit and asset obligations (continued)

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

	Defined benefit pension plans		**Post retirement medical benefits**	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Balance, beginning of year	98,678	83,766	(8,645)	(9,320)
Credit/(charge) for the year	3,567	1,288	(687)	(732)
Effect on statement of OCI	11,952	13,586	716	1,163
Actuarial (losses)/gains	(42)	38	5	(4)
Contributions by employer	-	-	247	248
Balance, end of year	114,155	98,678	(8,364)	(8,645)

The breakdown of the gross 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	84,249	81,655	1,122	1,014
Inactive and retired members	129,049	128,340	7,242	7,631
	213,298	209,995	8,364	8,645

The average duration of the net asset/(obligation) at the end of the reporting year

	Defined benefit pension plans		**Post retirement medical benefits**	
	2020	**2019**	**2020**	**2019**
Average duration in years	15	15	13	13

(expressed in thousands of Barbados dollars)

17. Retirement benefit assets and obligations (continued)

The principal actuarial assumptions used at the reporting date for our plans are influenced significantly by the regions that each plan serves and the specific assumptions therefore were as follows:

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%	(27,801)	34,713	(816)	1,003
Future salary increases	0.5%	3,588	(3,404)	n/a	n/a
Future pension increases	0.5%	13,158	(12,042)	n/a	n/a
Premium escalation rate	1%	n/a	n/a	989	(819)
Existing retiree age	1	5,051	n/a	245	n/a

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

	Major categories of plan assets	
	2020	**2019**
	%	%
Equity instruments	61	61
Debt instruments	37	37
Other assets	2	2
	100	100

(expressed in thousands of Barbados dollars)

17. Retirement benefit assets and obligations (continued)

The principal actuarial assumptions used at the reporting date for the Group's plans are influenced significantly by the regions that each plan serves and the specific assumptions therefore were as follows:

	Defined benefit pension plans	
	2020	**2019**
	%	%
Discount rate	6.50 - 7.75	6.50 - 7.75
Future salary increases	5.0	5.0
Future pension increases	3.5	3.5

	Post retirement medical benefits	
	2020	**2098**
	%	**%**
Discount rate	7.0 - 7.75	7.0 - 7.75
Premium escalation rate	6.0	6.0
Existing retiree age	60 - 65	60 - 65

The last actuarial valuation of the FirstCaribbean International Bank Limited Retirement Plan was conducted as at November 1, 2019 and revealed a fund surplus of $52,568.

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

	2020	**2019**
	$	**$**
Within the next 12 months	8,276	8,004
Between 2 and 5 years	41,619	38,940
Between 5 and 10 years	74,437	68,086
	124,332	115,030

(expressed in thousands of Barbados dollars)

18. Customer deposits

	Payable on demand $	Payable after notice $	Payable on a fixed date $	2020 Total $	2019 Total $
Individuals	634,506	2,468,528	46,707	3,149,741	3,019,163
Business and Sovereign	2,314,134	13,039	102,553	2,429,726	2,345,086
Banks	26,785	-	172,693	199,478	233,779
	2,975,425	2,481,567	321,953	5,778,945	5,598,028
Add: Interest payable	441	364	568	1,373	2,119
	2,975,866	2,481,931	322,521	5,780,318	5,600,147

These customer deposits are measured at amortised cost. Included in deposits from banks are deposits from other FirstCaribbean entities and CIBC of $202,150 (2019 - $237,670). The average effective rate of interest on deposits during the year was 0.47% (2019 – 0.54%).

19. Other liabilities

	2020 $	2019 $
Accounts payable and accruals	95,367	69,158
Amounts due to related parties	8,664	19,149
	104,031	88,307

The amounts due to related parties are due to CIBC entities and are interest-free with no fixed terms of repayment.

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 19) and the movements during the period:

	2020
As at November 1, 2019- effect of adoption of IFRS 16	33,624
Additions	156
Terminations	(821)
Modifications	305
Accretion of interest	839
Payments	(6,352)
As at October 31, 2020	27,751

(expressed in thousands of Barbados dollars)

19. Other liabilities (continued)

The maturity analysis of lease liabilities are disclosed in Note 26.

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

	2020
Expenses relating to leases of low-value assets not shown above as short-term	2,022
Expenses relating to variable lease payments not included in lease liability payments	(32)
	1,990

The Bank had total cash outflows for leases of $6,353 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 $33.6 million at November 1, 2019.

20. Issued capital and reserves

	2020 **$**	**2019** **$**
Issued capital		
Balance, beginning and end of year	635,396	635,396

The Bank is entitled to issue an unlimited number of common shares with no par value. Common shareholders are entitled to attend and vote at all meetings of shareholders. Common shareholders have one vote for each share owned.

The Bank has 351,850,702 common shares issued and outstanding at the end of both years.

20. Issued capital and reserves (continued)

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. Our objective is to employ a strong and efficient capital base. No changes were made in the objectives, policies or processes for managing capital during the years ended October 31, 2020 and 2019.

Regulatory requirements
Our regulatory capital requirements are determined in accordance with guidelines issued by our banking regulators across the region and in the case of Barbados, by the Central Bank of Barbados. 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 & Tier II ratios of 4% and 8% respectively. The Central Bank of Barbados has established that First Caribbean International Bank Limited maintains minimum ratios of 5% and 10%, respectively. During the year, we have complied in full with all of its regulatory capital requirements.

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

As at October 31, 2020, Tier 1 and Tier II capital ratios were 10.85% and 12.55% (2019 - 10.20% and 11.53% respectively).

(expressed in thousands of Barbados dollars)

20. Issued capital and reserves (continued)

Capital (continued)

	2020 $	2019 $
Reserves		
Statutory and general reserves	280,346	280,346
Revaluation reserve – debt securities measured at FVOCI	27,166	13,962
General loan loss provision	13,504	13,504
Retirement benefit reserve	9,703	(1,499)
Translation reserve	(13,203)	(12,654)
Reverse acquisition reserve	(434,521)	(434,521)
	(117,005)	(140,862)

The movements in reserves were as follows:	2020 $	2019 $
Statutory and general reserves		
Balance, beginning of year	280,346	276,589
Transfer from retained earnings	-	3,757
Balance, end of year	280,346	280,346

Statutory reserves represent accumulated transfers from retained earnings in accordance with local legislation and general banking reserves represent transfers from retained earnings to meet qualifying capital requirements under local legislation which are not distributable.

(expressed in thousands of Barbados dollars)

20. Issued capital and reserves (continued)

	2020 $	2019 $
Revaluation reserve – debt instruments measured at FVOCI		
Balance beginning of year	13,962	(3,399)
Net gains on debt instruments measured at FVOCI	13,204	17,361
Balance, end of year	27,166	13,962

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

	2020 $	2019 $
General loan loss provision		
Balance, beginning and end of year	13,504	13,504

The general loan loss provision represents transfers from retained earnings to meet provisioning requirements under local legislation which are not distributable.

	2020 $	2019 $
Retirement benefit reserve		
Balance, beginning of year	(1,499)	(8,826)
Re-measurement gains on retirement benefit plans	11,202	7,327
Balance, end of year	9,703	(1,499)

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

(expressed in thousands of Barbados dollars)

20. Issued capital and reserves (continued)

	2020 $	2019 $
Translation reserve		
Balance, beginning of year	(12,654)	(11,759)
Net exchange losses on translation of foreign operations	(549)	(895)
Balance, end of year	(13,203)	(12,654)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in the other comprehensive income and are reflected in the translation reserve.

	2020 $	2019 $
Reverse acquisition reserve		
Balance, beginning and end of year	(434,521)	(434,521)

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 Bank at October 11, 2002 (the date of the combination) comprised the equity of Barclays ($135,290) together with the fair value of the consideration given to acquire CIBC West Indies ($848,149). However, legally the share capital and statutory reserves of the Bank comprise the issued share capital and statutory reserves of CIBC West Indies plus the shares issued to effect the combination, recorded at fair value. The reverse acquisition reserve is therefore the difference between the legally required share capital and statutory reserves together with the retained earnings of Barclays, and the equity of the Bank presented in accordance with IFRS.

21. Dividends

Dividends declared and paid during the year were $nil (2019 - $nil).

(expressed in thousands of Barbados dollars)

22. Related party transactions and balances

A number of banking transactions are entered into with related parties in the normal course of business. The key related party balances and transactions included in the Bank's financials are disclosed below.

	Shareholders and affiliates	
	2020	**2019**
	$	**$**
Asset balances:		
Cash and due from banks	47,724	186,499
Loans and advances to customers	41,400	58,150
Derivative financial instruments	4,922	61
Other assets	36,888	34,838
Liability balances		
Customer deposits	202,150	237,670
Derivative financial instruments	4,838	11
Other liabilities	8,664	19,149
Revenue transactions:		
Interest income earned	3,170	5,276
Other revenue – fee income (note i)	-	4,951
Expense transactions:		
Interest expense incurred	1,124	5,112
Other expenses (note ii)	77,876	72,216

(i) Income incurred in relation to banking and support services.
(ii) During the year expenses were charged by other FirstCaribbean International Limited entities.

	2020	**2019**
	$	**$**
Key management compensation		
Salaries and other short-term benefits	1,978	2,156
Post-employment benefits	188	215
Long term incentive benefits	240	217
	2,406	2,588

(expressed in thousands of Barbados dollars)

22. Related party transactions and balances (continued)

Long-term incentive plan

The Bank operates a long-term incentive plan, whereby under the rules of the plan, cash based awards are granted to employees on a discretionary basis and vest over varying periods. Effective for the 2019 award which will vest in 2022 and other subsequent awards, business performance criteria will be applied over the vesting criteria with the amount ultimately vested determined by the cumulative business performance over the three year vesting period. The business performance measures to be applied link to strategic priorities which include loan growth, operating leverage and return on equity.

The awards granted in 2020 amounted to $nil (2019 - $nil). The amounts expensed during the year related to these cash awards were $nil (2019 - $nil).

Employee share purchase plan

Under our employee share purchase plan, qualifying employees can choose each year to have up to 10% of their eligible earnings withheld to purchase common shares in the Bank. The Bank matches 50% of the employee contribution amount, up to a maximum contribution of 6% of eligible earnings, depending upon length of service and job level. The Bank’s contributions vest after employees have two years of continuous participation in the plan, 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 $556 (2019 - $556).

23. Commitment, guarantees and contingent liabilities

The Bank conducts business, involving letters of credit, guarantees, performance bonds and indemnities, which are not reflected in the statement of financial position.

	2020 **$**	**2019** **$**
Letters of credit	17,602	14,382
Loan commitments	545,228	545,032
Guarantees and indemnities	45,920	49,566
	608,750	608,980

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

(expressed in thousands of Barbados dollars)

24. Future rental commitments under operating leases

As at October 31, 2020 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 judgement 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 under these leases were as follows:

	2020 **$**	**2019** **$**
Not later than 1 year	5,896	5,901
Later than 1 year and less than 5 years	14,428	13,653
Later than 5 years	10,618	11,745
	30,942	31,299

Leases not yet commenced to which the Bank is committed amount to $nil as at October 31, 2020.

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 financial statements. At the reporting date, the Bank had investment assets under administration on behalf of third parties amounting to $1,912 (2019 - $2,202) billions.

26. Financial risk management

a) Introduction

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

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.

26. Financial risk management (continued)

a) Introduction (continued)

he 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 counter party 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 The Risk Management Team and where applicable by the Credit Committee and the 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 and business & sovereign) for the purposes of diversification and managing concentration. Limits are established for individual borrowers, groups of related borrowers, industry sectors, individual countries and geographic regions and also for products or 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 recognized in the statement of financial position, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

Credit Valuation Adjustment (CVA)

A CVA is determined using the fair value based exposure we have on derivative contracts. We believe that we have made appropriate fair value adjustments to date. The establishment of fair value adjustments involves estimates that are based on accounting processes and judgments by management.

26. Financial risk management (continued)

b) Credit risk (continued)

Credit Valuation Adjustment (CVA) (continued)

We evaluate the adequacy of the fair value adjustments on an ongoing basis. Market and economic conditions relating to derivative counterparties may change in the future, which could result in significant future losses. The CVA is driven off market-observed credit spreads or proxy credit spreads and our assessment of the net counterparty credit risk exposure. In assessing this exposure, we also take into account credit mitigants such as collateral, master netting arrangements, and settlements through clearing houses.

Collateral

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

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

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

As at October 31, 2020, 83% of stage 3 impaired loans were either fully or partially collateralized (2019: 76%).

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

b) Credit risk (continued)

Collateral (continued)

Geographic distribution

The following table provides a geographic 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 $
Barbados	1,534,915	288,784	1,823,6919	1,523,165	281,386	1,804,551
Eastern Caribbean	1,663,673	256,444	1,920,117	1,566,184	263,646	1,829,830
	3,198,588	545,228	3,743,816	3,089,349	545,032	3,634,381

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

b) Credit risk (continued)

Exposures by Industry Groups

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

	Drawn	Undrawn	Gross Maximum Exposure 2020	Drawn	Undrawn	Gross Maximum Exposure 2019
	$	$	$	$	$	$
Agriculture	14,391	1,086	15,477	12,760	1,656	14,416
Sovereign	95,363	6,750	102,113	281,939	8,218	290,157
Construction	204,308	31,136	235,444	191,438	16,388	207,826
Distribution	307,172	96,170	403,342	312,542	85,484	398,026
Education	3,916	170	4,086	4,198	50	4,248
Electricity, Gas & Water Supply	48,414	30,054	78,468	54,392	26,645	81,037
Fishing	1,470	1,342	2,812	1,815	1,185	3,000
Hotels & restaurants	178,984	21,146	200,130	100,884	21,216	122,100
Individuals & individual trusts	1,276,382	246,152	1,522,534	1,289,120	229,874	1,518,994
Manufacturing	94,824	45,532	140,356	81,635	55,320	136,955
Mining & quarrying	5,160	8	5,168	5,202	338	5,540
Miscellaneous	595,778	42,532	638,310	529,411	67,340	596,751
Other depository corporations	-	7,800	7,800	-	7,800	7,800
Other financial corporations	221,016	5,046	226,062	62,751	5,718	68,469
Recreational, Personal & community work	2,386	356	2,742	2,647	182	2,829
Real estate, renting & other business activities	62.524	2,108	64,632	72,077	5,846	77,923
Transport, storage & communication	86,500	7,840	94,340	86,538	11,772	98,310
	3,198,588	545,228	3,743,816	3,089,349	545,032	3,634,381

26. Financial risk management (continued)

b) Credit risk (continued)

Derivatives
The Bank maintains strict control limits on net open derivative positions, i.e., 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 statement of financial position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master- netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master-netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

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

Commitments to extend credit represent 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.

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

b) Credit risk (continued)

Maximum exposure to credit risk
The following table shows the maximum exposure to credit risk for the components of the 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 Central Banks	1,111,249	917,425
Due from banks	165,628	451,604
Investment securities		
- Government debt securities	979,518	1,032,099
- Other debt securities	600,896	384,166
- Interest receivable	6,810	6,610
Loans and advances to customers		
- Mortgages	771,436	785,174
- Personal loans	428,896	439,401
- Business and government	1,834,388	1,749,150
- Interest receivable	14,442	8,795
Other assets	63,121	44,047
Total	5,976,384	5,818,471
Commitments, Guarantees and Contingent Liabilities (Note 24)	608,750	608,980
Total credit risk exposure	6,585,134	6,427,451

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

c) Geographical concentration

The following table reflects additional geographical concentration information.

October 31, 2020

	Total assets $	Total liabilities $	Credit commitments $	External revenues $	Capital expenditure * $	Non-current assets** $
Barbados	3,624,026	3,150,748	322,650	183,487	9,265	101,716
Eastern Caribbean	2,760,932	2,764,492	286,100	129,300	18,037	53,564
Jamaica	13,647	1,275	-	388	-	-
	6,398,605	5,916,515	608,750	313,175	27,302	155,280

October 31, 2019

	Total assets $	Total liabilities $	Credit commitments $	External revenues $	Capital expenditure * $	Non-current assets** $
Barbados	3,564,482	3,121,510	311,778	186,504	15,918	82,046
Eastern Caribbean	2,590,301	2,583,034	297,202	136,083	7,640	44,910
Jamaica	13,713	1,099	-	2,211	-	-
	6,168,496	5,705,643	608,980	324,798	23,558	126,956

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

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

26. Financial risk management (continued)

d) Impairment assessment (Policy applicable for November 1, 2018)

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

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

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

26. Financial risk management (continued)

d) The Bank's internal rating and PD estimation process

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

Treasury, trading and interbank relationships

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

Corporate and small business lending

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

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

26. Financial risk management (continued)

d) Corporate and small business lending (continued)

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.

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

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.

For the business & sovereign 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.

26. Financial risk management (continued)

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

Credit quality (continued)

	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*
High (Stage 2)	60-89
Default (Stage 3)	90+

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

Securities		
Grade description	Standard & Poor's equivalent	Moody's Investor Services
Investment grade	AAA to BBB-	Aaa to Baa3
Non-investment grade	BB+ to C	Ba to C
Default	D	D
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 Credit Risk Management and are subject to an annual review.

At the reporting date, securities were all rated standard or high grade, with the exception of Barbados Government securities which were classified as purchased originated credit impaired 'POC1' on completion of debt restructuring. Cash balances and amounts due from banks are held with counterparties that are high grade including CIBC group entities.

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

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

Credit quality (continued)

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

	Stage 1 $	Stage 2 $	Stage 3 $	2020 $
Residential mortgages				
-Very low	600,156	-	-	600,156
-Low	15,428	-	-	15,428
-Medium	-	150,860	-	150,860
-High	-	4,504	-	4,504
-Default	-	-	44,496	44,496
Gross residential mortgages	615,584	155,364	44,496	815,444
Personal (including cards)				
-Very low	354,736	-	-	354,736
-Low	16,876	-	-	16,876
-Medium	-	60,560	-	60,560
-High	-	3,976	-	3,976
-Default	-	-	16,644	16,644
Gross personal	371,612	64,536	16,644	452,792
Business and government				
-Investment Grade	84,928	-	-	84,928
-Non-Investment Grade	1,157,764	316,164	-	1,473,928
-Default	-	-	53,214	53,214
-Not rated	296,656	21,626	-	318,282
Gross business and government	1,539,348	337,790	53,214	1,930,352
Total gross amount of loans	2,526,544	557,690	114,354	3,198,588

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

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

Credit quality (continued)

	Stage 1 $	Stage 2 $	Stage 3 $	2019 $
Residential mortgages				
-Very low	658,936	-	-	658,936
-Low	67,072	-	-	67,072
-Medium	-	26,698	-	26,698
-High	-	9,440	-	9,440
-Default	-	-	45,878	45,878
Gross residential mortgages	726,008	36,138	45,878	808,024
Personal (including cards)				
-Very low	389,236	-	-	389,236
-Low	35,264	-	-	35,264
-Medium	-	14,036	-	14,036
-High	-	1,800	-	1,800
-Default	-	-	15,833	15,833
Gross personal	424,500	15,836	15,833	456,169
Business and government				
-Investment Grade	96,568	-	-	96,568
-Non-Investment Grade	968,764	235,216	-	1,203,980
-Default	-	-	71,253	71,253
-Not rated	447,930	5,425	-	453,355
Gross business and government	1,513,262	240,641	71,253	1,825,156
Total gross amount of loans	2,663,770	292,615	114,354	3,089,349

For our Business and Sovereign loans, we employ risk ratings in managing our 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 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 $51,092 (2019 - $74,265).

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

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

Credit quality (continued)

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 principles for assessing whether there has been a significant increase in credit risk since initial recognition. At the beginning of the year, the Bank reassesses the key economic indicators used in its ECL models with further reassessment during the year as required.

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.

	Stage 1 $	Stage 2 $	Stage 3 $	2020 $
Securities				
-Investment Grade	785,010	-	-	785,010
-Non-Investment Grade	166,510	44,416	-	210,926
-Default	-	-	584,478	584,478
-Not rated	1,554	-	-	1,554
Gross securities	953,074	44,416	584,478	1,581,968

	Stage 1 $	Stage 2 $	Stage 3 $	2019 $
Securities				
-Investment Grade	623,939	-	-	623,939
9-Non-Investment Grade	145,036	67,352	-	212,386
-Default	-	-	579,938	579,938
-Not rated	1,552	-	-	1,552
Gross securities	770,527	67,352	579,938	1,417,817

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(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

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

Credit quality (continued)

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

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. All territories across the region were negatively affected, and we were able to respond by providing support to our clients via our COVID-19 relief program. As at October 31, 2020 the gross outstanding balances of loans in the moratorium program was $93 million for residential mortgages, $28 million for personal loans and $501 million for Business & Sovereign loans. Of the loans that were under the program as of 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 $337 million.

Several of the regional 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	61-90 days	Total
FCIB:	$	$	$	$	$
Residential Mortgage	73,394	11,618	7,662	566	93,240
Personal	20,568	5,872	1,274	470	28,184
Corporate Loans	483,128	13,640	3,766	444	500,978
Total	577,090	31,130	12,702	1,480	622,402

26. Financial risk management (continued)

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

Credit quality (continued)

Modified financial assets and client relief moratorium programs (continued)

From time to time, we may modify the contractual terms of loans classified as stage 2 and stage 3 for which the borrower has experienced financial difficulties, through the granting of a concession in the form of below-market rates or terms that we would not otherwise have considered.

During the year ended October 31, 2020, loans classified as stage 2 with an amortised cost of $218 (2019 - $3,754) and loans classified as stage 3 with an amortised cost of $996 (2019 - $1,584), in each case before the time of modification, were modified through the granting of a financial concession in response to the borrower having experienced financial difficulties. In addition, the gross carrying amount of previously modified stage 2 or stage 3 loans that have returned to stage 1 during the year ended October 31, 2020 was $3,573 (2019 - $5,134).

Impact on regulatory capital

Annually, the base Capital Plan is assessed under a central stress scenario with ranges (mild & severe) as part of stress testing. Stress ranges determined by regulators are reviewed and approved annually by management. The results of the stress tests are taken into consideration when setting the annual capital targets and may, by extension, have an effect on the quantum or timing of planned capital initiatives. However, stress testing results that 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-capitalized even under plausible stressed ranges.

26. Financial risk management (continued)

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

Credit quality (continued)

Impact on regulatory capital (continued)

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

The Bank meets regulatory ratio and policy liquidity metrics such as the Structural Liquidity Ratio and Liquidity Horizon. The Bank anticipates that regional regulators will continue implementation of the Net Stable Funding Ratio and the Liquidity Coverage Ratio in the near future and are 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.

f) Market risk

Market risk is defined as 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 in addition to our core retail, wealth and corporate businesses. The key risks to the Bank are foreign exchange and interest rate with a small amount of credit spread risk and immaterial commodity risk. Market risk within the Bank is a centralized group. This mirrors the way that the hard currencies are managed by Business Units and although the local currencies are handled in their respective regions these are still monitored, measured and controlled from a market risk perspective, centrally.

The Bank classifies market risk exposures into trading and non-trading, for Barbados virtually all of the positions fall into the latter. Due to the relatively small size of the trading portfolio the key types of measures used for market risk are not segregated from the non-trading book therefore the following sections give a comprehensive review of the Bank's entire exposures.

26. Financial risk management (continued)

f) Market risk (continued)

Policies and Standards:
The Bank adheres to the comprehensive policy for market risk management related to its identification and to the measurement, monitoring and control of those risks. This policy is reviewed and approved every two years by the full Board. The Board limits, which are approved annually, are used by the Bank to establish explicit risk tolerances expressed in terms of the main risk measures mentioned below. There is a three tiered approach to limits at the Bank. The highest level are those set at the Board level, below these which are inclusive of a "haircut" from the Board limits and are at a more granular level are the Chief Risk Officer limits. The third level of limit is for the Business Units which limits traders to specific size of deal, documented through a formal delegation letter.

Process & Control:
Market risk measures are monitored with differing degrees of frequency dependent upon the relative risk and speed with which the risk changes. Foreign exchange (FX) positions, traded credit and certain Profit and Loss (P&L) measures are all measured daily whereas others such as stress tests and credit spread exposures are performed on a weekly or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a daily and 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 risk,
- 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. This measure, monitored daily, focuses upon the outright long or short position in each currency from both a trading and structural basis. Any forward contracts or FX swaps are also incorporated.

Sensitivity:
The main two measures utilized by the Bank are the DV01 (delta value of a 1 basis point move, also known as the PV01 or present value of a 1 basis point move) and the CSDV01 (credit spread delta of a 1 basis point move). The DV01 measure is calculated for a 1 basis point move down in the yield curve. This generates the 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; for example, a long position in the short end of the curve offset by a short position in the longer tenors. This is then utilized within the scenario analysis.

26. Financial risk management (continued)

f) Market risk (continued)

Risk Measurement: *Sensitivity* (continued)

The sensitivities are calculated on a post-structural basis that includes structural assumptions for core balances of non-contractual maturity positions. The CSDV01 sensitivity is a way to measure the risk of the interest rate spread between Treasury securities and the non-Treasury securities in the bond portfolio widening or narrowing.

Stress testing & scenario analysis:
Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern. The Bank has uses the following approaches which are as follows:

• For the hard currency testing, it utilizes the suite of measures that the parent company has developed. The stress testing measures the effect on the hard currency portfolio values over a wide range of extreme moves in market prices. The stress testing methodology assumes no actions are taken or are able to be taken during the event to mitigate the risk, reflecting the decreased liquidity that frequently accompanies market shocks. The Scenario Analysis approach for the Bank's hard currency exposures simulate an impact on earnings of extreme market events up to a period of one quarter. Scenarios are developed using actual historical data during periods of market disruption, or are based upon hypothetical occurrence of economic or political events or natural disasters and are designed by economists, business leaders and risk managers. Examples of these would include the 1998 Russian led crisis, Fed Reserve tightening of 1994 and potential effects of revaluation of the Chinese currency.

• The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with Treasury consider the market data over approximately the last 10 years and identify the greatest curve or data point moves over both sixty and single days. These are then applied to the existing positions/sensitivities of the Bank. This is performed daily and reported on a monthly basis in both the Barbados ALMT package as well as the Market Risk Dashboard. The stress results do not tend to change rapidly.

• For foreign exchange stresses the Bank considers what the effect of currency coming off a peg would have on the earnings of the Bank. This is backed by reviews of historical data and considers the worst case that the Bank would be unable to exit the position rapidly. For credit spread risk, historical worst case widening over 60 days, as seen in 2008, is applied to the positions and takes into consideration, the market segment of the bond, the location and the issuer.

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

f) Market risk (continued)

Foreign Exchange Risk:
Foreign exchange (or currency) risk is defined as the risk that the value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. All of the local currencies with a significant balance held within the Barbados OPCO are pegged to the USD and hence the FX VaR measure cannot be used. As a result of this, more emphasis is put upon particularly the overall position limit and the related stress tests. There are CRO limits set at the OPCO or trading level. Positions are monitored on a daily basis.

The following table highlights the currency exposures of FCIB Barbados in USD equivalent

		31st October 2020		31st October 2019	
	Currency	Position Long (Short) vs USD	Stressed Loss	Position Long (Short) vs USD	Stressed Loss
		$'000	$'000	$'000	$'000
BBD	Barbados dollar	93,136	27,941	132,612	39,784
XCD	East Caribbean dollar	(199,076)	15,926	(199,540)	15,963

( ) highlights that FCIB was short the currency vs USD

Average position taken as average of each of the 12 month end balances

The Bank quantifies non-trading foreign exchange risk, also referred to as structural foreign exchange risk. This considers the effect of currency change on the Bank's investment in foreign operations, retained earnings and profit derived throughout the year in non-USD.

Due to the size of the Bank's investment in Barbados and the Eastern Caribbean Islands the Bank's exposures to the BBD and XCD changes significantly at the Holding Company level. Details of this can be found in the CIBC FCIB Group IFRS7 statements.

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

f) Market risk (continued)

Foreign Exchange Risk (continued)

October 31, 2020	**EC $**	**BDS $**	**US $**	**JA $**	**Other $**	**Total $**
Assets						
Cash and bank balances with Central Banks	419,614	754,592	15,408	-	2,863	1,192,477
Due from banks	3,410	14,388	94,354	5,526	47,950	165,628
Derivative financial statements	-	-	4,922	-	-	4,922
Other assets	8,649	73,302	(12,288)	(1,070)	(5,472)	63,121
Taxation recoverable	36,826	4,074	1,060	(36)	-	41,924
Debt instruments at fair value through OCI	45,300	-	821,426	-	-	866,726
Debt instruments at amortised costs	-	722,052	-	-	-	722,052
Loans and advances to customers	1,252,846	1,459,618	328,962	-	46	3,041,472
Property and equipment	53,066	101,198	1,016	-	-	155,280
Deferred tax assets	24,162	6,686	-	-	-	30,848
Retirement benefit assets	46,854	62,116	92	-	5,093	114,155
	1,890,727	3,198,026	1,254,952	4,420	50,480	6,398,605
Liabilities						
Customer deposits	1,871,236	3,235,298	628,660	-	45,124	5,780,318
Derivative financial statements	-	-	4,838	-	-	4,838
Other liabilities	(220,690)	(301,580)	629,388	(7,212)	4,125	104,031
Corporation tax payable	93	-	-	66	-	159
Deferred tax liability	15,266	3,540	-	-	(1)	18,805
Retirement benefit obligations	4,334	3,062	180	-	788	8,364
	1,670,239	2,940,320	1,263,066	(7,146)	50,036	5,916,515
Net assets	220,488	257,706	(8,114)	11,566	444	482,090
Commitments, guarantees and contingent liabilities	266,980	315,082	26,040	-	648	608,750

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

f) Market risk (continued)

Foreign Exchange Risk (continued

October 31, 2019	EC $	BDS $	US $	JA $	Other $	Total $
Assets						
Cash and bank balances with Central Banks	406,442	562,133	17,484	-	3,152	989,211
Due from banks	5,968	11,544	379,742	5,886	48,464	451,604
Derivative financial statements	-	1	60	-	-	61
Other assets	6,392	44,731	(2,464)	(1,068)	(3,544)	44,047
Taxation recoverable	41,080	3,665	1,060	28	-	45,833
Debt instruments at fair value through OCI	65,614	1,138	663,050	-	-	729,802
Debt instruments at amortised costs	-	694,625	-	-	-	694,625
Loans and advances to customers	1,182,832	1,432,908	357,810	-	46	2,973,596
Property and equipment	44,410	81,588	1,016	-	(58)	126,956
Deferred tax assets	9,048	5,035	-	-	-	14,083
Retirement benefit assets	41,586	51,840	160	-	5,092	98,678
	1,803,372	2,889,208	1,417,918	4,846	53,152	6,168,496
Liabilities						
Customer deposits	1,832,920	3,031,365	689,324	-	46,538	5,600,147
Derivative financial statements	-	-	11	-	-	11
Other liabilities	(247,438)	(374,437)	712,485	(7,552)	5,249	88,307
Deferred tax liability	6,502	2,024	-	-	-	8,526
Retirement benefit obligations	4,428	3,401	30	-	786	8,645
	1,596,412	2,662,353	1,401,850	(7,552)	52,573	5,705,636
Net assets	206,960	226,855	16,068	12,398	579	462,860
Commitments, guarantees and contingent liabilities	200,092	186,474	221,460	-	954	608,980

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

f) Market risk (continued)

Interest rate risk

Interest Rate Risk
For the Barbados OPCO there is no trading interest rate risk. Non-trading interest rate risk consists primarily of a combination of the risks inherent in asset and liability management activities and the activities of the core retail, wealth and corporate businesses. Interest rate risk results from differences in the maturities or re-pricing dates of assets both on and off balance sheet.

The following table highlights the key interest rate risk measures utilized by CIBC FirstCaribbean International Bank (Barbados) Ltd along with comparatives to 2019.

	Post structural DV01 $	60 day Stressed loss $'000	Post structural DV01 $	60 day Stressed loss $'000
	31 October 2020		31 October 2019	
Currency				
Barbados dollar	274	32,832	352	34,752
East Caribbean dollar	(16)	2,014	(8)	1,560

Credit Spread Risk:
Credit spread exists as the benchmark curve and the reference asset curves either converge or diverge. CIBC FirstCaribbean International Bank (Barbados) Ltd has increased over the year due to the aforementioned redeployment strategy by Treasury team. The risk is measured using an estimated CSDV01 and stress scenarios. The results of these are reported monthly to senior management.

	Notional $'000	CSDV01 $'000	Stress Loss $'000	Notional $'000	CSD V01 $'000	Stress Loss $'000
		31 October 2020			31 October 2019	
Regional hard currency denominated bond portfolio	257,116	80	17,918	284,636	90	19,478
Non regional hard currency denominated bond portfolio	466,680	84	17,060	233,680	54	10,724
	723,796	164	34,120	518,316	144	30,202

26. Financial risk management (continued)

f) Market risk (continued)

Derivatives held for ALM purposes

Where derivatives are held as hedges against either sizeable bond holding or loans from core businesses, if the transactions meet the regulatory criteria then the Bank applies for 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 balance sheet with changes in the fair value reflected through the profit and loss. It should be noted that these are only interest rate risk hedges and other risks such as credit spread on the underlying still exist and are measured separately.

g) 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 for its operations.

h) 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 statement of financial position under both normal and stressed market environments.

26. Financial risk management (continued)

h) Liquidity risk (continued)

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

Potential cash flows under various stress scenarios are modelled using carrying amounts recognised in the 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 Assets and Liabilities Committee (ALCO) is responsible for recommending the liquidity ratio targets, the stress scenarios and the contingency funding plans. The Bank's Board of Directors is ultimately responsible for the Bank's liquidity.

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

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

h) Liquidity risk (continued)

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.

October 31, 2020	Up to 3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
Assets					
Cash and balances with Central Banks	1,192,477	-	-	-	1,192,477
Due from banks	165,628	-	-	-	165,628
Derivative financial instruments	4,922	-	-	-	4,922
Other assets	63,121	-	-	-	63,121
Taxation recoverable	41,924	-	-	-	41,924
Debt instruments at fair value through OCI	95,709	217,888	538,786	14,343	866,726
Debt instruments at amortised costs	92,683	-	-	629,369	722,052
Loans and advances to customers	447,277	150,493	1,043,212	1,400,490	3,041,472
Property and equipment	-	-	155,280	-	155,280
Deferred tax assets	-	-	-	30,848	30,848
Retirement benefit assets	-	-	-	114,155	114,155
Total assets	2,103,741	368,381	1,737,278	2,189,205	6,398,605
Liabilities					
Customer deposits	5,691,751	82,121	6,238	208	5,780,318
Derivative financial instruments	4,838	-	-	-	4,838
Other liabilities	104,031	-	-	-	104,031
Corporation tax payable	159	-	-	-	159
Deferred tax liability	-	-	-	18,805	18,805
Retirement benefit obligations	-	-	-	8,364	8,364
Total liabilities	5,800,779	82,121	6,238	27,377	5,916,515
Net (liabilities)/assets	(3,697,038)	286,260	1,731,040	2,161,828	482,090
Commitments, guarantees and contingent liabilities (Note 24)	239,994	29,340	43,392	296,024	608,750

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

h) Liquidity risk (continued)

October 31, 2019	Up to 3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
Assets					
Cash and balances with Central Banks	989,211	-	-	-	989,211
Due from banks	451,604	-	-	-	451,604
Derivative financial instruments	61	-	-	-	61
Other assets	44,047	-	-	-	44,047
Taxation recoverable	45,833	-	-	-	45,833
Financial investment – available-for-sale	-	-	-	-	-
Debt instruments at fair value through OCI	133,637	43,995	551,603	567	729,802
Debt instruments at amortised costs	92,683	-	-	601,942	694,625
Loans and advances to customers	438,487	93,739	946,510	1,494,860	2,973,596
Property and equipment	-	-	59,902	67,054	126,956
Deferred tax assets	-	-	-	14,083	14,083
Retirement benefit assets	-	-	-	98,678	98,678
Total assets	2,195,563	137,734	1,558,015	2,277,184	6,168,496
Liabilities					
Customer deposits	5,477,139	110,084	12,581	343	5,600,147
Derivative financial instruments	11	-	-	-	11
Other liabilities	88,307	-	-	-	88,307
Deferred tax liability	-	-	-	8,526	8,526
Retirement benefit obligations	-	-	-	8,645	8,645
Total liabilities	5,565,457	110,084	12,581	17,514	5,705,636
Net (liabilities)/assets	(3,369,894)	27,650	1,545,434	2,259,670	462,860
Commitments, guarantees and contingent liabilities (Note 24)	399,246	18,516	20,936	170,282	609,980

26. Financial risk management (continued)

i) Fair values of financial assets and liabilities

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

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

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

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

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

i) Fair values of financial assets and liabilities (continued)

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

	Level 1 Quoted Market price	Level 2 Valuation Technique Observable Market input	Level 3 Valuation technique Non observable Market input	Total 2020 $	Total 2019 $
Financial Assets					
Cash and balances with Central Banks *	1,192,477	-	-	1,192,477	989,211
Due from Banks *	165,628	-	-	165,628	451,604
Derivative financial instruments	-	4,922	-	4,922	61
Investment Securities	-	866,726	722,052	1,588,778	1,424,427
Loans and advances to customers	-	-	3,005,722	3,005,722	2,927,995
Total Financial Assets	1,358,105	871,648	3,727,774	5,957,527	5,793,298
Financial Liabilities					
Derivative financial instruments	-	4,838	-	4,838	11
Customer deposits	-	-	5,780,098	5,780,098	5,600,433
Total Financial Liabilities	-	4,838	5,780,098	5,784,936	5,600,444

*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. In 2020, a Government of Barbados US Denominated debt security of $42 million which was restructured under the exchange offer were transferred to level 3.

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

i) Fair values of financial assets and liabilities (continued)

2020	Carrying value **$**	Fair value **$**	Fair value over/(under) carrying value **$**
Financial assets			
Cash and balances with Central Banks	1,192,477	1,192,477	-
Due from banks	165,628	165,628	-
Derivative financial instruments	4,922	4,922	-
Debt instruments at FVOCI	867,716	867,716	-
Debt instruments at amortised cost	721,062	721,062	-
Loans and advances to customers	3,041,472	3,005,722	(35,750)
Total financial assets	**5,993,277**	**5,957,527**	**(35,750)**
Financial liabilities			
Derivative financial instruments	4,838	4,838	-
Customer deposits	5,780,318	5,780,098	(220)
Total financial liabilities	**5,785,156**	**5,784,936**	**(220)**

2019			
Financial assets			
Cash and balances with Central Banks	989,211	989,211	-
Due from banks	451,604	451,604	-
Derivative financial instruments	61	61	-
Debt instruments at FVOCI	729,802	729,802	-
Debt instruments at amortised cost	694,625	694,625	-
Loans and advances to customers	2,973,596	2,927,995	(45,601)
Total financial assets	**5,838,899**	**5,793,298**	**(45,601)**
Financial liabilities			
Derivative financial instruments	11	11	-
Customer deposits	5,600,147	5,600,433	286
Total financial liabilities	**5,600,158**	**5,600,444**	**286**

(expressed in thousands of Barbados dollars)

26. Financial risk management (continued)

i) Fair values of financial assets and liabilities (continued)

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:

		2020				**Range of inputs**
As at October 31	Amortised cost	Fair value	Valuation technique	Key non-observable inputs	Low	High
Loans and advances to customers	3,041,472	3,005,722	Market proxy or direct broker quote	Market proxy or direct broker quote	3.07%	19.0%
Customer Deposits	5,780,318	5,780,098	Market proxy or direct broker quote	Market proxy or direct broker quote	0.05%	0.13%
Debt instruments at amortised costs	722,052	722,052	Market proxy or direct broker quote	Market proxy or direct broker quote	n/a	n/a
Equity securities	1,552	1,552	n/a	n/a	n/a	n/a

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

26. Financial risk management (continued)

i) Fair values of financial assets and liabilities (continued)

Financial instruments recorded at fair value

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

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 are valued using a valuation technique or pricing models primarily consist of debt securities.

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

Fair value of financial instruments not carried at fair value

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

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

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

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

27. Principal subsidiary undertakings

Name	Country of incorporation
FirstCaribbean International Securities Limited	Jamaica