



FIRSTCARIBBEAN INTERNATIONAL BANK  
(BAHAMAS) LIMITED

Audited Consolidated Financial Statements  
Year ended October 31, 2010  
with Independent Auditors' Report

FirstCaribbean International Bank (Bahamas) Limited

Audited Consolidated Financial Statements

October 31, 2010

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## **Independent Auditors' Report to the Shareholders of FirstCaribbean International Bank (Bahamas) Limited**

We have audited the accompanying consolidated financial statements of FirstCaribbean International Bank (Bahamas) Limited ("the Bank") which comprise the consolidated statement of financial position as of October 31, 2010 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independent Auditors' Report to the Shareholders of  
FirstCaribbean International Bank (Bahamas) Limited (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of October 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst + Young*

December 14, 2010

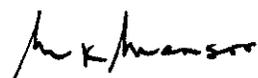
FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF OCTOBER 31, 2010**

(Expressed in thousands of Bahamian dollars)

	Notes	2010 \$	2009 \$
<b>ASSETS</b>			
Cash and balances with central bank	3	89,193	102,273
Due from banks	4	148,926	309,098
Derivative financial instruments	5	12,656	-
Other assets	6	18,791	2,499
Investment securities	7	687,462	580,259
Loans and advances to customers	8	2,418,836	2,541,756
Property and equipment	9	25,346	26,009
Retirement benefit assets	10	10,039	13,031
Goodwill	11	187,747	187,747
<b>Total assets</b>		<b>3,598,996</b>	<b>3,762,672</b>
<b>LIABILITIES</b>			
Customer deposits	12	2,767,359	2,985,964
Derivative financial instruments	5	75,976	54,160
Other liabilities	13	20,334	11,175
Retirement benefit obligations	10	4,473	4,192
<b>Total liabilities</b>		<b>2,868,142</b>	<b>3,055,491</b>
<b>EQUITY</b>			
Share capital and reserves	14	442,483	442,059
Retained earnings		288,371	265,122
<b>Total equity</b>		<b>730,854</b>	<b>707,181</b>
<b>Total liabilities and equity</b>		<b>3,598,996</b>	<b>3,762,672</b>

Approved by the Board of Directors on December 14, 2010 and signed on its behalf by:



Michael Mansoor  
Chairman



Marie Rodland-Allen  
Managing Director

See accompanying notes.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

**CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED OCTOBER 31, 2010**

(Expressed in thousands of Bahamian dollars)

	Notes	2010 \$	2009 \$
Interest and similar income		192,990	217,018
Interest and similar expense		63,955	74,125
		<hr/>	<hr/>
Net interest income	15	129,035	142,893
Other operating income	16	40,126	25,342
		<hr/>	<hr/>
Total operating income		169,161	168,235
		<hr/>	<hr/>
Operating expenses	17	77,094	71,079
Loan loss impairment	8	30,204	18,519
		<hr/>	<hr/>
Total operating expenses		107,298	89,598
		<hr/>	<hr/>
<b>Net income for the year</b>		<b>61,863</b>	<b>78,637</b>
		<hr/>	<hr/>
<b>Earnings per share</b>			
(expressed in cents per share)			
- basic	18	51.5	65.4

*See accompanying notes.*

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED OCTOBER 31, 2010**

(Expressed in thousands of Bahamian dollars)

	<b>Notes</b>	<b>2010</b> \$	<b>2009</b> \$
Net income for the year		61,863	78,637
Other comprehensive income:			
Net (loss) gain on available-for-sale investment securities	20	<u>(924)</u>	<u>24,808</u>
<b>Total comprehensive income for the year</b>		<u>60,939</u>	<u>103,445</u>

*See accompanying notes.*

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED OCTOBER 31, 2010**

(Expressed in thousands of Bahamian dollars)

	Notes	Share capital \$	Reserves \$	Retained earnings \$	Total Equity \$
<b>Balance at October 31, 2008</b>		477,230	(63,383)	231,965	645,812
Total comprehensive income for the year		-	24,808	78,637	103,445
Dividends	19	-	-	(42,076)	(42,076)
Transfer to statutory reserve fund – Turks & Caicos Islands	14	-	5,028	(5,028)	-
Transfer to statutory loan loss reserve – Bahamas	14	-	(1,624)	1,624	-
<b>Balance at October 31, 2009</b>		477,230	(35,171)	265,122	707,181
Total comprehensive income for the year		-	(924)	61,863	60,939
Dividends	19	-	-	(37,266)	(37,266)
Transfer to statutory reserve fund – Turks & Caicos Islands	14	-	4,703	(4,703)	-
Transfer to statutory loan loss reserve – Bahamas	14	-	(3,355)	3,355	-
<b>Balance at October 31, 2010</b>		477,230	(34,747)	288,371	730,854

*See accompanying notes.*

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED OCTOBER 31, 2010**

(Expressed in thousands of Bahamian dollars)

	Notes	2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
Net income		61,863	78,637
Adjustments to reconcile net income to net cash provided by operating activities:			
Loan loss impairment	8	30,204	18,519
Depreciation of property and equipment	9	3,373	3,470
(Gain) loss on disposal/write-off of property and equipment	17	(4)	116
Net gains on sale and redemption of investment securities	16	(4,847)	(4,493)
Interest income on investment securities	15	(35,224)	(40,502)
Loss from change in fair value unamortized premium		(3,176)	(10,065)
Interest expense on other borrowed funds	15	12,613	8,361
Cash flows from net income before changes in operating assets and liabilities		64,802	54,043
<b>Changes in operating assets and liabilities:</b>			
-net decrease (increase) in due from banks			
– greater than 90 days		26,104	(37,451)
-net decrease in mandatory reserves with The Central Bank		577	2,694
-net decrease in financial assets at fair value through profit or loss		-	304,936
-net decrease (increase) in loans and advances to customers		92,716	(21,203)
-net (increase) decrease in other assets		(25,956)	27,905
-net decrease in customer deposits		(218,605)	(459,046)
-net increase in other liabilities		31,256	22,359
<b>Net cash used in operating activities</b>		<u>(29,106)</u>	<u>(105,763)</u>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	9	(2,710)	(3,754)
Proceeds from sale of property and equipment	9	4	72
Purchases of investment securities	7	(752,845)	(162,629)
Interest paid on other borrowed funds	15	(12,664)	(8,361)
Interest income received on investment securities	15	35,718	45,079
Proceeds from sale and redemption of investment securities	7	652,298	394,095
<b>Net cash (used in) from investing activities</b>		<u>(80,199)</u>	<u>264,502</u>
<b>Cash flows from financing activities</b>			
Dividends paid	19	(37,266)	(42,076)
<b>Net cash used in financing activities</b>		<u>(37,266)</u>	<u>(42,076)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>		(146,571)	116,663
<b>Cash and cash equivalents, beginning of year</b>	3	<u>215,426</u>	<u>98,763</u>
<b>Cash and cash equivalents, end of year (note 3)</b>		<u>68,855</u>	<u>215,426</u>

*See accompanying notes.*

# FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2010

(Expressed in thousands of Bahamian dollars)

### 1. General Information

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

The Bank is a subsidiary of FirstCaribbean International Bank Limited, formerly CIBC West Indies Holdings Limited (the “Parent” or “FCIB”), a company incorporated in Barbados, which owns 95.2% of the Bank. The Parent and its subsidiaries (collectively, the “Parent Group”) is owned by CIBC. From October 11, 2002, the major shareholders of FirstCaribbean International Bank (Bahamas) Limited were jointly CIBC and Barclays Bank PLC, (“Barclays”), a company incorporated in England. On December 22, 2006, CIBC acquired Barclays’s interest in the Parent and now owns 91.4% of the shares of FirstCaribbean International Bank Limited.

The registered office of the Bank is located at the FirstCaribbean Financial Centre, 2nd Floor, Shirley Street, Nassau, Bahamas.

### 2. Accounting Policies

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

#### 2.1 Basis of presentation

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

#### 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”).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at October 31, 2010 (the “reporting date”). The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All subsidiaries, which are those companies in which the Bank directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their financial and business activities, have been fully consolidated. The principal subsidiaries are disclosed in Note 27. Subsidiaries are consolidated from the date on which the effective control is transferred to the Bank. They are de-consolidated from the date that control ceases.

All inter-company transactions, balances and unrealized surpluses and deficits on transactions and balances have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

**2.2 Significant accounting judgments and estimates**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.2 Significant accounting judgments and estimates (continued)**

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

**i) 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 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.

**ii) Impairment losses on loans and advances to customers**

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.2 Significant accounting judgments and estimates (continued)**

**iii) 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. Variations in the financial assumptions can cause material adjustments in the next financial year if it is determined that the actual experience differed from the estimate.

**iv) Impairment of available-for-sale investments**

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

**v) Goodwill**

In accordance with IAS 36, goodwill is reviewed for impairment annually using the "value in use" method. This requires the use of estimates for determination of future cash flows expected to arise from each cash-generating unit and an appropriate discount rate to calculate present value. Management also makes judgements at each reporting date to determine whether goodwill is impaired or not.

**2.3 Adoption of new accounting policies**

The accounting policies adopted are consistent with those used in the previous financial year except for adoption of the following standards, amendments and interpretations:

- IFRS 1 First-time Adoption of International Financial Standards – Cost of an investment in a Subsidiary, Jointly controlled Entity or Associate (Amendments)
- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (Amendments)
- IFRS 3 Business Combinations (Revised)
- IFRS 7 Financial Instruments: Disclosures (Amendments)
- IFRS 8 Operating Segments
- IAS 1 Presentation of Financial Statements (Revised)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.3 Adoption of new accounting policies (continued)**

- IAS 23 Borrowing Costs (Revised)
- IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
- IAS 27 Consolidated and Separate Financial Statements (Amendments)
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives (Amendments)
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to International Financing Reporting Standards (issued 2008)

In addition, the Bank has adopted the elements of Improvements to International Financing Reporting Standards (issued 2008 and 2009) which were required for annual periods beginning after July 1, 2009.

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Bank. They did, however, give rise to revised or additional disclosures in the new statement of comprehensive income (IAS1 Presentation of Financial Statements (Revised)), Note 25 (IFRS 8 Operating Segments) and Note 26H (IFRS 7 Financial Instruments: Disclosures (amendment)).

**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**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(1) Foreign currency translation (continued)**

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

**(2) Financial instruments**

The Bank classifies its financial assets into the following categories:

- (i) Financial assets at fair value through profit or loss
- (ii) Loans and receivables
- (iii) Available-for-sale financial assets

Management determines the classification of its investments at initial recognition.

**(i) Financial assets at fair value through profit or loss**

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(2) Financial instruments (continued)**

**(i) Financial assets at fair value through profit or loss (continued)**

As of October 31, 2010 and 2009, the Bank held no financial assets at fair value through profit or loss.

**(ii) Loans and advances to customers**

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

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

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(2) Financial instruments (continued)**

**(iii) Available-for-sale financial assets (continued)**

Unquoted equity instruments for which fair values cannot be measured reliably are recognized at cost less impairment.

All gains and losses from disposals and/or changes in the fair value of financial assets at fair value through profit or loss and derivatives held for trading are included in operating income as net trading gains or losses. All gains and losses from disposals of investment securities available for sale are included in operating income as net investment securities gains or losses. Where certain financial assets are hedged and there is ineffectiveness, this is included in operating income as net hedge relationship losses. Dividends are recorded on the accrual basis when declared and are included in investment securities interest and similar income.

**(3) Offsetting financial instruments**

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

**(4) Derecognition of financial assets and financial liabilities**

**(i) Financial assets**

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

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

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(4) Derecognition of financial assets and financial liabilities (continued)**

**(i) Financial assets (continued)**

When the Bank has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to pay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset and the option exercise price

The Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**(ii) Financial liabilities**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(5) Derivative financial instruments and hedge accounting**

**Initial recognition and subsequent measurement**

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

Any gains or losses arising from changes in fair value on derivatives are taken directly to the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognized 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 recognized asset or liability or an unrecognized 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 recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(5) Derivative financial instruments and hedge accounting (continued)**

**Initial recognition and subsequent measurement (continued)**

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

**(a) Fair value hedges**

For hedging relationships which are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, changes in the fair value of the derivatives are recorded in the consolidated statement of income in 'Net hedging gains/losses (note 16)', 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 hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income in 'Net hedging gains/losses' (Note 16).

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(6) Repurchase and reverse repurchase agreements**

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

**(7) Impairment of financial assets**

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

- i) significant financial difficulty of the issuer or obligor;
- ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- iii) the Bank granting to a borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- iv) a breach of contract, such as default or delinquency in interest or principal payments;
- v) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- vi) the disappearance of an active market for that financial asset because of financial difficulties; or

## 2. Accounting Policies (Continued)

### 2.4 Summary of significant accounting policies (continued)

#### (7) Impairment of financial assets (continued)

- vii) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with default on the assets in the group.

If there is objective evidence that an impairment loss on loans and advances to customers or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the recoverable amount, being the estimated present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the current effective interest rate.

When a loan is uncollectible, it is written off against the related provision for impairment; subsequent recoveries are credited to the provision for impairment losses. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan loss impairment in the consolidated statement of income.

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

#### (8) Impairment of non-financial assets

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(8) Impairment of non-financial assets (continued)**

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

**(9) Recognition of income and expenses**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

**(i) Interest and similar income and expense**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(9) Recognition of income and expenses**

**(ii) Fee and commission income**

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

**(10) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition and is reported in the consolidated statement of financial position as an intangible asset. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to lowest levels for which there are separately identifiable cash flows (cash-generating units) for the purpose of impairment testing. An impairment loss is recognized 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.

**(11) Property and equipment**

All property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings comprise mainly branches and offices. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**2. Accounting Policies (Continued)**

**2.4 Summary of significant accounting policies (continued)**

**(11) Property and equipment (continued)**

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

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

The annual rates used are:

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

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 disposals are determined by comparing proceeds with carrying amounts and are recognized in 'other operating income' or 'other operating expenses' within the consolidated statement of income.

**(12) Leases**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and included in 'other operating expenses.'

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**(13) Provisions**

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

**(14) Retirement benefit obligations**

**(i) Pension obligations**

The Bank operates a pension plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries. The plan has defined benefit sections and a defined contribution section.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**(14) Retirement benefit obligations (continued)**

**(i) Pension obligations (continued)**

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average service lives of the related employees. Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortized on a straight-line basis over the vesting period.

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

**(ii) Other post retirement obligations**

The Bank provides post-retirement healthcare benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average service lives of the related employees. These obligations are valued periodically by independent qualified actuaries.

**(15) Borrowings**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**2. Accounting Policies (Continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**(16) Cash and cash equivalents**

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

**(17) Share capital and dividends**

**(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 the issue.

**(ii) Dividends on ordinary shares**

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

**(18) Segment reporting**

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

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

**(19) Earnings per share**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**2. Accounting Policies (Continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**(20) Fiduciary activities**

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

**(21) Income taxes**

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

**(22) Going concern**

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

**(23) Comparatives**

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

**2.5 Future changes in accounting policies**

Certain new standards, and amendments to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after November 1, 2010 but which the Bank has not early adopted, as follows:

- IAS 24 (Revised)      Related party transactions
- IFRS 1 (Amendment) First time adoption of International Financial Reporting Standards
- IFRS 2 (Amendment) Share based payment
- IFRS 9                      Financial instruments part 1: Classification and measurement
- IFRIC 19                    Extinguishing Financial Liabilities with Equity Instruments

IFRS 1 (Amendment) and IFRS 2 (Amendment) are not relevant for the Bank's operations.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**2. Accounting Policies (Continued)**

**2.5 Future changes in accounting policies (continued)**

The adoption of IFRIC 19 and IAS 24 (Revised) is not expected to impact the Bank's financial performance or position, but in the case of IAS 24 (Revised) may result in amended disclosures within the related party note.

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Management is considering the implications of the standard, the impact on the Bank and the timing of its adoption.

Additionally, in April 2009 and May 2010, the IASB issued "Improvements to IFRSs", as part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after January 1, 2010 and 2011 respectively. Management has decided not to early adopt the amendments and does not expect their application to have a significant effect.

**3. Cash and Balances with Central Bank**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Cash	30,872	26,822
Deposits with central bank - non-interest bearing	<u>58,321</u>	<u>75,451</u>
Cash and balances with central bank	89,193	102,273
Less: Mandatory reserve deposits with central bank	<u>(48,388)</u>	<u>(48,965)</u>
Included in cash and cash equivalents as per below	<u>40,805</u>	<u>53,308</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**3. Cash and Balances with Central Bank (Continued)**

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

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

**Cash and cash equivalents**

	<b>2010</b>	<b>2009</b>
	\$	\$
Cash and balances with The Central Bank as per above	40,805	53,308
Due from banks, included in cash and cash equivalents	28,050	162,118
	<u>68,855</u>	<u>215,426</u>

**4. Due from Banks**

	<b>2010</b>	<b>2009</b>
	\$	\$
Included in cash and cash equivalents (Note 3)	28,050	162,118
Greater than 90 days maturity from date of acquisition	120,821	146,713
Due from banks	148,871	308,831
Add: Accrued interest receivable	55	267
	<u>148,926</u>	<u>309,098</u>

Due from banks comprises deposit placements and include amounts placed with other FirstCaribbean Bank entities of \$61,189 (2009: \$116,930) and deposit placements with CIBC entities of \$2,969 (2009: \$73,875) (Note 22). Due from Banks include placements with FCIB Jamaica totalling \$59,320 (2009: 76,754) (Note 22), which are pledged in favour of that bank in support of loans granted to certain of its customers. The average effective yield on deposit placements during the year was 0.58% (2009: 0.78%).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**5. Derivative Financial Instruments**

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

The notional and fair value amounts under these contracts at October 31 are shown below:

	<b>Contract/ Notional Amount</b>	<b>Fair Values</b>	
		<b>Assets</b>	<b>Liabilities</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>October 31, 2010</b>			
Interest rate swaps	427,027	12,291	(75,418)
Foreign exchange forward	121,050	355	(558)
Short sales	93	10	-
		<u>12,656</u>	<u>(75,976)</u>
<b>October 31, 2009</b>			
Interest rate swaps	228,739	-	(50,833)
Foreign exchange forward	88,070	-	(2,781)
Short sales	18,844	-	(546)
		<u>-</u>	<u>(54,160)</u>

As of October 31, 2010 and 2009 the Bank has positions in the following types of derivatives:

**Interest rate swaps**

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

**Foreign exchange forwards contracts**

Foreign exchange forwards contracts are contractual agreements to buy or sell a specified amount of foreign currency at a future date at an exchange rate fixed at inception of the contract.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

5. Derivative Financial Instruments (Continued)

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

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

For the year ended October 31, 2010, the Bank recognised losses on hedging instruments of \$13,552 (2009: \$15,442) and gains on hedged items attributable to the hedged risk of \$16,984 (2009: \$11,875), which is included in other operating income as part of net investment securities gains (losses) (Note 16).

Foreign exchange forwards represent commitments to purchase foreign currency including undelivered spot transactions. The counterparty is Canadian Imperial Bank of Commerce-Toronto.

6. Other Assets

	<b>2010</b>	<b>2009</b>
	\$	\$
Branch clearings	3,514	(3,493)
Suspense accounts	(2,041)	(1,438)
Other accounts receivable, including clearings	15,969	5,395
Prepayments and deferred items	1,349	2,035
	<hr/>	<hr/>
	18,791	2,499
	<hr/>	<hr/>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**7. Investment Securities**

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Available-for-sale</b>		
Government bonds	385,696	312,946
Corporate bonds	290,440	255,493
	<hr/>	<hr/>
	676,136	568,439
Add: Interest receivable	11,326	11,820
	<hr/>	<hr/>
	687,462	580,259
	<hr/>	<hr/>

Debt securities issued or guaranteed by the Government of The Bahamas amounted to \$250,161 (2009: \$186,248). The effective yield during the year on investment securities was 5.1 % (2009: 5.4%).

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

	<b>2010</b>	<b>2009</b>
	\$	\$
Balance, beginning of year	568,439	760,539
Additions (purchases, changes in fair value and foreign exchange)	755,148	197,502
Disposals (sales and redemptions)	(647,451)	(389,602)
	<hr/>	<hr/>
Balance, end of year	676,136	568,439
	<hr/>	<hr/>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

8. Loans and Advances to Customers

	<b>Mortgages</b>	<b>Personal</b>	<b>Business &amp;</b>	<b>2010</b>
	<b>\$</b>	<b>Loans</b>	<b>Government</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>Loans</b>	<b>\$</b>
Performing loans (Note 26)	986,677	230,266	908,544	2,125,487
Impaired loans (Note 26)	167,834	45,453	169,228	382,515
	<hr/>			
Gross loans (Note 26)	1,154,511	275,719	1,077,772	2,508,002
Less: Provisions for impairment	(22,280)	(19,339)	(47,416)	(89,035)
	<hr/>			
	1,132,231	256,380	1,030,356	2,418,967
Add: Interest receivable				18,158
Less: Unearned fee income				(18,289)
				<hr/>
				2,418,836
	<hr/>			
	<b>Mortgages</b>	<b>Personal</b>	<b>Business &amp;</b>	<b>2009</b>
	<b>\$</b>	<b>Loans</b>	<b>Government</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>Loans</b>	<b>\$</b>
Performing loans (Note 26)	1,031,537	253,795	1,015,248	2,300,580
Impaired loans (Note 26)	142,165	47,770	135,085	325,020
	<hr/>			
Gross loans (Note 26)	1,173,702	301,565	1,150,333	2,625,600
Less: Provisions for impairment	(11,296)	(18,103)	(45,926)	(75,325)
	<hr/>			
	1,162,406	283,462	1,104,407	2,550,275
Add: Interest receivable				10,334
Less: Unearned fee income				(18,853)
				<hr/>
				2,541,756
	<hr/>			

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

8. Loans and Advances to Customers (Continued)

Movement in provisions for impairment for 2010 is as follows:

	<b>Mortgages</b>	<b>Personal Loans</b>	<b>Business &amp; Government Loans</b>	<b>2010 Total</b>
	\$	\$	\$	\$
Balance, beginning of year	11,296	18,103	45,926	75,325
Identified impairment	15,007	8,919	4,256	28,182
Unidentified impairment	582	734	706	2,022
Recoveries of bad and doubtful debts	-	1,125	3	1,128
Bad debts written off	(4,605)	(9,542)	(3,475)	(17,622)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, end of year	22,280	19,339	47,416	89,035

Movement in provisions for impairment for 2009 is as follows:

	<b>Mortgages</b>	<b>Personal Loans</b>	<b>Business &amp; Government Loans</b>	<b>2009 Total</b>
	\$	\$	\$	\$
Balance, beginning of year	12,908	21,790	30,122	64,820
Identified impairment	(428)	2,916	15,919	18,407
Unidentified impairment	(78)	(466)	656	112
Recoveries of bad and doubtful debts	-	1,451	151	1,602
Bad debts written off	(1,106)	(7,588)	(922)	(9,616)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, end of year	11,296	18,103	45,926	75,325

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

8. Loans and Advances to Customers (Continued)

Ageing analysis of past due but not impaired loans for 2010

	<b>Mortgages</b>	<b>Personal Loans</b>	<b>Business &amp; Government Loans</b>	<b>2010 Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Less than 30 days	164,060	21,889	119,809	305,758
31 - 60 days	47,707	6,271	71,637	125,615
61 - 90 days	23,080	2,513	2,714	28,307
	<u>234,847</u>	<u>30,673</u>	<u>194,160</u>	<u>459,680</u>

Ageing analysis of past due but not impaired loans for 2009

	<b>Mortgages</b>	<b>Personal Loans</b>	<b>Business &amp; Government Loans</b>	<b>2009 Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Less than 30 days	215,870	29,775	88,179	333,824
31 - 60 days	50,029	7,227	73,491	130,747
61- 90 days	324	31	1	356
	<u>266,223</u>	<u>37,033</u>	<u>161,671</u>	<u>464,927</u>

The average interest yield during the year on loans and advances was 6.5 % (2009: 6.6%).

Loan loss impairment is calculated as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Doubtful debt expense	28,182	18,407
Net movement in inherent risk provisions	<u>2,022</u>	<u>112</u>
Loan loss impairment for the year	<u>30,204</u>	<u>18,519</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

9. Property and Equipment

	<b>Land and Buildings</b>	<b>Equipment, Furniture and Vehicles</b>	<b>Leasehold Improvements</b>	<b>2010 Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
<b>Balance, November 1, 2009</b>	20,268	25,158	11,367	56,793
Purchases	909	1,670	131	2,710
Work-in-progress transfers	(1,217)	776	441	-
Disposals	-	(38)	-	(38)
<b>Balance, October 31, 2010</b>	<u>19,960</u>	<u>27,566</u>	<u>11,939</u>	<u>59,465</u>
<b>Accumulated depreciation</b>				
<b>Balance, November 1, 2009</b>	3,619	19,529	7,636	30,784
Depreciation (Note 17)	536	2,010	827	3,373
Disposals	-	(38)	-	(38)
<b>Balance, October 31, 2010</b>	<u>4,155</u>	<u>21,501</u>	<u>8,463</u>	<u>34,119</u>
<b>Net book value, October 31, 2010</b>	<u>15,805</u>	<u>6,065</u>	<u>3,476</u>	<u>25,346</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

9. Property and Equipment (Continued)

	<b>Land and Buildings</b>	<b>Equipment, Furniture and Vehicles</b>	<b>Leasehold Improvements</b>	<b>2009 Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
<b>Balance, November 1, 2008</b>	18,350	35,474	13,255	67,079
Purchases	1,255	1,577	922	3,754
Work-in-progress transfers	(1,133)	543	590	-
Disposals	-	(92)	(320)	(412)
<b>Balance, October 31, 2009</b>	<u>18,472</u>	<u>37,502</u>	<u>14,447</u>	<u>70,421</u>
<b>Accumulated depreciation</b>				
<b>Balance, November 1, 2008</b>	5,641	28,296	7,229	41,166
Depreciation (Note 17)	688	1,950	832	3,470
Disposals / Transfers	-	(25)	(199)	(224)
<b>Balance, October 31, 2009</b>	<u>6,329</u>	<u>30,221</u>	<u>7,862</u>	<u>44,412</u>
<b>Net book value, October 31, 2009</b>	<u>12,143</u>	<u>7,281</u>	<u>6,585</u>	<u>26,009</u>

Included as part of equipment, furniture and vehicles is an amount for \$256 (2009: \$694) relating to systems development costs and work in progress which is incomplete and not yet in operation and on which no depreciation has been charged.

Cost and accumulated depreciation balances as at November 1, 2009 have been adjusted to reflect reclassifications and net write-off of fully depreciated assets which are no longer in use by the Bank, totalling \$13,628.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**10. Retirement Benefit Assets and Obligations**

The Bank has an insured group health plan and a pension plan. The pension plan is a mixture of defined benefit and defined contribution schemes. The defined benefit sections of the scheme are non-contributory and allow for additional voluntary contributions. The insured health plan allows for retirees to continue receiving health benefits during retirement. Independent actuaries value the plan every three years using the projected unit credit method. The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out as at November 1, 2007.

The amounts recognized on the consolidated statement of financial position are determined as follows:

	<b>Defined Benefit Pension Plans</b>		<b>Post Retirement Medical Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	\$	\$	\$	\$
Fair value of plan assets	82,526	79,005	-	-
Present value of funded obligations	(87,626)	(79,417)	(2,810)	(3,840)
	(5,100)	(412)	(2,810)	(3,840)
Unrecognized actuarial gain/ (loss)	15,139	13,443	(1,663)	(352)
Net asset/(liability)	10,039	13,031	(4,473)	(4,192)

The pension plan assets include 100,000 (2009: 100,000) ordinary shares in the Bank, with a fair value of \$974 (2009: \$1,034).

The actual return on plan assets for the defined benefit sections of the pension plan was \$6,600 (2009: \$627).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**10. Retirement Benefit Assets and Obligations (Continued)**

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

	<b>Defined Benefit Pension Plans</b>		<b>Post Retirement Medical Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current service costs	3,198	3,061	60	76
Curtailement and settlement costs	352	124	1	226
Expected return on plan assets	(5,423)	(5,430)	-	-
Interest cost	4,865	4,585	231	10
	<hr/>			
Total amount included in staff costs (Note 17)	2,992	2,340	292	312

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

	<b>Defined Benefit Pension Plans</b>		<b>Post Retirement Medical Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	13,031	12,538	(4,192)	(4,007)
Charge for the year (Note 17)	(2,992)	(2,340)	(292)	(312)
Contributions paid	-	2,833	11	127
	<hr/>			
Balance, end of year	10,039	13,031	(4,473)	(4,192)

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**10. Retirement Benefit Assets and Obligations (Continued)**

Changes in the present value of the defined benefit obligation are as follows:

	<b>2010</b>	<b>2009</b>
	\$	\$
Present value of funded obligation at beginning of year	79,417	73,826
Interest cost	4,865	4,585
Current service cost	3,198	3,061
Benefits paid	(3,080)	(1,032)
Actuarial gain/(loss) on obligation	3,226	(1,023)
	<hr/>	<hr/>
Present value of funded obligation at end of year	87,626	79,417

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

	<b>2010</b>	<b>2009</b>
	\$	\$
Fair value of plan assets at beginning of year	79,005	76,659
Expected return on plan assets	5,423	5,430
Benefits paid	(3,080)	(1,032)
Total contributions	-	3,451
Actuarial gain / (loss) on plan assets	1,178	(5,503)
	<hr/>	<hr/>
Fair value of plan assets at end of year	82,526	79,005

The Bank has implemented a contributions holiday and expects to contribute to its defined benefit pension plan in 2011.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**10. Retirement Benefit Assets and Obligations (Continued)**

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

	<b>2010</b>	<b>2009</b>
Equity instruments	54%	53%
Debt instruments	46%	46%
Cash and other	-	1%

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

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

	<b>Defined Benefit Pension Plans</b>	
	<b>2010</b>	<b>2009</b>
Discount rate	5.8%	6.0 %
Expected return on plan assets	6.3%	7.0 %
Future salary increases	4.5%	4.5 %
Future pension increases	3.0%	2.5 %

	<b>Post Retirement Medical Benefits</b>	
	<b>2010</b>	<b>2009</b>
Discount rate	5.8 %	6.0%
Premium escalation rate	4.5 %	4.5%
Existing retiree age	60	60

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**10. Retirement Benefit Assets and Obligations (Continued)**

The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the Projected Unit Method.

Amounts for the current and previous years are as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$
Defined benefit obligation	(87,626)	(79,417)	(73,826)
Plan assets	82,526	79,005	76,659
(Deficit)/Surplus	(5,100)	(412)	2,833
Experience adjustments on plan liabilities	1,410	1,023	575
Experience adjustments on plan assets	1,170	(5,503)	(20,693)

**Impact of changes in medical premium escalation rate**

The impact of a 1% change in the medical premium escalation assumption on the sum of the current service cost and on the present value of the obligation is shown in the table below.

<b>Item</b>	<b>Change of -1% in medical premium escalation rate \$ in Millions</b>	<b>Current IAS 19 results \$ in Millions</b>	<b>Change of +1% in medical premium escalation rate \$ in Millions</b>
Current Service Cost + Interest Cost	0.25	0.29	0.34
Present Value of Obligation	2.45	2.81	3.24

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**11. Goodwill**

	2010 \$	2009 \$
Carrying amount, October 31	<u>187,747</u>	<u>187,747</u>

Based on the Bank's assessment of goodwill, there was no impairment charge for the year (2009: \$ nil).

**12. Customer Deposits**

	Payable on demand \$	Payable after notice \$	Payable at a fixed date \$	2010 Total \$	2009 Total \$
Individuals	115,967	175,227	728,321	1,019,515	1,081,242
Business and governments	580,634	40,838	652,075	1,273,547	1,368,209
Banks	498	-	452,241	452,739	520,776
	<u>697,099</u>	<u>216,065</u>	<u>1,832,637</u>	<u>2,745,801</u>	<u>2,970,227</u>
Add: Interest payable	85	181	21,292	21,558	15,737
	<u>697,184</u>	<u>216,246</u>	<u>1,853,929</u>	<u>2,767,359</u>	<u>2,985,964</u>

Included in deposits from banks are deposits from other FirstCaribbean Bank entities of \$418,313 (2009: \$477,564) (Note 22) and deposits from CIBC entities of \$28,349 (2009: \$27,453).

The effective rate of interest on deposits during the year was 1.76% (2009: 2.07%).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**13. Other Liabilities**

	<b>2010</b>	<b>2009</b>
	\$	\$
Accounts payable and accruals	7,293	7,265
Amount due to related parties (Note 22)	12,479	3,457
Payroll liabilities	525	408
Due to brokers and others	37	45
	<hr/>	<hr/>
	20,334	11,175
	<hr/>	<hr/>

The amount due to related parties refers to balances due to other FirstCaribbean Bank entities as well as CIBC.

**14. Share Capital and Reserves**

The Bank's authorised capital is \$20 million, comprising 150 million ordinary shares with a par value of \$0.10 each and 50 million preference shares also having a par value of \$0.10 each. All issued ordinary shares are fully paid. No preference shares were issued in 2010 and 2009. At October 31, 2010 and 2009, the issued share capital was as follows:

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

**Objectives, policies and procedures**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**14. Share Capital and Reserves (Continued)**

**Objectives, policies and procedures (continued)**

Each year a capital plan and three-year outlook are established, encompassing all the associated elements of capital: forecasts of sources and uses, maturities, redemptions, new issuance, corporate initiatives, and business growth. The capital plan is stress-tested in various ways to ensure that it is sufficiently robust under all reasonable scenarios. All of the elements of capital are monitored throughout the year, and the capital plan is adjusted as appropriate.

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

**Regulatory requirements**

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

BIS standards require that banks maintain minimum Tier 1 and Total capital ratios of 4% and 8% respectively. The Central Bank has established that Bahamian deposit-taking financial institutions maintain Tier 1 and Total capital ratios of the same respectively. During the year, the Bank has complied in full with all of our regulatory capital requirements.

**Regulatory capital**

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**14. Share Capital and Reserves (Continued)**

**Regulatory capital (continued)**

In 2010, Tier 1 and Total Capital ratios were 20.89% and 21.47%, respectively (2009: 18.85% and 19.46% respectively).

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Share capital</b>	477,230	477,230
<b>Reserves</b>		
Statutory reserve fund – Turks and Caicos Islands	27,816	23,113
Statutory loan loss reserve – Bahamas	10,308	13,663
Revaluation reserve – Available-for-sale investments	(9,305)	(8,381)
Reverse acquisition reserve	(63,566)	(63,566)
<b>Total reserves</b>	(34,747)	(35,171)
<b>Total share capital and reserves</b>	442,483	442,059

Under the Banking (Amendment) Ordinance 2002 of the Turks and Caicos Islands (TCI), the Bank was required in 2004 to assign capital to the TCI operations in the amount of \$24 million.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

14. Share Capital and Reserves (Continued)

Regulatory capital (continued)

The movements in reserves were as follows:

	2010 \$	2009 \$
<b>Statutory reserve fund</b>		
– Turks and Caicos Islands		
Balance, beginning of year	23,113	18,085
Transfers from retained earnings	4,703	5,028
Balance, end of year	<u>27,816</u>	<u>23,113</u>

In accordance with the Banking (Amendment) Ordinance 2002 of the TCI and the regulations of the Financial Services Commission of the Turks and Caicos Islands, the Bank is required to maintain a statutory reserve fund of not less than the amount of its assigned capital. Where it is less than the assigned capital, the Bank is required to annually transfer 25% of its net profit earned from its TCI operations to this fund. The Bank's practice is to make this transfer based on net profits of the preceding fiscal year. During the year the Bank transferred \$4,703 (2009: \$5,028) from retained earnings to the statutory reserve fund.

	2010 \$	2009 \$
<b>Revaluation reserve – available-for-sale investments</b>		
Balance, beginning of year	(8,381)	(33,189)
Net gain (loss) from changes in fair value of available-for-sale investments (Note 7)	(924)	24,808
Balance, end of year	<u>(9,305)</u>	<u>(8,381)</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

14. Share Capital and Reserves (Continued)

Regulatory capital (continued)

	2010	2009
	\$	\$
<b>Statutory loan loss reserve – Bahamas</b>		
Balance, beginning of year	13,663	15,287
Transfers to retained earnings	(3,355)	(1,624)
Balance, end of year	<u>10,308</u>	<u>13,663</u>

Banking Regulations of The Central Bank of The Bahamas require a general provision in respect of the performing loans of at least one percent of these loans. To the extent the inherent risk provision for loans and advances to customers is less than this amount, a statutory loan loss reserve has been established and the required additional amount has been appropriated from retained earnings, in accordance with IFRS.

Reverse acquisition reserve

	2010	2009
	\$	\$
Reverse acquisition reserve, beginning and end of year	<u>(63,566)</u>	<u>(63,566)</u>

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

In accordance with IFRS, the equity of the combined Bank at October 11, 2002 comprised the equity of the Barclays branches and subsidiaries (\$211,295), together with the fair value of the CIBC Bahamas business (\$196,966), for a total of \$408,261. However, the legal share capital and premium of the Bank comprises the issued share capital and premium of CIBC Bahamas plus the shares issued to effect the combination recorded at fair value for a total of \$478,828 at October 11, 2002.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**14. Share Capital and Reserves (Continued)**

**Reverse acquisition reserve (continued)**

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

**15. Net Interest Income**

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Interest and similar income</b>		
Cash and short-term funds	951	2,962
Financial assets at fair value through profit or loss	-	3,342
Investment securities	35,224	40,502
Loans and advances to customers	156,815	170,212
	<u>192,990</u>	<u>217,018</u>
 <b>Interest and similar expense</b>		
Banks and customers	51,342	65,764
Other borrowed funds	12,613	8,361
	<u>63,955</u>	<u>74,125</u>
 <b>Net interest income</b>	 <u>129,035</u>	 <u>142,893</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**16. Other Operating Income**

	<b>2010</b>	<b>2009</b>
	\$	\$
Fee and commission income	18,188	18,727
Foreign exchange commissions	9,878	10,195
Foreign exchange revaluation net gains/(losses)	574	(579)
Net trading losses	(256)	(9,433)
Net investment securities gains	4,847	4,493
Net hedging gains/(losses)	3,432	(3,567)
Other operating income	3,463	5,506
	<hr/>	<hr/>
	40,126	25,342
	<hr/>	<hr/>

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

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

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

**Analysis of fee and commission income:**

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Fee and commission income</b>		
Underwriting fees and commissions	317	192
Deposit services fees and commissions	5,906	6,479
Credit services fees and commissions	3,087	3,268
Card services fees and commissions	5,288	4,905
Funds transfer fees and commissions	3,222	3,452
Other fees and commissions	368	431
	<hr/>	<hr/>
	18,188	18,727
	<hr/>	<hr/>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**17. Operating Expenses**

	<b>2010</b>	<b>2009</b>
	\$	\$
Staff costs	37,822	39,116
Business license and management fee	14,592	5,686
Occupancy and maintenance	11,968	10,715
Depreciation (Note 9)	3,373	3,470
Other operating expenses	9,339	12,092
	<hr/>	<hr/>
	77,094	71,079
	<hr/>	<hr/>

**Analysis of staff costs:**

	<b>2010</b>	<b>2009</b>
	\$	\$
Wages and salaries	29,281	30,542
Pension costs/(income):		
-defined benefit sections of the plan (Note 10)	2,992	2,340
-defined contribution section of the plan	337	402
Post-retirement medical benefits charge/income (Note 10)	292	312
Share-based payments	228	271
Other staff related costs	4,692	5,249
	<hr/>	<hr/>
	37,822	39,116
	<hr/>	<hr/>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**17. Operating Expenses (Continued)**

**Analysis of other operating expenses:**

	<b>2010</b>	<b>2009</b>
	\$	\$
Communications	1,888	2,051
Professional fees	961	1,629
Business development	437	424
Advertising and marketing	139	106
Gain/(loss) on sale of property & equipment	(4)	116
Other	5,918	7,766
	<hr/>	<hr/>
	9,339	12,092
	<hr/>	<hr/>

**18. Earnings per Share**

**Basic earnings per share**

	<b>2010</b>	<b>2009</b>
	\$	\$
Net income attributable to shareholders	<hr/> 61,863	<hr/> 78,637
Weighted average number of ordinary shares in issue (note 14)	120,216	120,216
Basic earnings per share (expressed in cents per share)	<hr/> 51.5	<hr/> 65.4

The Bank has no dilutive securities.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**19. Dividends Paid**

	2010 \$	2009 \$
<b>Declared and paid during the year</b>		
First dividend \$0.16 (2009-\$0.20)	19,234	24,044
Final dividend \$0.15 (2009-\$0.15)	18,032	18,032
	<hr/>	<hr/>
Total dividends declared and paid	37,266	42,076
	<hr/>	<hr/>

At the Board of Directors meeting held on December 14, 2010, a final dividend of \$0.15 per share amounting to \$18,032 in respect of the 2010 net income was proposed and declared. The consolidated financial statements for the year ended October 31, 2010 do not reflect this resolution, which will be accounted for in equity as a distribution of retained earnings in the year ending October 31, 2011.

**20. Components of Other Comprehensive Income**

	2010 \$	2009 \$
Available-for-sale financial assets:		
Net gains arising during the year	3,923	29,301
Less: reclassification adjustments for gains included in the statement of income	(4,847)	(4,493)
	<hr/>	<hr/>
Other comprehensive (loss) / income for the year	(924)	24,808
	<hr/>	<hr/>

**21. 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 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 contributions are expensed as incurred and totalled \$228 in 2010 (2009: \$271).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**22. Related Party Transactions and Balances**

As discussed in Note 1, the Bank's Parent and major shareholder is FirstCaribbean International Bank Limited who owns 95.2% of the Bank's ordinary shares. From October 11, 2002, FCIB's major shareholders were jointly CIBC and Barclays. On December 22, 2006, CIBC acquired Barclays's interest in FCIB and now owns 91.4% of the shares of The Bank's Parent (FCIB). The remaining shares are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. Outstanding balances at year-end and transactions during the year are as follows:

	Directors and key management personnel		Major shareholder and associated banks		Ultimate Shareholders	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Balances:</b>						
Due from banks	-	-	61,189	116,930	2,969	73,875
Loans and advances to customers	2,874	2,715	332,723	-	-	-
Other assets	-	-	21	11	-	570
Deposit liabilities	2,944	5,418	418,313	477,564	28,349	27,453
Other liabilities	-	-	12,441	3,457	38	102
<b>Transactions:</b>						
Interest income earned	117	105	326	2,580	43	392
Interest expense incurred	148	258	8,056	15,380	1,312	852
Other income	-	-	5,790	-	6,524	16,247
Other expenses*	-	-	12,034	3,447	734	1,294

\* Expenses incurred in relation to banking and support services.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**22. Related Party Transactions and Balances (Continued)**

	2010 \$	2009 \$
<b>Key management compensation</b>		
Salaries and short term benefits	2,309	2,715

**Directors' remuneration**

In 2010, the total remuneration to the directors was \$49 (2009: \$40).

**23. Commitments, Guarantees and Contingent Liabilities**

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

	2010 \$	2009 \$
Letters of credit	50,297	47,840
Undrawn loan commitments	175,604	198,476
Guarantees and indemnities	42,351	47,055
Total (Note 26)	268,252	293,371

The Bank is the subject of legal actions arising in the normal course of business. Management considers that the liability of these actions, if any, would not be material. (Also see Note 27).

On December 19, 2008, the Bank entered into a \$250 million credit facility with CIBC for general corporate purposes and the Bank is expected to treat the facility as back up liquidity facility. The original maturity date was 364 days from the closing date (December 19, 2008) with extension privileges for an additional 364 days. Advances would be available as LIBOR rate advances or Base Rate (Canada) Advances. Interest rates are at LIBOR + 300bps (pricing grid to be develop based on external ratings) or US Base rate +200 bps (pricing grid to be develop based on external ratings). On December 19, 2009, the Bank reduced its credit facility to \$50 million and exercised its option to extend the facility. As of October 31, 2010, no advances were made from the facility, all balances are undrawn.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**24. Future Rental Commitments under Operating Leases**

As at October 31, 2010, the Bank held leases on buildings for extended periods. The future rental commitments under these leases are as follows:

	<b>2010</b>	<b>2009</b>
	\$	\$
Not later than 1 year	2,540	2,912
Later than 1 year and not more than 5 years	5,607	4,693
Later than 5 years	3,526	126
	<hr/>	<hr/>
	11,673	7,731
	<hr/>	<hr/>

**25. Business Segments**

Effective November 1, 2008, the Bank re-organised operations into two lines: Retail & Wealth Management and Corporate Investment Banking that are supported by the functional operating units, within Administration.

**Retail and Wealth Management (“R&WM”)**

This line of business provides a full range of financial products and services to individuals. Clients can access our services and products through our network of branches in the Caribbean, as well as, use the convenience of Automated Banking Machines (“ABMs”), Telephone Banking and Cards (Issuing). Our Wealth Management centres help individuals achieve their financial goals through an array of investment products, deposit accounts, loans, mortgages and other services.

For Personal Wealth Management clients and Domestic clients who meet the Wealth Management criteria, the Bank offers traditional day-to-day banking services, investment advice, and a relationship management offering of being pro-active on client needs. The International Mortgage group provides funding in U.S. dollars, and other ‘hard currencies’ typically to non-residents of The Bahamas seeking to purchase homes for personal/investment use.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**25. Business Segments (Continued)**

**Corporate Investment Banking (“CIB”)**

This line of business comprises two sub-segments: Corporate Banking and Investment Banking.

**Corporate Banking** provides a full range of corporate and commercial banking services, including Cards Merchant Acquiring business, to large and mid-size corporations and small businesses, governments, financial institutions, international trading companies and private wealth vehicles throughout the Caribbean. The Corporate International Wealth unit specializes in providing banking services to businesses and professional intermediaries who use international financial centres.

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

**Administrative “Admin”**

The Administration segment includes Finance, HR, Risk, Technology & Operations, Treasury Sales & Trading (“TST”), and other units which support the Bank’s lines of business. The revenues and expenses of the functional groups are generally allocated to the business segments. The administration unit retains earning on excess capital and the offset to capital charges allocated to the business segments.

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income, which for the total of all segments is equal to the consolidated financial statements. However, at the segment level, this measure of profit includes a notional charge for the segment’s use of capital which is fully offset by a credit within the ‘Administration’ segment.

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

Funds are ordinarily allocated between segments, resulting in funding costs transfers. Interest charged for these funds is based on the Bank’s funds transfer pricing.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**25. Business Segments (Continued)**

**Administrative “Admin” (Continued)**

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as intangible assets.

Internal charges and transfer pricing adjustments are reflected in the performance of each business.

	<b>R&amp;WM</b>	<b>CIB</b>	<b>Admin</b>	<b>Total</b>
	\$	\$	\$	\$
<b>October 31, 2010</b>				
External revenues	111,664	75,388	46,064	233,116
Revenues from other segments	(10,027)	32,337	(22,310)	-
Total revenues	<u>101,637</u>	<u>107,725</u>	<u>23,754</u>	<u>233,116</u>
Net income for the year	<u>9,860</u>	<u>27,600</u>	<u>24,403</u>	<u>61,863</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**25. Business Segments (Continued)**

Segment results include the following items of income or expense:

	<b>R&amp;WM</b>	<b>CIB</b>	<b>Admin</b>	<b>Total</b>
	\$	\$	\$	\$
Interest income	70,669	74,553	47,768	192,990
Interest expense	21,632	21,202	21,121	63,955
Loan loss impairment	11,435	18,769	-	30,204
Net hedging gain	-	-	3,432	3,432
Depreciation	1,279	27	2,067	3,373

Total assets and liabilities by segments are as follows:

Segment assets	1,306,072	1,259,018	846,159	3,411,249
Unallocated assets	-	-	-	187,747
<b>Total assets</b>	<b>1,306,072</b>	<b>1,259,018</b>	<b>846,159</b>	<b>3,598,996</b>
Segment liabilities	1,115,392	1,326,437	426,313	2,868,142
<b>Total liabilities</b>	<b>1,115,392</b>	<b>1,326,437</b>	<b>426,313</b>	<b>2,868,142</b>

	<b>R &amp; WM</b>	<b>CIB</b>	<b>Admin</b>	<b>Total</b>
	\$	\$	\$	\$
<b>October 31, 2009</b>				
External revenues	113,321	88,161	40,878	242,360
Revenues from other segments	(9,917)	23,344	(13,427)	-
Total revenues	103,404	111,505	27,451	242,360
Net income for the year	24,578	48,112	5,947	78,637

Segment results include the following items of income or expense:

Interest income	73,894	79,114	64,010	217,018
Interest expense	28,095	21,119	24,911	74,125
Loan loss impairment	2	18,517	-	18,519
Net hedging loss	-	-	(3,567)	(3,567)
Depreciation	1,346	34	2,090	3,470

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**25. Business Segments (Continued)**

Total assets and liabilities by segments are as follows:

	R & W \$	CIB \$	Admin \$	Total \$
<b>October 31, 2009</b>				
Segment assets	1,312,874	1,356,513	905,538	3,574,925
Unallocated assets	-	-	-	187,747
<b>Total assets</b>	<b>1,312,874</b>	<b>1,356,513</b>	<b>905,538</b>	<b>3,762,672</b>
Segment liabilities	1,178,767	1,406,345	470,379	3,055,491
<b>Total liabilities</b>	<b>1,178,767</b>	<b>1,406,345</b>	<b>470,379</b>	<b>3,055,491</b>

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

**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 and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**B. Credit risk**

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

*Process and control*

The Credit Risk Management Department (“CRMD”) is responsible for the provision of the Bank’s adjudication, oversight and management of credit risk within its portfolios.

The Credit Executive Committee (CrExCo) of CRMD has responsibility for monitoring credit metrics, providing direction on credit issues and making recommendations on credit policy.

CRMD is guided by the Bank’s Delegation Authority policy which is based on the levels of exposure and risk. Credits above the discretion delegated to the front line business are approved by CRMD and above this level by Credit Committee and the Risk & Conduct Review Committee of the Board (R&CRC). The R&CRC also has the responsibility for setting policy 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 & government) for the purposes of diversification and managing concentration. These include limits for individual borrowers, groups of related borrowers, industry sectors, country and geographic regions and products or portfolios. The Bank does not have excessive concentration in any single borrower, or related group of borrowers, industry sector or country.

*Collateral*

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

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management**

**B. Credit risk (continued)**

The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty.

Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure.

***Geographic distribution***

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

	<b>Drawn</b>	<b>Undrawn</b>	<b>Gross Maximum Exposure 2010</b>	<b>Drawn</b>	<b>Undrawn</b>	<b>Gross Maximum Exposure 2009</b>
	\$	\$	\$	\$	\$	\$
Bahamas	2,111,278	149,565	2,260,843	2,258,967	161,678	2,420,645
Turks & Caicos	396,724	26,039	422,763	366,633	36,798	403,431
	<u>2,508,002</u>	<u>175,604</u>	<u>2,683,606</u>	<u>2,625,600</u>	<u>198,476</u>	<u>2,824,076</u>

***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 impairments, interest receivables and unearned fee income. Amounts are before allowance for credit losses, and after credit risk mitigation, valuation adjustments related to financial guarantors, and collateral on agreements.

	<b>Drawn</b>	<b>Undrawn</b>	<b>Gross Maximum Exposure 2010</b>	<b>Drawn</b>	<b>Undrawn</b>	<b>Gross Maximum Exposure 2009</b>
	\$	\$	\$	\$	\$	\$
Agriculture	22,338	48	22,386	16,889	2,103	18,992
Governments	305,545	5,109	310,654	295,025	2,588	297,613
Construction	207,975	11,547	219,522	212,323	14,361	226,684

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

B. Credit risk (continued)

	Drawn	Undrawn	Gross Maximum Exposure 2010	Drawn	Undrawn	Gross Maximum Exposure 2009
	\$	\$	\$	\$	\$	\$
Distribution	83,181	24,575	107,756	115,897	25,278	141,175
Fishing	42,436	3,868	46,304	46,087	4,628	50,715
Health & social work	24,147	-	24,147	17,120	7,951	25,071
Hotels & restaurants	229,648	4,296	233,944	283,515	7,808	291,323
Individuals & individual trusts	1,039,638	96,662	1,136,300	1,042,419	94,532	1,136,951
Manufacturing	22,138	5,323	27,461	28,957	9,773	38,730
Mining & quarrying	166	6	172	188	-	188
Miscellaneous	246,875	13,116	259,991	262,681	15,163	277,844
Other financial corporations	12,500	2,484	14,984	12,541	1,916	14,457
Real estate, renting & other business activities	260,298	8,199	268,497	280,617	11,352	291,969
Transport, storage & communication	11,117	371	11,488	11,341	1,023	12,364
	<u>2,508,002</u>	<u>175,604</u>	<u>2,683,606</u>	<u>2,625,600</u>	<u>198,476</u>	<u>2,824,076</u>

***Impaired financial assets and provision for credit losses***

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**B. Credit risk (continued)**

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

*Derivatives*

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

*Master netting arrangements*

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

*Credit related commitments*

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**October 31, 2010**

**(Expressed in thousands of Bahamian dollars)**

**26. Financial Risk Management (Continued)**

**B. Credit risk (continued)**

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

***Maximum exposure to credit risk***

The maximum exposure to credit risk would be all consolidated statement of financial position carrying values of all financial assets plus the off-balance sheet contingent liabilities and commitments (Note 23). The gross maximum exposure would be before allowance for credit losses and the effect of mitigation through the use of master netting and collateral arrangements.

The maximum exposure to credit risk within the customer loan portfolio would be all the consolidated statement of financial position carrying values plus the off-balance sheet loan commitment amounts (Note 23). The gross maximum exposure within the customer loan portfolio would be before allowance for credit losses and the effect of mitigation through the use of master netting and collateral arrangements, plus the off-balance sheet loan commitments amount.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

**C. Geographical concentration of assets, liabilities and commitments, guarantees and contingent liabilities**

The following note incorporates IAS 32 credit risk disclosures, IAS 30 geographical concentrations of assets, liabilities and commitments, guarantees and contingent liabilities disclosures and a public enterprise's IAS 14 secondary segment disclosures.

	Total assets \$	Total liabilities \$	Commitments, guarantees and contingent liabilities \$	Capital expenditure \$	External Revenues \$	Non- current assets \$
<b>October 31, 2010</b>						
Bahamas	3,079,983	2,413,459	238,428	2,353	207,308	2,951,343
Turks & Caicos Islands	519,013	454,683	29,824	357	25,808	390,743
	<u>3,598,996</u>	<u>2,868,142</u>	<u>268,252</u>	<u>2,710</u>	<u>233,116</u>	<u>3,342,086</u>

	Total assets \$	Total liabilities \$	Commitments, guarantees and contingent liabilities \$	Capital expenditure \$	External Revenues \$	Non- current assets \$
<b>October 31, 2009</b>						
Bahamas	3,234,848	2,593,712	252,721	2,309	210,475	2,984,635
Turks & Caicos Islands	527,824	461,779	40,650	1,445	31,885	364,167
	<u>3,762,672</u>	<u>3,055,491</u>	<u>293,371</u>	<u>3,754</u>	<u>242,360</u>	<u>3,348,802</u>

The Bank is managed based on the two lines of business, and it operates in two main geographical areas. The Bank's exposure to credit risk is concentrated in these areas.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

## 26. Financial Risk Management (Continued)

**C. Geographical concentration of assets, liabilities commitments, guarantees and contingent liabilities (continued)**

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

	2010 \$	2010 %	2009 \$	2009 %
Bahamas	2,035,196	84	2,185,373	86
Turks & Caicos Islands	383,640	16	356,383	14
	2,418,836	100	2,541,756	100

**D. Credit rating system and credit quality per class of financial assets*****Credit quality***

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

<u>Quality per FCIB</u>	<u>Standard &amp; Poor's equivalent</u>	<u>Moody's Investor Services</u>
High grade	AAA to BBB-	Aaa to Baa3
Standard	BB+ to B-	Ba to B3
Substandard	CCC+ to CC	Caa1 to Ca
Impaired	D	C

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**D. Credit rating system and credit quality per class of financial assets (continued)**

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.

The credit quality of financial assets is managed using internal credit ratings.

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

Grade description	Performing			Impaired \$	2010 Total \$
	High Grade \$	Standard Grade \$	Sub- Standard Grade \$		
Loans and advances to customers					
-Mortgages	948,022	15,469	23,186	167,834	1,154,511
-Personal loans	225,341	2,236	2,689	45,453	275,719
-Business and government loans	903,290	2,442	2,812	169,228	1,077,772
<b>Total (Note 8)</b>	<b>2,076,653</b>	<b>20,147</b>	<b>28,687</b>	<b>382,515</b>	<b>2,508,002</b>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

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

Grade description	Performing			Impaired \$	2009 Total \$
	High Grade \$	Standard Grade \$	Sub- Standard Grade \$		
Loans and advances to customers					
-Mortgages	932,433	48,751	50,353	142,165	1,173,702
-Personal loans	240,593	5,945	7,257	47,770	301,565
-Business and government loans	915,781	25,974	73,493	135,085	1,150,333
<b>Total (Note 8)</b>	<b>2,088,807</b>	<b>80,670</b>	<b>131,103</b>	<b>325,020</b>	<b>2,625,600</b>

E. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk arises from positions in securities and derivatives as well as from the core retail, wealth and corporate businesses. The key risks to the Parent Group are interest rate, foreign exchange, and credit spread. Market risk within the Bank is therefore centralized which mirrors the way that the hard currencies are managed by Treasury Sales and Trading and although the local currency exposures are managed in their respective geographic regions, these exposures are still monitored, measured and controlled centrally from a market risk perspective. The Bank classifies market risk exposures into trading and non-trading, with all of the former represented by products traded and managed by an external global investment manager.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**E. Market risk (continued)**

***Policies and standards:***

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

***Process and control:***

Market risk measures are monitored with differing degrees of frequency dependent upon the relative risk and speed with which the risk changes. FX positions, Value at risk (VaR) and certain P&L measures are all measured daily whereas others such as stress tests and credit spread sensitivity are performed on either a weekly or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a monthly basis and a summary version is reported quarterly to the Parent Group Board.

***Risk measurement:***

The Bank has four main measures of market risk, which as noted above are calculated and managed at the Parent Group level and not by individual subsidiary or subsidiary grouping. These are:

- 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,
- Value at Risk (VaR) measures for both interest rate risk and for non-pegged currencies, and
- Stress scenarios based upon a combination of theoretical situations and historical events.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**E. Market risk (continued)**

***Position:***

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

***Sensitivity:***

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

The CSDV01 sensitivity looks at the risk of the spreads between the USD denominated, locally issued bond portfolio and the benchmark USD interest rate curve widening or narrowing as well as to look at the effect of that same type of credit spread move impacting the value of the USD structural hedge positions.

## 26. Financial Risk Management (Continued)

### E. Market risk (continued)

#### *Value at risk:*

The Parent Group's Value at Risk ("VaR") methodology utilizes the tested and validated CIBC parent models. It is a statistical and probability based approach that uses volatilities and correlations to quantify risk into dollar terms. VaR measures the potential loss from the adverse market movements that can occur overnight with a less than one percent probability of occurring under normal market conditions, based on equally weighted historical data. VaR uses numerous risk factors as inputs and is computed through the use of historical volatility of each risk factor and the associated correlations among them, evaluated over a one year period and updated on a regular basis. The use of these historical measures do cause a degree of limitation to its accuracy as it assumes that future price movements will follow a statistical distribution and thus may not clearly predict the future impact. The fact that VaR is an end of day measure and thus does not take into account intra-day moves is not a significant issue for the Parent Group as neither the trading nor non-trading portfolios are that active and the FX is controlled via trade and volume size limits. A further weakness of the VaR measure is that it does not estimate the effects of market variable moves outside of the ninety-nine percent parameter and hence may underestimate losses. To counter this, the Parent Group has various stress measures to calculate potential tail event losses.

#### *Stress testing & scenario analysis:*

Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern. The Parent Group has two distinct approaches to this. For the hard currency testing it sends its position sensitivity to CIBC and utilizes the suite of measures that CIBC has developed. The stress testing measures the effect on our 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 again for the Parent Group'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 CIBC's economists, business leaders and risk managers.

## 26. Financial Risk Management (Continued)

### E. Market risk (continued)

#### *Stress testing & scenario analysis (continued):*

The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with TST consider the market data over approximately the last ten years and identify the greatest curve or data point moves over both sixty day and single day periods. These are then applied to the existing positions/sensitivities of the Parent Group. This is performed and reported on a monthly basis as they do not tend to change rapidly. For foreign exchange stresses the Parent Group considers what the effect of a currency coming off a peg would have on the earnings of the Bank. This is largely judgmental as it has happened so infrequently in the region and it is supplemented by some historical reviews both within the region and in other areas where pegged currency regimes have or do exist.

#### *Interest rate risk:*

Interest rate risk in the trading book arises from the changes in interest rate affecting the future cash flows of the financial instruments in the outsourced investment portfolio. The investment manager hedges most of this risk as the particular strategy they follow is a relative value approach as opposed to an outright interest rate call. 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 inclusive of those assets not recognised in the consolidated statement of financial position.

As noted above, interest rate risk is measured, managed and monitored centrally from a Parent Group perspective and the results and analysis is disclosed in the Parent Group's financial statements. Notwithstanding this fact, interest rate risk analysis was prepared for the Bank based on what was disclosed at the Parent Group level. As Parent Group's functional and presentational currency is in USD, the following analysis is done in USD terms and the foreign exposure and risk would be to currencies other than USD.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

E. Market risk (continued)

*Interest rate risk (continued):*

The following table shows the potential impact of an immediate one hundred basis point increase or decrease in interest rates over the next twelve months in USD equivalent.

*Interest rate risk*

	2010 \$	2009 \$
100bp increase in interest rates		
Impact on net interest income	(1,800)	(2,000)
Impact on other comprehensive income	(6,500)	(6,600)
100bp decrease in interest rates		
Impact on net interest income	1,800	2,000
Impact on other comprehensive income	6,500	6,600

The Parent Group Board approved a post structural interest rate assumption approach as at September 30, 2008 and as a result, measurement limit monitoring and control were transferred to this approach. This is shown in the following table in USD equivalent.

Currency	2010				2009			
	Post Structural DV01 \$	Contractual DV01 \$	VaR \$	60 day Stressed Loss \$	Post Structural DV01 \$	Contractual DV01 \$	VaR \$	60 day Stressed Loss \$
Bahamas Dollars	65.5	(12.2)	70	2,175	65.7	(14.5)	118	1,953

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

E. Market risk (continued)

***Credit spread risk:***

Credit spread exists as the benchmark curve and the reference asset curves either converge or diverge. The Bank has 2 portfolios that have a material amount of credit spread risk. The risk is measured using an estimated CSDV01 and stress scenarios. In the past this credit spread risk was measured only at the Group level but as an ongoing reporting enhancement for 2010, this is now available for the Bank. The results of these are reported monthly to senior management.

	Notional \$	CSDV01 (* \$	Stressed Loss (* \$
Local issued hard currency denominated bond portfolio	273,313	218.3	51,780
Structural interest rate hedge portfolio (bank paper)	34,800	14.0	3,428

\*For the locally issued debt based upon over 85% of the portfolio by notional.

***Derivatives held for asset and liability management (ALM) purposes:***

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

***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. A significant number of the regional currencies are pegged to the USD and the VaR measure is not appropriate. More emphasis is therefore placed on the overall position limit and related stress tests. The Board has set limits on positions by currency. Positions are monitored on a daily basis and Treasury Sales & Trading are solely responsible for the hedging of the exposure of the Bank.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)****E. Market risk (continued)***Foreign exchange risk (continued)*

As noted above, foreign exchange risk is measured, managed and monitored centrally from a Parent Group perspective and the results and analysis is disclosed in the Parent Group's financial statements. Notwithstanding this fact, foreign exchange risk analysis was prepared for the Bank based on what was disclosed at the Parent Group level. As Parent Group's functional and presentational currency is in USD, the following analyses are all done in USD terms and the foreign exposure and risk would be related to currencies other than USD.

The following table highlights the currencies that the Bank had significant exposures to at each year end in USD equivalent.

Currency	2010			2009		
	Position	Stressed	Average	Position	Stressed	Average
	long/ (short) \$	Loss \$	Position \$	Long/ (short) \$	Loss \$	Position \$
Bahamian dollars	1,621	486	(261)	(3,540)	283	829
Barbados dollars	170	51	103	49	15	68
Canadian dollars	99	10	100	(1)	-	8
Euro dollars	63	6	83	(88)	9	452
Great Britain pounds	(62)	6	38	(264)	26	(2,059)

During 2008, the Parent Group introduced a measure to quantify non-trading foreign exchange risk, also referred to as post 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 currencies other than the Parent Group's presentation currency of USD.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at October 31. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

E. Market risk (continued)

*Foreign exchange risk (continued)*

Concentrations of assets, liabilities and commitments, guarantees and contingent liabilities:

October 31, 2010	BAH \$	US \$	Other \$	Total \$
<b>Assets</b>				
Cash and balances with Central Bank	76,702	12,178	313	89,193
Due from banks	10,305	96,345	42,276	148,926
Other assets	14,931	3,715	145	18,791
Investment securities	253,177	292,303	141,982	687,462
Loans and advances to customers	1,320,982	1,095,557	2,297	2,418,836
Property and equipment	19,509	5,770	67	25,346
Retirement benefit assets	8,773	1,307	(41)	10,039
Goodwill	186,582	1,165	-	187,747
Derivative financial instruments	-	12,639	17	12,656
Total assets	<u>1,890,961</u>	<u>1,520,979</u>	<u>187,056</u>	<u>3,598,996</u>
<b>Liabilities</b>				
Customer deposits	1,242,262	1,222,930	302,167	2,767,359
Derivative financial instruments	-	71,010	4,966	75,976
Other liabilities	(13,752)	33,918	168	20,334
Retirement benefit obligations	4,296	177	-	4,473
Total liabilities	<u>1,232,806</u>	<u>1,328,035</u>	<u>307,301</u>	<u>2,868,142</u>
Net assets/(liabilities)	<u>658,155</u>	<u>192,944</u>	<u>(120,245)</u>	<u>730,854</u>
Commitments, guarantees and contingent liabilities (Note 23)	<u>98,679</u>	<u>168,108</u>	<u>1,465</u>	<u>268,252</u>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**E. Market risk (continued)**

	<b>BAH</b>	<b>US</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$
<b>October 31, 2009</b>				
Total assets	1,869,823	1,693,679	199,170	3,762,672
Total liabilities	1,261,162	1,519,595	274,734	3,055,491
Net assets/(liabilities)	608,661	174,084	(75,564)	707,181
Commitments, guarantees and contingent liabilities (Note 23)	112,927	177,474	2,970	293,371

**F. Cash flow and fair value interest rate risk**

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

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

**G. Liquidity risk**

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**G. Liquidity risk (continued)**

***Process and control:***

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

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

***Risk management:***

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 is ultimately responsible for the Bank's liquidity.

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

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.

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

G. Liquidity risk (continued)

*Risk management (continued):*

Maturities of assets and liabilities

October 31, 2010	0-3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Total \$
<b>Assets</b>					
Cash and balances with Central Bank	89,193	-	-	-	89,193
Due from banks	148,421	505	-	-	148,926
Other assets	18,791	-	-	-	18,791
Investment securities	83,566	49,766	211,272	342,858	687,462
Loans and advances to customers	233,888	66,081	492,813	1,626,054	2,418,836
Property and equipment	-	-	2	25,344	25,346
Retirement benefit assets	-	-	-	10,039	10,039
Goodwill	-	-	-	187,747	187,747
Derivative financial instruments	12,656	-	-	-	12,656
<b>Total assets</b>	<b>586,515</b>	<b>116,352</b>	<b>704,087</b>	<b>2,192,042</b>	<b>3,598,996</b>
<b>Liabilities</b>					
Customer deposits	2,072,672	652,931	1,119	40,637	2,767,359
Derivative financial instruments	75,976	-	-	-	75,976
Other liabilities	20,334	-	-	-	20,334
Retirement benefit obligations	-	-	-	4,473	4,473
<b>Total liabilities</b>	<b>2,168,982</b>	<b>652,931</b>	<b>1,119</b>	<b>45,110</b>	<b>2,868,142</b>
<b>Net assets/(liabilities)</b>	<b>(1,582,467)</b>	<b>(536,579)</b>	<b>702,968</b>	<b>2,146,932</b>	<b>730,854</b>
<b>Commitments, guarantees and contingent liabilities</b>	<b>252,334</b>	<b>15,761</b>	<b>157</b>	<b>-</b>	<b>268,252</b>

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

G. Liquidity risk (continued)

*Risk management (continued):*

October 31, 2009	0-3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Total \$
Total assets	666,646	158,986	751,564	2,185,476	3,762,672
Total liabilities	2,045,824	982,479	22,969	4,219	3,055,491
Net assets/(liabilities)	(1,379,178)	(823,493)	728,595	2,181,257	707,181
Commitments, guarantees and contingent liabilities	277,377	7,639	8,355	-	293,371

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

## 26. Financial Risk Management (Continued)

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

#### *Determination of fair value and the fair value hierarchy*

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All of the Bank's financial instruments which include derivative financial instruments and investment securities are at Level 2.

#### *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 Banks' estimate of assumptions that a market participant would make when valuing the instruments:

#### *Derivative financial instruments*

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

#### *Available-for-sale investment securities*

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**26. Financial Risk Management (Continued)**

**H. Fair values of financial assets and liabilities (continued)**

*Fair value of financial instruments not carried at fair value*

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

**Loans and advances to customers**

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

**Customer deposits**

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

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

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

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

26. Financial Risk Management (Continued)

H. Fair values of financial assets and liabilities (continued)

The following table summarizes the carrying amounts and fair values of the Bank's financial assets and liabilities not presented on the consolidated statement of financial position at fair value. The table does not include the fair values of non-financial assets and non-financial liabilities, nor does it include financial instruments carried at fair value disclosed above.

	Carrying Value 2010 \$	Fair Value 2010 \$	Unrecognised gain/(loss) 2010 \$	Carrying Value 2009 \$	Fair Value 2009 \$	Unrecognised gain/(loss) 2009 \$
<b>Financial assets</b>						
Cash and balances with Central Bank	89,193	89,193	-	102,273	102,273	-
Due from banks	148,926	148,926	-	309,098	309,098	-
Investment securities	687,462	687,462	-	580,259	580,259	-
Loans and advances to customers	2,418,836	2,435,922	17,086	2,541,756	2,631,642	89,886
<b>Financial liabilities</b>						
Customer deposits	2,767,359	2,882,231	(114,872)	2,985,964	3,045,876	(59,912)
<b>Total unrecognised change in unrealised fair value</b>			<u>(97,786)</u>			<u>29,974</u>

27. Fiduciary Activities

The Bank provides custody and trustee discretionary investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. At the reporting date, the Bank had investment assets under administration on behalf of third parties amounting to \$152,310 (2009: \$117,281).

FIRSTCARIBBEAN INTERNATIONAL BANK (BAHAMAS) LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2010

(Expressed in thousands of Bahamian dollars)

**27. Fiduciary Activities (continued)**

**Principal Subsidiary Undertakings**

<b>Name</b>	<b>Country of incorporation</b>
FirstCaribbean International Finance Company (Bahamas) Limited	Bahamas
FirstCaribbean International (Bahamas) Nominees Company Limited	Bahamas
FirstCaribbean International Land Holdings (TCI) Limited	Turks & Caicos Islands

All subsidiaries are wholly owned.