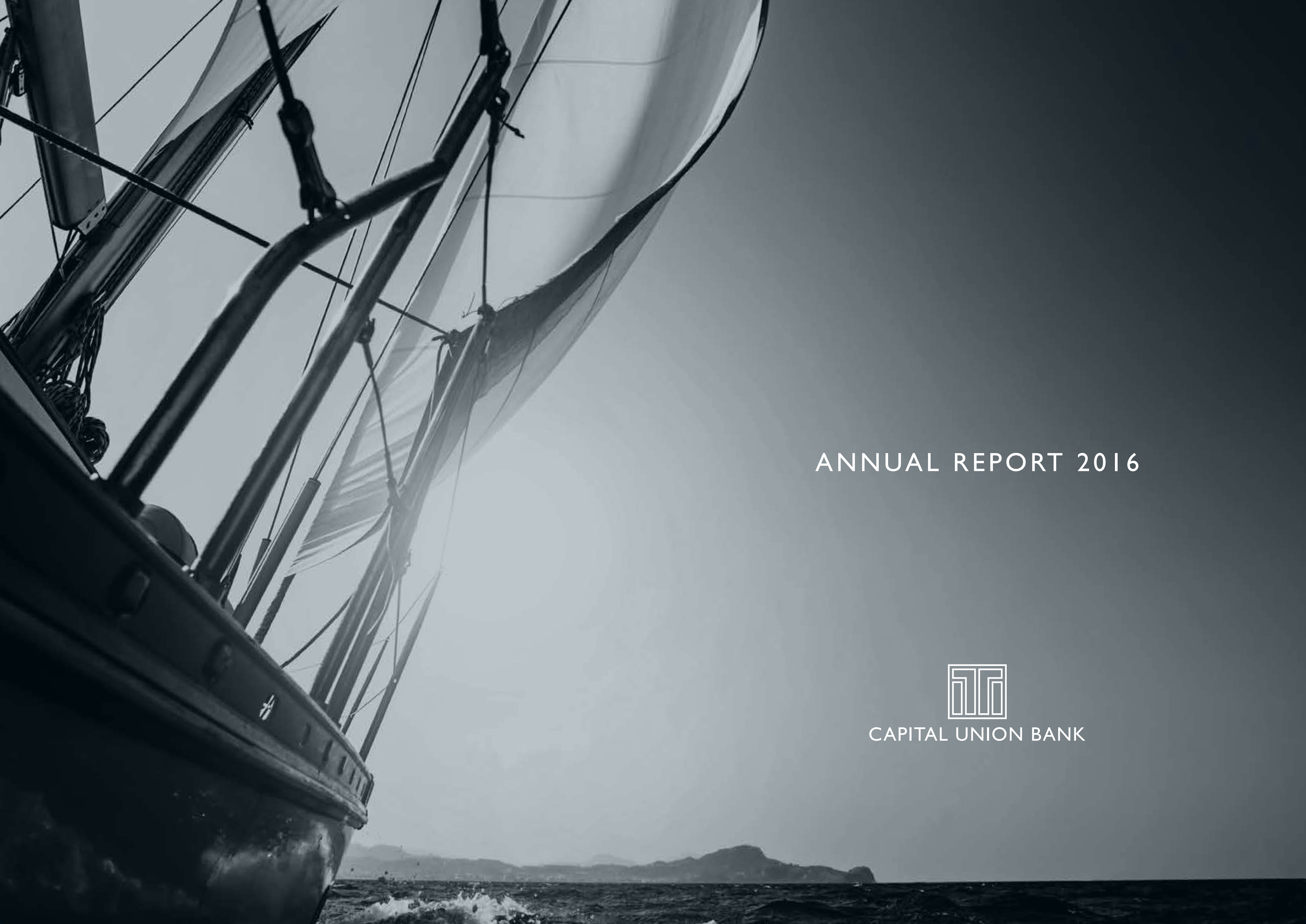
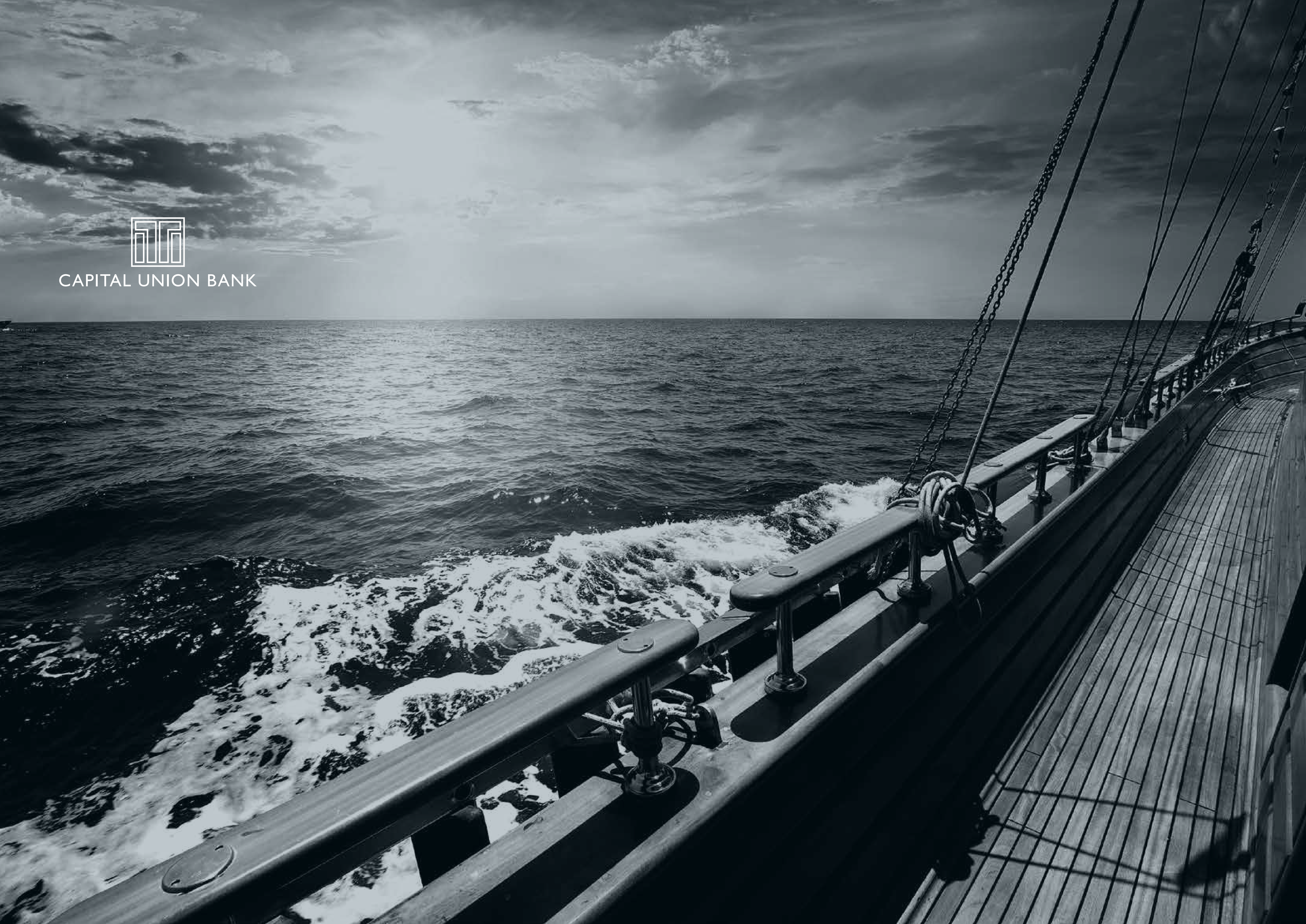


# ANNUAL REPORT 2016

CAPITAL UNION BANK


CAPITAL UNION BANK

## CONTENTS

2016 was another year of extraordinary surprises. Brexit, Trump, continued low US interest rates, continued bull market and resurgent oil market. Clearly the uncertainty engendered by the first two surprises has as one result a tempering of risk tolerance such that for investors in general the market maintained in aggregate a "goldilocks" quality, not too hot, not too cold. Equally clearly continued positive price development in most global markets including China, Russia and Brazil, not to mention Europe has created a more relaxed outlook on risk. That relaxation of course is in and of itself reflective of increased risk of overheating. At some point this market too will come to a crashing halt. Trump will not be able to cut taxes as much as he wishes, interest rates will go up and eventually both real estate and equity prices will be unsustainably high. That moment appears likely to arrive within the next two years.

Given the propensity for the market to overreact we feel that now is the time to prepare for the inevitable psychological shift from greed to fear. As the old saying goes "pigs get slaughtered". The upcoming months will be a good time to start locking in gains and raising cash. Calling the top of the market is a futile exercise given that each top feeds optimism leading to the next top with all warning signals being discounted until the moment that the market makes a definitive and downward move. Start preparing.

As an institution we are continuing to hope for the best and are ourselves preparing for the worst. We have had very strong growth over the last three years and expect to continue our growth this year, however none of that growth is attributable to risk asset inflation or own account trading. We will continue to act as informed agents of our clients, shunning proprietary risk and maintaining the extremely conservative lending guidelines that characterize our balance sheet management.

In conclusion I would like to thank our clients, staff, business partners, regulators and shareholders for their patience and support in 2016.

We look forward to their continued support in 2017.

**Lawrence D. Howell**
*Chairman*
Capital Union Bank

2016 was another year of extraordinary surprises.

We will continue to act as informed agents for our clients, shunning proprietary risk…

| | |
|---|---|
| +99% | Total Income 2016/2015 |
| 15.2% | Capital Adequacy Ratio |
| 48% | Cost on Income Ratio |

## LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Clients, Partners and Colleagues,

2016 has proven to be a turning point for Capital Union Bank.

We made excellent progress in growing our Assets under Management, and in increasing our client base, both in terms of number of relationships and average account size. In addition, we developed a wider offering of services, and we successfully executed a series of measures to support our rapid structural growth, while continuing to build up our capital base.

The Company grew significantly, increasing its balance sheet from US$ 116 million to US$ 292 million, while the Shareholders' Equity increased by 50%, resulting in a Capital Adequacy ratio of 15.2% as at December 31, 2016.

Total Income exceeded US$ 14 million, up 99% from last year. While costs were strictly monitored, we increased the amount of long-term investments, focusing on technology and human resources. As of the end of 2016, the Bank achieved a cost to income ratio of 48%, and a net result of US$ 7.4 million.

From a startup bank, the Company quickly became a very significant banking and asset management operation and strengthened its reputation for innovative thinking, responsiveness and adaptability to clients' needs. It has demonstrated particular effectiveness in client order execution across a global range of financial assets.

On the institutional side, the Bank kept on building a solid network of counterparties, and Capital Union Bank has become a proud Euroclear participant.

The Bank will continue to invest heavily in technology, adapting its systems to increasingly demanding regulation, and adding more resources in order to proactively mitigate any Compliance and AML risk.

Our strategic focus remains: building long-term stable relationships with private and institutional investors, with a clear and firm emphasis on providing comprehensive market access and solutions, while preserving a personal, tailor-made and direct relationship with each of our clients.

We believe that the Bahamas will continue to develop as a strong financial center, and more importantly, as an extremely attractive location for our existing and future clients. The management team and the shareholders are fully committed to further developing their presence in the Bahamas. The Bank has moved to larger premises in 2017, and will, in the course of 2018, transfer its entire operation to its own newly constructed building, located immediately next to the Lyford Cay Marina. Finally, Capital Union Bank is contributing to various non-profit or philanthropic organizations, helping to promote education in the Bahamas, and it is the sponsor of the Lyford Cay Football Club.

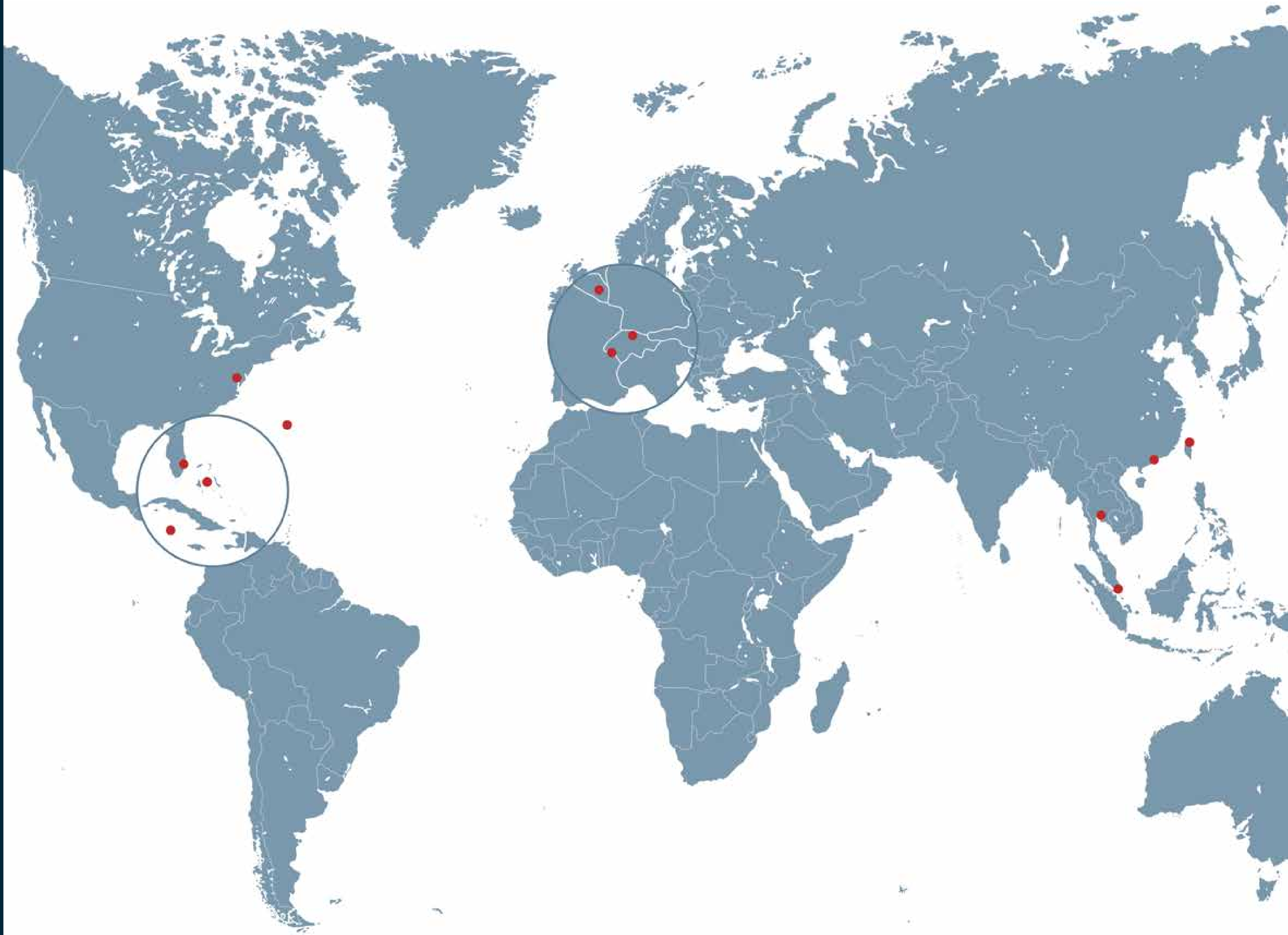
Thank you for your continued trust.

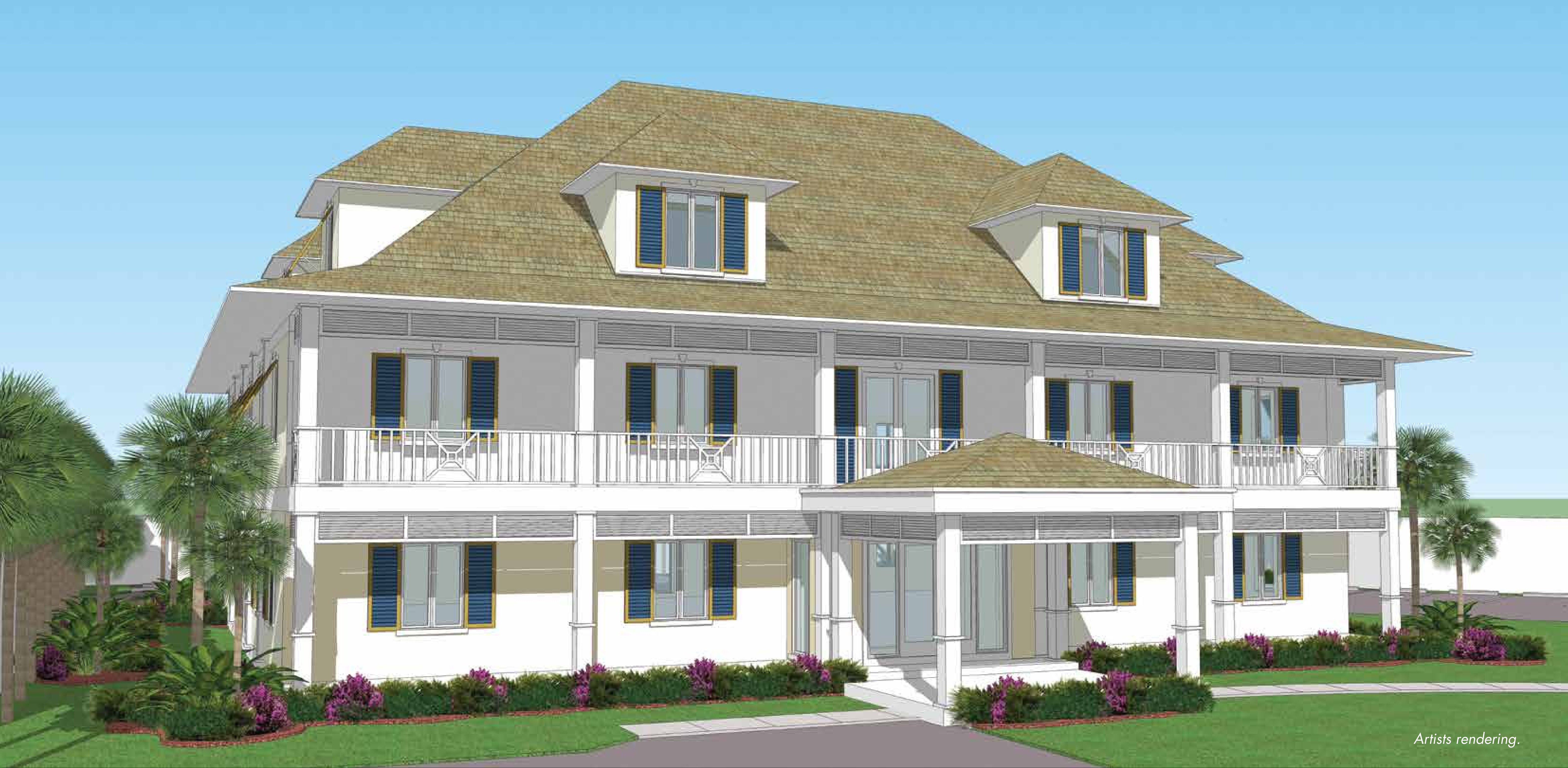
**Ludovic Chéchin-Laurans**
*CEO*
Capital Union Bank

# GLOBAL APPEAL

Capital Union Bank's reach extends beyond the Bahamas, to Asia, North America and Europe through its network of partner institutions[1] and its global alliance with UCAP (a global asset management group), having locations in the Bahamas, Bermuda, Cayman, Luxembourg, Hong-Kong, Singapore, Switzerland, Taiwan, Thailand and USA (NYC & Miami).

[1] Partner Institutions: Union Capital Securities (US Broker dealer in NYC and Miami), IOK Ltd. (Financial Corporate Services Provider), Lake Geneva Investment Partners (A Swiss based Hedge Fund company).





*Artists rendering.*

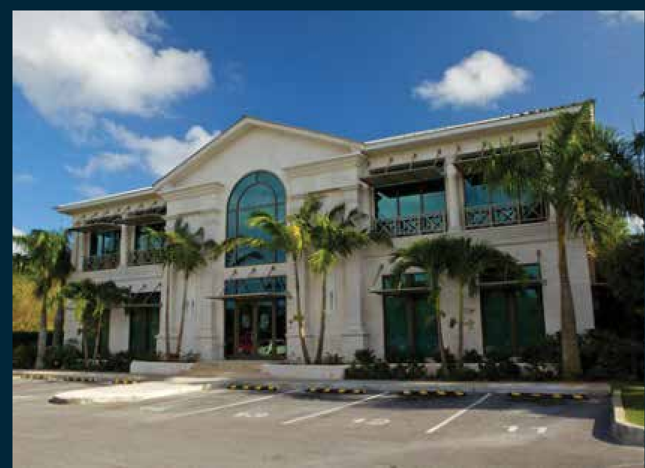
# LOCALLY VESTED

In January 2017 Capital Union Bank further underscored its commitment to the Bahamas and marked another milestone with a groundbreaking ceremony for its new headquarters.

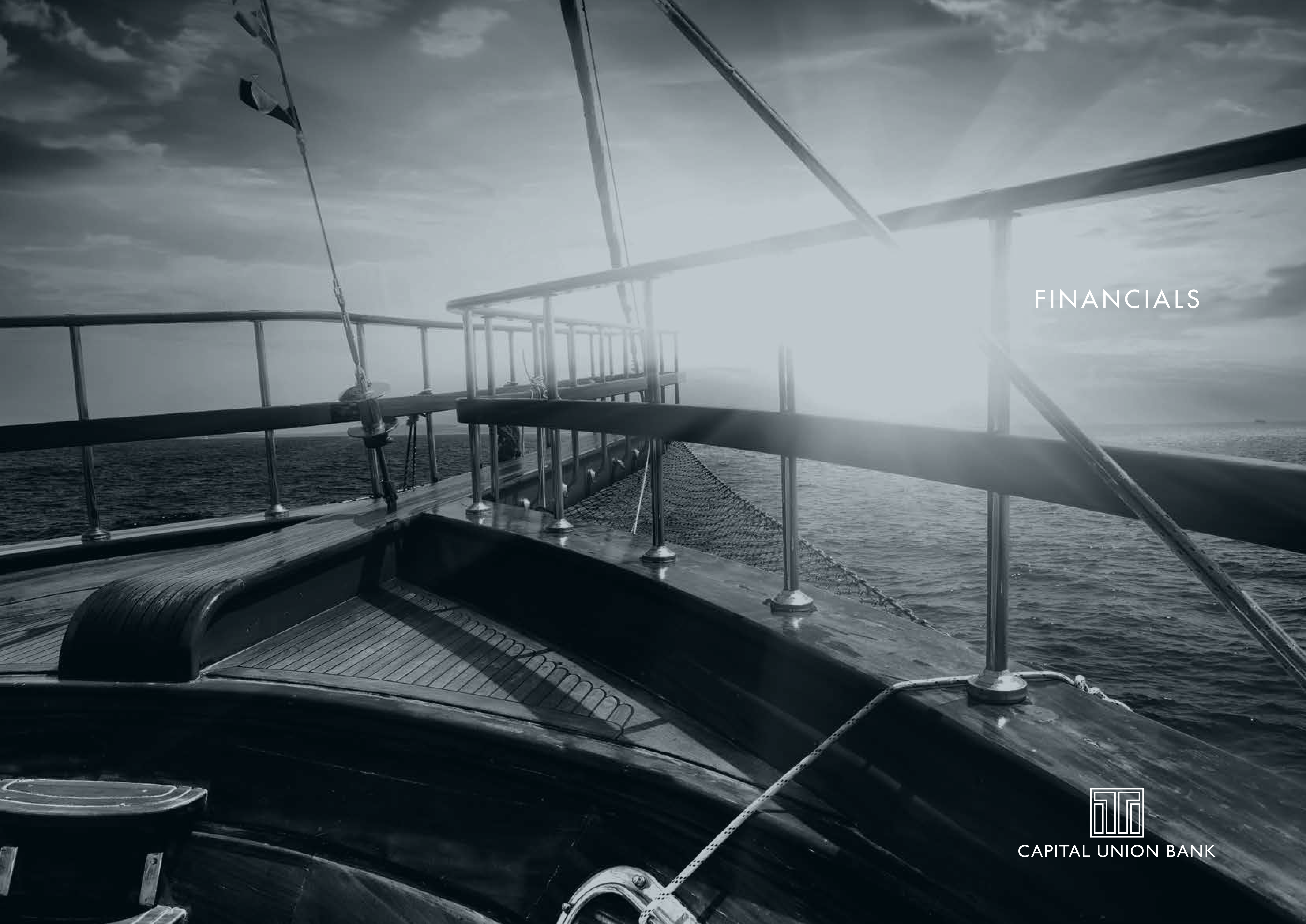
The 2 ½-story traditional Colonial style building will have in excess of 12,500 square feet of office space, and will provide room for further expansion of the Bank's activities.

It is ideally located close to the Lyford Cay Club and Marina, and the targeted completion date for the project is September 2018.

Until completion of the construction, the Bank has relocated to another prestigious location, namely the Lyford Financial Centre # 2, Lyford Cay.



*Lyford Financial Centre #2, Lyford Cay*


FINANCIALS
CAPITAL UNION BANK

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**INDEPENDENT AUDITORS' REPORT**
**To the Shareholders of Capital Union Bank Ltd.**
**Report on the Audit of the Financial Statements**

*Opinion*

We have audited the financial statements of Capital Union Bank Ltd. ("the Bank"), which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for Opinion*

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

*Other Information*

Management is responsible for the other information. The other information comprises the information to be included in the Bank's annual report (but does not include the financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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

In connect ion with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

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



Those charged with governance are responsible for overseeing the Bank's financial reporting process.

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

Nassau, Bahamas
March 24, 2017

## STATEMENT OF FINANCIAL POSITION

December 31, 2016, with corresponding figures for 2015
*(Expressed in United States dollars)*

| | NOTES | | 2016 | 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and due from banks - demand | 4 & 15 | $ | 176,019,679 | 92,234,740 |
| Due from banks – time deposits | 4 & 15 | | 20,316,308 | 2,500,000 |
| Loans and advances | 5, 12 & 15 | | 91,619,552 | 16,498,116 |
| Prepaid expenses | | | 88,715 | 116,135 |
| Property and equipment | 6 | | 136,454 | 107,166 |
| Intangible assets | 7 & 20 | | 950,608 | 1,100,731 |
| Other assets and receivables | 8, 12 & 15 | | 2,149,929 | 3,734,144 |
| Derivative financial instruments | 15, 16 & 17 | | 967,998 | 88,473 |
| **Total Assets** | | **$** | **292,249,243** | **116,379,505** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Due to banks – demand | 4 & 15 | $ | 5,941,681 | 578,344 |
| Due to banks – time deposits | 4 & 15 | | 1,691,336 | 2,019,124 |
| Due to customers | 12 & 15 | | 264,181,990 | 101,969,412 |
| Derivative financial instruments | 12, 15, 16 & 17 | | 609,618 | 82,116 |
| Accrued expenses and other liabilities | 9, 12 & 15 | | 3,345,711 | 756,420 |
| Total Liabilities | | | 275,770,336 | 105,405,416 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 14 & 20 | | 6,050,000 | 6,050,000 |
| Additional paid-in capital | 14 & 20 | | 2,950,000 | 2,950,000 |
| Retained earnings | 20 | | 7,478,907 | 1,974,089 |
| Total Shareholders' Equity | | | 16,478,907 | 10,974,089 |
| **Total Liabilities and Shareholders' Equity** | | **$** | **292,249,243** | **116,379,505** |
| Commitments and contingencies | 13 & 15 | | | |

See accompanying notes to financial statements.

These financial statements were approved on behalf of the Board of Directors on March 24, 2017 by the following:

Director

Director



CAPITAL UNION BANK LTD.

## STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2016, with corresponding figures for 2015
*(Expressed in United States dollars)*

| | NOTES | | 2016 | 2015 |
|---|---|---|---|---|
| **Net Interest Income** | | | | |
| Interest income | | $ | 1,131,409 | 374,241 |
| Interest expense | | | (264,769) | (69,153) |
| | | | 866,640 | 305,088 |
| **Net fee and commission income** | | | | |
| Fee and commission income | 10 & 12 | | 20,401,801 | 7,256,900 |
| Fee and commission expense | 10 & 12 | | (8,765,463) | (1,129,402) |
| | | | 11,636,338 | 6,127,498 |
| **Other Income** | | | | |
| Foreign exchange income | | | 1,663,303 | 693,485 |
| Other income | 12 | | 133,636 | 31,734 |
| | | | 1,796,939 | 725,219 |
| **Other Expenses** | | | | |
| General and administrative expenses | 11 & 12 | | 6,551,051 | 4,031,327 |
| Director's fee | 12 | | 24,000 | 24,000 |
| Depreciation and amortization | 6 & 7 | | 245,959 | 242,028 |
| | | | 6,821,010 | 4,297,355 |
| Net income and total comprehensive income attributable to the equity holders | | $ | 7,478,907 | 2,860,450 |

See accompanying notes to financial statements.

CAPITAL UNION BANK LTD.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended December 31, 2016, with corresponding figures for 2015
*(Expressed in United States dollars)*

| | | SHARE CAPITAL | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS/ (ACCUMULATED DEFICIT) | TOTAL SHAREHOLDERS' EQUITY |
|---|---|---|---|---|---|
| **Balance at December 31, 2014** | **$** | **6,050,000** | **2,950,000** | **(886,361)** | **8,113,639** |
| Total comprehensive income: | | | | | |
| Net income | | – | – | 2,860,450 | 2,860,450 |
| | | – | – | 2,860,450 | 2,860,450 |
| **Balance at December 31, 2015** | **$** | **6,050,000** | **2,950,000** | **1,974,089** | **10,974,089** |
| Transactions with owners of the Bank: | | | | | |
| Dividends paid (note 14) | | – | – | (1,974,089) | (1,974,089) |
| | | – | – | (1,974,089) | (1,974,089) |
| Total comprehensive income: | | | | | |
| Net income | | – | – | 7,478,907 | 7,478,907 |
| | | – | – | 7,478,907 | 7,478,907 |
| **Balance at December 31, 2016** | **$** | **6,050,000** | **2,950,000** | **7,478,907** | **16,478,907** |

See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS

Year ended December 31, 2016, with corresponding figures for 2015
*(Expressed in United States dollars)*

| | NOTES | | 2016 | 2015 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income | | $ | 7,478,907 | 2,860,450 |
| Adjustment for: | | | | |
| Depreciation and amortization | 6 & 7 | | 245,959 | 242,028 |
| Interest income | | | (1,131,409) | (374,241) |
| Interest expense | | | 264,769 | 69,153 |
| Unrealised gain on derivative financial instruments | | | (352,023) | (5,303) |
| Net cash provided by operations before changes in working capital | | | 6,506,203 | 2,792,087 |
| Increase in loans and advances | | | (75,121,436) | (10,885,130) |
| Decrease/(increase) in prepaid expenses | | | 27,420 | (97,287) |
| Decrease/(increase) in other assets and receivables | | | 1,597,505 | (1,251,041) |
| Increase in due to customers – demand | | | 162,212,578 | 69,934,717 |
| Increase in accrued expenses and other liabilities | | | 2,589,510 | 312,881 |
| Interest received | | | 1,118,119 | 374,833 |
| Interest paid | | | (264,988) | (67,790) |
| Net cash provided by operating activities | | | 98,664,911 | 61,113,270 |
| **Cash flows from investing activities** | | | | |
| Purchase of property and equipment | 6 | | (65,936) | (37,611) |
| Purchase of intangible assets | 7 | | (59,188) | (42,062) |
| Time deposit placements | 4 | | (17,816,308) | (2,500,000) |
| Net cash used in investing activities | | | (17,941,432) | (2,579,673) |
| **Cash flows from financing activities** | | | | |
| Bank loan (payments)/proceeds | 4 | | (327,788) | 2,019,124 |
| Payment of dividends | 14 | | (1,974,089) | – |
| Net cash (used in)/provided by financing activities | | | (2,301,877) | 2,019,124 |
| Net increase in cash and cash equivalents | | | 78,421,602 | 60,552,721 |
| Cash and cash equivalents, beginning of period | | | 91,656,396 | 31,103,675 |
| Cash and cash equivalents, end of period | | $ | 170,077,998 | 91,656,396 |
| **Cash and cash equivalents comprise:** | | | | |
| Cash on hand | 4 | $ | 69,318 | 19,024 |
| Due from banks - demand | 4 | | 175,950,361 | 92,215,716 |
| Due to banks - demand | 4 | | (5,941,681) | (578,344) |
| | | $ | 170,077,998 | 91,656,396 |

See accompanying notes to financial statements.

## 1. GENERAL

Capital Union Bank Ltd. ("the Bank") was incorporated on August 23, 2013 under the Companies Act, 1992 of the Commonwealth of The Bahamas ("The Bahamas") and was licensed under the Banks and Trust Companies Regulation Act, 2000 on February 11, 2014 to carry on banking business within The Bahamas. During 2016, the Bank also became a licensee of the Securities Commission of The Bahamas. The principal activities of the Bank are providing banking, investment management and financial services. The Bank commenced operations on March 1, 2014 and is owned by CUB Holdings Ltd., an International Business Company which is incorporated in The Bahamas.

Effective November 18, 2013, the Bank changed its name from Capital Union Management Ltd. to Capital Union Bank Ltd. The Bank's principal place of business is located at 6 Pineapple Grove, Nassau, Bahamas. The registered office of the Bank is located at Higgs & Johnson, Ocean Centre, East Bay Street, Nassau Bahamas.

## 2. BASIS OF PREPARATION

*(a) Statement of compliance*

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

*(b) Basis of measurement*

The financial statements have been prepared on the historical cost basis, except for derivative contracts which are carried at fair value.

*(c) Functional and presentation currency*

The financial statements are presented in United States dollars ("US$"), which is the Bank's functional currency.

*(d) Use of estimates and judgments*

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements and the accompanying notes. These estimates are based on relevant information available at the reporting date and, as such, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 3(d), 3(e) and 3(f).

*(e) New standards, amendments and interpretations not yet adopted by the Bank*

Up to the date of issue of these financial statements, the International Accounting Standards Board ("IASB") has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2016 and which have not been adopted in these financial statements.

The Bank is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Bank's results of operations and financial position, with the exception of the following:





*i.* **IFRS 9 Financial Instruments, (2013) IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009) (together, IFRS 9)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets; Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristic of their contractual cash flows.

IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2013) introduces a new requirement for hedge accounting that aligns hedge accounting more closely with risk management.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

*ii.* **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

*iii.* **IFRS 16 Leases**

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard, IAS 17, – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whther an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(a) Foreign currency translation*

Transactions in foreign currencies are translated at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. The foreign currency exchange gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rates at the end of the period. Foreign currency exchange differences arising on translation are recognized in the statement of comprehensive income.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*(b) Interest*

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

*(c) Fees and commission*

The Bank earns commissions on investment activities undertaken on behalf of its customers. Commission income from these transactions is recorded on completion of the underlying transaction. The Bank may share a portion of these commissions with third parties and the commission expense is recorded on a monthly basis.

*(d) Financial instruments*

*i. Classification*

Financial instruments include financial assets and financial liabilities. Financial assets include due from banks, loans and advances and other receivables, which are classified as loans and receivables. Financial liabilities that are not held for trading include due to banks, due to customers and other liabilities.

Financial assets and financial liabilities also include derivative financial instruments, which are designated as financial assets and liabilities at fair value through profit or loss.

*ii. Recognition*

The Bank recognizes financial assets and financial liabilities on the day the Bank becomes a party to the contractual provisions of the instruments. It initially recognizes loans and advances and deposits due to banks and to customers on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instruments.

*iii. Measurement*

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, loans and receivables and financial assets and financial liabilities that are not at fair value through profit and loss are carried at amortized cost less impairment losses where applicable, using the effective interest rate method. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

*Fair value measurement principles*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price or dealer price quotations for financial instruments in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market prices (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active market prices for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

*iv. Derecognition*

The Bank derecognizes a financial asset when the contractual rights to the cash flows from that asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to

**NOTES TO FINANCIAL STATEMENTS**

Year ended December 31, 2016, with corresponding figures for 2015
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*(d) Financial Instruments (continued)*

*iv. Derecognition*

offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

*v. Specific financial instruments*

*Cash and cash equivalents*

Cash and cash equivalents include highly liquid financial assets with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Cash and cash equivalents consist of due from banks, including demand deposits, and precious metal currency accounts less due to banks.

*Loans and advances*

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and advances are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and advances are carried at the principal amount outstanding plus accrued interest less any provision for impairment and uncollectibility. All outstanding loans and advances are originally granted by the Bank and are recognized when cash is advanced to the borrowers. Loans and advances to customers are generally collateralised by investment securities and deposits held by the Bank on behalf of the borrowers.

*Derivative financial instruments*

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes in fair value are recognized immediately in profit or loss when a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting.

Derivative financial instruments comprise forward currency contracts that are carried at estimated fair value based on the forward rate for the remaining period to maturity at the reporting date. Realized and unrealized gains and losses on such forward currency contracts have been included within foreign exchange gains in the statement of comprehensive income.

*vi. Impairement*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The amount of the impairment loss on a financial asset carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the asset's original effective interest rate. By comparison, the recoverable amount of a financial asset measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. An impairment loss in respect of a financial asset measured at amortized cost is recognized in net income or loss in the statement of comprehensive income. When a subsequent event causes the amount of the impairment loss to decrease, the decrease is reversed through net income or loss.

*(e) Property and equipment*

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. 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 repairs and maintenance are charged to general and administrative expenses during the financial period in which they are incurred.

Depreciation is recognized in the statement of comprehensive income and is calculated using the straight-line method to allocate their costs over their estimated useful lives, as follows:

- Computer hardware & equipment 2–5 years
- Furniture 2–5 years

Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the statement of comprehensive income.

The carrying amounts are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in net income or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

*(f) Intangible assets*

Intangible assets include application solution acquired by the Bank and other software purchases and are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

*(Expressed in United States dollars)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*(f) Intangible assets (continued)*

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in the statement of comprehensive income. The estimated useful life of application solution for the current period is seven years. The estimated useful life of other purchased software for the current period is three years.

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

*(g) Fiduciary accounts and assets under management*

No securities, cash or other assets are included in these financial statements of fiduciary accounts or assets and liabilities of clients administered by the Bank, other than those assets and liabilities which relate to the banking services provided by the Bank for their clients.

*(h) Employee benefits*

*Defined contribution pension plan*

The Bank has a defined contribution pension plan for all eligible employees. Obligations for contributions to the defined contribution plan are expensed as the related service is provided and recognized as staff costs in the statement of comprehensive income.

*Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*(i) Dividends*

Dividend distribution to the Bank's shareholders is recognized as a dividend in the statement of changes in shareholders' equity in the Bank's financial statement in the period in which the dividends are approved and declared by the Bank's shareholders. Dividends proposed or declared after the reporting date are not recognized in the financial statements.

*(j) Income and expenditure*

Income and expenditure are accounted for on an accrual basis.

*(k) Lease*

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

*(l) Related parties*

A related party is a person or entity that is related to the entity that is preparing its financial statements.

*(a)* A person or a close member of that person's family is related to a reporting entity if that person:

*i.* has control or joint control over the reporting entity;

*ii.* has significant influence over the reporting entity; or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

*(b)* An entity is related to a reporting entity if any of the following conditions applies:

*i.* The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

*ii.* One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

*iii.* Both entities are joint ventures of the same third party.

*iv.* One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

*v.* The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

*vi.* The entity is controlled, or jointly controlled by a person identified in (a).

*vii.* A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Related parties include entities that the Bank controls or exercises significant influence over and individuals who have the authority and responsibility for planning, directing and controlling the activities of the Bank in making financial and operating decisions. These include, but are not limited to, the shareholders, officers, directors and other companies with common ownership.

*(m) Related parties*

No income taxes are levied in The Commonwealth of The Bahamas.

**4. CASH AND DUE FROM AND TO BANKS**

| | | 2016 | 2015 |
|---|---|---|---|
| **Cash and due from banks** | | | |
| Cash on hand | $ | 69,318 | 19,024 |
| Due from banks – demand | | 175,950,361 | 92,215,716 |
| Due from banks – time deposits | | 20,316,308 | 2,500,000 |
| Total due from banks | $ | 196,335,987 | 94,734,740 |
| | | | |
| **Due to banks** | | | |
| Due to banks – demand | $ | (5,941,681) | (578,344) |
| Due to banks – time deposits | | (1,691,336) | (2,019,124) |
| Total due to banks | $ | (7,633,017) | (2,597,468) |

All demand deposit balances due from banks are non-interest bearing. As at December 31, 2016 the Due from banks – time deposit is composed of term deposits placed as collateral for derivative transactions and bank treasury management purposes with interest rates ranging from -0.39% to 0.65% and maturing on April 6, 2017 (2015 – 0.79% to 0.95% and maturing on June 28, 2016).

The due to banks – time deposits includes a deposit amount of GBP 1,370,000 with interest at 1% per annum, maturing on June 9, 2017 (2015 - includes a deposit of GBP 1,370,000 with interest at 1.12% per annum, maturing on June 9, 2016).

## 5. LOANS AND ADVANCES

| | | 2016 | 2015 |
|---|---|---|---|
| Loans and advances | $ | 91,619,522 | 16,498,116 |

Loans and advances include both secured and unsecured loans and advances granted to customers and are repayable in less than one year. Secured loans and advances are collateralised primarily by assets held by the Bank on behalf of its customers. As of December 31, 2016 approximately 1% (2015 – 7%) of loans were not collateralized (See note 15(b)).

The Bank has determined that no allowance for loan losses is required as at December 31, 2016 and 2015.

## 6. PROPERTY AND EQUIPMENT

| | | COMPUTER HARDWARE & EQUIPMENT | FURNITURE | VEHICLES | TOTAL |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance at January 1, 2016 | $ | 93,166 | 72,408 | – | 165,574 |
| Additions | | 21,174 | 3,464 | 41,298 | 65,936 |
| Balance at December 31, 2016 | $ | 114,340 | 75,872 | 41,298 | 231,510 |
| **Accumulated depreciation:** | | | | | |
| Balance at January 1, 2016 | $ | 40,529 | 17,879 | – | 58,408 |
| Depreciation expense | | 17,472 | 17,109 | 2,067 | 36,648 |
| Balance at December 31, 2016 | $ | 58,001 | 34,988 | 2,067 | 95,056 |
| **Net Book Value at:** | | | | | |
| December 31, 2016 | $ | 56,339 | 40,884 | 39,231 | 136,454 |
| December 31, 2015 | $ | 52,637 | 54,529 | – | 107,166 |

## 7. INTANGIBLE ASSETS

| | | PURCHASED SOFTWARE & APPLICATION SOLUTION |
|---|---|---|
| **Cost:** | | |
| Balance at January 1, 2016 | $ | 1,447,124 |
| Additions | | 59,188 |
| Balance at December 31, 2016 | $ | 1,506,312 |
| **Accumulated depreciation:** | | |
| Balance at January 1, 2016 | $ | 346,393 |
| Amortization expense | | 209,311 |
| Balance at December 31, 2016 | $ | 555,704 |
| **Net Book Value at:** | | |
| December 31, 2016 | $ | 950,608 |
| December 31, 2015 | $ | 1,100,731 |

## 8. OTHER ASSETS AND RECEIVABLES

| | | 2016 | 2015 |
|---|---|---|---|
| Fee and commission income receivable | $ | 373,503 | 2,788,081 |
| Security deposits | | 909,912 | 918,912 |
| Other assets | | 850,858 | 24,785 |
| Interest receivable – loans and advances | | 15,656 | 2,366 |
| | $ | 2,149,929 | 3,734,144 |



CAPITAL UNION BANK LTD.

NOTES TO FINANCIAL STATEMENTS
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Included in security deposits is a deposit held by the Bank's service provider in the amount of $906,912.

## 9. ACCRUED EXPENSES AND OTHER LIABILITIES

| | | 2016 | 2015 |
|---|---|---|---|
| Accrued expenses | $ | 1,721,974 | 294,314 |
| Retrocessions payable | | 1,623,737 | 462,106 |
| | $ | 3,345,711 | 756,420 |

## 10. FEE AND COMMISSION INCOME AND EXPENSE

| | | 2016 | 2015 |
|---|---|---|---|
| **INCOME** | | | |
| Administration fees | $ | 222,779 | 63,617 |
| Trading related income | | 7,386,392 | 206,054 |
| Custody fees | | 1,001,040 | 353,476 |
| Commissions | | 4,840,460 | 611,884 |
| Management, retrocessions and other fees | | 6,951,130 | 6,021,869 |
| | | 20,401,801 | 7,256,900 |
| **EXPENSE** | | | |
| Commissions and retrocessions | | 8,395,220 | 1,062,204 |
| Custody fees | | 370,243 | 67,198 |
| | | 8,765,463 | 1,129,402 |
| Net fee and commission income | $ | 11,636,338 | 6,127,498 |

## 11. GENERAL AND ADMINISTRATIVE EXPENSES

| | | 2016 | 2015 |
|---|---|---|---|
| Staff costs | $ | 3,359,482 | 1,342,056 |
| Operating and administrative expenses | | 3,084,159 | 2,555,144 |
| Legal and professional fees | | 107,410 | 134,127 |
| | $ | 6,551,051 | 4,031,327 |

The Bank operates a voluntary defined contribution pension plan for its employees. The pension plan is available to all permanent employees and is effective after employees complete a probationary period. The Bank contributes a maximum of 10% of the annual salary capped to a maximum of $10,000 annually and employees can contribute any percentage of their annual salaries. The Bank's contributions to this plan were $84,858 (2015 – $46,675), and are included in staff costs in the statement of comprehensive income.

Staff costs include $2,178,036 (2015 – $663,438) of key management personnel compensation.

## 12. RELATED PARTY BALANCES AND TRANSACTIONS

The Bank enters into various transactions with the shareholders and other parties related by virtue of common control in the normal course of business.

The Bank rents office space from its shareholders as described in note 13.

The financial statements include the following related party balances and transactions:

## NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016, with corresponding figures for 2015
*(Expressed in United States dollars)*

### 12. RELATED PARTY BALANCES AND TRANSACTIONS *(continued)*

| | | 2016 | 2015 |
|---|---|---|---|
| **ASSETS/(LIABILITIES)** | | | |
| Loans and advances | $ | 4,680,500 | 2,177,368 |
| Other assets and receivables | | 12,002 | 2,756,129 |
| Due to customers | | (10,613,677) | (13,132,082) |
| Accrued expenses and other liabilities | | (1,171,286) | (71,715) |
| Derivative financial instruments | | (3,618) | (12,488) |
| **INCOME/(EXPENSES)** | | | |
| Other income | | 18,000 | 18,000 |
| Fee and commission income | | 7,314,134 | 4,048,303 |
| Fee and commission expense | | (5,644,134) | (458,897) |
| General and administrative expenses | | (1,569,825) | (682,952) |
| Director's fee | | (24,000) | (24,000) |

### 13. COMMITMENTS AND CONTINGENT LIABILITIES

Loan commitments

The Bank is a party to certain financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include acceptances and guarantees, commitments to extend credit under lines of credit and commitments to originate loans. Exposure to loss is represented by the contractual amount of those instruments. However, the Bank uses the same credit approval criteria when entering into these commitments and conditional obligations as it does for loans and advances.

As at December 31, 2016 the Bank has extended credit facilities to customers totalling $80,797,762 (2015 – $18,106,000). A total of $26,172,474 (2015 – $9,611,370) remain unused under these facilities at the reporting date. See note 5.

Lease commitment

The Bank's minimum commitment under the terms of the rental lease agreement with shareholders:

| | | 2016 | 2015 |
|---|---|---|---|
| Rental due within one year | $ | 289,800 | 156,000 |
| Rental due between one and five years | | 306,533 | 256,000 |

### 14. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

| | | 2016 | 2015 |
|---|---|---|---|
| Share capital: | | | |
| Authorized, issued and fully paid-up: | | | |
| 6,050,000 ordinary shares of $1 each | $ | 6,050,000 | 6,050,000 |
| Additional paid-in capital | | 2,950,000 | 2,950,000 |

Additional paid-in capital represents the excess of the issue price for the Bank's shares over their par value and any contributions received from the shareholders for which no shares have been issued. During the period the Bank declared and paid $1,974,089 in dividends (2015 - $0).



CAPITAL UNION BANK LTD.

NOTES TO FINANCIAL STATEMENTS

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### 15. FINANCIAL RISK MANAGEMENT

By its nature the Bank's activities are principally related to the use of financial instruments, including derivatives. The Bank accepts deposits from customers at fixed rates and for various periods and seeks to earn a better return by consolidating short-term funds and investing for longer periods in making loans to customers and placing bank deposits, whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also enters into forward currency contracts as part of its client-related activities and manages the risks of these positions by taking offsetting positions with other financial institutions.

The Bank's activities expose it to a variety of financial risks in the normal course of business. These risks include fiduciary, credit, market risk and liquidity risks. The Bank's financial performance is dependent on its ability to understand and effectively manage these risks.

*(a) Fiduciary*

The Bank provides significant asset management and custody services to third parties. These activities give rise to operational risk, which is the risk that the Bank may fail in carrying out certain mandates in accordance with the wishes of its customers. To manage this exposure, the Bank generally takes a conservative approach in its fiduciary undertakings for customers.

*(b) Credit risk*

Credit risk arises from the potential for failure of a counterparty to perform according to the terms of the contract. The Bank's exposure to credit risk is primarily in the form of demand balances with banks and loans and advances to customers. The Bank only places demand deposits with high quality international financial institutions. The loans and advances are short-term and are generally collateralised by assets held by the Bank on behalf of its customers. Collateral was not held for part of loans and advances to customers (see note 5). The Bank also uses other methods, such as credit monitoring techniques, including collateral and credit exposure limit policies.

The table below sets out the total credit risk and significant concentrations of financial assets by geographical location of the counterparty.

| | | EUROPE | CENTRAL & SOUTH AMERICA & THE CARIBBEAN | NORTH AMERICA | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **As of December 31, 2016** | | | | | | |
| **ASSETS** | | | | | | |
| Cash on hand | $ | – | 69,318 | – | – | 69,318 |
| Due from banks: | | | | | | |
| –Demand and time | | 174,386,415 | 5,275,882 | 16,604,372 | – | 196,266,669 |
| Loans and advances | | 18,962,876 | 71,968,798 | 3,519 | 684,359 | 91,619,552 |
| | $ | 193,349,291 | 77,313,998 | 16,607,891 | 684,359 | 287,955,539 |

**NOTES TO FINANCIAL STATEMENTS**

Year ended December 31, 2016, with corresponding figures for 2015
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**15. FINANCIAL RISK MANAGEMENT** *(continued)*

*(b) Credit risk (continued)*

| | | EUROPE | CENTRAL & SOUTH AMERICA & THE CARIBBEAN | NORTH AMERICA | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **As of December 31, 2015** | | | | | | |
| **ASSETS** | | | | | | |
| Cash on hand | $ | – | 19,024 | – | – | 19,024 |
| Due from banks: | | | | | | |
| –Demand and time | | 92,647,602 | 1,968,114 | 100,000 | – | 94,715,716 |
| Loans and advances | | 196,970 | 16,286,890 | – | 14,256 | 16,498,116 |
| | $ | 92,844,572 | 18,274,028 | 100,000 | 14,256 | 111,232,856 |

*(c) Market risk*

Market risk encompasses interest rate risk, currency risk and other price risk, all of which arise in the normal course of business. Price risk is the risk to earnings that arises from changes in interest rates, foreign exchange rates, equity and commodity prices, and their implied volatilities.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Bank is not exposed to significant price risk as it does not invest in any marketable securities and has minimum net exposure to currency and interest rate risks.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank manages its exposure to interest rate risk by matching interest bearing liabilities with assets of similar principal values, interest rates and terms. In addition, because a substantial part of the Bank's liabilities are non-interest bearing and available on demand, the Bank invests these funds in interest bearing deposits with terms up to three months. Therefore, the Bank's sensitivity exposure to reasonably possible changes in interest rates is minimal in terms of material impact to profit or loss and equity. All balances due to customers and due to banks - demand are non-interest bearing. The Board of Directors has delegated management of interest rate risk to the Bank's Credit Committee which is supported by the Bank's Finance & Administration Department. The Finance & Administration Department monitors this risk on an ongoing basis.

*Currency risk*

The Bank takes on exposure due to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily. The table below includes the US$ equivalent of assets and liabilities in currencies other than the US$. For further details on the gap related to "other" currencies refer to note 16.





**NOTES TO FINANCIAL STATEMENTS**

Year ended December 31, 2016, with corresponding figures for 2015
*(Expressed in United States dollars)*

**15. FINANCIAL RISK MANAGEMENT** *(continued)*

*(c) Market risk (continued)*

*Currency risk (continued)*

| | | EUR | CHF | GBP | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **As of December 31, 2016** | | | | | | |
| **ASSETS** | | | | | | |
| Due from banks | $ | 58,255,262 | 4,308,390 | 3,353,567 | 23,339,973 | 89,257,192 |
| Loans and advances | | 20,461,916 | 1,893,716 | 2,104,586 | 3,089 | 24,463,307 |
| Other assets and receivables | | 962 | 7,933 | 7,933 | 71,455 | 81,172 |
| Total Assets | $ | 78,718,140 | 6,210,039 | 6,210,039 | 23,414,517 | 113,801,672 |
| **LIABILITIES** | | | | | | |
| Due to banks | $ | 299,254 | – | 1,691,336 | 171,844 | 2,162,434 |
| Due to customers | | 78,237,581 | 5,991,941 | 3,698,702 | 7,001,594 | 94,929,818 |
| Accrued expenses and other liabilities | | 35,868 | 249,798 | 5,194 | 55,780 | 346,639 |
| Total Liabilities | $ | 78,572,703 | 6,241,738 | 5,395,231 | 7,229,219 | 97,438,891 |
| Net balance sheet position | | 145,437 | (31,699) | 63,744 | 16,185,299 | 16,362,780 |

| | | EUR | CHF | GBP | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **As of December 31, 2015** | | | | | | |
| **ASSETS** | | | | | | |
| Due from banks | $ | 27,990,716 | 5,855,173 | 800,518 | 915,546 | 35,561,953 |
| Loans and advances | | 4,221,187 | 473,179 | 2,037,111 | 191,699 | 6,923,176 |
| Other assets and receivables | | 3,476 | 5,789 | 2,159 | 13,574 | 24,998 |
| Total Assets | $ | 32,215,379 | 6,334,141 | 2,839,788 | 1,120,819 | 42,510,127 |
| **LIABILITIES** | | | | | | |
| Due to banks | $ | 183,578 | – | 2,019,124 | 213,621 | 2,416,323 |
| Due to customers | | 32,068,144 | 6,287,311 | 821,106 | 898,624 | 40,075,185 |
| Accrued expenses and other liabilities | | 273,022 | 54,124 | 1,361 | 78,455 | 406,962 |
| Total Liabilities | $ | 32,524,744 | 6,341,435 | 2,841,591 | 1,190,700 | 42,898,470 |
| Net balance sheet position | | (309,365) | (7,294) | (1,803) | (69,881) | (388,343) |

*(d) Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Bank manages its liquidity by matching liabilities with assets of similar maturity periods.

The table below analyses assets and liabilities of the Bank by maturity based on the remaining period at the reporting date to the contractual maturity date.

*(Expressed in United States dollars)*

**15. FINANCIAL RISK MANAGEMENT** *(continued)*

*(d) Liquidity risk (continued)*

| | LESS THAN 1 MONTH | 1 TO 3 MONTHS | 3 TO 6 MONTHS | 6 MONTHS TO 1 YEAR | TOTAL |
|---|---|---|---|---|---|
| **As of December 31, 2016** | | | | | |
| **ASSETS** | | | | | |
| Cash and due from banks | $ 196,019,679 | 102,716 | 213,592 | – | 196,335,987 |
| Loans and advances | 74,118,624 | – | 1,691,336 | 15,809,592 | 91,619,552 |
| | **LESS THAN 1 MONTH** | **1 TO 3 MONTHS** | **3 TO 6 MONTHS** | **6 MONTHS TO 1 YEAR** | **TOTAL** |
| **As of December 31, 2016** | | | | | |
| **ASSETS** | | | | | |
| | $ 270,138,303 | 102,716 | 1,904,928 | 15,809,592 | 287,955,539 |
| **LIABILITIES** | | | | | |
| Due to banks | $ 5,941,682 | – | 1,691,336 | – | 7,633,017 |
| Due to customers | 262,681,900 | – | – | 1,500,000 | 264,181,990 |
| | $ 268,623,671 | – | 1,691,336 | 1,500,000 | 271,815,007 |
| **Liquidity gap** | $ 1,514,632 | 102,716 | 213,592 | 14,309,592 | 16,140,532 |

| | LESS THAN 1 MONTH | 1 TO 3 MONTHS | 3 TO 6 MONTHS | 6 MONTHS TO 1 YEAR | TOTAL |
|---|---|---|---|---|---|
| **As of December 31, 2015** | | | | | |
| **ASSETS** | | | | | |
| Cash and due from banks | $ 92,234,740 | – | 2,500,000 | – | 94,734,740 |
| Loans and advances | 13,628,992 | – | 2,019,124 | 850,000 | 16,498,116 |
| | $ 105,863,732 | – | 4,519,124 | 850,000 | 111,232,856 |
| **LIABILITIES** | | | | | |
| Due to banks | $ 578,344 | – | 2,019,124 | – | 2,597,468 |
| Due to customers | 101,969,412 | – | – | – | 101,969,412 |
| | $ 102,547,756 | – | 2,019,124 | – | 104,566,880 |
| **Liquidity gap** | $ 3,315,976 | – | 2,500,000 | 850,000 | 6,665,976 |

**16. DERIVATIVE FINANCIAL INSTRUMENTS**

The Bank enters into forward currency contracts solely as part of its client-related trading activities. Forward currency contracts are contracts to purchase and sell foreign currencies at specific rates of exchange on specific dates in the future. Risk arises from the potential inability of counterparties to perform under the terms of the contracts (credit risk) and from fluctuations

in the foreign exchange rates (market risk). The Bank manages the market risks of client-related positions by purchasing offsetting positions with financial institutions, resulting in minimal market exposure. The credit risk of the client-related positions is managed by applying uniform credit standards maintained for all activities with credit risk. Collateral held generally includes cash, cash equivalents and marketable securities.

The Bank had contractual commitments under open forward currency contracts as follows:







**16. DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)*

**As of December 31, 2016**

| CURRENCY SOLD | AMOUNT SOLD | CURRENCY PURCHASED | AMOUNT PURCHASED | SETTLEMENT DATE | UNREALIZED GAIN/(LOSS) |
|---|---|---|---|---|---|
| CAD | 41,065,000 | USD | 30,771,536 | Various | $ 204,370 |
| CHF | 21,056,327 | USD | 20,387,034 | Various | (41,124) |
| EUR | 6,327,993 | CHF | 6,781,513 | Various | 1,204 |
| EUR | 1,595,747 | GBP | 1,380,000 | 6-Apr-17 | 18,917 |
| EUR | 18,938,520 | USD | 20,112,956 | Various | 81,984 |
| GBP | 301,000 | USD | 377,178 | Various | 5,370 |
| GBP | 1,380,000 | EUR | 1,598,104 | Various | (16,432) |
| JPY | 410,500,000 | USD | 3,597,469 | 6-Jan-17 | 87,435 |
| TRY | 2,750,000 | USD | 741,442 | 5-Jun-17 | (9,476) |
| USD | 30,730,991 | CAD | 41,065,213 | Various | (163,687) |
| USD | 14,050,193 | CHF | 14,277,871 | Various | 55,106 |
| USD | 20,023,643 | EUR | 18,902,392 | Various | (30,489) |
| USD | 377,178 | GBP | 301,000 | Various | (5,370) |
| USD | 3,597,469 | JPY | 410,500,000 | 6-Jun-17 | (87,435) |
| USD | 741,442 | TRY | 2,750,000 | 5-Jun-17 | 9,476 |
| Total | | | | | $ 109,849 |

**As of December 31, 2015**

| CURRENCY SOLD | AMOUNT SOLD | CURRENCY PURCHASED | AMOUNT PURCHASED | SETTLEMENT DATE | UNREALIZED GAIN/(LOSS) |
|---|---|---|---|---|---|
| EUR | 1,406,023 | USD | 1,550,000 | 5-May-16 | $ 18,671 |
| USD | 6,947,909 | EUR | 6,322,731 | Various | (66,224) |
| USD | 349,976 | GBP | 230,000 | 29-Jan-16 | 10,983 |
| USD | 1,520,000 | JPY | 183,194,170 | 29-Jan-16 | 3,821 |
| EUR | 4,914,600 | USD | 5,400,459 | Various | 52,388 |
| GBP | 230,000 | USD | 349,976 | 29-Jan-16 | (10,983) |
| JPY | 183,011,040 | USD | 1,520,000 | 29-Jan-16 | (2,299) |
| Total | | | | | $ 6,357 |

The contract amounts of these instruments reflect the extent of the Bank's involvement in forward currency contracts and do not represent the Bank's risk of loss due to counterparty non-performance. The credit risk is limited to those contracts with a positive fair value.

In addition to the above, the Bank also held CAD/USD foreign exchange margin contracts at December 31, 2016 which carried an unrealized gain amount of $249,034. Total nominal value of the contracts were USD 16,383,100. See note 15 (c).

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Nevertheless, fair values can be determined within a reasonable range of estimates. The non-derivative financial instruments utilized by the Bank are either short-term in nature or have interest rates that automatically reset to market on a periodic basis. Accordingly, their estimated fair values are not significantly different from their carrying values.

IFRS 7 specifies the hierarchy of valuation techniques based on whether inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market

*(Expressed in United States dollars)*

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS** *(continued)*

assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchange traded derivatives like futures (for example, Nasdaq, S&P 500).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The table shows the fair value hierarchy levels for financial assets and liabilities carried at fair value.

| As of December 31, 2016 | | LEVEL 1 USD | LEVEL 2 USD | LEVEL 3 USD | TOTAL USD |
|---|---|---|---|---|---|
| Financial assets designated at fair value | | | | | |
| - Derivative financial instruments | $ | – | 967,998 | – | 967,998 |
| **Total assets at fair value** | $ | – | 967,998 | – | 967,998 |
| Financial liabilities designated at fair value | | | | | |
| Due to customers – | | | | | |
| - Derivative financial instruments | $ | – | 609,618 | – | 609,618 |
| **Total liabilities at fair value** | $ | – | 609,618 | – | 609,618 |

| As of December 31, 2015 | | LEVEL 1 USD | LEVEL 2 USD | LEVEL 3 USD | TOTAL USD |
|---|---|---|---|---|---|
| Financial assets designated at fair value | | | | | |
| - Derivative financial instruments | $ | – | 88,473 | – | 88,473 |
| **Total assets at fair value** | **$** | **–** | **88,473** | **–** | **88,473** |
| Financial liabilities designated at fair value | | | | | |
| Due to customers – | | | | | |
| - Derivative financial instruments | $ | – | 82,116 | – | 82,116 |
| **Total liabilities at fair value** | **$** | **–** | **82,116** | **–** | **82,116** |

There has been no transfer of financial instruments between level 1 and level 2 during the period.

**18. ASSETS UNDER MANAGEMENT**

The Bank provides custody, investment management and advisory services to individuals, corporations, trusts and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services.

Assets under management are not assets of the Bank and are not recognized in the statement of financial position. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments. Assets under management include portfolios of wealth management customers for which the Bank provides discretionary or advisory asset management services. At the reporting date, the Bank held a significant amount of assets under management.

Assets deposited with the Bank held for transactional or safekeeping/custody purposes are excluded from assets under management.

**19. TAXATION**

At the reporting date, no corporate or capital gains taxes are levied in the Commonwealth of The Bahamas and accordingly, no provision for such taxes has been recorded.

**20. CAPITAL MANAGEMENT**

The Bank's objectives when managing capital, which is a broader concept than 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the Central Bank of the Bahamas ("the Central Bank");
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for its shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

As prescribed by the Guidelines for the Management of Capital and the Calculation of Capital Adequacy issued by the Central Bank April 15, 2005 and revised December 1, 2016, the Bank is required to maintain a capital adequacy ratio of at least 8%, which is calculated by dividing the Bank's total eligible capital by its total risk-weighted exposures.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques designed to ensure compliance with guidelines established by the Central Bank. The required information is filed with the Central Bank on a quarterly basis.

The table summarises the composition of regulatory capital and shows the capital adequacy ratio of the Bank as of the reporting date. During 2016, the Bank has complied with all of the externally imposed capital requirements to which it was subject.

| | | 2016 | 2015 |
|---|---|---|---|
| Eligible capital | | | |
| Share capital and additional paid-in capital | $ | 9,000,000 | 9,000,000 |
| Retained earnings | | 7,478,907 | 1,974,089 |
| Less Adjustments to Tier 1 Capital – Intangible assets | | (950,608) | (1,100,731) |
| **Total eligible capital** | **$** | **15,528,299** | **9,873,358** |
| **Risk-weighted assets** | **$** | **102,197,000** | **36,706,000** |
| **Capital adequacy ratio** | | **15.2%** | **26.86%** |

**20. SUBSEQUENT EVENTS**

The Bank has evaluated subsequent events from the reporting date through March 24, 2017, the date at which the financial statements were approved for issuance, and determined that there are no other items to adjust or disclose.

CAPITAL UNION BANK LTD.

**Lawrence D. Howell**
*Chairman of the Board*

"Lonnie" brings over 35 years of experience in Financial Services and Private Banking. He is the co-founder of EFG International and served as its Chief Executive Officer until June 28, 2011. Prior to EFGI, he served as Head of Americas at Coutts & Co. International Private Banking from 1989 to 1995 and was responsible for all clients domiciled in the Americas as well as all Coutts & Co's offices in the US, the Bahamas, Bermuda, Cayman and Latin America. Before this, he also served as Head of Americas and Asia in Zurich of Coutts & Co. From 1986 to 1989, he served as Vice President in charge of Swiss Super High Net Worth Clients at Citibank Switzerland. From 1985 to 1986 he was with McKinsey & Co. LH served as Chief of Staff for the Head of Private Banking for Europe, Middle East and Africa of Citibank from 1981 to 1984. He started his career as internal legal counsel with Citibank from 1978 to 1981. Mr. Howell holds a BA and JD from the University of Virginia.

**Clément Ducasse**
*Director*

Prior to founding Capital Union Bank in 2013, Clément co-founded Union Capital Group SA in 2006 which has become a highly successful boutique financial advisor specializing in Capital Markets via derivatives & structured solutions dedicated to the private banking sector in Switzerland, Europe & Latin America. Furthermore, Clément is administrator of Lake Geneva Investments Partners, a Finma regulated asset manager focusing on niche investment strategies currently overseeing AUM's in excess of USD 500 million. Clément formerly developed his expertise by working at HSBC Corporate & Investment bank as a derivatives and structured products specialist dedicated to family offices and independent asset managers in Europe. Clement earned a bachelor's in Business Administration from ESSEC Business School in Paris.

**Ludovic Chéchin-Laurans**
*Managing Director*

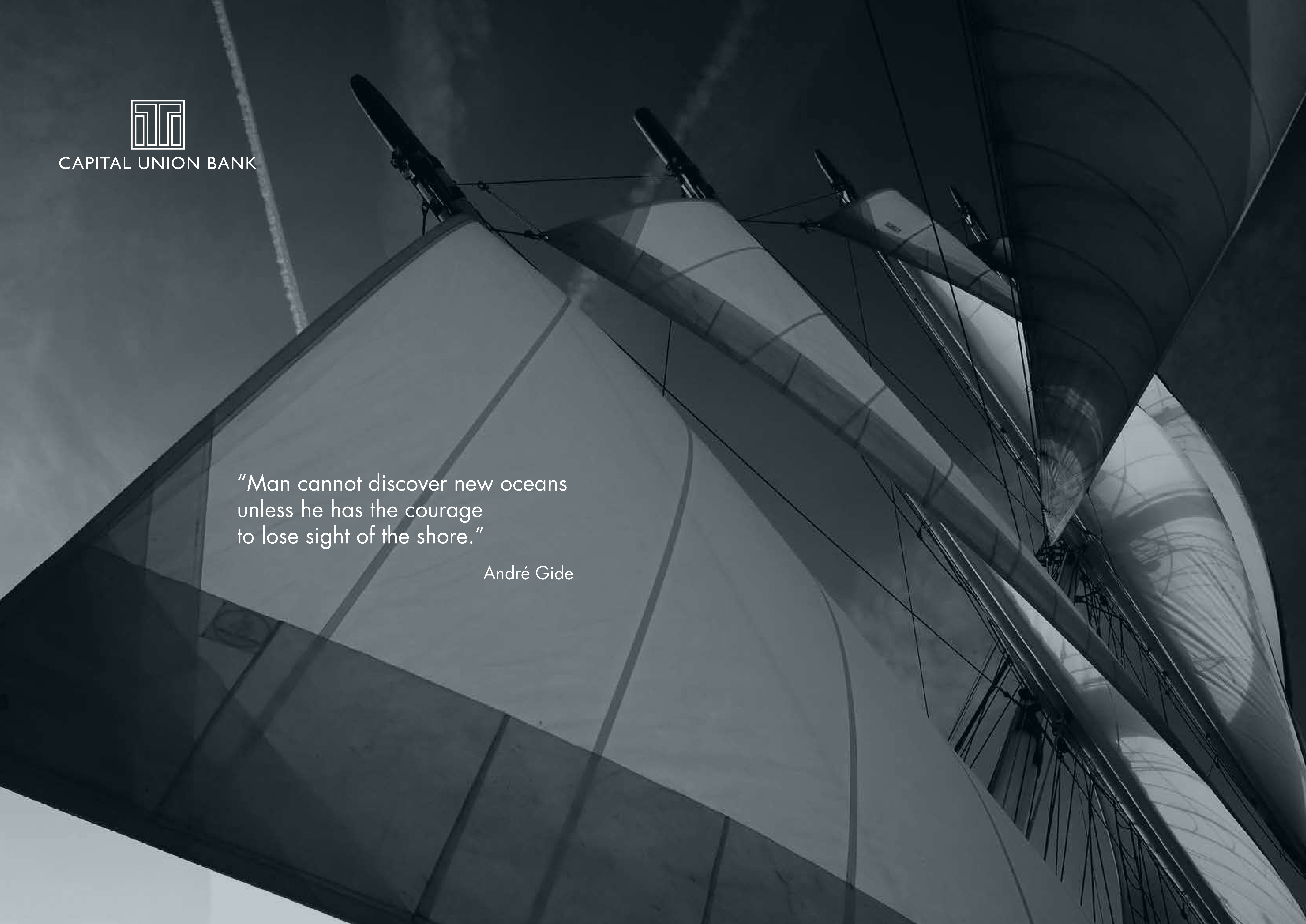
Ludovic was formerly Deputy CEO at EFG Bank AG & member of the Executive Committee of EFG International up to September 2013. Between 2011 to 2012, he served as Managing Director for EFG Bank & Trust in the Bahamas and CEO of the Caribbean Region for EFG International. From 2005 to 2011, Ludovic initiated and managed several banking entities for EFGI: founder and co-CEO of EFG Bank (Luxembourg) SA, CEO and Board Member of EFG Banque Privée in Paris, co-CEO of EFG Bank Madrid and Barcelona, and co-CEO of EFG Bank in Denmark. Prior to joining EFG International, Ludovic Chéchin-Laurans had served in several positions for BNP Paribas Group, at General Inspection from 1999 to 2001, as Territory Head of Compliance for BNP Paribas Bank & Trust and UEB Bank & Trust in Nassau, from 2001 to 2003, and as Head of Private Banking and deputy CEO for UEB Luxembourg, from 2003 to 2005. Ludovic holds a MBA in Finance from ESCT (France).

**Christopher Lightbourn**
*Director*

Christopher Lightbourn began his professional career as a CPA in New York City auditing banks with Peat, Marwick, Mitchell & Co. and later Price Waterhouse before returning to the Bahamas in 1984. He has been involved in construction, development and shipping in the Bahamas for more than thirty years. He has served as Capital Union Bank's independent director since inception. Between 2005 to 2013, he served as independent director for EFG Bank & Trust in the Bahamas. He also serves as director for several local companies. Christopher Lightbourn has a Bachelor of Science degree in Commerce from the University of Virginia, U.S.A

**Management Committee**

**Ludovic Chéchin-Laurans,** *Chief Executive Officer*
**Mikeiko Brown,** *Chief Financial Officer*
**Clément Ducasse,** *Head of Capital Markets*
**Antoine Lacourt,** *Chief Investment Officer*
**Rolf Schuermann,** *Head of Risk*
**Luciana Silvera,** *Chief Operating Officer*


CAPITAL UNION BANK
“Man cannot discover new oceans
unless he has the courage
to lose sight of the shore.”
André Gide

CAPITAL UNION BANK

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