PREPARING FOR THE NEW ENVIRONMENT

2019 ANNUAL REPORT

FIDELITY

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Summary Of Results

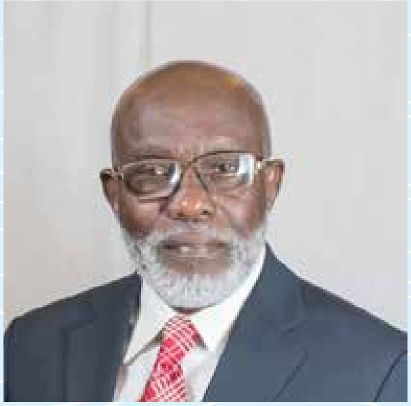
For the years ended 31 December (B$000)	2019	2018	% Change	2017	2016	2015
STATEMENT OF COMPREHENSIVE INCOME DATA:						
Interest Income	70,502	66,892	5.40%	61,287	59,384	51,866
Interest Expense	(12,638)	(12,675)	-0.29%	(14,831)	(14,640)	(13,158)
Net Interest Income	57,864	54,217	6.73%	46,456	44,744	38,708
Provision for Loan Losses	(10,205)	(12,738)	-19.89%	(8,961)	(7,987)	(5,954)
Net Interest Income after Provision for Loan Losses	47,659	41,480	14.90%	37,495	36,757	32,754
Non-Interest Income	3,358	3,289	2.10%	3,215	3,099	3,469
Non-Interest Expenses	(27,369)	(24,571)	11.39%	(22,005)	(20,272)	(18,671)
Share of Profits of Joint Ventures	1,613	2,166	-25.53%	2,348	2,105	3,148
Net Income	32,823	22,364	46.77%	21,054	21,688	20,700
Total Comprehensive Income	33,548	22,364	50.01%	21,054	21,231	20,700
Net Income Attributable to Ordinary Shareholders	31,848	21,389	48.90%	20,078	20,635	19,737
PER SHARE DATA:						
Book Value per Ordinary Share	$2.87	$2.60	10.45%	$2.58	$2.38	$2.08
Dividends per Ordinary Share	$0.86	$0.52	65.38%	$0.50	$0.40	$0.28
Year End Share Price	$15.05	$12.85	17.12%	$10.45	$9.30	$6.60
Weighted Average Ordinary Shares	28,813,110	28,803,525	0.03%	28,795,142	28,776,198	28,746,474
STATEMENT OF FINANCIAL POSITION DATA:						
Investment Securities	83,364	83,058	0.37%	88,497	77,129	62,042
Loans and Advances to Customers	431,080	439,700	-1.96%	408,644	386,804	360,514
Total Assets	692,915	657,901	5.32%	627,770	564,209	521,688
Write-offs of Loans and Advances for Customers	12,364	13,441	-8.01%	9,048	8,369	7,400
Deposits from Customers	567,608	532,735	6.55%	493,517	430,883	397,113
Total Equity	97,722	89,868	8.74%	89,317	83,562	74,763
Total Equity - Ordinary Shares	82,722	74,868	10.49%	74,317	68,562	59,763
Growth in Loans and Advances for Customers	-1.96%	7.60%		5.65%	7.29%	8.47%
Growth in Total Assets	5.32%	4.80%		11.27%	8.15%	10.34%
PERFORMANCE RATIOS:						
Earnings Per Share	$1.11	$0.74	48.84%	$0.70	$0.72	$0.69
Price/Earnings	13.62 x	17.30 x	-21.31%	14.99 x	12.97 x	9.61 x
Price/Book Value	5.24 x	4.94 x	6.04%	4.05 x	3.90 x	3.18 x
Dividend Yield	5.71%	4.05%	41.21%	4.78%	4.30%	4.17%
Return on Average Assets	4.97%	3.48%	42.77%	3.53%	3.91%	4.16%
Return on Average Ordinary Shareholders' Equity	41.34%	28.68%	44.16%	28.11%	31.45%	36.68%
Ordinary Dividend Payout Ratio	76.21%	70.18%	8.60%	71.89%	57.22%	40.22%
Efficiency Ratio	44.70%	42.73%	4.63%	44.30%	42.37%	44.27%
Net Interest Margin	5.82%	5.83%	-0.25%	5.34%	5.69%	5.39%
ASSET QUALITY RATIOS:						
Non-Performing Loans to Total Loans	3.81%	4.84%	-21.28%	6.25%	6.30%	7.28%
Non-Performing Loans to Total Assets	2.50%	3.42%	-27.00%	4.26%	4.52%	5.28%
Write-offs to Average Loans	1.80%	1.98%	-9.07%	1.44%	1.41%	1.34%
Provision for Loan Losses to Total Loans, including Accrued Interest	2.95%	3.35%	-11.84%	2.42%	2.58%	2.86%
Provision for Loan Losses to Non-Performing Loans	77.41%	69.12%	11.99%	38.76%	40.94%	39.31%

Board of Directors

Scott F. Elphinstone
Chairman

Anwer J. Sunderji

Thomas F. Hacket



Alfred H. Stewart

Jennifer P. Dilbert

J. Nicholas Freeland

Stuart M. Bowe

Chairman's Report

It is almost impossible to look back at 2019 without being biased by the global pandemic, COVID-19, that seemed so far away from the Commonwealth of The Bahamas (The Bahamas) as that year closed. The new year opened with much anticipation of further economic growth, as the longest ever global economic expansion continued. The tragedy of Hurricane Dorian slowed the overall progress of The Bahamas, particularly the islands of Abaco and Grand Bahama. I would like to thank our management and staff in Abaco and Grand Bahama for their courage and commitment to serving their communities during the immediate aftermath and subsequently.

Despite this challenging environment, Fidelity Bank (Bahamas) Limited (the Bank) grew total assets, deposits from customers, return on average assets and return on average ordinary shareholders' equity by amounts exceeding or matching previous years. The Bank's equity position remains above our 20.00% capital to risk weighted-assets target and well above regulatory requirements. The sale of Royal Fidelity Merchant Bank & Trust Limited (RFMBT) to RF Holdings Limited generated excellent shareholder value and allowed the Bank to pay total dividends of $0.86 per share compared to $0.52 in 2018. I would like to thank the management and staff of the Bank for another exceptional effort to continue our record of growth and profitability in 2019.

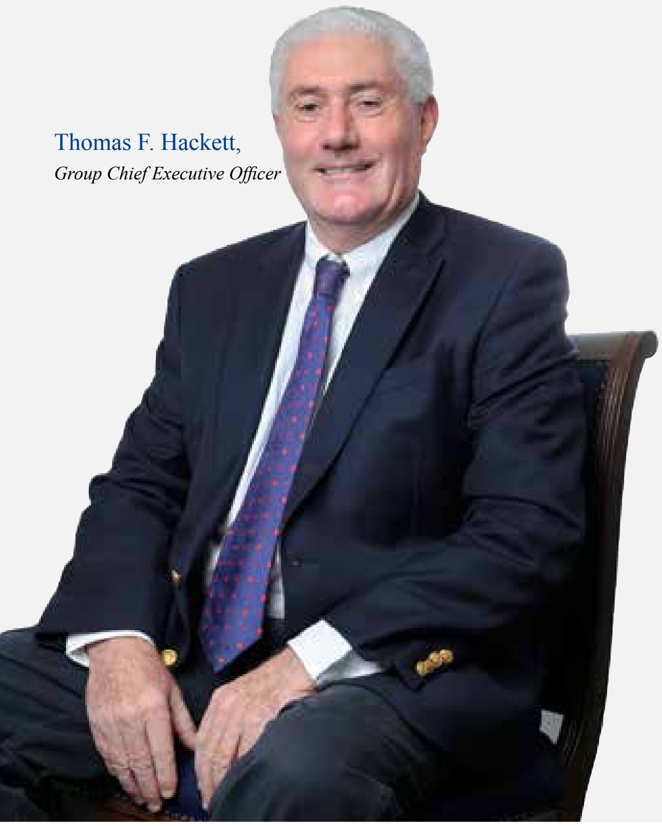
The outlook for the global economy is the most uncertain in the post war period. Both the world and The Bahamas are in the grips of a depression. Unemployment has already exceeded levels well above those of the global depression of the 1930s. While global economies are starting to reopen after shut-downs imposed by governments, the recovery is tenuous due to the uncertainties of the path of the virus, potential treatments and the confidence of the populations to venture out of their homes. This will impact the economy of The Bahamas most severely, as it is dependent on tourism. While we are optimistic that there will be a medical breakthrough, the focus of the Board of the Directors and management has shifted to loan quality and maintenance of our equity position, and our staff are engaged with customers that are struggling with loss of income. Our first quarter results include increased provision for anticipated loan losses and further increases are expected for the remainder of the year. As a Board of Directors, we are encouraged that the Bank has maintained excess equity and has emphasised lending to employees of historically stable employers, including employees of departments and agencies of the Government of The Bahamas. A full recovery in late 2022 is our base case assumption. We expect the crisis to have a negative effect on net income and total comprehensive income, equity, and dividends in 2020.

I would like to thank our retiring Chief Executive Officer and fellow director, Thomas F. (Tom) Hackett, who led a remarkable transformation of the Bank during his tenure and welcome Gowon N.G. Bowe to this challenging role. I would also like to thank you the shareholders for your continued confidence and support.

Scott F. Elphinstone,
Chairman

"I would like to thank our retiring Chief Executive Officer and fellow director, Thomas F. (Tom) Hackett, who led a remarkable transformation of the Bank during his tenure and welcome Gowon N.G. Bowe to this challenging role."

Our Executive Team



Thomas F. Hackett,
Group Chief Executive Officer

From Left to Right

Gowon N. G. Bowe, *Group Chief Financial Officer*

Janice Rolle, *Vice President, Retail Banking*

H. Gregory Bethel, *President*

Malvern Bain, *Vice President, Asset Recovery*

Crestwell Gardiner, *Vice President, Credit & Lending*

Spencer Dean-Smith, *Head of Compliance*

Alan Loane, *Group Chief Information Officer*

Heatherdawn E. Blake-Brown, *Director, Card Services*

Message from the President

Another Good Year and The Way Forward to a 'NOVEL NORMAL'

Thanks to effective leadership at all levels of Fidelity Bank (Bahamas) Limited (the Bank) and a 'beyond the norm' commitment to business development, relationship management and customer service by our outstanding colleagues, the results for the year 2019 were particularly good. The year in review was yet another year of adversity in the form of a super hurricane – which interrupted the final quarter and halted various initiatives put in place to help us finish even stronger. Nevertheless, we are grateful for the final results, but more than that, for the safety and resilience of our team members in Freeport and Marsh Harbour, who endured the ordeal of a lifetime. Our hearts, thoughts and prayers are with those negatively impacted by the super hurricane through death, missing loved ones, injury, emotional trauma, loss of property and loss of income.

Looking forward to 2020, the global pandemic, COVID-19, is a life changing challenge we did not ask for, but must adjust to and adjust now. Because of the impact of COVID-19 on our lives, especially our health (physical, mental and emotional) and our finances, change is required in the short-term, if we want our medium-term and long-term prospects to improve and be better.

Since we had no tourists visiting the Commonwealth of The Bahamas (The Bahamas) for three (3) months, up to 60,000 Bahamians suffered the loss of income. All households had less income. Some had none. And because the tourists will not return in the required numbers until the economies of the United States of America and Canada fully recover (not projected until the beginning of 2022), the Government of The Bahamas (the Bahamas Government) and the Private Sector – which funds the Bahamas Government – must step in and assist those in need. The Private Sector (businesses and individuals) fund the Bahamas Government through taxes, fees, and loans. The Private Sector, which is eighty percent (80.00%) of the Bahamian economy, provided the funds which the Bahamas Government spent to help people during and after the global pandemic. This extraordinary social expenditure by the Bahamas Government (at the same time experiencing a significant revenue loss) added to the Bahamas Government's deficit and debt. This means that taxes will increase at some point. They will likely increase in a significant way. The wealthy, upper-middle income earners, and the profitable businesses will have to pay even more to fund the Bahamas Government, including the costs of safety, security, salaries, social assistance, healthcare, education, and servicing of debt. So, individuals, organisations and businesses will have less income and money to spend for quite a while.

Now is the time to reset or adjust goals, objectives, budgets, and future plans. Now is the time to spend only on what is urgent and important or will generate a positive return in the future. No organisation, family or individual is exempt today, nor will they be exempt from the price to be paid during and after the recovery period. We must all strategise and think about the future.

In the meantime, what is happening abroad in the United States of America, Canada, the United Kingdom, Europe, and China is what really matters. Key indicators are: [1] the price of oil; [2] the stock markets; [3] the bond markets; [4] the number and trend of COVID-19 cases; [5] the return of air travel for business and leisure; and [6] leadership in the Bahamas Government and the Private Sector. The United States of America, Europe and China are in a struggle for power and supremacy. The relevant representatives of The Bahamas need to travel abroad to engage 'key actors' in each of these continents, build up contacts and foster key relationships. The Bahamas needs to do all it can to attract tourists and investors while assuring them that The Bahamas is safe and open for business – with quick decision making.

All of these business development efforts need to be funded along with the ongoing functions of the Bahamas Government.

Today, many Bahamians are afraid, frustrated, and irrational. Many people need immediate hope and confidence that institutions like the Bahamas Government, the Private Sector including banks, churches, and charities really care, understand, and want to help them now and in the months to come. If they have no hope and confidence in our institutions, they will revolt and encourage others to join them. Crime will increase. Leaders in The Bahamas need to give them hope and relief, while at the same time providing them information and useful advice (which they may not necessarily want to hear). As a nation, we need to act prudently and pray that God will intervene to enable us to provide quick tests, a cure, and a vaccine for COVID-19.

Finally, I wish to give special thanks to our outgoing Chief Executive Officer (CEO) – Mr. Thomas F. Hackett. His hand was a steady, disciplined, generous and trusted one at the helm of the Bank. We at the Bank wish him and his wife Brenda good health and many more years of life to enjoy the 'fruit of their labour'. At the same time, we welcome Mr. Gowon N.G. Bowe as our new CEO and wish him great success as we transition and navigate the challenges ahead.

H. Gregory Bethel, BBA
President

Our Management Team

Stacia Bowe,
Director, Human Resources

Dominic Ferguson,
Financial Centre Manager

Odia Gaskin,
Financial Centre Manager

Victoria Albury,
Financial Centre Manager

Eunice Johnson,
Manager, Cards - Fraud & Risk,

Leslie Fox,
Manager, Loan Administration

Carmel Parker-Dean,
Financial Centre Manager

Tennessee Bowe,
Financial Centre Manager

Tineka Mackey,
Manager, Group Branch Operations

Khrystle Rutherford-Ferguson,
Manager, Legal Affairs & Assistant Corporate Secretary

Bridget Forbes,
Financial Centre Manager

Tameka Pratt,
Financial Centre Manager

Domicia Hepburn,
Manager, Credit & Lending

Lakerria Munnings,
Manager, Cards - Customer Service

Vannessa Clarke,
Manager, Internal Audit

Katherine Lockhart,
Manager, Central Services

Thallise Maycock,
Manager, Premises

Antonio Saunders,
Manager, Marketing

Devia Knowles,
Senior Lender

Shervone Knowles,
Senior Customer Service Officer

Sansha Bain,
Senior Customer Service Officer

Nevine Rolle,
Manager, Compensation & Benefits

Anatole Major,
Manager, Human Resources

Javaugh Strachan,
Manager, Technical Training

Rodger Pinder,
Manager, Asset Recovery

Demetries Rolle,
Manager, Information Technology

Andrea Smith,
Senior Accountant

Samantha Carey-Davis,
Manager, Accounts

FIDELITY Cares

Community Giving

Community Giving

Bahamas Red Cross: Fidelity and its employees sprang into action to help feed persons affected by Hurricane Dorian

Fidelity Bank (Bahamas) Limited (Fidelity) aims to make it easy for its employees to be involved in the communities in which it operates through the adoption of three (3) core principles:

Community Support: Meeting community needs by providing essential resources to our non-profit partners which serve to increase their capacity to address critical community needs.

Employees' Interests: Supporting our employees' interests by providing skill building and leadership development opportunities in conjunction with their efforts to support causes that matter most to them.

The Fidelity vision of "being good for you": Fidelity aims to be the preferred organisation, which connects itself with the positive socio-economic initiatives implemented in the Commonwealth of The Bahamas.

RBDF Fun Run Walk Sponsorship

LUPUS Month Sponsorship of Walk and T-Shirt Day

Bahamas Feeding Network Donation

Trinity Methodist Church Feeding Programme

Swim Bahamas - Teaching Bahamian Youths to Swim

Seahorse Tuition Scholarships

Sherman Smith Summer Basketball Camp

JBLN Youth Softball Team Sponsorship

Teleos Christian Schools (2019 Champs)

Bahamas Primary School Student of the Year Sponsorship

Hugh Campbell Basketball Classic

Naomi Blatch Christmas Party

Management Discussion & Analysis

FINANCIAL POSITION AND PERFORMANCE

The year ended 31 December 2019 was a year that had several factors contributing to the financial positon and performance of Fidelity Bank (Bahamas) Limited (the Bank). The economy of the Commonwealth of The Bahamas (The Bahamas) continued its slow incline through the first eight (8) months of the year, with unemployment and gross domestic product (GDP) growth remaining stubbornly anaemic; and then Hurricane Dorian ravaged the second and third largest island contributors to national GDP, Grand Bahama and Abaco. All economic progress was stalled following this natural disaster, and The Bahamas had to balance financial and social recovery; the Bank was no different. In the midst of navigating its role in national events, the Bank completed the sale of its shareholding in its former joint venture, Royal Fidelity Merchant Bank & Trust Limited (RFMBT), which involved certain related parties and resulted in the realisation of tremendous shareholder value for an investment made in prior years.

During this tumultuous year, the Bank grew total assets by $35,013,996 (2018: $30,130,745), representing 5.32% (2018: 4.80%) over the corresponding period, to $692,914,884 (2018: $657,900,888). The growth in total assets, along with the gain recognised on the sale of the Bank's shareholding in its former joint venture, resulted in net income of $32,822,573 (2018: $22,364,469), representing an increase of 46.76% (2018: 6.23%); and with the increase in the fair value of land and buildings owned and occupied by the Bank and carried at fair value, total comprehensive income of $33,547,922 (2018: $22,364,469), representing an increase of 50.01% (2018: 6.23%), was recognised. The financial performance during the year led to earnings per ordinary share of $1.11 (2018: $0.74), which comprise earnings from continuing operations per ordinary share of $0.79 (2018: $0.67).

The Bank continued to demonstrate stewardship through focused growth with appropriate risk and reward, which was evidenced by return on average assets of 4.97% (2018: 3.48%) and return on average ordinary shareholders' equity of 41.34% (2018: 28.68%). Return, excluding the gain on assets held for sale, on average assets and average ordinary shareholders' equity was 3.85% and 31.74%, respectively. Shareholders were able to directly participate in the positive financial performance of the Bank, as after assessing the equity requirements necessary to facilitate growth and sustain the Bank through reasonably expected economic shocks, the Bank declared and paid dividends totalling $24,825,336 (2018: $15,010,668), representing $0.86 (2018: $0.52) per share and a dividend payout ratio of 76.21% (2018: 70.18%), including 100.00% of the gain on sale of assets held for sale.

The growth in assets was principally the result of an increase in cash on hand and at banks of $59,168,958 (2018: $2,639,119), representing 55.56% (2018: 2.54%), to $165,667,063 (2018: $106,498,105), which was partially offset by a decrease in loans and advances to customers of $8,619,517 (2018: increase of $31,055,593), representing 1.96% (2018: increase of 7.60%), to $431,080,313 (2018: $439,699,830).

The growth of consumer loans, which yield higher interest margins, in prior years and the retention of such loans during the current year benefited the Bank through an increase in net interest income of $3,646,897 (2018: $7,760,871), which was tempered moderately by an increase in the operating expenses, including provision for loan losses, of $265,110 (2018: $6,342,609). Overall, operating expenses, representing investments in our people, our products and our communities are monitored and managed to ensure that these expenditures remain within the target for the key performance metric being the efficiency ratio, which represents operating expenses, excluding provision for loan losses, as a percentage of total operating income. For the year ended 31 December 2019, the efficiency ratio remained consistent with the corresponding year at 44.70% (2018: 42.73%).

CASH ON HAND AND AT BANKS

Constant management of the matching of financial assets and financial liabilities, and agility to rebalance when mismatches exceed targeted levels, are required to achieve the Bank's objectives in treasury management, which are to comfortably meet liquidity requirements set internally and by the Central Bank of The Bahamas (the Central Bank) simultaneously maximising net interest income.

The financial performance of the Bank, which included the sale of the Bank's shareholding in its former joint venture, along with the significant growth in deposits from customers, led to significant surplus cash during the year ended 31 December 2019. The subdued lending environment did not facilitate utilisation of cash balances in lending activities, which differs from the prior year, however, the surplus cash funded the redemption of debt securities and the increased dividends declared during the year.

The Bank principally places its cash at banks with the Central Bank, which are non-interest bearing and accordingly suppresses net interest income performance. However, the Bank has explored short-term options to deploy surplus cash and has placed, and continues to place, funds in interest bearing term deposits, which provide gains in interest income and contribute positively to net interest income performance.

Cash on hand and at banks as of 31 December 2019, the levels of which continue into 2020, positions the Bank to finance the expected depressed operating environment that has emerged subsequent to the year end and more importantly, will facilitate investment in core income producing financial assets when the economic environment is conducive to growth.

LOANS AND ADVANCES TO CUSTOMERS

As described above, the fundamentals of the economy of The Bahamas proved a challenging environment for growth in loans and advances to customers, particularly while exhibiting the Bank's core principles of quality lending centred on a borrower's ability to pay and providing financial coaching to improve the lives of our customers. The Bank's dedicated and motivated staff exemplified the Bank's vision of being good for its community and stakeholders, and through exceptional customer relationship management, innovative products, and laser-focused marketing and public relations campaigns, the Bank had positive developments in loans and advances to customers.

For the year ended 31 December 2019, consumer and other loans decreased by $2,476,412 (2018: increased by $44,323,910), representing 0.63% (2018: increase of 12.60%), which comprised a decrease in balances related to reverse sale and repurchase agreements of $10,000,800 that were short-term agreements entered into with a related party that deployed non-interest bearing financial assets for that period; offset by an increase in the regular consumer and other loan types of $7,524,388.

With the lack of significant activity in the domestic real estate market, along with slow increases in employment resulting in limited numbers of potential borrowers qualifying for new mortgage loans, the Bank's experiences with its mortgage portfolio in prior years persisted during the current year. Repayments and realisation of properties pledged as collateral continued to be the only significant activities in the mortgage portfolio, resulting in a decrease in mortgage loans of $8,419,548 (2018: $7,187,650), representing 13.26% (2018: 10.17%). In prior years, enhanced efforts were initiated for the realisation of collateral on non-performing mortgage loans and these efforts have led to declines in persistent non-performing loans. In addition, while the effects of Hurricane Dorian were devastating for the communities in Grand Bahama and Abaco, the Bank's credit risk management practices of ensuring that properties pledged to the Bank are appropriately insured, regardless of the status of the payments by the borrowers, contributed to several non-performing loans being satisfied, in part or in full, by the receipt of insurance proceeds. The Bank was guided by its fiduciary responsibilities to depositors and shareholders, together with its social responsibility as a member of the communities impacted, and assessed its borrowers' circumstances on a case-by-case basis; a universal approach was not adopted. For borrowers that exhibited a pattern of meeting their financial obligations, and advising of changes in financial circumstances, the Bank provided access to insurance proceeds and offered payment alternatives to assist such borrowers with restabilising their finances. For loans in default, particularly those where borrowers had not exhibited a pattern of meeting their financial obligations, the Bank applied the insurance proceeds to eliminate or reduce the exposure to such non-performing loans. The result of these activities led to a commendable decrease in non-performing mortgage loans.

Further, the Bank has experienced positive results from innovative strategies and media in attracting interest for its distressed properties, which also led to decreases in long-standing non-performing mortgage loans during the year. The experience of the Bank with mortgage loans, except for the exceptional circumstances during the year, is consistent with the industry and management continues to direct resources to best manage the existing mortgage portfolio, in particular non-performing mortgage loans, with cautious underwriting of any new mortgage loans.

Consumer and other loans earn higher interest margins and to date are experiencing positive default rates and loss ratios, which support the continued focus on growing this portfolio. In contrast, the higher default rates and increasing loss ratios experienced with mortgage loans, coupled with the lower interest margins, support the continued cautious participation by the Bank in this portfolio, as management monitors the Bahamian economy. The aforementioned performance of the underlying loan portfolios manifests in the loan mix, and as of 31 December 2019, mortgage loans represented 12.27% (2018: 13.81%) of total loans with consumer and other loans representing 87.73% (2018: 86.19%). The performance and fundamentals of the various types of loans will be the key influencers in the Bank's growth strategy, along with measured diversification of the loan mix to manage concentration risks. The mix of the loan portfolio is monitored by executive management of the Bank and those charged with governance on a continuous basis, factoring in economic indicators, market conditions and legislative and other initiatives implemented and/or discussed by domestic policymakers and financial regulators.

The decrease in non-performing loans to $17,299,425 (2018: $22,498,829) continues the trend over the past few years, and represents 3.94% (2018: 5.00%) of total loans and advances to customers, excluding accrued interest. Non-performing mortgage loans totalled $13,720,112 (2018: $17,416,845), representing 79.31% (2018: 77.41%) of total non-performing loans and advances to customers. This promising trend is a direct result of the superior loan loss experience for consumer and other loans, which significantly outperforms that for mortgage loans, and the financial results of increased efforts to realise collateral, where available, and initiatives described above. Equally, the reduction demonstrates the quality of the loan portfolio as the pace of loans and advances to customers becoming non-performing reduced significantly, and legacy non-performing loans and advances to customers were being resolved. Further, the Bank is committed to an efficient write-off of non-performing loans following attainment of judgments from the Courts of The Bahamas.

Provision for loan losses represented 3.05% (2018: 3.46%) of total loans and advances to customers, excluding accrued interest, and 77.41% (2018: 69.12%) of total non-performing loans and advances to customers as of 31 December 2019. Following the adoption of International Financial Reporting Standard (IFRS) 9 *Financial Instruments* (IFRS 9), which requires the provision for loan losses to be determined based on an expected loss model, provision for loan losses are not expected to experience significant changes as a percentage of total loans and advances to customers in the absence of significant: growth or contraction in the loan portfolios; changes in underlying macroeconomic factors, including but not limited to, unemployment rates and GDP growth; and changes in specific experiences of the Bank in loss ratios on the derecognition of loans and advances to customers. During the year, despite the negative macroeconomic impact of Hurricane Dorian, the specific loan loss experiences of the Bank remained consistent with the prior year, and accordingly, provision for loan losses relative to the total loans and advances to customers also remained consistent with the prior year.

DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES

The constrained growth in lending in The Bahamas has led to continued excess liquidity in the banking system, however the Bank aims to achieve greater stability in managing its liquidity and funding productive assets through offering higher interest rates to customers that commit to extended term deposits. This strategy rewards customers for longer term deposit commitments, and simultaneously lowers the cost of funds to the Bank, as interest rates on deposits are significantly lower than interest rates on debt securities, which can be redeemed if sufficiently funded by increased deposits from customers.

For the year ended 31 December 2019, the competitive interest rates offered by the Bank, along with the confidence of existing and new customers garnered in part by the Bank's free financial coaching, led to a significant increase in deposits from customers of $34,873,116 (2018: $39,217,962), representing 6.55% (2018: 7.95%). This increase, which to date has proven to be sustainable, facilitated the redemption of debt securities of $10,000,000 (2018: $10,000,000). Further redemptions of debt securities, which would increase the Bank's capacity to access such funding in future periods, if and when required, will be considered following continued assessments of the appropriate mix of funding stability and cost, as the Bank manages its deposits from customers and debt securities.

The management of treasury options associated with the excess liquidity benefits from the greater stability in the movement of funds, which is facilitated by encouraging customers to place deposits in term deposits for extended periods through more advantageous interest rates that in turn continued to build stronger customer relationships and customer loyalty. This strategy employed in prior years and committed for future years has been rewarded by our loyal customers, and attracted new customers that too are hoped to become loyal customers, and the mix of deposit types remained consistent with the corresponding period.

CAPITAL ADEQUACY

The Central Bank requires the Bank to maintain a ratio of total regulatory capital to risk–weighted assets at or above a minimum of 14.00%. As of 31 December 2019, the Bank had total equity of $97,722,254 (2018: $89,867,918), representing an increase of 8.74% (2018: 0.62%) over the corresponding period, and total regulatory capital to risk-weighted assets of 23.96% (2018: 21.72%). The return on average ordinary shareholders' equity, disclosed earlier, demonstrates the success in recent and current years in achieving acceptable returns for shareholders of the Bank, as management maintains the targeted level of regulatory capital and appropriately deploys the equity of the Bank in assets and activities that provide returns with acceptable risk.

During 2019, the financial performance of the Bank, along with efficient utilisation of total equity, enabled the Bank to declare and pay ordinary dividends of $17,264,837 (2018: $15,010,668), representing $0.60 (2018: $0.52) per share and a dividend payout ratio of 69.03% (2018: 70.18%) of earnings, excluding the gain on sale of assets held for sale. Additionally, as the risk-weighted assets associated with the investment in the former joint venture had been fully realised following the sale of the Bank's shareholding, the Bank returned 100.00% of the gain on sale of assets held for sale as an extraordinary dividend of $7,560,499 (2018: $Nil), representing $0.26 (2018: $Nil) per share.

Providing sustainability to withstand reasonably possible negative economic events in The Bahamas that could adversely affect risk-weighted assets of the Bank, and maintaining a ratio of total regulatory capital to risk–weighted assets at a level that facilitates strategic growth in risk-weighted assets, principally loans and advances to customers, are the principles guiding management of total equity, and in turn regulatory capital, of the Bank. For the year ended 31 December 2019, the Bank maintained a ratio of total regulatory capital to risk–weighted assets that met these principles, and continues to do so in 2020.

OPERATING REVENUES

Net Interest Income

For the year ended 31 December 2019, the focus of the Bank was on cultivating the seeds sown in prior years to begin to reap the harvest of such efforts and continue tilling for harvests in the future. In current and prior years, the Bank: implemented initiatives to drive growth in the higher yielding consumer loans, with significant growth recorded during 2018 and more moderate growth recorded in 2019; continued to reward customers for longer term deposit and savings commitments, which has led to growth in deposits from customers that provided funding to redeem higher interest rate debt securities; and placed cash resources on term deposits, which reduced the amount of cash placed with the Central Bank in non-interest bearing accounts. The result of these activities was an increase in net interest income of 6.73% (2018: 16.71%) over the corresponding period to $57,864,213 (2018: $54,217,316), with net interest margin on interest bearing financial assets standing at 5.82% (2018: 5.83%).

It is recognised that the challenging economic times ahead globally and in The Bahamas will present headwinds for continued growth in loans and advances to customers, and downward pressures on interest rates will persist. However, the Bank will shift its focus to maintaining its levels of consumer loans through exceptional customer relationship management and supporting existing loan customers in navigating through the financial difficulties that may present themselves depending on the length of the challenging economic times.

Non-Interest Income

Fees and commissions and share of profits of joint ventures, which should be aggregated with profits of assets held for sale that represent the Bank's share of profits of RFMBT, are the principal sources of non-interest income. The classification of profits of assets held for sale is due to the measurement and presentation requirements of IFRS, based on the investment in RFMBT being designated as held for sale following the agreement by the Bank to dispose of its shareholding, by way of sale.

For the year ended 31 December 2019, fees and commissions increased by 6.45% (2018: 2.34%) over the corresponding period to $3,073,585 (2018: $2,887,483); and the total financial performance of investments in joint ventures decreased by 25.52% (2018: 7.72%) over the corresponding period to $1,613,454 (2018: $2,166,388). The significant decrease during the year was directly due to the sale of the shareholding in RFMBT being completed at the end of the third quarter of 2019, and accordingly the Bank did not benefit from the fourth quarter financial performance of RFMBT. However, the Bank recognised a gain on the sale of assets held for sale of $7,560,499.

In relation to the sale of assets held for sale, the Bank received proceeds of $22,470,978, which comprised: dividends of $6,021,978 declared and paid by RFMBT as of the date of completion; the return of the initial investment of $8,888,501; and the gain on sale of $7,560,499. The gain on sale of assets held for sale represents the realisation of the future share of profits of the former joint venture, and its contributions to the Bank's profits ceased in 2019.

Non-interest income represented 17.80% (2018: 9.14%) of total income of the Bank for the year ended 31 December 2019, and excluding the gain on sale of assets held for sale, non-interest income represented 7.91% of total income. The expected future contributions of non-interest income to total income is best assessed by the ratio of non-interest income from continuing operations to total income from continuing operations, which was 5.52% (2018: 5.79%).

OPERATING EXPENSES

For the year ended 31 December 2019, expenses, excluding provision for loan losses, totalled $27,368,859 (2018: $24,570,945), representing an increase of 11.39% (2018: 11.66%) over the corresponding period.

The loans sales growth strategy of prior years, and the increased administration associated with loan growth, required the hiring of experienced personnel as investments in the foundation of the Bank necessary for its continued growth and development. Accordingly, salaries and employee benefits increased by $1,706,123 (2018: $1,134,471) over the corresponding period, representing an increase of 14.97% (2018: 11.06%).

Further, certain general and administrative expenses increased in the current year, including: costs associated with cards services, including the loyalty programme of $873,550 due to the expansion of the Bank's card services; value added tax (VAT) of $201,177 due to the change in the VAT rate in July 2018 that experienced a full year in 2019; and bank and business licence fees of $185,089. These increases were offset by the decrease in public relations expenses in the prior year associated with the Bank's 40th Anniversary celebrations and promotions and the hosting of the highly revered Women's Only Seminar, which is hosted every two (2) years.

PROVISION FOR LOAN LOSSES

In the prior year, the Bank adopted IFRS 9, which requires the provision for loan losses to be determined based on the expectation of the portion of loans and advances that will experience challenges in collection, referred to as an expected loss model. The Bank therefore reduces the value of loans and advances to customers by the expected loss experience, regardless of whether or not the loans and advances to customers are being serviced according to their terms and conditions. A significant process in assessing the expected credit loss of loans and advances to customers is the bifurcation of these financial assets based on terms to maturity and applicable interest rates, which are based on the determined risk of challenges with collection (that is, the higher the risk, the higher the interest rate and vice versa).

The expected loss model involves significant estimates, assumptions and judgments, which are described in Note 19 of the consolidated financial statements. Loans and advances to customers that have principal or interest payments overdue in excess of ninety (90) days are classified as non-performing, and are individually assessed for total possible recoveries based on expected cash flows, including those realised on sale of collateral pledged in support of the respective loan or advance; the provision for loan losses is determined as the difference between the outstanding balances and the determined expected recoveries. Loans and advances to customers that have principal or interest payments overdue in excess of thirty (30) days are classified as having a significant increase in credit risk and provision for loan losses is determined based on the expected lifetime losses, taking into consideration past experiences and forward looking information. All other loans and advances to customers are classified as current, and the provision for loan losses is determined based on the expected losses in the next twelve (12) months. The expected loss model results in a consistent expense for provision for loan losses subject to growth or contraction in the respective loan portfolio, except when there are material changes in macroeconomic factors that lead to significant changes in loss experiences.

For the year ended 31 December 2019, the expense for provision for loan losses decreased by $2,532,804 (2018: increased by $3,777,035), representing a decrease of 19.88% (2018: increase of 42.15%) over the corresponding period. The decrease was due to more moderate loan growth in the current year in comparison to the prior year, as the loss experience of the Bank's loan portfolio did not materially change from the prior year and accordingly, the expected credit loss ratios were consistent with the prior year. Further, the Bank recognised better recoveries than expected on non-performing loans, which resulted in a reduction in previously recognised provision for loan losses. Recoveries of amounts previously written off totalled $927,954 (2018: $701,866), as a result of the strategies surrounding collections and rehabilitation of non-performing loans and advances to customers implemented during prior years that continued to reap benefits.

Quality underwriting and monitoring early signs of delinquency remain the principal focus of the Bank, as it recognises that significant effort is required in rehabilitating non-performing loans and advances, particularly in the challenging times ahead. The Bank expects an increase in the expense for provision for loan losses commensurate with anticipated contraction in GDP and increased unemployment rates following the onset of the global pandemic, COVID-19, which will negatively impact the ability of certain borrowers to meet their financial obligations. Specific to mortgage loans, new loans becoming non-performing, long periods required to realise collateral supporting the mortgage loans and ultimately, reduced prices being realised on sales of properties due to market conditions in The Bahamas are expected to result in an increase in the specific provision for loan losses on mortgage loans. However, the consistency in the lending policies of the Bank, and its strong loss experience in comparison to industry and competitor statistics, are expected to buffer the extent of increase in the expense for provision for loan losses.

IMPACTS OF THE ADOPTION OF NEW IFRS

Effective 1 January 2019, the Bank adopted IFRS 16 *Leases* (IFRS 16), which requires the Bank to recognise right-of-use assets, hereinafter referred to as leasehold assets, and lease liabilities for all leases with terms of more than twelve (12) months. The Bank owns and occupies two (2) properties in its operations in New Providence, and leases the remaining properties used for its branch network in New Providence, Grand Bahama and Abaco. Accordingly, the adoption of IFRS 16 resulted in the recognition of leasehold assets and lease liabilities, however these represented less than 0.25% of total assets and total liabilities, respectively.

As a result of the adoption of IFRS 16, depreciation and amortisation expense and interest expense will increase due to the amortisation of the leasehold asset and the recognition of interest expense on the lease liabilities, however, there will be a commensurate reduction in general and administrative expenses, namely occupancy costs.

Property, plant and equipment, while necessary for the operations of the Bank, are not material aspects of the financial position and performance of the Bank and accordingly, the adoption of IFRS 16 is not significant to its financial position and performance. The recognition and measurement requirements, nonetheless, do provide a greater understanding of the commitments in relation to lease agreements.

SUMMARY AND LOOKING FORWARD

The year ended 31 December 2019 was an exceptional year for the Bank, recording positive growth in the financial performance of continuing operations and realising a very respectable return on the Bank's investment in its former joint venture, RFMBT. The shareholders were able to immediately participate in this exceptional performance through increased dividends, including the full distribution of the gain on the sale of assets held for sale, namely the shareholding in RFMBT. As the dividend in relation to the gain represents the realisation of future profits of RFMBT that will no longer inure to the benefit of the Bank, shareholders receiving this extraordinary dividend were advised at the time of announcing the dividend to ensure that a significant portion of the proceeds were reinvested in productive assets that will generate investment income for many years to come; this advice was ever more important in setting a foundation for unforeseen things to come in 2020.

The Bank also ended 2019 with a strong financial position, with significant cash resources and substantial equity, which were key components necessary for continued growth of the Bank in 2020 and beyond. The financial position of the Bank continued to draw the recognition of its value by customer, potential customers, shareholders and potential shareholders. Although the financial position was being built for future growth, it has positioned the Bank to withstand the unforeseen, and largely unimaginable, economic fallout being driven by the global pandemic, COVID-19, that emerged in its fullness in the first quarter of 2020. Prior to the onset of the economic fallout of the global pandemic, the recovery of the Bahamian economy was slow with limited improvements in factors that had the greatest impact on the Bank's business, such as unemployment and GDP growth, and there was an expected setback as a result of Hurricane Dorian in September 2019. However, the commitment and determination of the management and staff of the Bank enabled it to maximise the opportunities that presented themselves and despite the challenging economic and competitive environment, growth in the Bank's core business and commendable returns on equity and assets continued in 2019, even when excluding the non-recurring gain on sale of assets held for sale.

There was reasonable optimism for increased economic recovery prior to the global pandemic. Looking forward, the impact of the global pandemic on the financial position and performance of the Bank is currently impractical to determine, as decisions and strategies are continually being developed and amended based on the health risks posed by COVID-19. It is expected that the global pandemic and its attendant consequences will lead to: increases in the provision for loan losses and related expense, and decreases in interest income, which in turn will reduce the profitability or possibly create losses for the Bank; and possibly reduce liquidity. Prudent treasury management is a constant effort to keep just the right amount of liquid resources on hand, which has the opportunity cost of lower returns on those financial assets, and in the circumstances the significant liquidity in the Bank and the wider banking industry in The Bahamas will be beneficial.

The decisions ahead for the Bank will be very difficult, as the social responsibility of the Bank will have to be balanced with the fiduciary responsibility to protect the interests of depositors and shareholders. The Bank's approach is to be communicative with all stakeholders, and while the actions taken by the Bank may not always be popular among certain stakeholder groups, shareholders can be assured that the decisions are deliberate and in the best interest of the Bank, as a whole.

Like never before, collaboration among the Bank, its fellow members in the banking industry in The Bahamas, the Central Bank and other financial services regulators, and the Government of The Bahamas will be critical, and the Bank and its management team has demonstrated the commitment to contribute and collaborate well in advance of current events and will continue to demonstrate that commitment.

The focuses in the current and recent prior years on strategies of growth with acceptable risks and returns, prudent risk management, and providing superior customer experiences, all complement the financial position of the Bank in positioning the Bank for the uncertain future, and management of the Bank is confident that the Bank will emerge from these perilous times in as favourable a position as possible, battle tested and ready to capitalise on the dawn of the new world. Integral to this all will be continued investments in personnel, training and information technology and most importantly, the Bank continuing to live out its mantra, *Fidelity, We're Good For You.*

Consolidated Financial Statements

Independent auditors' report

To the Shareholders of Fidelity Bank (Bahamas) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fidelity Bank (Bahamas) Limited (the Bank) and its subsidiaries (together 'the Group') as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Fidelity Bank (Bahamas) Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Our audit approach

Overview

Overall group materiality: $1,704,000 which approximates 5% of net income.

We planned and scoped our audit for 2019 reflecting the Group structure including its subsidiaries.

- Expected credit loss ("ECL") allowances for Stage 1 and 2 of loans and advances to customers.
- Credit impaired ("Stage 3") Mortgage Loans

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. All audit procedures were performed by PricewaterhouseCoopers Bahamas.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	$1,704,000
How we determined it	Approximately 5% of net income
Rationale for the materiality benchmark applied	We chose net income as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose approximately 5% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $85,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss ("ECL") allowances for Stage 1 and 2 of loans and advances to customers *Refer to notes 2(d), 2(f), 2(g), 19 and 21 to the consolidated financial statements for disclosures of related accounting policies, balances, judgements and estimates.* At 31 December 2019 the Bank reported total gross loans and advances to customers of $448.6 million and $13.4 million of expected credit loss provisions. The ECL model requires that management exercises increased judgement surrounding inputs and assumptions, which are subjective and can therefore lead to significant estimation uncertainty over the measurement of the	With the assistance of internal experts, we performed the following procedures, amongst others, over the Group's ECL model and it's calculation of ECL for on and off-balance sheet exposures as at 31 December 2019 as follows:

expected credit losses. The inputs and assumptions include:

- Staging: Allocation of loans and advances to customers to Stage 1, 2, or 3 using management determined criteria;
- Model estimations: Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default (“PD”), Loss Given Default (“LGD”), and Exposures at Default (“EAD”). The PD models, which incorporates economic scenarios, are the key drivers of the ECLs and also impact the staging of loans and advances to customers and as a result are considered the most significant judgemental aspect of the Bank’s ECL modelling approach;
- Economic scenarios: Significant management judgement is applied in determining the forward looking information such as unemployment rates and Gross Domestic Product (GDP) and the probability weightings applied to them.
- Post model adjustments - Hurricane Dorian affected the northern islands of The Bahamas in September 2019. The Group made a qualitative assessment to its allowance for credit losses to estimate the resulting impact of the hurricane, which contains an element of estimation uncertainty, of which management ultimately determined was immaterial.
- Off-balance sheet exposures the above-mentioned judgements and estimations are applied to assess the ECL on off-balance sheet exposures;

We focused on these areas as a result of the complexity and estimation uncertainty that form part of management’s judgement, which significantly impacts the result of the ECL model, which also incorporates off-balance sheet exposures.

Updated our understanding of the methodology and assumptions used by management in the ECL models.

Evaluated the appropriateness of the Group’s ECL model methodology, data integrity and model performance. We also confirmed the model to be consistent with the prior year.

Recalculated the days past due of the assets in Stage 1, 2 and 3 and tested if they were allocated to the appropriate Stage. Challenged management’s process for staging of loans by examining a sample of loans and advances to customers classified as being in Stage 2 to assess whether they should have been classified as Stage 3 loans and formed our own independent conclusion as to whether such loans should have transferred to Stage 3 at year-end.

For a sample of performing loans, we agreed ECL calculation data points to source systems and documents.

Tested on a sample basis, the appropriateness of model design and formulae used, refinements made to models in the second year of IFRS 9, and recalculating the PD, LGD and EAD. This included applying a sensitivity analysis to management’s weighted average probabilities of forecasted economic scenarios. Compared management’s results to a benchmark model, which included assessing whether forecasted unemployment rates and GDP were appropriate selections for forward looking information.

For a selection of mortgage loans, tested insurance recoverables recorded as a result of Hurricane Dorian damage, which could impact the post model adjustments.

Based on the procedures above, no material exceptions were noted in our assessment of the Group’s ECL on Stage 1 and 2 loans and advances to customers.

Credit Impaired ("Stage 3") Mortgage Loans

Refer to notes 2(d), 2(f), 2(g), 19 and 21 to the consolidated financial statements for disclosures of related accounting policies, balances, judgements and estimates.

The Lifetime ECL on credit impaired mortgage loans (MLs) for Stage 3 totalled $2.7million at the date of the consolidated statement of financial position.

We focused on management's impairment assessment for MLs in Stage 3 because the assumptions used for estimating the amount of the ECL provisions are complex and involve significant judgement by management, including:

- Valuation of real estate property pledged as collateral for MLs. This is the most significant repayment source for impaired mortgages; the collateral value depends on market trends as well as the circumstances of the specific property and involves judgement and specialised skills. Management engaged a number of independent valuation experts to assist in determining the valuation of real estate property pledged as collateral.
- The estimated costs, forced sale values and time to sell the pledged collateral.
- The recoverable amount of accrued interest on MLs specifically identified as potentially impaired, which is recoverable from collateral held.

Our approach for testing management's methodologies and assumptions used for determining Lifetime ECLs on credit impaired MLs involved the following procedures, amongst others:

Assessed the competence and objectivity of the management appointed real estate appraisers to determine whether they are appropriately qualified and whether there is any affiliation to the Group.

For a sample of valuation reports, compared the key assumptions used by management's real estate appraisers, being recent sales, to comparable actual sales data and recent sales of collateral by the Group.

On a sample basis, compared the collateral values recorded by management to the independent valuation appraisal reports.

Tested the reasonableness of the collateral values used by management in their calculation of the provision by analysing the trends in collateral values, comparing, on a sample basis, the results of recent collateral valuations and recent sales of collateral by the Group against the previous collateral valuations obtained by management.

Evaluated the reasonableness of management's assumptions used in determining the provisions which included assessing the provisions previously established against amounts collected from collateral sold during the year. Specifically, this entailed consideration of the forced sale value, real estate agency fees, legal fees and other costs incurred to sell the pledged collateral as well as the average number of months to sell the property.

	On a sample basis, tested the accuracy of management's Stage 3 provision on MLs by reperforming the calculation of the amounts recorded within the consolidated financial statements. Compared the accrued interest amount against the excess of collateral held over the principal amount of such loans in respect of the recoverable amount of accrued interest on MLs classified under Stage 3. No material adjustments were noted as a result of our procedures performed.

Other information

Management is responsible for the other information. The other information comprises the Fidelity Bank (Bahamas) Limited Annual Report for 2019 (but does not include the consolidated 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 consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read the Fidelity Bank (Bahamas) Limited Annual Report for 2019, 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 consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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.

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

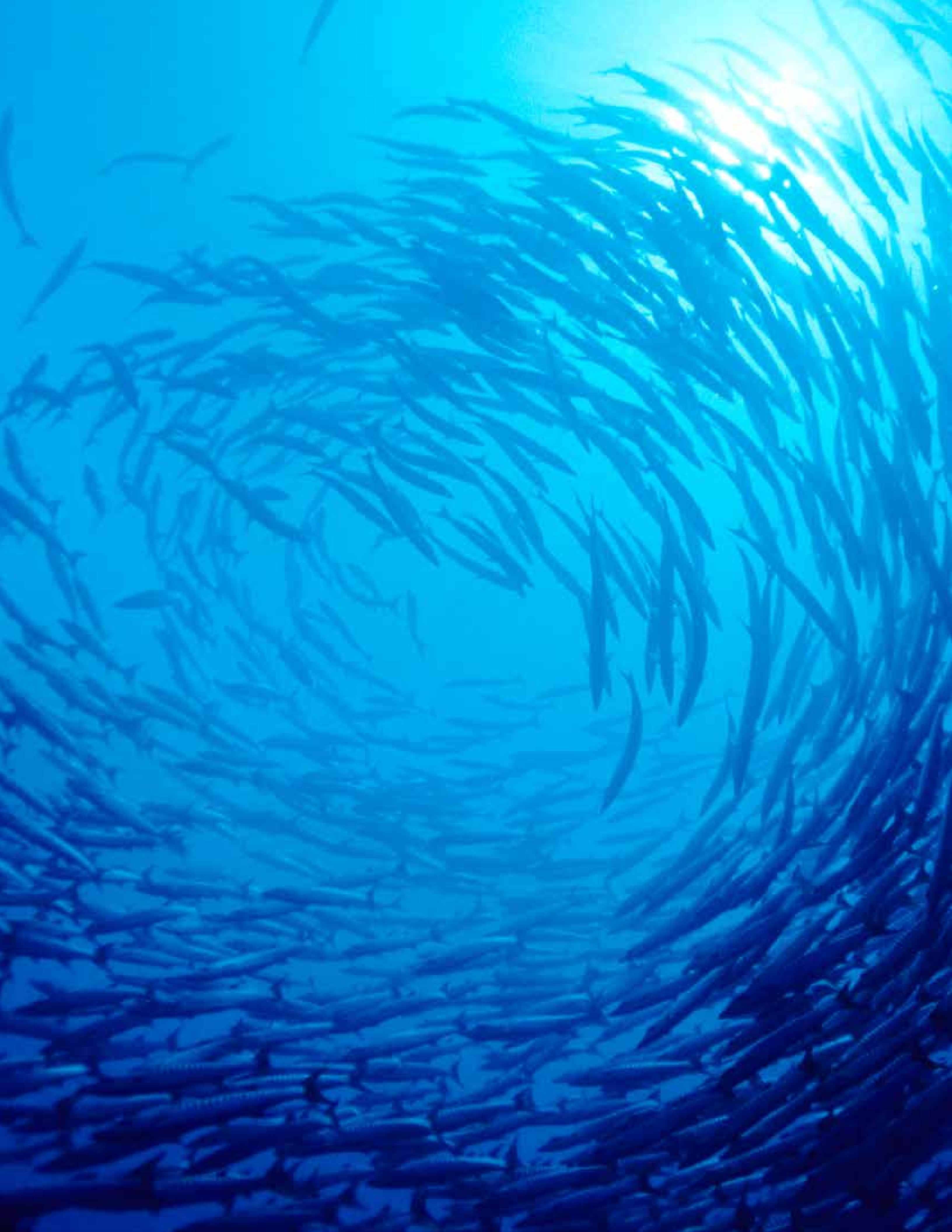
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law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

The engagement partner on the audit resulting in this independent auditors' report is Myra Lundy-Mortimer.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

27 May 2020



FIDELITY BANK (BAHAMAS) LIMITED
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Statement of Financial Position
As of 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
ASSETS		
Cash on hand and at banks (Note 4)	165,667,063	106,498,105
Investment securities (Note 5)	83,364,488	83,057,535
Loans and advances to customers (Note 6)	431,080,313	439,699,830
Other assets	928,932	4,668,546
Assets held for sale (Note 7)	-	13,319,401
Investments in joint ventures (Note 7)	204,691	215,957
Property, plant and equipment (Note 8)	11,669,397	10,441,514
Total assets	**692,914,884**	**657,900,888**
LIABILITIES		
Deposits from customers (Note 9)	567,607,647	532,734,531
Accrued expenses and other liabilities	3,391,919	1,333,981
Debt securities (Note 10)	24,193,064	33,964,458
Total liabilities	**595,192,630**	**568,032,970**
EQUITY		
Capital – ordinary shares (Note 11)	20,410,050	20,380,694
Capital – preference shares (Note 11)	15,000,000	15,000,000
Revaluation reserve	1,013,064	330,695
Retained earnings	61,299,140	54,156,529
Total equity	**97,722,254**	**89,867,918**
Total liabilities and equity	**692,914,884**	**657,900,888**

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY:

Director **Director**

26 May 2020
Date

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
INCOME		
Interest income		
Bank deposits, loans and advances	66,988,405	63,497,046
Investment securities	3,513,874	3,395,294
	70,502,279	66,892,340
Interest expense	(12,638,066)	(12,675,024)
Net interest income	**57,864,213**	**54,217,316**
Fees and commissions	3,073,585	2,887,483
Rental income	20,156	80,625
Other income	264,350	321,231
	61,222,304	**57,506,655**
EXPENSES		
Salaries and employee benefits (Note 13)	13,099,296	11,393,173
General and administrative (Note 14)	12,860,733	11,729,036
Provision for loan losses (Note 6)	10,204,825	12,737,629
Depreciation and amortisation (Note 8)	1,408,830	1,448,736
	37,573,684	**37,308,574**
Operating profit	**23,648,620**	**20,198,081**
Share of profits of joint ventures (Note 7)	22,376	42,141
Net income from continuing operations	**23,670,996**	**20,240,222**
Profits of assets held for sale (Note 7)	1,591,078	2,124,247
Gain on sale of assets held for sale (Note 7)	7,560,499	-
Net income	**32,822,573**	**22,364,469**
OTHER COMPREHENSIVE INCOME		
Items not reclassified to net income		
Property, plant and equipment revaluation (Note 8)	725,349	-
Total comprehensive income	**33,547,922**	**22,364,469**

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2019
(Continued)
(Expressed in Bahamian dollars)

	2019 $	2018 $
Attributable to:		
Ordinary shareholders		
Net income	31,847,573	21,389,469
Other comprehensive income	725,349	-
	32,572,922	21,389,469
Preference shareholders		
Net income	975,000	975,000
Other comprehensive income	-	-
	975,000	975,000
	33,547,922	**22,364,469**
Earnings per share (Note 12)	**1.11**	**0.74**

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
As of 1 January 2019	20,380,694	15,000,000	330,695	-	54,156,529	89,867,918
Comprehensive income						
Net income	-	-	-	-	32,822,573	32,822,573
Other comprehensive income						
Property, plant and equipment revaluation	-	-	725,349	-	-	725,349
Total comprehensive income	-	-	725,349	-	32,822,573	33,547,922
Transfers						
Depreciation transfer	-	-	(42,980)	-	42,980	-
Total transfers	-	-	(42,980)	-	42,980	-
Transactions with owners						
Issuance of ordinary shares	29,356	-	-	-	77,394	106,750
Dividends – preference shares	-	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	-	(24,825,336)	(24,825,336)
Total transactions with owners	29,356	-	-	-	(25,722,942)	(25,693,586)
As of 31 December 2019	**20,410,050**	**15,000,000**	**1,013,064**	**-**	**61,299,140**	**97,722,254**
Dividends per share	**0.86**	**0.65**				

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2019
(Continued)
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
As of 31 December 2017	20,363,328	15,000,000	373,659	4,090,372	49,489,244	89,316,603
Effects of changes in accounting policies	-	-	-	(4,090,372)	(1,803,042)	(5,893,414)
As of 1 January 2018	20,363,328	15,000,000	373,659	-	47,686,202	83,423,189
Comprehensive income						
Net income	-	-	-	-	22,364,469	22,364,469
Other comprehensive income						
Property, plant and equipment revaluation	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	22,364,469	22,364,469
Transfers						
Depreciation transfer	-	-	(42,964)	-	42,964	-
Total transfers	-	-	(42,964)	-	42,964	-
Transactions with owners						
Issuance of ordinary shares	17,366	-	-	-	48,562	65,928
Dividends – preference shares	-	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	-	(15,010,668)	(15,010,668)
Total transactions with owners	17,366	-	-	-	(15,937,106)	(15,919,740)
As of 31 December 2018	**20,380,694**	**15,000,000**	**330,695**	**-**	**54,156,529**	**89,867,918**
Dividends per share	**0.52**	**0.65**				

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)

	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	23,670,996	20,240,222
Adjustments for:		
Interest income	(70,502,279)	(66,892,340)
Interest expense	12,638,066	12,675,024
Loss on disposal of property, plant and equipment	30,038	2,500
Salaries and employee benefits	106,750	65,928
Provision for loan losses	10,204,825	12,737,629
Depreciation and amortisation	1,408,830	1,448,736
Share of profits of joint ventures	(22,376)	(42,141)
Interest received	65,093,879	61,523,399
Interest paid	(11,458,725)	(13,859,128)
(Increase)/Decrease in operating assets		
Term deposits – contractual maturities greater than three (3) months	(20,578,094)	(30,000,000)
Mandatory reserve deposits	(623,475)	(2,709,425)
Loans and advances to customers	3,584,118	(44,308,434)
Other assets	3,739,614	(2,068,592)
Increase/(Decrease) in operating liabilities		
Deposits from customers	33,922,381	40,433,561
Accrued expenses and other liabilities	657,938	329,973
Net cash from/(used in) operating activities	**51,872,486**	**(10,423,088)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash from assets held for sale	6,021,978	1,846,195
Proceeds from sale of assets held for sale	16,449,000	-
Dividends received	33,642	32,812
Purchases of investment securities	(3,646,338)	(971,429)
Proceeds from sales/maturities of investment securities	3,357,800	6,401,400
Purchases of property, plant and equipment	(541,402)	(972,528)
Proceeds from disposals of property, plant and equipment	-	2,000
Net cash from investing activities	**21,674,680**	**6,338,450**
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemptions of debt securities	(10,000,000)	(10,000,000)
Dividends paid on preference shares	(975,000)	(975,000)
Dividends paid on ordinary shares	(24,825,336)	(15,010,668)
Net cash used in financing activities	**(35,800,336)**	**(25,985,668)**

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2019
(Continued)
(Expressed in Bahamian dollars)

	2019 $	2018 $
Net increase/(decrease) in cash and cash equivalents	**37,746,830**	**(30,070,306)**
Cash and cash equivalents as of the beginning of the year	53,380,980	83,451,286
Cash and cash equivalents as of the end of the year (Note 4)	**91,127,810**	**53,380,980**

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

1. General Information

Fidelity Bank (Bahamas) Limited (the Bank) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on banking business in The Bahamas.

The Bank, and its subsidiaries and joint ventures (Note 3), collectively referred to as the Group, offer a full range of: retail banking services, including internet and telephone banking, acceptance of deposits, granting of loans, credit card services and the provision of foreign exchange services through each of its four (4) branches in New Providence, its branch in Grand Bahama and its branch in Abaco.

Previously, the Group offered private banking, trustee, investment management, corporate finance, share registrar and transfer agency, pension, administration, brokerage and investment advisory services through its joint venture, Royal Fidelity Merchant Bank & Trust Limited (RFMBT), a company incorporated in The Bahamas and licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on trust and banking business in The Bahamas, and under the Securities Industry Act, 2011 to deal, arrange, manage and advise on securities in The Bahamas. RFMBT has subsidiaries incorporated in Barbados and licensed under the Financial Institutions Act, 1996 to carry on trust, banking and securities business in Barbados. During the year, the Group disposed of its shareholding in RFMBT.

The ordinary shares of the Bank are listed and traded on The Bahamas International Securities Exchange (BISX). Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 74.58% (2018: 74.61%) of the outstanding ordinary shares of the Bank.

The registered office of the Bank is situated at #51 Frederick Street, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Notes 2(d), 2(h), 2(n) and 19.

New standards, amendments and interpretations adopted by the Group

Effective 1 January 2019, the Group adopted IFRS 16 *Leases* (IFRS 16), which resulted in changes in accounting policies for recognition and measurement, and additional notes disclosures. In accordance with the relevant transitional provisions of IFRS 16, the Group adopted the change in accounting policies retrospectively without restating corresponding figures and recognised the right-of-use assets based on the respective lease liabilities, adjusted for prepaid or accrued lease payments.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Group (continued)

The Group applied several practical expedients in adopting IFRS 16, including the: use of a single discount rate for similar leases; exempting of short term leases; and use of hindsight in determining the relevant lease terms. The right-of-use assets are included in property, plant and equipment and lease liabilities are included in accrued expenses and other liabilities.

Other standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2019 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

New standards, amendments and interpretations not yet adopted by the Group

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures

Joint ventures are entities over which the Group has joint control, and the operations are generally governed by contractual arrangements. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of post-acquisition profits or losses and other comprehensive income or loss is recognised in the consolidated statement of comprehensive income consistent with the recognition by the joint venture, and its share of post-acquisition movements in reserves is recognised directly in reserves, with corresponding adjustments to the carrying amount of the investments in joint ventures. Dividends received from joint ventures are recognised as a reduction in the carrying amount of the investments in joints ventures.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation (continued)

Joint ventures (continued)

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each date of the statement of financial position whether there is any objective evidence that an investment in joint venture is impaired. If this is the case, the Group calculates the amount of the impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to 'share of profits or losses of joint ventures' in the consolidated statement of comprehensive income.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahamian dollars (B$), which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income as a part of net income. Translation differences on monetary financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(d) Financial assets

Classification and measurement

The Group classifies its financial assets, comprising cash at banks, investment securities, loans and advances to customers and other receivables, as financial assets at amortised cost.

The classification and subsequent measurement of financial assets depend on the Group's business model for managing the financial asset, and the cash flow characteristics of the financial asset.

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit or loss, are measured at amortised cost, adjusted by an allowance for expected credit losses (ECL), which is recognised and measured as disclosed in Note 2(g).

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Classification and measurement (continued)

The business model represents the Group's objectives in managing financial assets in order to generate cash flows. That is, whether the objective is solely to collect the contractual cash flows from the financial assets or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. If neither of these is applicable, for example financial assets held for trading purposes, then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for a group of financial assets include: past experience regarding the manner in which the cash flows for the financial assets were collected; the manner in which the performance of financial assets is evaluated and reported to key management personnel; the approach to assessing and managing risks associated with the financial assets; and where applicable, the compensation structure for personnel involved in the processes surrounding the financial assets. Critical judgments applied by the Group in determining the business models for its financial assets are disclosed in Note 19.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and cash flows arising from sales, the Group assesses whether the cash flows of the financial asset represents SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, specifically that interest rate considerations are restricted to the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. The SPPI assessment is performed on initial recognition of a financial asset and is not subsequently reassessed. Critical judgments applied by the Group in assessing the SPPI test are disclosed in Note 19.

Financial assets are reclassified only when the business model for the relevant class of financial assets, as a whole, changes and such reclassification is prospective and is effective from the first financial period subsequent to the change in business model.

Initial recognition and measurement

The Group measures financial assets at their fair value, adjusted for transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions, except financial assets at fair value through profit or loss. Transaction costs of financial assets at fair value through profit or loss are expensed as incurred. Immediately following initial recognition, an allowance for ECL is recognised for financial assets measured at amortised cost, which results in a loss being recognised in net income in the consolidated statement of comprehensive income when a financial asset is newly originated.

All purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. If the Group has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Group has retained control of the financial assets.

Where the Group has not retained control, financial assets are derecognised and any rights or obligations retained or created as part of the transaction are recognised as separate assets or liabilities. Alternatively, where the Group has retained control, the Group continues to recognise the financial assets to the extent of its continuing involvement in the financial assets.

Gains or losses arising from sales of financial assets are recognised in the consolidated statement of comprehensive income as a part of net income in the financial period in which they arise.

Modifications

The Group may renegotiate or otherwise modify the contractual cash flows of loans and advances to customers, which requires the Group to assess whether or not the new terms are substantially different to the original terms. This is done by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced that substantially affect the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the financial asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether: the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments; and the cash flows of the new financial asset represent SPPI. Differences in the carrying amount are also recognised in net income as a gain or loss on derecognition.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Modifications (continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(e) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repos) are not derecognised but reclassified in the consolidated financial statements as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in borrowings, when applicable. The financial assets continue to be measured in accordance with accounting policies for financial assets.

Financial assets purchased under agreements to resell (reverse repos) are recognised as loans and advances to the applicable counterparty, and measured in accordance with accounting policies for loans and advances to customers. The difference between the sale and repurchase price is recognised as interest income over the life of the agreements using the effective interest method.

(f) Non-performing financial assets

All loans and advances to customers on which principal or interest payments are overdue in excess of ninety (90) days are classified by management as non-performing and are considered credit-impaired financial assets for the purposes of assessing ECL.

(g) Impairment of financial assets at amortised cost

The Group assesses, taking into consideration forward looking factors, the ECL for financial assets at amortised costs and for the exposures arising from loan commitments and financial guarantees. The Group measures ECL and recognises an allowance for ECL at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes; (ii) time value of money; and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Financial assets measured at amortised cost are presented in the consolidated statement of financial position, net of the allowance for ECL, which is also referred to as provision for loan losses in relation to loans and advances to customers. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position.

2. Summary of Significant Accounting Policies (Continued)

(g) Impairment of financial assets at amortised cost (continued)

The Group applies a three (3) stage model for impairment, based on changes in credit quality since initial recognition. A financial asset that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next twelve (12) months (12-month ECL) or until contractual maturity, if shorter. If the Group identifies a significant increase in credit risk (SICR) since initial recognition, the financial asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis (lifetime ECL), that is, up until contractual maturity but considering expected prepayments. Critical judgments in determining SICR are disclosed in Note 19.

If the Group determines that a financial asset is credit-impaired, the financial asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. The Group's definition of credit-impaired financial assets and definition of default are disclosed in Note 19. For financial assets that are purchased or originated credit-impaired (POCI Assets), the ECL is always measured as a lifetime ECL.

Information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward looking information in the ECL models is disclosed in Note 19.

As an exception, for certain financial instruments, such as credit cards and overdrafts, that may include both a loan and an undrawn commitment component, the Group measures ECL over the period that the Group is exposed to credit risk based on historical experience, that is, until the ECL would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

The calculation of ECL of a collateralised financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the ECL is recognised in the consolidated statement of comprehensive income as a part of net income. Decreases in previously recognised ECL are recognised against the same financial statement line item. Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Recoveries of amounts previously written off are recognised directly in the consolidated statement of comprehensive income as a part of the ECL expense included in net income.

2. Summary of Significant Accounting Policies (Continued)

(h) Property, plant and equipment

Property, plant and equipment, other than land and buildings, are carried at historical cost less accumulated depreciation and amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Land and buildings, which comprise branches and offices for the Group's operations, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals generally not exceeding three (3) years, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to 'revaluation reserve' in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the consolidated statement of comprehensive income as a part of net income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Land is not depreciated. Depreciation and amortisation on other assets are calculated using the straight-line method to allocate costs (net of residual values) over estimated useful lives as follows:

	Estimated Useful Life
Buildings	30 – 50 years
Furniture and fixtures	3 – 10 years
Motor vehicles	3 – 5 years
Computer software and office equipment	3 – 10 years
Leasehold assets and improvements	Lesser of lease term and 3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income as a part of net income. When revalued assets are sold, amounts included in revaluation reserve are transferred directly to retained earnings.

2. Summary of Significant Accounting Policies (Continued)

(i) Deposits from customers

Deposits from customers are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Deposits from customers are derecognised when the financial liability has been extinguished.

(j) Borrowings

Borrowings, which include debt securities, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently recognised at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as financial liabilities. The dividends on these preference shares are recognised in the consolidated statement of comprehensive income as interest expense.

(k) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(l) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Dividends

Dividends on ordinary shares, and preference shares classified as equity, are recognised in equity in the financial period in which they are approved by the Bank's Directors. Dividends declared after the date of the statement of financial position, but before the consolidated financial statements are issued, are dealt with in the subsequent events note.

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2. Summary of Significant Accounting Policies (Continued)

(n) Income and expense recognition

Interest income and expense are recognised in the consolidated statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loans and advances to customers.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the: gross carrying amount of the financial asset (that is, its amortised cost before any allowance for ECL), except for financial assets that are credit-impaired, including those purchased or originated credit-impaired, which in such cases use the net carrying amount (that is, amortised cost after allowance for credit losses); or net carrying amount of the financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options). The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions for services where the customer simultaneously receives and consumes the benefits provided by the Group are recognised over time on a straight-line basis as the services are rendered. Such fees and commissions comprise recurring fees for account maintenance and account servicing. Other fees and commissions are recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction, which is generally at the time the customer's account is charged. The amount of fees and commissions received or receivable represents the transaction price for the services identified as distinct performance obligations. Such fees and commissions comprise fees for cash settlements, collections or disbursements, as well as fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party.

Custody service and other similar fees are recognised based on the applicable service contracts, usually rateably over the period in which the service is provided, as the customer simultaneously receives and consumes the benefits provided by the Group. Variable fees, comprising performance linked fees, are recognised only to the extent that the Group determines that it is highly probable that a significant reversal will not occur.

Dividend income is recognised in the consolidated statement of comprehensive income when the Group's right to receive payment has been established, except for dividends received from investments in joint ventures, the accounting policy for which is disclosed in Note 2(b).

The Group operates a loyalty programme in which customers accumulate points, which entitle the customers to goods and services provided by third parties. Revenue from the points is recognised when the points are redeemed or when they expire after the initial transaction. The amount of the revenue is estimated based on the number of points redeemed relative to the total number expected to be redeemed. A contract liability is recognised for the amount of the fair value of points expected to be redeemed until they are actually redeemed or expire.

Other income and expenses are recognised on the accrual basis.

2. Summary of Significant Accounting Policies (Continued)

(o) Leases

The Group is the lessee

Except for leases with terms of twelve (12) months or less, defined as short term leases, leases result in the recognition of right-of-use assets and lease liabilities. Lease liabilities are measured as the present value of expected lease payments over the terms of the leases using the relevant interest rate, and are subsequently measured at amortised cost using the effective interest method. Right-of-use assets are measured as the related initial lease liability, plus any lease payments (net of lease incentives) paid at or prior to commencement, and direct costs incurred in entering the lease. Right-of-use assets, hereafter referred to as leasehold assets, are subsequently classified and accounted for in accordance with the accounting policies for property, plant and equipment. For short term leases, payments made under these leases are recognised in the consolidated statement of comprehensive income as a part of net income on a straight-line basis over the terms of the leases.

The Group is the lessor

Leases comprise operating leases. Lease income is recognised over the term of the lease on a straight-line basis.

(p) Employee benefits

The Group's employees participate in a defined contribution pension plan of a related party, administered by trustees that include key management personnel of the Group.

A defined contribution pension plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's contributions are recognised as employee benefits expense in the consolidated statement of comprehensive income when they are due. The Group has no further payment obligations once the recognised contributions have been paid.

(q) Taxation

Under the current laws of The Bahamas, the country of domicile of the Bank and its subsidiaries, there are no income, capital gains or other corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

2. Summary of Significant Accounting Policies (Continued)

(r) Assets held for sale

Assets, or disposal groups, are classified as held for sale in the consolidated statement of financial position if the respective carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve (12) months of the end of the financial reporting period. The relevant assets or disposal groups are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within twelve (12) months; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Assets or disposal groups classified as held for sale in the current financial period are presented consistently in the corresponding figures to reflect the classification at the end of the corresponding period.

A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Disposal groups held for sale, as a whole, are measured at the lower of their carrying amount and fair value less costs to sell. Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Financial performance and cash flows related to assets or disposal groups held for sale, if applicable, are disclosed separately from continuing operations with corresponding figures being represented.

(s) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and unrestricted deposits with banks that have original contractual maturities of three (3) months or less.

(t) 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, which is the person or group responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the Group.

Income and expenses directly associated with each segment are included in determining operating segment performance. The Group has identified its sole operating and reportable segment as retail banking.

(u) Fiduciary activities

The Group acts as custodian, trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, investment funds and other entities. These assets are excluded from these consolidated financial statements, as they do not belong to the Group.

2. Summary of Significant Accounting Policies (Continued)

(v) Corresponding figures

Where necessary, corresponding figures are adjusted to conform with changes in presentation in the current year.

3. Subsidiaries and Joint Ventures

The Group, directly or indirectly, has interest in the following entities:

	Country of Incorporation	**% Holding 2019**	**% Holding 2018**
Bahamas Automated Clearing House Limited	Bahamas	14.29%	14.29%
Freedom Points Limited	Bahamas	100.00%	100.00%
Pinnacle Cars Limited	Bahamas	100.00%	100.00%
Royal Fidelity Merchant Bank & Trust Limited	Bahamas	-	50.00%
Bahamas Central Securities Depository Limited	Bahamas	-	16.67%
BF Company Limited	Bahamas	-	50.00%
HNW Company Limited	Bahamas	-	50.00%
R.F.C. Markets Limited	Bahamas	-	50.00%
RF Executors Ltd.	Bahamas	-	50.00%
RFMBT Holdings Limited	St. Lucia	-	50.00%
Royal Fidelity Merchant Bank & Trust (Barbados) Limited	Barbados	-	50.00%
Royal Fidelity Capital Markets (Barbados) Limited	Barbados	-	50.00%
Royal Fidelity Pension & Investment Services Limited	Bahamas	-	50.00%
Royal Fidelity Share Registrars & Transfer Agents Limited	Bahamas	-	50.00%
TG Company Limited	Bahamas	-	50.00%
West Bay Development Company Limited	Bahamas	100.00%	100.00%

Subsidiaries

Freedom Points Limited is a dormant company. The Group's two (2) remaining subsidiaries, Pinnacle Cars Limited and West Bay Development Company Limited, are holding companies for vehicles and land and buildings, respectively, owned by the Group.

3. Subsidiaries and Joint Ventures (Continued)

Joint ventures

Bahamas Automated Clearing House Limited (BACH) is a joint venture among the seven (7) members of the Clearing Banks Association (the CBA) of The Bahamas, of which the Bank is a member. BACH operates a secure interbank settlement system linking clearing banks in The Bahamas. Each member of the CBA has an equal holding of the outstanding ordinary shares of BACH and equal control over its financial and operating policies.

The activities of RFMBT, the Group's shareholding in which was disposed of during the year, are disclosed in Note 1. Pursuant to a joint venture agreement among RFMBT, the Bank and RBC Holdings (Bahamas) Limited (RBC), a company incorporated in The Bahamas and ultimately owned by Royal Bank of Canada, RFMBT operated as a joint venture with rights to conduct the business of merchant banking in The Bahamas and Barbados. BF Company Limited, HNW Company Limited, RF Executors Ltd. and TG Company Limited are nominee companies utilised in the operations of RFMBT.

Bahamas Central Securities Depository Limited (BCSD) is a joint venture among RFMBT, BISX and a registrar and transfer agent incorporated and licensed in The Bahamas, with each holding 33.33% of the outstanding ordinary shares. BCSD provides registrar and transfer agency services to companies with securities listed and traded on BISX.

4. Cash on Hand and at Banks

	2019 $	2018 $
Cash on hand	2,997,092	2,785,120
Current accounts at banks	88,130,718	50,595,860
Term deposits	50,578,094	30,000,000
Mandatory reserve deposits	23,740,600	23,117,125
	165,446,504	106,498,105
Accrued interest	220,559	-
Total	**165,667,063**	**106,498,105**

Mandatory reserve deposits are placed with the Central Bank of The Bahamas (the Central Bank) to meet requirements of the Group's licences and are not available for use in the Group's day to day operations. Cash on hand, and mandatory reserve deposits and other deposits with the Central Bank are non-interest bearing. Deposits with other banks earn interest at rates ranging from 0.00% to 1.75% (2018: 0.00% to 2.50%) per annum.

4. Cash on Hand and at Banks (Continued)

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise:

	2019 $	2018 $
Cash on hand	2,997,092	2,785,120
Current accounts at banks	88,130,718	50,595,860
Term deposits	50,578,094	30,000,000
Mandatory reserve deposits	23,740,600	23,117,125
	165,446,504	106,498,105
Term deposits – contractual maturities greater than three (3) months	(50,578,094)	(30,000,000)
Mandatory reserve deposits	(23,740,600)	(23,117,125)
Total	**91,127,810**	**53,380,980**

5. Investment Securities

	2019 $	2018 $
Amortised cost		
Stage 1 – ECL		
Level 2		
Government debt securities	80,335,738	82,047,200
Stage 2 – ECL		
Level 3		
Corporate debt securities	2,000,000	-
Total – all levels	82,335,738	82,047,200
Accrued interest	1,028,750	1,010,335
Total	**83,364,488**	**83,057,535**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2020 to 2038 (2018: 2019 to 2038) and with either fixed interest rates ranging from 3.01% to 5.40% (2018: 3.01% to 5.40%) per annum or variable interest rates ranging from 0.01% to 0.63% (2018: 0.01% to 0.63%) above the B$ Prime rate of 4.25% per annum.

Corporate debt securities have maturities in 2027 and fixed interest rates of 8.00% per annum.

6. Loans and Advances to Customers

	2019 $	2018 $
Mortgages	55,053,994	63,473,542
Consumer and other loans	393,510,832	395,987,244
	448,564,826	459,460,786
Unamortised loan origination fees	(9,592,898)	(9,601,918)
Accrued interest	5,499,507	5,391,658
Provision for loan losses	(13,391,122)	(15,550,696)
Total	**431,080,313**	**439,699,830**

The effective interest rate earned on loans and advances for the year ended 31 December 2019 was 14.89% (2018: 14.69%).

Movements in provision for loan losses are as follows:

	2019			2018		
	Mortgages $	Consumer and Other $	Total $	Mortgages $	Consumer and Other $	Total $
Balance as of the beginning of the year	4,156,278	11,394,418	15,550,696	3,323,728	7,037,393	10,361,121
Effects of changes in accounting policies	-	-	-	(350,353)	6,243,767	5,893,414
Provisions	(762,448)	10,967,273	10,204,825	2,350,159	10,387,470	12,737,629
Write-offs	(630,113)	(11,734,286)	(12,364,399)	(1,167,256)	(12,274,212)	(13,441,468)
Balance as of the end of the year	**2,763,717**	**10,627,405**	**13,391,122**	**4,156,278**	**11,394,418**	**15,550,696**

Recoveries of amounts previously written off recognised in provision loan losses in the consolidated statement of comprehensive income totalled $927,954 (2018: $701,866).

The provision for loan losses represents 3.05% (2018: 3.46%) of the total loan portfolio, excluding accrued interest, and 77.41% (2018: 69.12%) of total non-performing loans. As of 31 December 2019, principal balances of non-performing loans totalled $17,299,425 (2018: $22,498,829), representing 3.94% (2018: 5.00%) of the total loan portfolio, excluding accrued interest.

7. Investments in Joint Ventures

	2019 $	2018 $
RFMBT – Assets held for sale	-	13,319,401
BACH	204,691	215,957
Total	**204,691**	**13,535,358**

RFMBT

In the prior year, the Group initiated a process to dispose of, by way of sale, its investment in the joint venture, RFMBT, which was completed during the year. Accordingly, the consolidated statement of financial position discloses assets held for sale, which comprise the investments in joint ventures related to RFMBT.

Movements in the investment in joint venture comprise:

	2019 $	2018 $
Balance as of the beginning of the year	13,319,401	13,041,349
Profits of assets held for sale	1,591,078	2,124,247
Dividends received	(6,021,978)	(1,846,195)
Gain on sale of assets held for sale	7,560,499	-
Proceeds from sale of assets held for sale	(16,449,000)	-
Balance as of the end of the year	**-**	**13,319,401**

BACH

Movements in the investment in joint venture comprise:

	2019 $	2018 $
Balance as of the beginning of the year	215,957	206,628
Share of profits of joint venture	22,376	42,141
Dividends received	(33,642)	(32,812)
Balance as of the end of the year	**204,691**	**215,957**

7. Investments in Joint Ventures (Continued)

BACH (continued)

The unaudited financial information of the joint venture is as follows:

	2019 $	2018 $
ASSETS		
Cash on hand and at banks	1,320,736	1,371,905
Other assets	175,099	154,462
Property, plant and equipment	32,413	45,793
Total assets	**1,528,248**	**1,572,160**
LIABILITIES		
Accrued expenses and other liabilities	95,411	60,442
Total liabilities	**95,411**	**60,442**
EQUITY		
Share capital	70,000	70,000
Retained earnings	1,362,837	1,441,718
Total equity	**1,432,837**	**1,511,718**
Total liabilities and equity	**1,528,248**	**1,572,160**
INCOME		
Fees and commissions	1,004,119	1,050,732
Interest income	9,778	9,921
Other	15,510	14,350
	1,029,407	**1,075,003**
EXPENSES		
Salaries and employee benefits	424,193	372,201
Depreciation and amortisation	20,739	31,336
Other	427,862	376,479
	872,794	**780,016**
Net income and total comprehensive income	**156,613**	**294,987**

8. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Assets & Improvements $	Total $
Year ended 31 December 2019						
Opening net book value	6,490,006	834,867	30,197	1,326,154	1,760,290	10,441,514
Effects of changes in accounting policies	-	-	-	-	1,400,000	1,400,000
Revaluation	725,349	-	-	-	-	725,349
Additions	-	73,159	-	468,243	-	541,402
Disposals						
Cost	-	(40,202)	-	(32,775)	(15,903)	(88,880)
Accumulated depreciation	-	7,206	-	20,070	31,566	58,842
Depreciation	(215,355)	(213,551)	(12,395)	(665,916)	(301,613)	(1,408,830)
Closing net book value	**7,000,000**	**661,479**	**17,802**	**1,115,776**	**2,874,340**	**11,669,397**
As of 31 December 2019						
Cost or valuation	7,000,000	5,525,620	135,989	11,604,962	9,630,309	33,896,880
Accumulated depreciation	-	(4,864,141)	(118,187)	(10,489,186)	(6,755,969)	(22,227,483)
Net book value	**7,000,000**	**661,479**	**17,802**	**1,115,776**	**2,874,340**	**11,669,397**
Year ended 31 December 2018						
Opening net book value	6,565,243	647,998	28,250	1,773,168	1,907,563	10,922,222
Revaluation	-	-	-	-	-	-
Additions	137,888	423,899	24,500	247,459	138,782	972,528
Disposals						
Cost	-	-	(10,000)	-	-	(10,000)
Accumulated depreciation	-	-	5,500	-	-	5,500
Depreciation	(213,125)	(237,030)	(18,053)	(694,473)	(286,055)	(1,448,736)
Closing net book value	**6,490,006**	**834,867**	**30,197**	**1,326,154**	**1,760,290**	**10,441,514**
As of 31 December 2018						
Cost or valuation	6,884,412	5,492,663	135,989	11,169,494	8,246,212	31,928,770
Accumulated depreciation	(394,406)	(4,657,796)	(105,792)	(9,843,340)	(6,485,922)	(21,487,256)
Net book value	**6,490,006**	**834,867**	**30,197**	**1,326,154**	**1,760,290**	**10,441,514**

Effective 1 January 2019, the Group performed an assessment of its lease commitments and determined the relevant lease liabilities as the present value of unpaid lease payments using the rate of interest that would be required for borrowings to acquire an asset of similar value and a term consistent with the relevant lease term. This resulted in the recognition of leasehold assets and lease liabilities totalling $1,400,000.

The fair value hierarchy for non-financial assets is consistent with the hierarchy for financial assets disclosed in Note 23. Land and buildings are classified as Level 3, as inputs such as comparable sales, rental rates, vacancy rates and market discount rates are not readily and regularly available from market sources.

8. Property, Plant and Equipment (Continued)

Fair values are based on valuation methods using discounted cash flow projections, which reflect, among other things, assumptions about rental rates and vacancy rates in light of current market conditions, and market discount rates. The fair values also reflect, on a similar basis, any cash outflows that could be expected in respect of the land and buildings. Land and buildings were revalued by independent appraisers as of 31 December 2019.

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

Estimate/Assumption	Change	Impact on fair value
Rental revenue	+5.00%/-5.00%	$350,000/($350,000)
Vacancy rates	+2.00%/-2.00%	($144,000)/$144,000
Discount rate	+0.50%/-0.50%	($369,000)/$412,000

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2019 $	2018 $
Cost	8,493,110	8,493,110
Accumulated depreciation	(2,506,174)	(2,333,799)
Net book value	**5,986,936**	**6,159,311**

9. Deposits from Customers

	2019 $	2018 $
Term deposits	395,282,109	384,913,167
Savings deposits	97,230,386	86,520,400
Demand deposits	66,216,301	53,707,672
Escrow deposits	4,288,892	3,954,068
	563,017,688	529,095,307
Accrued interest	4,589,959	3,639,224
Total	**567,607,647**	**532,734,531**

Included in deposits from customers are deposits from banks totalling $54,689,408 (2018: $54,545,478). Deposits carry fixed interest rates ranging from 0.00% to 5.00% (2018: 0.00% to 5.00%) per annum, but the fixed interest rates are determined based on market rates and can be adjusted at the respective maturities of the deposits based on changes in market rates. The effective interest rate incurred on deposits from customers for the year ended 31 December 2019 was 1.92% (2018: 2.05%).

10. Debt Securities

	2019 $	2018 $
Series B redeemable variable rate notes; B$ Prime + 1.75%; 2022	-	9,932,655
Series F redeemable variable rate notes; B$ Prime + 1.25%; 2022	19,962,937	19,802,508
Series B redeemable preference shares; B$ Prime + 1.00%; 2021	4,000,000	4,000,000
	23,962,937	33,735,163
Accrued interest	230,127	229,295
Total	**24,193,064**	**33,964,458**

As part of a $50,000,000 note programme approved by the Directors, the Bank offered through private placement, unsecured fixed and variable rate notes. As of 31 December 2019, the outstanding notes comprise Series F – $20,000,000 redeemable variable rate note (B$ Prime + 1.25%) due 30 May 2022. Interest is payable semi-annually on 30 May and 30 November each year.

In October 2019, the Series B variable rate notes totalling $10,000,000 were redeemed.

Series B variable rate redeemable preference shares mature on 12 December 2021. Dividends are payable on these shares at the rate of B$ Prime rate plus 1.00% per annum, subject to the declaration of the Directors and the prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in June and December each year.

11. Capital

	2019 $	2018 $
Authorised		
35,000,000 ordinary shares of $0.30 each	**10,500,000**	**10,500,000**
10,000,000 preference shares of $1.00 each	**10,000,000**	**10,000,000**
Issued and Fully Paid		
28,866,670 ordinary shares of $0.30 each	8,660,001	8,660,001
Share premium	11,890,000	11,890,000
	20,550,001	20,550,001
50,891 (2018: 61,566) ordinary shares held in treasury	(139,951)	(169,307)
Total	**20,410,050**	**20,380,694**
1,500,000 preference shares of $1.00 each	1,500,000	1,500,000
Share premium	13,500,000	13,500,000
Total	**15,000,000**	**15,000,000**

11. Capital (Continued)

Series A variable rate non-cumulative redeemable preference shares are perpetual, but may be redeemed at the option of the Bank with ninety (90) days written notice to the shareholders at any time after the fifth anniversary of the closing date with the prior approval of the Central Bank. As of 31 December 2019, there are 1,500,000 (2018: 1,500,000) preference shares eligible for redemption by the Bank. Preference shareholders rank in priority to ordinary shareholders.

Dividends are payable on these shares at the rate of B$ Prime rate plus 2.25% per annum, subject to the declaration of the Directors and the prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in June and December each year.

The Bank has an employee share ownership trust, which was established through the issuance of 200,000 ordinary shares at $2.75 per share, representing the fair value of ordinary shares based on BISX prices at the date of establishment. For the year ended 31 December 2019, share based compensation to employees resulted in 10,675 (2018: 6,315) ordinary shares being issued by the trust, with the remaining shares treated as treasury shares. The ordinary shares issued to employees were valued at $10.00 (2018: $10.44) per share with an equivalent expense recognised in salaries and employee benefits.

12. Earnings per Share

	2019 $	2018 $
Net income attributable to ordinary shareholders	31,847,573	21,389,469
Weighted average number of ordinary shares outstanding	28,813,110	28,803,525
Earnings per share	**1.11**	**0.74**

13. Employee Benefits

The Group participates in a defined contribution pension plan (the Plan), which covers all employees of the Parent's Bahamas based operations. The Plan is administered by RFMBT.

Employees in the Plan contribute a percentage of gross salary, and the Group matches employee contributions. The Group's contributions vest 20.00% upon completion of four (4) years of employment with incremental vesting following each additional year of employment and fully vest upon completion of ten (10) years of employment. Pension expense for the year ended 31 December 2019 totalled $378,423 (2018: $306,093).

14. General and Administrative Expenses

	2019 $	2018 $
Office expenses	3,352,660	3,202,730
Bank and business licence fees	3,087,553	2,902,464
Card services costs, including loyalty programme	2,330,549	1,456,999
Public relations expenses	1,101,653	1,401,070
Premises related costs	703,273	630,584
Value added tax	646,099	444,922
Legal and professional fees	617,361	716,958
Directors' cost	148,141	139,885
Other	873,444	833,424
Total	**12,860,733**	**11,729,036**

15. Segment Analysis

Operating segments are reported in accordance with the internal reporting provided to the Executive Committee (ExCom), which is responsible for allocating resources to the reportable segments and assessing their performance. The Group's sole operating and reportable segment is retail banking, which incorporates mortgage and consumer loans; current accounts, savings and term deposits; credit and debit cards; and related services.

The segment operations are all financial with principal revenues derived from interest income and fees and commissions.

The revenues from external parties reported to ExCom are measured in a manner consistent with that presented in the consolidated statement of comprehensive income.

The information provided about segments is based on the internal reports about the segment income, expenses, other comprehensive income, assets and other information, which are regularly reviewed by ExCom. Segment assets and liabilities comprise operating assets and liabilities, representing the consolidated statement of financial position.

The Group's operations, income and assets are all based in The Bahamas.

There were no aggregated transactions with a single external customer that amounted to 10.00% or more of the Group's total income.

Fees and commissions

The vast majority of fees and commissions are earned at a point in time when the performance obligations have been satisfied, with less than 10.00% earned over time. No variable fees are applicable.

16. Related Party Balances and Transactions

Related parties include key management personnel (including Directors); entities that have the ability to control or exercise significant influence over the Group in making financial or operational decisions; and entities that are controlled, jointly controlled or significantly influenced by key management personnel and entities noted earlier.

Related party balances and transactions, not disclosed elsewhere in these consolidated financial statements, are as follows:

	2019 $	2018 $
ASSETS		
Cash at banks		
Other related parties	7,805,955	11,765,846
Loans and advances to customers		
Key management personnel	1,525,425	3,409,117
Other related parties	2,144,016	10,000,800
Other assets		
The Parent	18,933	3,923,021
Other related parties	95,863	-

Cash at banks earn interest at rates ranging from 0.00% to 1.75% (2018: 0.00% to 2.50%) per annum, and mature within one (1) year.

Loans and advances to customers earn interest at rates ranging from 0.00% to 6.25% (2018: 0.00% to 3.00%) per annum, with maturities up to twenty-four (24) years. There is no provision for loan losses in respect of these balances. Certain balances due from other related parties are supported by the related parties' shareholdings in the Parent (2018: government debt securities pursuant to sale and repurchase agreements).

Amounts included in other assets are unsecured, interest-free and have no set terms of repayment.

	2019 $	2018 $
LIABILITIES		
Deposits from customers		
The Parent	6,835,334	6,463,632
Key management personnel	4,597,688	4,441,487
Other related parties	30,448,022	25,323,317
Debt securities		
Key management personnel	35,000	35,000
Other related parties	9,207,100	11,029,800

Deposits from customers carry interest rates ranging from 0.00% to 5.00% (2018: 0.00% to 5.00%) per annum, and mature within one (1) year.

EQUITY

As of 31 December 2019, key management personnel and other related parties hold 1,472,201 (2018: 1,675,820) outstanding ordinary shares and 520,081 (2018: 520,081) outstanding preference shares.

16. Related Party Balances and Transactions (Continued)

	2019 $	2018 $
INCOME		
Interest income		
Key management personnel	36,260	99,927
Other related parties	35,593	43,102
Interest expense		
The Parent	46,952	39,606
Key management personnel	90,691	90,413
Other related parties	90,427	24,730
Fees and commissions		
Other related parties	55,494	56,786
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	129,333	129,408
Key management personnel (executive Directors and other)	1,675,256	1,217,742
Costs allocated from related parties		
The Parent	732,083	700,000
Costs allocated to related parties		
Other related parties	(1,859,524)	(2,265,158)

The Group receives certain services from the Parent, with the charges for these services expensed in the relevant expense accounts to which the services relate. The Group provides certain services to the Parent and other related parties with costs associated with these services being allocated to the respective parties and recorded as deductions in the relevant expense accounts.

17. Commitments

Loan commitments

In the normal course of business, the Group enters into various credit-related arrangements to meet the needs of customers and earn income. These financial instruments are subject to the Group's standard credit policies and procedures. As of 31 December 2019, the Group had outstanding loan commitments amounting to $12,287,601 (2018: $10,247,748).

17. Commitments (Continued)

Lease commitments

The future minimum rental payments required under non-cancellable leases are as follows:

	2019 $	2018 $
2019	-	624,931
2020	638,238	483,745
2021	491,543	324,751
2022	249,772	86,180
2023	195,244	47,652
2024	151,054	3,462
2025 and later	12,299	-
Total	**1,738,150**	**1,570,721**

18. Contingent Liabilities

The Group is involved in various legal proceedings covering a range of matters that arise in the ordinary course of business activities. Management is of the view that no significant losses will arise as a result of these proceedings.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Classification of financial assets and financial liabilities and remeasurement under IFRS 9

The Group performs detailed analyses of its business models for managing financial assets and financial liabilities, and analyses of the respective cash flow characteristics. Investment securities are classified as financial assets at amortised cost, as the cash flow characteristics meet the requirements for SPPI, and the Group's business model is to hold investment securities without an intention to sell. The Group invests in investment securities principally for the purposes of maintaining appropriate capital based on the requirements of the Central Bank through financial assets that yield investment income, while securing liquidity in the event of significant events requiring cash and cash equivalents. The maturity profile of investment securities is managed to provide cash flows over short, medium and long terms for the purposes of managing liquidity and accordingly, sales are expected to be infrequent.

The remaining financial assets (cash at banks, loans and advances to customers and receivables included in other assets) are classified as financial assets at amortised cost.

For the years ended 31 December 2019 and 2018, there were no changes in the Group's business model for each of its financial assets and financial liabilities, and accordingly, there were no reclassifications of financial assets and financial liabilities.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Inputs, assumptions and estimation techniques factored into measuring ECL

Measurement of ECL involves a methodology that encompasses models and data inputs. Factors that significantly impact ECL calculations include: definition of default, SICR, Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), as defined below, as well as models of macroeconomic scenarios. The Group reviews its financial assets at amortised cost to assess impairments on a quarterly basis, or more frequently when the need arises, and validates the models and data inputs to reduce differences between ECL estimates and actual credit loss experience.

ECL calculations are measured on 12-month or lifetime bases, depending on whether credit risk has significantly increased subsequent to initial recognition or whether a financial asset is considered to be credit-impaired. ECL is the discounted product of the PD, EAD, and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next twelve (12) months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. The Group defines a financial asset as in default, which is consistent with the definition of credit-impaired, when one (1) or more of the following criteria are met:

  Quantitative criteria

  - Contractual payments from the borrower are past due in excess of ninety (90) days.

  Qualitative criteria

  More subjective considerations of default assess whether the borrower is in significant financial difficulty and unlikely to meet contractual payments when due, including the following circumstances:

  - The borrower is subject to special conditions where payments are being deferred and asset recovery procedures have been delayed, where applicable.
  - The borrower is deceased.
  - There is evidence that the borrower is insolvent.
  - There is a commencement of asset recovery procedures, including legal proceedings seeking judgment against the borrower and, where applicable, vacant possession of collateral.
  - Concessions have been made by the Group relating to the borrower's financial difficulty, including modification of terms and conditions that are not standard to normal borrowing relationships.
  - Restructuring proceedings, or indication of intention to commence restructuring proceedings, in relation to debt securities issued (investment securities only).

  The criteria above are consistent with the definition of default used for internal credit risk management purposes, and have been used to assess all financial assets of the Group. The default definition has been applied consistently to model the PD, EAD and LGD in all expected loss calculations.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Inputs, assumptions and estimation techniques factored into measuring ECL (continued)

Qualitative criteria (continued)

A financial asset is no longer assessed as being default (that is, default has been cured) when it no longer meets any of the default criteria for a consecutive period of six (6) months. This period has been determined based on analyses that assess the likelihood of a financial asset returning to default status after being cured.

- EAD is based on the balance of the financial asset expected to be outstanding at the time of default, over the next twelve (12) months (12-month EAD) or over the remaining lifetime (lifetime EAD). For example, for revolving credit facilities, the Group includes the current drawn balances plus any further amounts that are expected to be drawn up to the current contractual limit by the time of default, should it occur.

- LGD represents the expectation of the extent of loss on an exposure in default. LGD varies based on the nature of the counterparty, the type and seniority of claim, and the availability of collateral or other credit support. LGD is expressed as the percentage loss per unit of exposure at the time of default, and is also calculated on 12-month or lifetime bases.

The ECL is determined by projecting the PD, LGD and EAD for future periods and for each individual exposure or collective segment. These three (3) components are multiplied together and adjusted for the likelihood of survival, which is that the exposure has not prepaid or defaulted in an earlier period. This effectively calculates an ECL for each future period, which is then discounted back to the financial reporting date and summed. The discount rate used in the ECL calculation is the approximation of the original effective interest rate.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

Significant increase in credit risk

Qualitative and quantitative indicators are factored into the determination of SICR, considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios of financial assets. The Group makes best efforts to identify indicators of SICR of individual financial assets prior to delinquency and accordingly incorporates significant assumptions in its model.

The Group continuously monitors all financial assets subject to ECL, and assesses whether there has been SICR since initial recognition, which is performed on an individual basis and on a portfolio basis. Cash at banks, individually significant loans and advances to customers and investment securities classified as at amortised cost are assessed for SICR on an individual basis by monitoring the triggers stated below. For other loans and advances to customers and other financial assets, SICR is assessed on a portfolio basis unless mechanisms exist for rating credit risk on an individual basis.

A financial asset is considered to have experienced SICR when the following criteria have been met:

Investment securities

- Contractual payments from the issuer are past due in excess of thirty (30) days.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Significant increase in credit risk (continued)

Investment securities (continued)

- Change from investment grade credit rating to non-investment grade credit rating.
- Two (2) notch downgrade within investment grade credit rating bands.

Loans and advances to customers

- Contractual payments from the borrower are past due in excess of thirty (30) days.

With respect to the cure for SICR, a significant decrease in credit risk is considered to have occurred when the following criteria have been met:

Investment securities

- There are no contractual payments past due.
- Credit rating reverts to level immediately prior to being deemed to have SICR.

Loans and advances to customers

- There are no contractual payments past due, and contractual payments have been received from the borrower for six (6) consecutive months.

If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed. If there is evidence that the SICR criteria are no longer met, the financial asset is transferred to Stage 1.

The assessment of SICR incorporates forward-looking information, as described below, and is performed on a quarterly basis at a portfolio level for all loans and advances to customers. For investment securities, the assessment is performed on a quarterly basis at a counterparty level. The criteria used to identify SICR are monitored and evaluated periodically for relevance and appropriateness by the relevant sub-committee of ExCom.

Should an additional 10.00% of loans and advances to customers currently in Stage 1, and measured at 12-months ECL, be considered to have experienced SICR and accordingly measured at lifetime ECL, the provision for loan losses as of 31 December 2019 would increase by $23,599,285 (2018: $23,203,331).

The low credit risk exemption has not been used for the years ended 31 December 2019 and 2018.

Forward-looking information factored into ECL models

Forward-looking information is factored into both the assessment of SICR and the calculations of ECL. Historical analyses have been performed, which identified the key macroeconomic variables impacting credit risk and ECL for each type of financial asset.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Forward-looking information factored into ECL models (continued)

These macroeconomic variables and their associated impact on the PD, EAD and LGD vary by type of financial asset, and requires judgment. Forecasts of these macroeconomic variables (the base economic scenario) are determined periodically based on benchmark information available in The Bahamas, which provide the best estimate view of the economy over the medium term. To project the macroeconomic variables out for the full remaining lifetime of each type of financial asset, a mean reversion approach has been utilised, which means that macroeconomic variables trend towards either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two (2) to five (5) years. The impact of these macroeconomic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, other possible scenarios along with scenario weightings are determined. The number of other scenarios used is set based on the analyses of each major type of financial asset to ensure non-linear relationships are appropriately factored in. The number of scenarios and their attributes are reassessed at each financial reporting date. As of 31 December 2019 and 2018, three (3) scenarios were deemed to appropriately capture non-linear relationships. The scenario weightings are determined by a combination of statistical analysis and judgment, taking into account the range of possible outcomes each chosen scenario is representative of.

The Group used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macroeconomic forecasting model with three (3) macroeconomic scenarios to calculate unbiased and probability weighted ECL: most likely outcome (Baseline); and two (2) less likely scenarios being better than Baseline (Upside) and worse than Baseline (Downside). For credit exposure in The Bahamas, the weight for the Baseline is set to 80.00% and 8.85% and 11.15% weights are applied to Upside and Downside, respectively. For credit exposure internationally, the weight for the Baseline is set to 80% and 10% weights are applied to Upside and Downside, respectively.

Changes in the weight assigned to Baseline forward-looking macroeconomic set of assumptions by 10.00% towards the immediate Downside assumptions and a corresponding change towards the Upside assumptions would not result in any significant increase/decrease in ECL as of 31 December 2019 and 2018.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to significant inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. These forecasts represent the best estimate of the possible outcomes and analyses the non-linear relationships and asymmetries within the different types of financial assets to establish that the selected scenarios appropriately represent the range of possible scenarios.

Sensitivity analyses

The most significant assumptions impacting the:

- allowances for impairment (investment securities and other financial assets, excluding loans and advances to customers) was independent credit rating, which is an indication of the ability of an issuer of debt securities to meet contractual payments, including principal and interest, based on assessed credit rating; gross domestic product (GDP) growth and foreign direct investment.

- provision for loan losses was the unemployment rate, given its impact on a borrower's ability to meet his/her contractual payments.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Forward-looking information factored into ECL models (continued)

Sensitivity analyses (continued)

For investment securities and other financial assets, excluding loans and advances to customers, the changes to ECL calculations (allowances for impairment) for reasonable possible changes in the parameters used in the economic variable assumptions were immaterial.

For loans and advances to customers, a 10.00% increase/decrease in credit loss experience based on the ECL model used for the years ended 31 December 2019 and 2018 would result in an increase/decrease in provision for loan losses of $1,339,112 (2018: $1,555,070) as of 31 December 2019.

Grouping of financial assets for losses measured on a collective basis

For ECL modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. For loans and advances to customers, groupings are based on product type, comprising mortgages, consumer loans (government and non-government employees), credit cards and overdrafts. Exposures for investment securities and all Stage 3 loans and advances to customers are assessed individually.

The appropriateness of groupings is monitored and evaluated on a periodic basis by the relevant sub-committee of ExCom.

20. Capital Management

The Group's objectives when managing capital, which comprises total equity on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Central Bank.
- To safeguard the Group'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.

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

The Central Bank, the Group's principal regulator, requires that the Group maintains a ratio of total regulatory capital to risk-weighted assets at or above a minimum of 14.00%. For the years ended 31 December 2019 and 2018, the Group complied with all of the externally imposed capital requirements to which it is subject.

21. Financial Risk Management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and variable rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in higher yielding assets – principally loans and advances to customers. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher interest rates, while maintaining sufficient liquidity to meet claims that might fall due.

The principal risks which arise from the Group's core activities that must be effectively managed include credit, interest rate, price, liquidity and currency risks. The Group does not use derivative instruments to manage any of these risks.

Concentration of risks

Concentration of risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location, and arises: when a significant proportion of financial instruments or contracts are entered into with the same counterparty; or where a significant proportion of counterparties are engaged in similar business activities, or activities in the same geographical region, or that have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of liquidity risk arises from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentration of currency risk arises when the Group has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that are historically positively correlated.

To mitigate excessive concentration of risk, the Group's policies and procedures include specific guidelines to maintain appropriate diversification.

Credit risk

Credit risk is the risk of suffering financial losses should any of the Group's customers or other counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to customers, including loan commitments arising from such lending activities, and cash at banks and investments in debt securities as part of the Group's treasury management activities. The Group seeks to raise its interest margins by obtaining above-average margins, net of provision for loan losses, through lending to commercial and retail borrowers with a range of credit standings. Such exposures comprise loans and advances to customers, as well as off-balance sheet exposures including guarantees and other commitments such as letters of credit, and performance and other bonds.

Credit risk is one of the most significant risks facing the Group and management therefore carefully manages its exposure to credit risk. Impairment provisions are provided for ECL as of the date of the statement of financial position (Note 6). Significant changes in the economies or sectors that represent a concentration in the Group's portfolio could result in losses that are different from those provided for as of the date of the statement of financial position.

21. Financial Risk Management (Continued)

Credit risk (continued)

The Group's Directors and ExCom are responsible for approving and monitoring the Group's credit exposure, which is done through review and approval of the Group's lending policies, and limits on credit exposure to individual borrowers and sectors. Prior to advancing funds, an assessment is made of the credit quality of each borrower. The Group does not use an automated credit scoring system; exposure to credit risk is managed through regular analyses of the ability of borrowers to meet contractual obligations, performed by branch managers, the central credit underwriting department, ExCom and the Directors. It is the Group's policy to lend responsibly and establish loans that are within a customer's ability to repay rather than relying exclusively on security.

Maximum credit exposure at the year end approximates the carrying value of all financial assets. The classes of financial instruments to which the Group is most exposed to credit risk are loans and advances to customers (Note 6), cash at banks (Note 4) and certain investment securities (Note 5).

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed. Investment securities with credit risk principally comprise debt securities issued by the Government of the Commonwealth of The Bahamas, which currently maintains investment grade credit ratings.

The Group has assessed ECL for deposits with banks, investment securities and other financial assets, excluding loans and advances to customers, and such amounts based on the credit quality of the counterparties are immaterial. Accordingly, no allowance for impairment losses has been recognised.

For loans and advances to customers, the Group employs a range of policies and practices to mitigate credit risk. The most traditional is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or other credit risk mitigation. The principal collateral or other credit risk mitigation for loans and advances to customers include first mortgages on property, chattel mortgages, restricted deposits from customers and salary deductions from employers. Certain loans and advances to customers, including consumer loans, credit card receivables and overdrafts are unsecured.

The table below analyses the composition of the Group's loan portfolio.

	2019		2018	
	$	**%**	**$**	**%**
Consumer	381,671,532	85.09	371,102,990	80.77
Family residential property	45,724,409	10.19	53,605,856	11.67
Undeveloped land	9,329,585	2.08	9,867,686	2.15
Cash secured	5,444,725	1.21	5,865,758	1.28
Overdrafts	2,377,056	0.53	3,508,500	0.76
Commercial property	1,517,519	0.34	1,759,196	0.38
Other	2,500,000	0.56	3,750,000	0.81
Reverse sale and repurchase	-	-	10,000,800	2.18
	448,564,826	**100.00**	**459,460,786**	**100.00**

21. Financial Risk Management (Continued)

Credit risk (continued)

The average mortgage loan balance is $81,000 (2018: $83,000) and the average consumer loan balance is $40,000 (2018: $40,000) with the largest exposure to a single customer totalling approximately $2,500,000 (2018: $10,000,800). Mortgage loans can extend up to twenty-five (25) years, and consumer loans up to ten (10) years.

The table below analyses loans and advances to customers by payment status.

	2019		2018	
	$	**%**	**$**	**%**
Not impaired				
– Neither past due nor impaired	425,624,355	94.89	430,515,153	93.70
– Past due but not impaired	10,218,956	2.28	15,041,945	3.27
Impaired				
– Past due up to 3 months	910,382	0.20	1,065,540	0.23
– Past due 3 – 6 months	2,031,909	0.45	2,924,566	0.64
– Past due 6 – 12 months	1,228,731	0.27	1,639,406	0.36
– Past due over 12 months	8,550,493	1.91	8,274,176	1.80
	448,564,826	**100.00**	**459,460,786**	**100.00**
Provision for loan losses				
– Individually impaired	5,533,878	41.32	8,300,246	53.38
– Portfolio allowance	7,857,244	58.68	7,250,450	46.62
	13,391,122	**100.00**	**15,550,696**	**100.00**

The days past due metric is used by the Group to determine loans and advances to customers in the Stages for the ECL calculations. Loans and advances not past due, except for those specifically assessed as having other conditions of default, and up to thirty (30) days past due are Stage 1; past due in excess of thirty (30) days but less than three (3) months are Stage 2; and those past due in excess of three (3) months are Stage 3. Further, provision for loan losses on: individually impaired loans represents Stage 3; and portfolio allowance represents Stage 1 and Stage 2.

The table below discloses the loans and advances to customers that are past due but not impaired.

31 December 2019	**Mortgages $**	**Consumer and Other $**	**Total $**
Past due up to 3 months	2,651,870	2,078,794	4,730,664
Past due 3 – 6 months	59,707	303,919	363,626
Past due 6 – 12 months	201,831	195,450	397,281
Past due over 12 months	4,727,351	34	4,727,385
Total past due but not impaired	**7,640,759**	**2,578,197**	**10,218,956**

21. Financial Risk Management (Continued)

Credit risk (continued)

31 December 2018	Mortgages $	Consumer and Other $	Total $
Past due up to 3 months	3,132,773	2,248,491	5,381,264
Past due 3 – 6 months	1,087,120	303,315	1,390,435
Past due 6 – 12 months	639,259	404,249	1,043,508
Past due over 12 months	7,175,985	50,753	7,226,738
Total past due but not impaired	**12,035,137**	**3,006,808**	**15,041,945**

The fair value of collateral in the form of property is initially measured consistent with the accounting policy for land and buildings disclosed at Note 2(h), based on valuations performed by independent appraisers who hold recognised and relevant professional qualifications and have recent experience in the category of the properties being valued. Subsequently, the fair value is updated when market conditions indicate a potential decrease in fair value and/or when the customer initially goes into default.

Individually impaired loans can be analysed as follows:

31 December 2019	Mortgages $	Consumer and Other $	Total $
Carrying amount	8,731,223	3,990,292	12,721,515
Provision for loan losses	2,659,271	2,874,607	5,533,878
31 December 2018			
Carrying amount	8,514,481	5,389,207	13,903,688
Provision for loan losses	4,039,809	4,260,437	8,300,246

The classification of loans as past due but not impaired, and provision for loan losses, are determined by reference to the fair value of collateral pledged in support of the respective loans and advances to customers in respect of such loans. As of 31 December 2019, a decrease of 10.00% in the fair value of collateral would result in a decrease of $1,609,662 (2018: $1,183,974) in the carrying value of loans classified as past due but not impaired and an increase in past due and impaired loans by an equal amount, and provision for loan losses would increase by $479,358 (2018: $529,560).

The provision for loan losses and allowances for impairment of other financial assets recognised in a financial period is impacted by several factors, including:

- Transfers between Stage 1 and Stages 2 or 3 due to financial assets experiencing significant increases (or decreases) of credit risk or becoming credit-impaired during a financial period, and the consequent change between 12-month ECL and lifetime ECL.

21. Financial Risk Management (Continued)

Credit risk (continued)

- Increases for provision and/or allowances for new financial assets recognised during a financial period, and decreases for financial assets derecognised in a financial period.
- Impacts on the measurement of ECL due to changes made to model methodologies and assumptions.
- Decreases in provision and/or allowances related to financial assets written off during a financial period.

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2019.

Mortgages	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2019	64,469	52,000	4,039,809	4,156,278
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(1,627)	12,814	-	11,187
Transfer from Stage 1 to Stage 3	(589)	-	80,261	79,672
Transfer from Stage 2 to Stage 1	1,641	(16,453)	-	(14,812)
Transfer from Stage 2 to Stage 3	-	(3,339)	12,918	9,579
Transfer from Stage 3 to Stage 2	-	7,459	(235,538)	(228,079)
Loans and advances written	3,795	-	-	3,795
Changes to models and assumptions	2,394	(8,364)	(365,598)	(371,568)
Loans and advances derecognised	(5,011)	(4,743)	(242,468)	(252,222)
Provision for loan losses	603	(12,626)	(750,425)	(762,448)
Write-offs	-	-	(630,113)	(630,113)
Other movements	-	-	(630,113)	(630,113)
Balance as of 31 December 2019	**65,072**	**39,374**	**2,659,271**	**2,763,717**

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2019	5,076,671	2,057,310	4,260,437	11,394,418
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(51,336)	1,218,959	-	1,167,623
Transfer from Stage 1 to Stage 3	(50,027)	-	2,266,181	2,216,154
Transfer from Stage 2 to Stage 1	17,379	(190,661)	-	(173,282)
Transfer from Stage 2 to Stage 3	-	(41,641)	548,801	507,160
Transfer from Stage 3 to Stage 2	-	23,445	(210,955)	(187,510)
Loans and advances written	1,913,989	274,063	256,925	2,444,977
Changes to models and assumptions	482,381	(1,639,694)	7,786,354	6,629,041
Loans and advances derecognised	(1,240,580)	(97,460)	(298,850)	(1,636,890)
Provision for loan losses	1,071,806	(452,989)	10,348,456	10,967,273
Write-offs	-	-	(11,734,286)	(11,734,286)
Other movements	-	-	(11,734,286)	(11,734,286)
Balance as of 31 December 2019	**6,148,477**	**1,604,321**	**2,874,607**	**10,627,405**

Total				
Balance as of 1 January 2019	5,141,140	2,109,310	8,300,246	15,550,696
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(52,963)	1,231,773	-	1,178,810
Transfer from Stage 1 to Stage 3	(50,616)	-	2,346,442	2,295,826
Transfer from Stage 2 to Stage 1	19,020	(207,114)	-	(188,094)
Transfer from Stage 2 to Stage 3	-	(44,980)	561,719	516,739
Transfer from Stage 3 to Stage 2	-	30,904	(446,493)	(415,589)
Loans and advances written	1,917,784	274,063	256,925	2,448,772
Changes to models and assumptions	484,775	(1,648,058)	7,420,756	6,257,473
Loans and advances derecognised	(1,245,591)	(102,203)	(541,318)	(1,889,112)
Provision for loan losses	1,072,409	(465,615)	9,598,031	10,204,825

21. Financial Risk Management (Continued)

Credit risk (continued)

Total (continued)	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Write-offs	-	-	(12,364,399)	(12,364,399)
Other movements	-	-	(12,364,399)	(12,364,399)
Balance as of 31 December 2019	**6,213,549**	**1,643,695**	**5,533,878**	**13,391,122**

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2018.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2018	71,534	56,801	2,845,040	2,973,375
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(2,963)	29,416	-	26,453
Transfer from Stage 1 to Stage 3	(874)	-	2,505	1,631
Transfer from Stage 2 to Stage 1	2,313	(23,698)	-	(21,385)
Transfer from Stage 2 to Stage 3	-	(14,673)	21,741	7,068
Transfer from Stage 3 to Stage 2	-	7,031	-	7,031
Loans and advances written	3,203	-	-	3,203
Changes to models and assumptions	(4,040)	(1,476)	2,337,800	2,332,284
Loans and advances derecognised	(4,704)	(1,401)	(21)	(6,126)
Provision for loan losses	(7,065)	(4,801)	2,362,025	2,350,159
Write-offs	-	-	(1,167,256)	(1,167,256)
Other movements	-	-	(1,167,256)	(1,167,256)
Balance as of 31 December 2018	**64,469**	**52,000**	**4,039,809**	**4,156,278**

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2018	4,895,490	1,672,882	6,712,788	13,281,160
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(38,356)	1,206,404	-	1,168,048
Transfer from Stage 1 to Stage 3	(216,236)	-	8,893,489	8,677,253
Transfer from Stage 2 to Stage 1	13,831	(319,625)	-	(305,794)
Transfer from Stage 2 to Stage 3	-	(1,043,720)	2,048,059	1,004,339
Transfer from Stage 3 to Stage 2	-	1,845	(45,581)	(43,736)
Loans and advances written	2,150,102	469,924	772,704	3,392,730
Changes to models and assumptions	(390,652)	341,686	(1,099,552)	(1,148,518)
Loans and advances derecognised	(1,337,508)	(272,086)	(747,258)	(2,356,852)
Provision for loan losses	181,181	384,428	9,821,861	10,387,470
Write-offs	-	-	(12,274,212)	(12,274,212)
Other movements	-	-	(12,274,212)	(12,274,212)
Balance as of 31 December 2018	**5,076,671**	**2,057,310**	**4,260,437**	**11,394,418**

Total				
Balance as of 1 January 2018	4,967,024	1,729,683	9,557,828	16,254,535
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(41,319)	1,235,820	-	1,194,501
Transfer from Stage 1 to Stage 3	(217,110)	-	8,895,994	8,678,884
Transfer from Stage 2 to Stage 1	16,144	(343,323)	-	(327,179)
Transfer from Stage 2 to Stage 3	-	(1,058,393)	2,069,800	1,011,407
Transfer from Stage 3 to Stage 2	-	8,876	(45,581)	(36,705)
Loans and advances written	2,153,305	469,924	772,704	3,395,933
Changes to models and assumptions	(394,692)	340,210	1,238,248	1,183,766
Loans and advances derecognised	(1,342,212)	(273,487)	(747,279)	(2,362,978)
Provision for loan losses	174,116	379,627	12,183,886	12,737,629

21. Financial Risk Management (Continued)

Credit risk (continued)

Total (continued)	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Write-offs	-	-	(13,441,468)	(13,441,468)
Other movements	-	-	(13,441,468)	(13,441,468)
Balance as of 31 December 2018	**5,141,140**	**2,109,310**	**8,300,246**	**15,550,696**

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2019, which elucidate the significance of such changes to the changes in provision for loan losses.

Mortgages	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2019	42,639,058	3,310,041	19,397,938	65,347,037
Transfers				
Transfer from Stage 1 to Stage 2	(974,492)	974,492	-	-
Transfer from Stage 1 to Stage 3	(375,165)	-	375,165	-
Transfer from Stage 2 to Stage 1	968,836	(968,836)	-	-
Transfer from Stage 2 to Stage 3	-	(185,803)	185,803	-
Transfer from Stage 3 to Stage 2	-	1,315,456	(1,315,456)	-
Loans and advances written	2,216,643	-	-	2,216,643
Changes to exposure other than full derecognition	(2,864,973)	(1,161,912)	(1,242,180)	(5,269,065)
Loans and advances derecognised	(3,314,639)	(302,776)	(1,193,412)	(4,810,827)
Write-offs	-	-	(630,113)	(630,113)
Balance as of 31 December 2019	**38,295,268**	**2,980,662**	**15,577,745**	**56,853,675**

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2019	379,837,254	4,903,456	5,162,779	389,903,489
Transfers				
Transfer from Stage 1 to Stage 2	(2,366,197)	2,366,197	-	-
Transfer from Stage 1 to Stage 3	(2,266,181)	-	2,266,181	-
Transfer from Stage 2 to Stage 1	429,775	(429,775)	-	-
Transfer from Stage 2 to Stage 3	-	(548,801)	548,801	-
Transfer from Stage 3 to Stage 2	-	119,756	(119,756)	-
Loans and advances written	123,858,583	406,029	256,925	124,521,537
Changes to exposure other than full derecognition	(32,193,143)	(2,301,251)	7,257,686	(27,236,708)
Loans and advances derecognised	(86,198,992)	(1,338,430)	(298,850)	(87,836,272)
Write-offs	-	-	(11,734,286)	(11,734,286)
Balance as of 31 December 2019	**381,101,099**	**3,177,181**	**3,339,480**	**387,617,760**

Total	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2019	422,476,312	8,213,497	24,560,717	455,250,526
Transfers				
Transfer from Stage 1 to Stage 2	(3,340,689)	3,340,689	-	-
Transfer from Stage 1 to Stage 3	(2,641,346)	-	2,641,346	-
Transfer from Stage 2 to Stage 1	1,398,611	(1,398,611)	-	-
Transfer from Stage 2 to Stage 3	-	(734,604)	734,604	-
Transfer from Stage 3 to Stage 2	-	1,435,212	(1,435,212)	-
Loans and advances written	126,075,226	406,029	256,925	126,738,180
Changes to exposure other than full derecognition	(35,058,116)	(3,463,163)	6,015,506	(32,505,773)
Loans and advances derecognised	(89,513,631)	(1,641,206)	(1,492,262)	(92,647,099)
Write-offs	-	-	(12,364,399)	(12,364,399)
Balance as of 31 December 2019	**419,396,367**	**6,157,843**	**18,917,225**	**444,471,435**

21. Financial Risk Management (Continued)

Credit risk (continued)

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2018, which elucidate the significance of such changes to the changes in provision for loan losses.

Mortgages	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2018	47,450,241	3,649,118	21,572,687	72,672,046
Transfers				
Transfer from Stage 1 to Stage 2	(1,873,726)	1,873,726	-	-
Transfer from Stage 1 to Stage 3	(565,860)	-	565,860	-
Transfer from Stage 2 to Stage 1	1,534,082	(1,534,082)	-	-
Transfer from Stage 2 to Stage 3	-	(869,807)	869,807	-
Transfer from Stage 3 to Stage 2	-	447,917	(447,917)	-
Loans and advances written	2,112,817	-	-	2,112,817
Changes to exposure other than full derecognition	(2,901,677)	(166,393)	(1,317,390)	(4,385,460)
Loans and advances derecognised	(3,116,819)	(90,438)	(677,853)	(3,885,110)
Write-offs	-	-	(1,167,256)	(1,167,256)
Balance as of 31 December 2018	**42,639,058**	**3,310,041**	**19,397,938**	**65,347,037**
Consumer and other loans				
Balance as of 1 January 2018	333,588,837	5,544,431	7,200,044	346,333,312
Transfers				
Transfer from Stage 1 to Stage 2	(3,552,618)	3,552,618	-	-
Transfer from Stage 1 to Stage 3	(8,893,489)	-	8,893,489	-
Transfer from Stage 2 to Stage 1	2,179,683	(2,179,683)	-	-
Transfer from Stage 2 to Stage 3	-	(2,048,058)	2,048,058	-
Transfer from Stage 3 to Stage 2	-	436,122	(436,122)	-
Loans and advances written	160,714,971	667,954	772,704	162,155,629
Changes to exposure other than full derecognition	(15,375,136)	193,339	(266,789)	(15,448,586)
Loans and advances derecognised	(88,824,994)	(1,263,267)	(774,393)	(90,862,654)
Write-offs	-	-	(12,274,212)	(12,274,212)
Balance as of 31 December 2018	**379,837,254**	**4,903,456**	**5,162,779**	**389,903,489**

21. Financial Risk Management (Continued)

Credit risk (continued)

Total	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2018	381,039,078	9,193,549	28,772,731	419,005,358
Transfers				
Transfer from Stage 1 to Stage 2	(5,426,344)	5,426,344	-	-
Transfer from Stage 1 to Stage 3	(9,459,349)	-	9,459,349	-
Transfer from Stage 2 to Stage 1	3,713,765	(3,713,765)	-	-
Transfer from Stage 2 to Stage 3	-	(2,917,865)	2,917,865	-
Transfer from Stage 3 to Stage 2	-	884,039	(884,039)	-
Loans and advances written	162,827,788	667,954	772,704	164,268,446
Changes to exposure other than full derecognition	(18,276,813)	26,946	(1,584,179)	(19,834,046)
Loans and advances derecognised	(91,941,813)	(1,353,705)	(1,452,246)	(94,747,764)
Write-offs	-	-	(13,441,468)	(13,441,468)
Balance as of 31 December 2018	**422,476,312**	**8,213,497**	**24,560,717**	**455,250,526**

Renegotiated loans and advances to customers

Restructuring activities include extended payment arrangements and modification and deferral of payments. Restructuring policies and practices are determined based on indicators or criteria that indicate that payment will most likely continue, and such policies are under constant review. Renegotiated loans and advances that would otherwise be past due or impaired totalled $13,533,000 (2018: $14,690,000) as of 31 December 2019.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances to customers.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group 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 as most commitments to extend credit are contingent upon customers maintaining specific credit standards. See Note 17 for loan commitments.

The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Geographical concentrations of financial assets

The Group has a concentration of credit risk in respect of geographical area, as both customers and assets held as collateral are based in The Bahamas.

21. Financial Risk Management (Continued)

Interest rate risk

Interest rate risk is the risk that the future cash flows or the fair values of financial instruments will fluctuate because of changes in market interest rates. The Group 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 gains or create losses in the event that unexpected movements arise.

The Group does not attempt to hedge specifically against the impact of changes in market interest rates on cash flow and interest margins and relies on the fact that the loan portfolio generally is based on variable interest rates linked to the B$ Prime rate that generally reset within three (3) months of any change in these rates and has financial liabilities that finance these loans but at lower interest rates, which too are based on B$ Prime rate and can be reset following the maturity of any deposits. The Group maintains a general policy of fixing the interest rate spread between interest earned on financial assets and interest incurred on financial liabilities.

As of 31 December 2019, the Group is exposed to fair value interest rate risk on $43,724,838 (2018: $40,564,500) of its investments in debt securities, which are at fixed interest rates with maturity dates ranging from 2020 to 2038 (2018: 2020 to 2038). The remainder of debt securities in the Group's investment portfolio are at variable rates linked to the B$ Prime rate.

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2018.

31 December 2019	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	7,805,956	30,615,026	20,183,628	-	-	107,062,453	165,667,063
Investment securities	39,125,776	10,762,445	1,331,383	12,028,476	20,116,408	-	83,364,488
Loans and advances to customers	72,346,649	412,929	3,308,822	64,699,906	289,488,682	823,325	431,080,313
Other assets	-	-	-	-	-	928,932	928,932
Total financial assets	**119,278,381**	**41,790,400**	**24,823,833**	**76,728,382**	**309,605,090**	**108,814,710**	**681,040,796**
LIABILITIES							
Deposits from customers	103,358,600	102,793,866	241,335,789	55,727,577	-	64,391,815	567,607,647
Accrued expenses and other liabilities	-	-	40,000	1,352,000	8,000	1,991,919	3,391,919
Debt securities	24,193,064	-	-	-	-	-	24,193,064
Total financial liabilities	**127,551,664**	**102,793,866**	**241,375,789**	**57,079,577**	**8,000**	**66,383,734**	**595,192,630**
Interest repricing gap	**(8,273,283)**	**(61,003,466)**	**(216,551,956)**	**19,648,805**	**309,597,090**	**42,430,976**	

21. Financial Risk Management (Continued)

Interest rate risk (Continued)

31 December 2018	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	11,765,846	-	30,000,000	-	-	64,732,259	106,498,105
Investment securities	42,019,662	10,506,800	-	11,483,464	19,047,609	-	83,057,535
Loans and advances to customers	86,616,219	1,051,066	2,660,215	41,836,142	306,543,148	993,040	439,699,830
Other assets	-	-	-	-	-	4,668,546	4,668,546
Total financial assets	**140,401,727**	**11,557,866**	**32,660,215**	**53,319,606**	**325,590,757**	**70,393,845**	**633,924,016**
LIABILITIES							
Deposits from customers	95,920,422	102,257,852	210,008,341	76,283,648	-	48,264,268	532,734,531
Accrued expenses and other liabilities	-	-	-	-	-	1,333,981	1,333,981
Debt securities	33,964,458	-	-	-	-	-	33,964,458
Total financial liabilities	**129,884,880**	**102,257,852**	**210,008,341**	**76,283,648**	**-**	**49,598,249**	**568,032,970**
Interest repricing gap	**10,516,847**	**(90,699,986)**	**(177,348,126)**	**(22,964,042)**	**325,590,757**	**20,795,596**	

As of 31 December 2019, an increase/decrease in market interest rates by 0.50% (2018: 0.50%), being the assumption of reasonable potential changes in interest rates as of the respective date, with all other variables remaining constant, would increase/decrease net income by $221,282 (2018: $128,504).

Price risk

Price risk is the risk that the fair values and/or amounts realised on sales of financial instruments may fluctuate significantly as a result of changes in market prices. Price risk principally arises from the Group's investments in debt securities, in the event that these are required to be sold to meet liquidity needs. The Group has significant concentration risk because the vast majority of its investment securities are issued by the Government of The Bahamas or its related entities. Trading levels in The Bahamas, whether on BISX or over-the-counter markets, are generally low and therefore, the ability of the Group to liquidate large positions may be difficult and prices received may be severely impacted. The Central Bank has created a secondary market for certain debt securities issued by the Government of The Bahamas, and prices currently being observed in this market and over-the-counter approximate the face values of such securities.

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due or can do so only at an excessive cost. The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable it to meet all financial obligations. This is achieved by maintaining a prudent level of liquid assets through management control of the rate of growth of the business and maintaining high levels of capital.

21. Financial Risk Management (Continued)

Liquidity risk (Continued)

The table below analyses financial assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity dates as of the date of statement of financial position and represent undiscounted cash flows.

31 December 2019	Repayable on demand $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Total $
ASSETS						
Cash on hand and at banks	114,868,410	30,711,173	20,341,914	-	-	165,921,497
Investment securities	-	12,004,577	7,661,534	31,948,805	56,268,543	107,883,459
Loans and advances to customers	2,377,056	38,840,706	67,144,725	323,084,399	321,750,340	753,197,226
Other assets	-	928,932	-	-	-	928,932
Total financial assets	**117,245,466**	**82,485,388**	**95,148,173**	**355,033,204**	**378,018,883**	**1,027,931,114**
LIABILITIES						
Deposits from customers	167,735,579	103,813,816	245,718,349	60,069,828	-	577,337,572
Accrued expenses and other liabilities	-	1,991,919	638,200	1,087,650	12,300	3,730,069
Debt securities	-	-	1,310,000	25,860,000	-	27,170,000
Total financial liabilities	**167,735,579**	**105,805,735**	**247,666,549**	**87,017,478**	**12,300**	**608,237,641**
Net liquidity gap	**(50,490,113)**	**(23,320,347)**	**(152,518,376)**	**268,015,726**	**378,006,583**	
Loan commitments	**12,287,601**					

31 December 2018	$	$	$	$	$	$
ASSETS						
Cash on hand and at banks	76,498,105	-	30,510,000	-	-	107,008,105
Investment securities	-	11,703,231	5,334,990	32,873,580	59,315,841	109,227,642
Loans and advances to customers	3,508,500	40,817,220	65,646,803	316,498,877	345,844,502	772,315,902
Other assets						
Total financial assets	**80,006,605**	**57,188,997**	**101,491,793**	**349,372,457**	**405,160,343**	**993,220,195**
LIABILITIES						
Deposits from customers	144,182,140	104,882,889	211,307,259	77,542,534	-	537,914,822
Accrued expenses and other liabilities	-	1,333,981	-	-	-	1,333,981
Debt securities	-	-	1,910,000	38,970,000	-	40,880,000
Total financial liabilities	**144,182,140**	**106,216,870**	**213,217,259**	**116,512,534**	**-**	**580,128,803**
Net liquidity gap	**(64,175,535)**	**(49,027,873)**	**(111,725,466)**	**232,859,923**	**405,160,343**	
Loan commitments	**10,247,748**					

The relative distribution of financial instruments based on the maturity ranges in the analysis above is representative of the relative distribution of financial instruments that would result on the basis of discounted cash flows. Regulatory authorities set limits for liquidity balances, and the Group was in compliance with these requirements for the years ended 31 December 2019 and 2018.

As of 31 December 2019, principal and interest balances of the deposits of the ten (10) largest customers totalled $158,980,767 (2018: $155,979,870) representing 28.01% (2018: 29.28%) of total deposits from customers.

21. Financial Risk Management (Continued)

Currency risk

Currency risk is the risk that the fair values and/or amounts realised on sales of financial instruments or the settlement of financial liabilities may fluctuate due to change in foreign exchange rates. The Group is not exposed to currency risk, as its financial instruments along with financial activity are predominantly denominated in B$. The remaining financial instruments and financial activity are denominated in the United States dollar, and currency risk is mitigated because the B$:US$ exchange rate is fixed at 1.00:1.00.

22. Fiduciary Risk Management

The Group is susceptible to fiduciary risk, which is the risk that the Group may fail in carrying out certain mandates in accordance with the wishes of its customers. To manage exposure, the Group generally takes a conservative approach in its undertakings.

23. Fair Values of Financial Instruments

Fair value hierarchy

The Group ranks its financial instruments based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two (2) types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the financial instrument.

The determination of what constitutes 'observable' requires significant judgment by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

23. Fair Values of Financial Instruments (Continued)

Fair value hierarchy (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include government debt securities and other securities with observable inputs.

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components.

Fair values

Financial instruments utilised by the Group comprise the recorded financial assets and liabilities disclosed in the consolidated financial statements. The Group's financial instruments are principally short term in nature or have interest rates that reset to market rates; accordingly, their fair values approximate their carrying values. For long term financial assets and financial liabilities with fixed interest rates, despite a change in market rates since the issuance of the financial instruments, there has been no observable change in fair values; accordingly, the carrying values approximate fair values.

Financial instruments are principally Level 2 in the fair value hierarchy. The fair value of the financial assets and liabilities disclosed under that category have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the B$ Prime rate as the discount rate. B$ Prime rate was reduced by 0.50% effective January 2017, and prior to this change B$ Prime rate had not experienced any changes since the year ended 31 December 2011.

24. Subsequent Events

Subsequent to 31 December 2019, the Directors approved a dividend on Series A variable rate redeemable preference shares at the rate stated in Note 11. The dividends are subject to approval by the Central Bank.

Further, during the first quarter of 2020, consistent with other countries, The Bahamas was impacted by the global pandemic COVID-19 (commonly referred to as the Coronavirus), which has created uncertainty regarding the future economic performance of The Bahamas. The Group's financial position and performance is expected to be negatively impacted by the strategies deployed by the governments of The Bahamas and other countries, employers and other stakeholders to address the health, economic and other issues as a result of the global pandemic, which in turn are expected to result in significant contractions in GDP and increases in unemployment in The Bahamas. Such strategies include, and are expected to include, reductions in US$ prime rates; forebearance programmes for various obligations of residents, including financial institutions; and possible changes in employee complements in both the public and private sectors.

24. Subsequent Events (Continued)

The impact on the financial position and financial performance of the Group for the year ended 31 December 2020 and beyond is currently impractical to determine, as decisions and strategies are continually being developed and amended based on the health risks posed by COVID-19. However, the result of the global pandemic and its attendant consequences are expected to: increase the provision for loan losses and related expense, and reduce interest income, which in turn will reduce the profitability or possibly create losses for the Group; and possibly reduce liquidity.