FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Financial Statements
31 December 2023

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 2023, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

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.

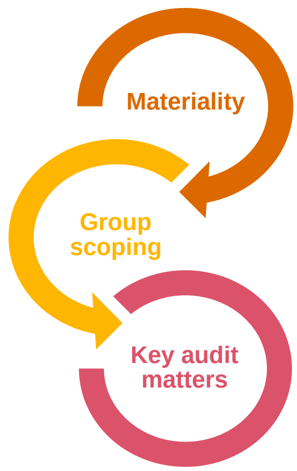
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview

	• Overall group materiality: $688,982, which represents approximately 5% of net income.
	• We planned and scoped our audit for 2023 reflecting the Group structure including its subsidiaries. The audit procedures covered approximately 100% of the Group's net assets.
	• Expected credit loss (“ECL”) allowances for Stages 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 judgments; 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 judgment, 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	$688,982
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 & Risk Management Committee that we would report to them misstatements identified during our audit above $34,449, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss ("ECL") allowances for Stages 1 and 2 of loans and advances to customers *Refer to notes 2(d), 6, 18 and 20 to the consolidated financial statements for disclosures of related accounting policies, balances, judgments and estimates.*	
At 31 December 2023, the Bank reported total gross loans and advances to customers of $374.8 million and $12.8 million of expected credit loss provisioning, of which, $7.2 million relates to Stages 1 and 2. We focused on this area because the ECL model requires that management exercise judgment, from the date the loan is recognised, in determining inputs and assumptions which are subjective and can therefore lead to significant estimation uncertainty over the measurement of the ECL.	Our approach, with the assistance of our internal specialists involved the following procedures, amongst others: • 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.

The inputs and assumptions include: ● Model estimations: Inherently judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), any Significant Increase in Credit Risk ("SICR") and the Loss Given Default ("LGD"). The PD models, which incorporate economic scenarios and any SICR, are the key drivers of the ECLs and also impact the staging of loans and advances to customers. As a result, they are considered the most significant judgmental aspect of the Group's ECL modelling approach. ● Economic scenarios: 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% whilst 10.90% and 9.10% weights are applied to the Upside and Downside scenarios, respectively. The Baseline scenario utilises the projected unemployment rate or GDP growth rate for the year ending 31 December 2024, after assessing these against the experienced unemployment rate and GDP growth rate in the past fifteen (15) years and forty-one (41) years, respectively. The Upside and Downside scenarios utilise the best and worst unemployment rate or GDP growth rate, respectively, experienced over the same timeframe.	● Evaluated the referenced inputs and assumptions as follows: ○ Model estimations: Recalculated the days past due for the assets in Stages 1, 2 and 3 and assessed if they were allocated to the appropriate Stage. Formed an independent conclusion as to the appropriateness of the staging of the loans at year-end. This included challenging management's staging process and any qualitative factors, to assess whether any loans should have been reclassified or if there has been a default event which would warrant a loan moving to Stage 3. Tested, on a sample basis, the appropriateness of the model design and formulae used, modifications made to the model, and recalculated the PD and LGD. For a sample of performing loans, the ECL calculation data points were agreed to source systems and documents. ● Economic scenarios: Assessed the reasonableness of management's assumptions in utilising a macroeconomic forecasting model with three (3) scenarios to calculate a probability weighted ECL that considers a Baseline, Upside and Downside case scenario. This included applying a sensitivity analysis to management's weighted average probabilities of forecasted economic scenarios. The results of our procedures indicated that the inputs and assumptions used by management for determining the ECL for Stages 1 and 2 of loans and advances to customers were not unreasonable.

The chosen input factors for three (3) macroeconomic scenarios have the impact of eliminating the outlier factors experienced in the year ended 31 December 2020, considered the peak of the global pandemic COVID-19, in the Baseline scenarios.	
Credit impaired ("Stage 3") mortgage loans *Refer to notes 2(e), 6, 18 and 20 to the consolidated financial statements for disclosures of related accounting policies, balances, judgments and estimates.* The Lifetime ECL on credit-impaired mortgage loans ("MLs") for Stage 3 totalled $3.1 million 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 for credit-impaired MLs involve significant judgment 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 judgment 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.	With the assistance of our external real estate experts, we performed 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. • On a sample basis, compared the collateral values recorded by management to the independent valuation appraisal reports. • 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. • Tested the reasonableness of the collateral values used by management in their calculation of the provision by analysing the trends in collateral values, evaluating, 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. • For all actual sales throughout the period, performed lookback procedures to assess the reliability of management's historical estimation process by assessing the provisions previously established against amounts collected from collateral sold during the year. This also 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. The results of our procedures indicated that management's methodologies and assumptions used for determining Lifetime ECLs on credit impaired MLs were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises Fidelity Bank (Bahamas) Limited Annual Report for 2023 (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 Fidelity Bank (Bahamas) Limited Annual Report for 2023, 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 IFRS Accounting 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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, actions taken to eliminate threats or safeguards applied.

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

6 June 2024

Fidelity Bank (Bahamas) Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Statement of Financial Position
As of 31 December 2023
(Expressed in Bahamian dollars)

	2023 $	2022 $
ASSETS		
Cash on hand and at banks (Note 4)	289,897,311	275,816,907
Investment securities (Note 5)	116,398,669	108,471,419
Loans and advances to customers (Note 6)	359,244,541	372,695,932
Other assets	3,453,072	2,156,416
Investments in joint ventures (Note 7)	176,602	170,750
Property, plant and equipment (Note 8)	10,136,163	11,306,837
Total assets	**779,306,358**	**770,618,261**
LIABILITIES		
Deposits from customers (Note 9)	667,007,413	656,879,927
Accrued expenses and other liabilities	4,005,664	4,393,681
Total liabilities	**671,013,077**	**661,273,608**
EQUITY		
Capital – ordinary shares (Note 10)	20,449,512	20,449,512
Capital – preference shares (Note 10)	15,000,000	15,000,000
Revaluation reserve	1,764,091	1,820,116
Retained earnings	71,079,678	72,075,025
Total equity	**108,293,281**	**109,344,653**
Total liabilities and equity	**779,306,358**	**770,618,261**

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

Director **Director**

25 April 2024
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 2023
(Expressed in Bahamian dollars)

	2023 $	2022 $
INCOME		
Interest income		
Bank deposits, loans and advances	56,765,454	59,894,117
Investment securities	4,036,032	3,965,156
	60,801,486	63,859,273
Interest expense	(8,819,260)	(10,918,702)
Net interest income	**51,982,226**	**52,940,571**
Fees and commissions	7,358,199	6,144,978
Other income	85,867	183,707
	59,426,292	**59,269,256**
EXPENSES		
General and administrative (Note 12)	21,012,321	16,891,161
Salaries and employee benefits	13,772,372	13,809,185
Provision for loan losses (Note 6)	9,429,616	6,181,696
Allowances for impairment (Note 5)	-	560,000
Depreciation and amortisation (Note 8)	1,438,205	1,583,967
	45,652,514	**39,026,009**
Operating profit	**13,773,778**	**20,243,247**
Share of profits/(losses) of joint ventures (Note 7)	5,852	(24,945)
Net income	**13,779,630**	**20,218,302**
OTHER COMPREHENSIVE INCOME		
Items not reclassified to net income		
Property, plant and equipment revaluation (Note 8)	-	684,814
Total comprehensive income	**13,779,630**	**20,903,116**

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 2023
(Continued)
(Expressed in Bahamian dollars)

	2023	**2022**
	$	**$**
Attributable to:		
Ordinary shareholders		
Net income	12,804,630	19,243,302
Other comprehensive income	-	684,814
	12,804,630	19,928,116
Preference shareholders		
Net income	975,000	975,000
Other comprehensive income	-	-
	975,000	975,000
	13,779,630	**20,903,116**
Earnings per share (Note 11)	**0.45**	**0.67**

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 2023
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Retained Earnings $	Total $
As of 1 January 2023	20,449,512	15,000,000	1,820,116	72,075,025	109,344,653
Comprehensive income					
Net income	-	-	-	13,779,630	13,779,630
Other comprehensive income					
Property, plant and equipment revaluation	-	-	-	-	-
Total comprehensive income	-	-	-	13,779,630	13,779,630
Transfers					
Depreciation transfer	-	-	(56,025)	56,025	-
Total transfers	-	-	(56,025)	56,025	-
Transactions with owners					
Dividends – preference shares	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	(13,856,002)	(13,856,002)
Total transactions with owners	-	-	-	(14,831,002)	(14,831,002)
As of 31 December 2023	**20,449,512**	**15,000,000**	**1,764,091**	**71,079,678**	**108,293,281**
Dividends per share	**0.48**	**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 2022
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Retained Earnings $	Total $
As of 1 January 2022	20,449,512	15,000,000	1,176,670	67,801,023	104,427,205
Comprehensive income					
Net income	-	-	-	20,218,302	20,218,302
Other comprehensive income					
Property, plant and equipment revaluation	-	-	684,814	-	684,814
Total comprehensive income	-	-	684,814	20,218,302	20,903,116
Transfers					
Depreciation transfer	-	-	(41,368)	41,368	-
Total transfers	-	-	(41,368)	41,368	-
Transactions with owners					
Dividends – preference shares	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	(15,010,668)	(15,010,668)
Total transactions with owners	-	-	-	(15,985,668)	(15,985,668)
As of 31 December 2022	**20,449,512**	**15,000,000**	**1,820,116**	**72,075,025**	**109,344,653**
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 2023
(Expressed in Bahamian dollars)

	2023 $	2022 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	13,779,630	20,218,302
Adjustments for:		
Interest income	(60,801,486)	(63,859,273)
Interest expense	8,819,260	10,918,702
Other income	(2,535)	-
Provision for loan losses	9,429,616	6,181,696
Allowances for impairment	-	560,000
Depreciation and amortisation	1,438,205	1,583,967
Share of (profits)/losses of joint ventures	(5,852)	24,945
Interest received	56,456,923	60,218,985
Interest paid	(10,403,260)	(9,905,896)
(Increase)/Decrease in operating assets		
Current accounts at banks – pledged balances	(500,000)	(2,650,000)
Term deposits – contractual maturities greater than three (3) months	(660,744)	(652,584)
Mandatory reserve deposits	(1,103,020)	(1,083,473)
Loans and advances to customers	8,425,537	26,532,526
Other assets	(1,296,656)	(219,269)
Increase/(Decrease) in operating liabilities		
Deposits from customers	11,711,486	(113,956,159)
Accrued expenses and other liabilities	(388,017)	(883,052)
Net cash from/(used in) operating activities	**34,899,087**	**(66,970,583)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(109,408,356)	(107,123,484)
Proceeds from sales/maturities of investment securities	101,418,816	103,312,600
Purchases of property, plant and equipment	(333,128)	(561,033)
Proceeds from sales/disposals of property, plant and equipment	68,132	-
Net cash used in investing activities	**(8,254,536)**	**(4,371,917)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemptions of debt securities	-	(20,000,000)
Dividends paid on preference shares	(975,000)	(975,000)
Dividends paid on ordinary shares	(13,856,002)	(15,010,668)
Net cash used in financing activities	**(14,831,002)**	**(35,985,668)**
Net increase/(decrease) in cash and cash equivalents	**11,813,549**	**(107,328,168)**
Cash and cash equivalents as of the beginning of the year	192,103,956	299,432,124
Cash and cash equivalents as of the end of the year (Note 4)	**203,917,505**	**192,103,956**

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

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2023
(Expressed in Bahamian dollars)

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, 2020 to carry on banking business in The Bahamas. The Bank, and its subsidiaries (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 five (5) branches in New Providence, its branch in Grand Bahama, its branch in Abaco and its branch in Exuma.

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 74.54% (2022: 74.54%) of the outstanding ordinary shares of the Bank.

The registered office of the Bank is situated at RF House, East Hill Street, Nassau, Bahamas.

2. Material 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 IFRS Accounting 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(g), 2(m) and 18.

New standards, amendments and interpretations adopted by the Group

Standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2023 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.

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2023
(Continued)
(Expressed in Bahamian dollars)

2. Material Accounting Policies (Continued)

(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 joint 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.

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.

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2023
(Continued)
(Expressed in Bahamian dollars)

2. Material Accounting Policies (Continued)

(c) Foreign currency translation (continued)

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 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(f).

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 18.

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 represent 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 18.

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2. Material Accounting Policies (Continued)

(d) Financial assets (continued)

Classification and measurement (continued)

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.

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.

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2. Material Accounting Policies (Continued)

(d) Financial assets (continued)

Modifications (continued)

- 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 financial 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.

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) Non-performing financial assets

All loans and advances to customers on which principal or interest payments are overdue in excess of three (3) months are classified by management as non-performing and are considered credit-impaired financial assets for the purposes of assessing ECL.

(f) Impairment of financial assets at amortised cost

The Group assesses, taking into consideration forward-looking factors, the ECL for financial assets at amortised cost 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. Material Accounting Policies (Continued)

(f) 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 18.

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 18. 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 18.

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 the 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 statement of comprehensive income as a part of the ECL expense included in net income.

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2. Material Accounting Policies (Continued)

(g) 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.

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Notes to the Consolidated Financial Statements
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2. Material Accounting Policies (Continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
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(Continued)
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2. Material Accounting Policies (Continued)

(m) 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. 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.

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2. Material Accounting Policies (Continued)

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

Fidelity Bank (Bahamas) Limited

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2. Material Accounting Policies (Continued)

(r) Segment reporting (continued)

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.

(s) 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.

(t) 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 interests in the following entities:

	Country of Incorporation	**% Holding 2023**	**% Holding 2022**
Bahamas Automated Clearing House Limited	Bahamas	14.29%	14.29%
Pinnacle Cars Limited	Bahamas	100.00%	100.00%
West Bay Development Company Limited	Bahamas	100.00%	100.00%

Subsidiaries

The Group's subsidiaries, Pinnacle Cars Limited and West Bay Development Company Limited, are holding companies for vehicles and land and buildings, respectively, owned by the Group.

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, which includes the Bank. 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.

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
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4. Cash on Hand and at Banks

	2023 $	**2022** $
Cash on hand	4,199,793	3,306,766
Current accounts at banks	189,867,712	161,947,190
Term deposits	67,000,844	82,840,100
Mandatory reserve deposits	28,666,682	27,563,662
	289,735,031	275,657,718
Accrued interest	162,280	159,189
Total	**289,897,311**	**275,816,907**

Included in current accounts are amounts totalling $3,650,000 (2022: $3,150,000), which have been pledged to support guarantees provided by other financial institutions pursuant to agreements with credit card companies in respect of the issuance of credit cards by the Group. 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 5.23% (2022: 0.00% to 4.23%) per annum.

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

	2023 $	**2022** $
Cash on hand	4,199,793	3,306,766
Current accounts at banks	189,867,712	161,947,190
Term deposits	67,000,844	82,840,100
Mandatory reserve deposits	28,666,682	27,563,662
	289,735,031	275,657,718
Current accounts at banks – pledged balances	(3,650,000)	(3,150,000)
Term deposits – contractual maturities greater than three (3) months	(53,500,844)	(52,840,100)
Mandatory reserve deposits	(28,666,682)	(27,563,662)
Total	**203,917,505**	**192,103,956**

Fidelity Bank (Bahamas) Limited

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5. Investment Securities

	2023 $	2022 $
Amortised cost		
Stage 1 – ECL		
Level 2		
Government debt securities	68,591,494	56,662,154
Stage 2 – ECL		
Level 2		
Government debt securities	46,371,000	49,910,800
Level 3		
Corporate debt securities	2,100,000	2,500,000
	48,471,000	52,410,800
Total – all stages	117,062,494	109,072,954
Accrued interest	896,175	958,465
Allowance for impairment	(1,560,000)	(1,560,000)
Total	**116,398,669**	**108,471,419**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2024 to 2050 (2022: 2023 to 2050) and with either fixed interest rates ranging from 3.20% to 5.69% (2022: 3.13% to 5.69%) per annum or variable interest rates ranging from 0.03% to 0.63% (2022: 0.03% to 0.75%) above the B$ Prime rate of 4.25% per annum.

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

Movements in allowance for impairment are as follows:

	2023 $	2022 $
Balance as of the beginning of the year	1,560,000	1,000,000
Allowance for impairment	-	560,000
Write-offs	-	-
Balance as of the end of the year	**1,560,000**	**1,560,000**

Fidelity Bank (Bahamas) Limited

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6. Loans and Advances to Customers

	2023 $	2022 $
Mortgages	39,047,998	42,034,462
Consumer and other loans	335,755,384	347,154,272
	374,803,382	389,188,734
Unamortised loan origination fees	(7,333,642)	(7,660,410)
Accrued interest	4,614,142	4,751,685
Provision for loan losses	(12,839,341)	(13,584,077)
Total	**359,244,541**	**372,695,932**

The effective interest rate earned on loans and advances for the year ended 31 December 2023 was 14.75% (2022: 14.70%).

Movements in provision for loan losses are as follows:

	2023			2022		
	Mortgages $	Consumer and Other $	Total $	Mortgages $	Consumer and Other $	Total $
Balance as of the beginning of the year	3,780,858	9,803,219	13,584,077	4,256,857	13,296,183	17,553,040
Provision	(350,470)	9,780,086	9,429,616	(345,502)	6,527,198	6,181,696
Write-offs	(177,284)	(9,997,068)	(10,174,352)	(130,497)	(10,020,162)	(10,150,659)
Balance as of the end of the year	**3,253,104**	**9,586,237**	**12,839,341**	**3,780,858**	**9,803,219**	**13,584,077**

Recoveries of amounts previously written off recognised in provision loan losses in the consolidated statement of comprehensive income totalled $1,623,383 (2022: $1,235,618).

The provision for loan losses represents 3.49% (2022: 3.56%) of the total loan portfolio, excluding accrued interest, and 96.91% (2022: 92.45%) of total non-performing loans. As of 31 December 2023, principal balances of non-performing loans totalled $13,248,334 (2022: $14,693,973), representing 3.61% (2022: 3.85%) of the total loan portfolio, excluding accrued interest.

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7. Investments in Joint Ventures

Movements in the investment in joint venture comprise:

	2023 $	2022 $
Balance as of the beginning of the year	170,750	195,695
Share of profits/(losses) of joint venture	5,852	(24,945)
Dividends received	-	-
Balance as of the end of the year	**176,602**	**170,750**

The financial information of the joint venture is as follows:

	2023 $	2022 $
ASSETS		
Cash on hand and at banks	1,040,609	892,104
Other assets	164,953	194,541
Property, plant and equipment	166,728	162,082
Total assets	**1,372,290**	**1,248,727**
LIABILITIES		
Accrued expenses and other liabilities	74,517	64,582
Total liabilities	**74,517**	**64,582**
EQUITY		
Share capital	70,000	70,000
Other reserves	120,000	80,000
Retained earnings	1,107,773	1,034,145
Total equity	**1,297,773**	**1,184,145**
Total liabilities and equity	**1,372,290**	**1,248,727**
INCOME		
Fees and commissions	1,156,761	815,433
Interest income	3,622	5,272
	1,160,383	**820,705**

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7. Investments in Joint Ventures (Continued)

	2023 $	2022 $
EXPENSES		
Salaries and employee benefits	474,627	476,839
Depreciation and amortisation	46,970	47,953
Other	524,821	440,766
	1,046,418	**965,558**
Net income/(loss) and total comprehensive income/(loss)	**113,965**	**(144,853)**

8. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Assets & Improvements $	Total $
Year ended 31 December 2023						
Opening net book value	7,200,000	932,910	1,358	315,217	2,857,352	11,306,837
Revaluation	-	-	-	-	-	-
Additions	100,570	130,857	19,000	64,258	18,443	333,128
Disposals						
Cost	-	-	(7,651)	(170,191)	-	(177,842)
Accumulated depreciation	-	-	7,651	104,594	-	112,245
Depreciation	(224,227)	(185,085)	(3,259)	(190,042)	(835,592)	(1,438,205)
Closing net book value	**7,076,343**	**878,682**	**17,099**	**123,836**	**2,040,203**	**10,136,163**
As of 31 December 2023						
Cost or valuation	7,300,570	6,537,698	147,338	11,810,797	11,478,631	37,275,034
Accumulated depreciation	(224,227)	(5,659,016)	(130,239)	(11,686,961)	(9,438,428)	(27,138,871)
Net book value	**7,076,343**	**878,682**	**17,099**	**123,836**	**2,040,203**	**10,136,163**
Year ended 31 December 2022						
Opening net book value	6,622,892	947,074	5,850	562,512	3,081,190	11,219,518
Revaluation	684,814	-	-	-	-	684,814
Additions	119,614	208,736	-	21,294	636,828	986,472
Disposals						
Cost	-	-	-	-	(458,247)	(458,247)
Accumulated depreciation	-	-	-	-	458,247	458,247
Depreciation	(227,320)	(222,900)	(4,492)	(268,589)	(860,666)	(1,583,967)
Closing net book value	**7,200,000**	**932,910**	**1,358**	**315,217**	**2,857,352**	**11,306,837**
As of 31 December 2022						
Cost or valuation	7,200,000	6,406,841	135,989	11,916,730	11,460,188	37,119,748
Accumulated depreciation	-	(5,473,931)	(134,631)	(11,601,513)	(8,602,836)	(25,812,911)
Net book value	**7,200,000**	**932,910**	**1,358**	**315,217**	**2,857,352**	**11,306,837**

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8. Property, Plant and Equipment (Continued)

The fair value hierarchy for non-financial assets is consistent with the hierarchy for financial assets disclosed in Note 22. 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.

Land and buildings were revalued by independent appraisers as of 31 December 2022.

Fair value is 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 value also reflects, on a similar basis, any cash outflows that could be expected in respect of the land and buildings.

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%	$437,000/($279,000)
Vacancy rates	+2.00%/-2.00%	($72,000)/$229,000
Discount rate	+0.50%/-0.50%	($298,000)/$500,000

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

	2023	**2022**
	$	**$**
Cost	8,767,117	8,666,547
Accumulated depreciation	(3,454,865)	(3,286,663)
Net book value	**5,312,252**	**5,379,884**

9. Deposits from Customers

	2023	**2022**
	$	**$**
Term deposits	407,146,794	400,405,170
Savings deposits	177,969,534	149,387,431
Demand deposits	73,107,904	96,940,365
Escrow deposits	4,728,511	4,508,291
	662,952,743	651,241,257
Accrued interest	4,054,670	5,638,670
Total	**667,007,413**	**656,879,927**

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9. Deposits from Customers (Continued)

Included in deposits from customers are deposits from banks totalling $16,985,968 (2022: $19,522,395). Deposits carry fixed interest rates ranging from 0.00% to 5.00% (2022: 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 2023 was 1.33% (2022: 1.45%).

10. Capital

	2023 **$**	**2022** **$**
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
36,541 (2022: 36,541) ordinary shares held in treasury	(100,489)	(100,489)
Total	**20,449,512**	**20,449,512**
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**

Series A variable rate non-cumulative redeemable preference shares are perpetual, but are redeemable at the sole 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 2023, there are 1,500,000 (2022: 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 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. The ordinary shares not yet issued by the trust and therefore remaining in the trust are treated as treasury shares.

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11. Earnings per Share

	2023 $	2022 $
Net income attributable to ordinary shareholders	12,804,630	19,243,302
Weighted average number of ordinary shares outstanding	28,830,129	28,830,129
Earnings per share	**0.45**	**0.67**

12. General and Administrative Expenses

	2023 $	2022 $
Office expenses	6,145,138	5,049,721
Bank and business licence fees	5,227,261	3,867,280
Card services costs, including loyalty programme	4,839,072	3,730,615
Public relations expenses	1,293,058	1,398,798
Legal and professional fees	1,092,612	441,445
Value added tax	650,218	730,743
Insurance expenses	406,735	406,002
Audit fees	379,383	330,000
Directors' cost	218,840	201,803
Premises related costs	155,746	73,797
Other	604,258	660,957
Total	**21,012,321**	**16,891,161**

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 RF Bank & Trust (Bahamas) Limited.

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 2023 totalled $337,697 (2022: $344,040).

14. 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, debit and prepaid cards; and related services.

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

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14. Segment Analysis (Continued)

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.

15. 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:

	2023 **$**	**2022** **$**
ASSETS		
Cash at banks		
Other related parties	647,401	937,984
Loans and advances to customers		
Key management personnel	800,896	967,718
Other related parties	532,772	520,104
Other assets		
The Parent	9,894	1,517,904

Cash at banks earn interest at a rate of 0.00 % (2022: 0.00%) per annum, and mature within one (1) year.

Loans and advances to customers, certain of which are supported by property pledged as collateral, earn interest at fixed rates ranging from 0.00% to 2.25% (2022: 0.00% to 2.25%) per annum, with maturities up to twenty (20) years. There is no provision for loan losses in respect of these balances.

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15. Related Party Balances and Transactions (Continued)

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

	2023 $	2022 $
LIABILITIES		
Deposits from customers		
The Parent	594,947	1,390,333
Key management personnel	9,791,193	9,047,846
Other related parties	10,470,039	17,054,750

Deposits from customers incur interest at fixed rates ranging from 0.00% to 5.00% (2022: 0.00% to 5.00%) per annum, and mature within one (1) year.

EQUITY

As of 31 December 2023, key management personnel and other related parties hold 1,499,825 (2022: 1,504,890) outstanding ordinary shares and 520,081 (2022: 520,081) outstanding preference shares.

	2023 $	2022 $
INCOME		
Interest income		
The Parent	-	9,390
Key management personnel	20,651	24,493
Other related parties	23,813	14,010
Interest expense		
The Parent	1,075	-
Key management personnel	122,464	107,721
Other related parties	21,081	22,526
Fees and commissions		
Other related parties	59,083	59,450
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	218,840	201,803
Key management personnel (executive Directors and other)	1,836,570	1,992,718
Costs allocated from related parties		
The Parent	771,750	771,750

The Group receives certain services from the Parent, with the charges for these services expensed in the expense accounts to which the services relate.

16. 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 2023, the Group had outstanding loan commitments amounting to $18,608,495 (2022: $21,912,773).

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16. Commitments (Continued)

Commitments for property, plant and equipment

The Group has entered into various contractual agreements in relation to the acquisition of computer software and related expenditure, with outstanding commitments for such expenditure totalling $1,553,784 (2022: $Nil) as of 31 December 2023.

Lease commitments

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

	2023 $	2022 $
2023	-	665,547
2024	626,980	630,617
2025	478,287	458,270
2026	402,650	261,042
2027	106,849	-
Total	**1,614,766**	**2,015,476**

17. 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.

18. 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

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.

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

Classification of financial assets and financial liabilities (continued)

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 2023 and 2022, 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.

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. ECLs are 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:

  <u>Quantitative criteria</u>

  - Contractual payments from the borrower are past due in excess of three (3) months.

  <u>Qualitative criteria</u>

  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).

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

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

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.

A financial asset is no longer assessed as being in 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.

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

Significant increase in credit risk (continued)

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.
- 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 2023 would increase by $17,724,739 (2022: $15,839,358).

The low credit risk exemption has not been used for the years ended 31 December 2023 and 2022.

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

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.

These macroeconomic variables and their associated impact on the PD, EAD and LGD vary by type of financial asset, and require 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 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. gross domestic product) 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 2023, 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% (2022: 80.00%) and 10.90% and 9.10% (2022: 11.05% and 8.95%) weights are applied to Upside and Downside, respectively, in relation to loans and advances; and 80.00%, 10.00% and 10.00% (2022: 80.00%, 1.24% and 18.76%), respectively in relation to investment securities. The Baseline scenario utilises the projected unemployment rate or gross domestic product (GDP) growth rate for the year ending 31 December 2024, after assessing these against the experienced unemployment rate and GDP growth rate in the past fifteen (15) years and forty-one (41) years, respectively. The Upside and Downside scenarios utilise the best and worst unemployment rate or GDP growth rate, respectively, experienced over the same timeframe.

The chosen input factors for three (3) macroeconomic scenarios have the impact of eliminating the outlier factors experienced in the year ended 31 December 2020, considered the peak of the global pandemic COVID-19 (commonly referred to as the Coronavirus), in the Baseline scenarios.

For credit exposure internationally, the weight for the Baseline is set to 80% and 10% weights are applied to Upside and Downside, respectively, which remained unchanged from the prior year.

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

Forward-looking information factored into ECL models (continued)

Consistent with other countries, The Bahamas was impacted by the global pandemic, which disrupted the economic performance of The Bahamas, and contributed to moderate uncertainty regarding future economic performance. The strategies deployed by the governments of The Bahamas and other countries, employers and other stakeholders to address health, economic and other issues as a result of the global pandemic led to contractions in GDP and increases in unemployment, the most significant assumptions impacting ECL, in The Bahamas. Accordingly, the performance of financial assets of the Group experienced deterioration since the onset of the global pandemic, however GDP and employment have reverted to levels experienced prior to the global pandemic following significant recovery recognised during the current and prior years. Scenario weightings have been changed to take into account the experience to date and the range of possible outcomes.

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.

The days past due metric is considered to be the metric with the greatest integrity in assessing credit risk, and maintaining such integrity in turn facilitates the integrity and applicability of the ECL model.

<u>Sensitivity analyses</u>

Except in financial periods with outliers such as the anomalies in unemployment and GDP experienced during the peak of the global pandemic, the most significant assumptions impacting the:

- allowances for impairment (investment securities and other financial assets, excluding loans and advances to customers) was the 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; 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.

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 2023 and 2022 would result in an increase/decrease in provision for loan losses of $1,283,934 (2022: $1,358,408) as of 31 December 2023.

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

Forward-looking information factored into ECL models (continued)

Sensitivity analyses (continued)

Additionally, the following changes in scenario inputs and weightings would result in the respective changes in provision for loan losses as of 31 December 2023:

Scenario Weightings			Projected Baseline	Increase/(Decrease)
Baseline	**Upside**	**Downside**	**Unemployment**	**in Provision**
%	**%**	**%**		**$**
80.00	11.00	9.00	Increase 120 bps	771,543
80.00	15.00	5.00	No change	(437,646)
80.00	5.00	15.00	No change	237,126

The following changes in scenario inputs and weightings would result in the respective changes in provision for loan losses as of 31 December 2022:

Scenario Weightings			Projected Baseline	Increase/(Decrease)
Baseline	**Upside**	**Downside**	**Unemployment**	**in Provision**
%	**%**	**%**		**$**
80.00	11.00	9.00	Increase 126 bps	1,418,872
80.00	15.00	5.00	No change	(380,144)
80.00	5.00	15.00	No change	623,644

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.

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19. 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.

- 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 2023 and 2022, the Group complied with all of the externally imposed capital requirements to which it is subject.

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 varying 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.

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20. Financial Risk Management

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 (Notes 5 and 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.

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. The experience during the global pandemic has not required any significant change in the Group's credit risk management policies, however monitoring of the effectiveness of such policies is performed more frequently.

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 Bahamas, which were downgraded to non-investment grade credit ratings during 2020 and further downgraded during the prior years, resulting in all securities acquired prior to the most recent two (2) notch downgrade being classified to Stage 2 for purposes of assessing ECL.

The Group has assessed ECL for investment securities, and an allowance for impairment losses has been recognised; see Note 5. Further, the Group has assessed ECL for deposits with banks and other financial assets, excluding loans and advances to customers, and such amounts based on the credit quality of the counterparties are not material. Accordingly, no allowance for impairment losses has been recognised.

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20. Financial Risk Management (Continued)

Credit risk (continued)

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.

	2023		2022	
	$	%	$	%
Consumer	319,631,692	85.28	329,553,651	84.68
Family residential property	26,485,566	7.07	29,745,293	7.64
Undeveloped land	7,767,596	2.07	8,583,886	2.21
Cash secured	5,118,595	1.36	5,136,250	1.32
Commercial	4,794,836	1.28	3,705,283	0.95
Overdrafts	1,898,072	0.51	1,214,446	0.31
Other	9,107,025	2.43	11,249,925	2.89
	374,803,382	**100.00**	**389,188,734**	**100.00**

The average mortgage loan balance is $76,000 (2022: $78,000) and the average consumer loan balance is $39,000 (2022: $40,000) with the largest exposure to a single customer totalling approximately $9,107,025 (2022: $11,249,925). Mortgage loans can extend up to twenty-five (25) years, and consumer loans up to twelve (12) years.

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

	2023		2022	
	$	%	$	%
Not impaired				
– Neither past due nor impaired	356,528,430	95.12	368,401,098	94.66
– Past due but not impaired	8,944,649	2.39	9,533,180	2.45
Impaired				
– Past due up to 3 months	1,091,150	0.29	1,627,355	0.42
– Past due 3 – 6 months	2,287,050	0.61	1,636,529	0.42
– Past due 6 – 12 months	208,973	0.06	322,258	0.08
– Past due over 12 months	5,743,130	1.53	7,668,314	1.97
	374,803,382	**100.00**	**389,188,734**	**100.00**
Provision for loan losses				
– Individually impaired	5,622,473	43.79	6,367,208	46.87
– Portfolio allowance	7,216,868	56.21	7,216,869	53.13
	12,839,341	**100.00**	**13,584,077**	**100.00**

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20. Financial Risk Management (Continued)

Credit risk (continued)

The days past due metric is used by the Group to classify 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.

	Mortgages	Consumer and Other	Total
31 December 2023	**$**	**$**	**$**
Past due up to 3 months	1,531,418	2,404,050	3,935,468
Past due 3 – 6 months	325,024	338,635	663,659
Past due 6 – 12 months	240,995	298,822	539,817
Past due over 12 months	3,791,169	14,536	3,805,705
Total past due but not impaired	**5,888,606**	**3,056,043**	**8,944,649**
31 December 2022			
Past due up to 3 months	1,439,175	3,027,133	4,466,308
Past due 3 – 6 months	424,909	200,573	625,482
Past due 6 – 12 months	359,973	140,165	500,138
Past due over 12 months	3,941,252	-	3,941,252
Total past due but not impaired	**6,165,309**	**3,367,871**	**9,533,180**

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(g), 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 change in fair value and/or when the customer initially goes into default.

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20. Financial Risk Management (Continued)

Credit risk (continued)

Individually impaired loans can be analysed as follows:

	Mortgages	Consumer and Other	Total
31 December 2023	**$**	**$**	**$**
Carrying amount	5,989,204	3,341,099	9,330,303
Provision for loan losses	3,102,730	2,519,743	5,622,473
31 December 2022			
Carrying amount	7,530,182	3,724,274	11,254,456
Provision for loan losses	3,630,483	2,736,725	6,367,208

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 2023, a decrease of 10.00% in the fair value of collateral would result in a decrease of $866,269 (2022: $662,710) 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 $339,687 (2022: $434,724).

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

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

- 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.

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20. Financial Risk Management (Continued)

Credit risk (continued)

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2023.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2023	111,524	38,851	3,630,483	3,780,858
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(4,940)	34,794	-	29,854
Transfer from Stage 1 to Stage 3	(1,078)	-	33,711	32,633
Transfer from Stage 2 to Stage 1	1,285	(14,580)	-	(13,295)
Transfer from Stage 2 to Stage 3	-	(13,724)	38,644	24,920
Transfer from Stage 3 to Stage 2	-	1,215	(99,302)	(98,087)
Loans and advances written	13,536	-	-	13,536
Changes to models and assumptions	286	(7,706)	(230,462)	(237,882)
Loans and advances derecognised	(9,089)	-	(93,060)	(102,149)
Provision for loan losses	-	(1)	(350,469)	(350,470)
Write-offs	-	-	(177,284)	(177,284)
Other movements	-	-	(177,284)	(177,284)
Balance as of 31 December 2023	**111,524**	**38,850**	**3,102,730**	**3,253,104**

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20. 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 2023	4,951,941	2,114,553	2,736,725	9,803,219
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(71,765)	949,909	-	878,144
Transfer from Stage 1 to Stage 3	(34,732)	-	1,992,464	1,957,732
Transfer from Stage 2 to Stage 1	12,210	(242,198)	-	(229,988)
Transfer from Stage 2 to Stage 3	-	(16,280)	(104,426)	(120,706)
Transfer from Stage 3 to Stage 2	-	95	(102,066)	(101,971)
Loans and advances written	2,373,852	-	-	2,373,852
Changes to models and assumptions	(1,148,118)	(437,059)	8,375,553	6,790,376
Loans and advances derecognised	(1,131,447)	(254,467)	(381,439)	(1,767,353)
Provision for loan losses	-	-	9,780,086	9,780,086
Write-offs	-	-	(9,997,068)	(9,997,068)
Other movements	-	-	(9,997,068)	(9,997,068)
Balance as of 31 December 2023	**4,951,941**	**2,114,553**	**2,519,743**	**9,586,237**

Fidelity Bank (Bahamas) Limited

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20. 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 2023	5,063,465	2,153,404	6,367,208	13,584,077
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(76,705)	984,703	-	907,998
Transfer from Stage 1 to Stage 3	(35,810)	-	2,026,175	1,990,365
Transfer from Stage 2 to Stage 1	13,495	(256,778)	-	(243,283)
Transfer from Stage 2 to Stage 3	-	(30,004)	(65,782)	(95,786)
Transfer from Stage 3 to Stage 2	-	1,310	(201,368)	(200,058)
Loans and advances written	2,387,388	-	-	2,387,388
Changes to models and assumptions	(1,147,832)	(444,765)	8,145,091	6,552,494
Loans and advances derecognised	(1,140,536)	(254,467)	(474,499)	(1,869,502)
Provision for loan losses	-	(1)	9,429,617	9,429,616
Write-offs	-	-	(10,174,352)	(10,174,352)
Other movements	-	-	(10,174,352)	(10,174,352)
Balance as of 31 December 2023	**5,063,465**	**2,153,403**	**5,622,473**	**12,839,341**

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20. Financial Risk Management (Continued)

Credit risk (continued)

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2022.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2022	80,828	23,618	4,152,411	4,256,857
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(4,666)	23,926	-	19,260
Transfer from Stage 1 to Stage 3	(1,102)	-	64,025	62,923
Transfer from Stage 2 to Stage 1	982	(8,226)	-	(7,244)
Transfer from Stage 2 to Stage 3	-	(4,189)	-	(4,189)
Transfer from Stage 3 to Stage 2	-	8,059	(120,641)	(112,582)
Loans and advances written	9,838	-	-	9,838
Changes to models and assumptions	36,109	(2,754)	(334,815)	(301,460)
Loans and advances derecognised	(10,465)	(1,583)	-	(12,048)
Provision for loan losses	30,696	15,233	(391,431)	(345,502)
Write-offs	-	-	(130,497)	(130,497)
Other movements	-	-	(130,497)	(130,497)
Balance as of 31 December 2022	**111,524**	**38,851**	**3,630,483**	**3,780,858**

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20. 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 2022	6,324,167	1,450,149	5,521,867	13,296,183
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(124,447)	1,555,885	-	1,431,438
Transfer from Stage 1 to Stage 3	(49,552)	-	1,716,639	1,667,087
Transfer from Stage 2 to Stage 1	13,242	(83,092)	-	(69,850)
Transfer from Stage 2 to Stage 3	-	(41,792)	86,856	45,064
Transfer from Stage 3 to Stage 2	-	5,915	(1,578,254)	(1,572,339)
Loans and advances written	2,025,467	-	-	2,025,467
Changes to models and assumptions	(1,829,191)	(638,827)	8,613,347	6,145,329
Loans and advances derecognised	(1,407,745)	(133,685)	(1,603,568)	(3,144,998)
Provision for loan losses	(1,372,226)	664,404	7,235,020	6,527,198
Write-offs	-	-	(10,020,162)	(10,020,162)
Other movements	-	-	(10,020,162)	(10,020,162)
Balance as of 31 December 2022	**4,951,941**	**2,114,553**	**2,736,725**	**9,803,219**

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20. 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 2022	6,404,995	1,473,767	9,674,278	17,553,040
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(129,113)	1,579,811	-	1,450,698
Transfer from Stage 1 to Stage 3	(50,654)	-	1,780,664	1,730,010
Transfer from Stage 2 to Stage 1	14,224	(91,318)	-	(77,094)
Transfer from Stage 2 to Stage 3	-	(45,981)	86,856	40,875
Transfer from Stage 3 to Stage 2	-	13,974	(1,698,895)	(1,684,921)
Loans and advances written	2,035,305	-	-	2,035,305
Changes to models and assumptions	(1,793,082)	(641,581)	8,278,532	5,843,869
Loans and advances derecognised	(1,418,210)	(135,268)	(1,603,568)	(3,157,046)
Provision for loan losses	(1,341,530)	679,637	6,843,589	6,181,696
Write-offs	-	-	(10,150,659)	(10,150,659)
Other movements	-	-	(10,150,659)	(10,150,659)
Balance as of 31 December 2022	**5,063,465**	**2,153,404**	**6,367,208**	**13,584,077**

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20. 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 2023, 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 2023	28,443,039	1,344,577	13,924,168	43,711,784
Transfers				
Transfer from Stage 1 to Stage 2	(1,201,639)	1,201,639	-	-
Transfer from Stage 1 to Stage 3	(227,785)	-	227,785	-
Transfer from Stage 2 to Stage 1	451,954	(451,954)	-	-
Transfer from Stage 2 to Stage 3	-	(436,521)	436,521	-
Transfer from Stage 3 to Stage 2	-	327,271	(327,271)	-
Loans and advances written	4,670,231	-	-	4,670,231
Changes to exposure other than full derecognition	(2,771,737)	(482,250)	(1,293,878)	(4,547,865)
Loans and advances derecognised	(2,366,378)	-	(682,190)	(3,048,568)
Write-offs	-	-	(177,284)	(177,284)
Balance as of 31 December 2023	**26,997,685**	**1,502,762**	**12,107,851**	**40,608,298**
Consumer and other loans				
Balance as of 1 January 2023	324,522,714	14,156,624	3,888,887	342,568,225
Transfers				
Transfer from Stage 1 to Stage 2	(2,144,156)	2,144,156	-	-
Transfer from Stage 1 to Stage 3	(1,996,636)	-	1,996,636	-
Transfer from Stage 2 to Stage 1	520,402	(520,402)	-	-
Transfer from Stage 2 to Stage 3	-	(282,665)	282,665	-
Transfer from Stage 3 to Stage 2	-	86,730	(86,730)	-
Loans and advances written	89,719,831	-	-	89,719,831
Changes to exposure other than full derecognition	(21,497,725)	(2,613,302)	7,004,010	(17,107,017)
Loans and advances derecognised	(73,082,475)	(625,912)	-	(73,708,387)
Write-offs	-	-	(9,997,068)	(9,997,068)
Balance as of 31 December 2023	**316,041,955**	**12,345,229**	**3,088,400**	**331,475,584**

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20. 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 2023	352,965,753	15,501,201	17,813,055	386,280,009
Transfers				
Transfer from Stage 1 to Stage 2	(3,345,795)	3,345,795	-	-
Transfer from Stage 1 to Stage 3	(2,224,421)	-	2,224,421	-
Transfer from Stage 2 to Stage 1	972,356	(972,356)	-	-
Transfer from Stage 2 to Stage 3	-	(719,186)	719,186	-
Transfer from Stage 3 to Stage 2	-	414,001	(414,001)	-
Loans and advances written	94,390,062	-	-	94,390,062
Changes to exposure other than full derecognition	(24,269,462)	(3,095,552)	5,710,132	(21,654,882)
Loans and advances derecognised	(75,448,853)	(625,912)	(682,190)	(76,756,955)
Write-offs	-	-	(10,174,352)	(10,174,352)
Balance as of 31 December 2023	**343,039,640**	**13,847,991**	**15,196,251**	**372,083,882**

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2022, 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 2022	31,511,261	946,710	15,390,380	47,848,351
Transfers				
Transfer from Stage 1 to Stage 2	(897,276)	897,276	-	-
Transfer from Stage 1 to Stage 3	(211,661)	-	211,661	-
Transfer from Stage 2 to Stage 1	255,722	(255,722)	-	-
Transfer from Stage 2 to Stage 3	-	(140,311)	140,311	-
Transfer from Stage 3 to Stage 2	-	574,478	(574,478)	-
Loans and advances written	2,548,131	-	-	2,548,131
Changes to exposure other than full derecognition	(2,615,948)	(613,831)	(881,762)	(4,111,541)
Loans and advances derecognised	(2,147,190)	(64,023)	(231,447)	(2,442,660)
Write-offs	-	-	(130,497)	(130,497)
Balance as of 31 December 2022	**28,443,039**	**1,344,577**	**13,924,168**	**43,711,784**

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20. 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 2022	348,348,721	17,690,560	5,250,770	371,290,051
Transfers				
Transfer from Stage 1 to Stage 2	(3,332,964)	3,332,964	-	-
Transfer from Stage 1 to Stage 3	(1,716,639)	-	1,716,639	-
Transfer from Stage 2 to Stage 1	381,865	(381,865)	-	-
Transfer from Stage 2 to Stage 3	-	(86,856)	86,856	-
Transfer from Stage 3 to Stage 2	-	267,999	(267,999)	-
Loans and advances written	81,663,855	-	-	81,663,855
Changes to exposure other than full derecognition	(26,207,174)	(6,380,998)	8,726,351	(23,861,821)
Loans and advances derecognised	(74,614,950)	(285,180)	(1,603,568)	(76,503,698)
Write-offs	-	-	(10,020,162)	(10,020,162)
Balance as of 31 December 2022	**324,522,714**	**14,156,624**	**3,888,887**	**342,568,225**
Total				
Balance as of 1 January 2022	379,859,982	18,637,270	20,641,150	419,138,402
Transfers				
Transfer from Stage 1 to Stage 2	(4,230,240)	4,230,240	-	-
Transfer from Stage 1 to Stage 3	(1,928,300)	-	1,928,300	-
Transfer from Stage 2 to Stage 1	637,587	(637,587)	-	-
Transfer from Stage 2 to Stage 3	-	(227,167)	227,167	-
Transfer from Stage 3 to Stage 2	-	842,477	(842,477)	-
Loans and advances written	84,211,986	-	-	84,211,986
Changes to exposure other than full derecognition	(28,823,122)	(6,994,829)	7,844,589	(27,973,362)
Loans and advances derecognised	(76,762,140)	(349,203)	(1,835,015)	(78,946,358)
Write-offs	-	-	(10,150,659)	(10,150,659)
Balance as of 31 December 2022	**352,965,753**	**15,501,201**	**17,813,055**	**386,280,009**

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 $10,206,675 (2022: $11,925,527) as of 31 December 2023.

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20. Financial Risk Management (Continued)

Credit risk (continued)

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 16 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.

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 interest rate 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 flows 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 2023, the Group is exposed to fair value interest rate risk on $89,394,194 (2022: $78,400,887) of its investments in debt securities, which are at fixed interest rates with maturity dates ranging from 2024 to 2050 (2022: 2023 to 2050). The remainder of debt securities in the Group’s investment portfolio are at variable rates linked to the B$ Prime rate.

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20. Financial Risk Management (Continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks, and includes the Group's financial instruments at carrying amounts categorised by the earliest contractual repricing dates.

31 December 2023	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	5,077,600	45,845,808	21,317,316	-	-	217,656,587	289,897,311
Investment securities	26,494,819	30,956,875	36,813,912	12,953,350	9,179,713	-	116,398,669
Loans and advances to customers	47,546,220	359,602	1,815,156	45,649,188	263,263,625	610,750	359,244,541
Other assets	-	-	-	-	-	3,453,072	3,453,072
Total financial assets	**79,118,639**	**77,162,285**	**59,946,384**	**58,602,538**	**272,443,338**	**221,720,409**	**768,993,593**
LIABILITIES							
Deposits from customers	182,704,754	106,049,088	181,171,191	123,974,476	-	73,107,904	667,007,413
Accrued expenses and other liabilities	-	3,462	-	1,210,573	-	2,791,629	4,005,664
Total financial liabilities	**182,704,754**	**106,052,550**	**181,171,191**	**125,185,049**	**-**	**75,899,533**	**671,013,077**
Interest repricing gap	**(103,586,115)**	**(28,890,265)**	**(121,224,807)**	**(66,582,511)**	**272,443,338**	**145,820,876**	

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20. Financial Risk Management (Continued)

Interest rate risk (continued)

31 December 2022	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	8,001,486	61,945,605	21,053,684	-	-	184,816,132	275,816,907
Investment securities	30,070,531	22,165,761	25,406,639	21,648,775	9,179,713	-	108,471,419
Loans and advances to customers	50,409,678	195,042	1,387,193	45,548,140	274,584,626	571,253	372,695,932
Other assets	-	-	-	-	-	2,156,416	2,156,416
Total financial assets	**88,481,695**	**84,306,408**	**47,847,516**	**67,196,915**	**283,764,339**	**187,543,801**	**759,140,674**
LIABILITIES							
Deposits from customers	153,906,497	87,191,309	202,885,560	115,956,196	-	96,940,365	656,879,927
Accrued expenses and other liabilities	-	-	-	1,758,225	-	2,635,456	4,393,681
Total financial liabilities	**153,906,497**	**87,191,309**	**202,885,560**	**117,714,421**	**-**	**99,575,821**	**661,273,608**
Interest repricing gap	**(65,424,802)**	**(2,884,901)**	**(155,038,044)**	**(50,517,506)**	**283,764,339**	**87,967,980**	

As of 31 December 2023, an increase/decrease in market interest rates by 0.50% (2022: 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 $95,000 (2022: $41,000).

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 investment 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.

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20. Financial Risk Management (Continued)

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.

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 2023	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	222,734,187	45,903,931	21,430,378	-	-	290,068,496
Investment securities	500,000	32,562,564	41,622,454	27,167,355	31,512,715	133,365,088
Loans and advances to customers	1,898,072	36,347,896	59,558,218	253,469,205	252,980,671	604,254,062
Other assets	-	3,453,072	-	-	-	3,453,072
Total financial assets	**225,132,259**	**118,267,463**	**122,611,050**	**280,636,560**	**284,493,386**	**1,031,140,718**
LIABILITIES						
Deposits from customers	255,805,949	106,772,569	183,287,140	135,687,560	-	681,553,218
Accrued expenses and other liabilities	-	2,948,970	469,638	987,787	-	4,406,395
Total financial liabilities	**255,805,949**	**109,721,539**	**183,756,778**	**136,675,347**	**-**	**685,959,613**
Net liquidity gap	**(30,673,690)**	**8,545,924**	**(61,145,728)**	**143,961,213**	**284,493,386**	
Loan commitments	**18,608,495**					

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20. Financial Risk Management (Continued)

Liquidity risk (continued)

31 December 2022	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	192,817,618	62,003,737	21,165,709	-	-	275,987,064
Investment securities	500,000	24,693,005	29,766,922	38,605,807	34,006,676	127,572,410
Loans and advances to customers	1,214,446	35,460,306	59,508,701	279,442,081	242,228,968	617,854,502
Other assets	-	2,156,416	-	-	-	2,156,416
Total financial assets	**194,532,064**	**124,313,464**	**110,441,332**	**318,047,888**	**276,235,644**	**1,023,570,392**
LIABILITIES						
Deposits from customers	250,836,087	89,571,200	208,712,204	121,628,391	-	670,747,882
Accrued expenses and other liabilities	-	2,799,636	501,367	1,349,929	-	4,650,932
Total financial liabilities	**250,836,087**	**92,370,836**	**209,213,571**	**122,978,320**	**-**	**675,398,814**
Net liquidity gap	**(56,304,023)**	**31,942,628**	**(98,772,239)**	**195,069,568**	**276,235,644**	
Loan commitments	**21,912,773**					

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 2023 and 2022.

As of 31 December 2023, principal and interest balances of the deposits of the ten (10) largest customers totalled $122,111,514 (2022: $146,603,290) representing 18.31% (2022: 22.32%) of total deposits from customers.

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20. 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$. The remaining financial instruments and financial activity are denominated in the United States dollar (US$), and currency risk is mitigated because the B$:US$ exchange rate is fixed at 1.00:1.00.

21. 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.

22. 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.

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22. 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. Certain financial instruments are short term in nature or have interest rates that reset to market rates; accordingly, their fair values approximate their carrying values. For the remaining financial instruments 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 values of the financial assets and financial 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. 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.