2023 ANNUAL REPORT

Branching Out:
Deepening our Roots

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Summary Of Results

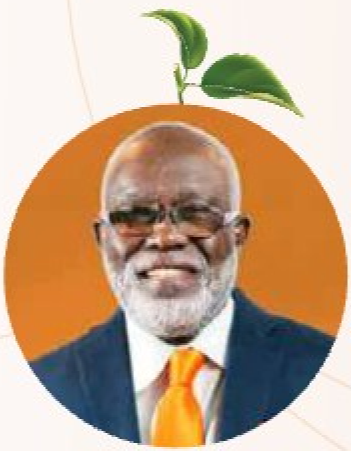
31 December (B$000)	2023	2022	% Change	2021	2020	2019
Interest Income	60,801	63,860	-4.79%	65,347	67,217	70,502
Interest Expense	(8,819)	(10,919)	-19.23%	(12,078)	(11,970)	(12,638)
Net Interest Income	51,982	52,941	-1.81%	53,269	55,247	57,864
Provision for Loan Losses	(9,429)	(6,182)	52.52%	(6,001)	(24,968)	(10,205)
Net Interest Income after Expected Credit Losses	42,553	46,199	-7.89%	46,268	30,280	47,659
Non-Interest Income	7,444	6,328	17.64%	4,069	3,618	3,358
Non-Interest Expenses	(36,223)	(32,284)	12.20%	(28,174)	(26,502)	(27,369)
Share of Profits/(Losses) of Joint Ventures	6	(25)	-124.00%	6	18	1,613
Net Income	13,780	20,218	-31.84%	22,170	7,414	32,823
Total Comprehensive Income	13,780	20,903	-34.08%	22,170	7,414	33,548
Net Income Attributable to Ordinary Shareholders	12,805	19,243	-33.46%	21,195	6,439	31,848
Book Value per Ordinary Share	$3.24	$3.27	-1.11%	$3.10	$2.87	$2.87
Dividends per Ordinary Share	$0.48	$0.52	-7.69%	$0.51	$0.22	$0.86
Year End Share Price	$17.75	$18.10	-1.93%	$14.91	$13.75	$15.05
Weighted Average Ordinary Shares	28,830,129	28,830,129	0.00%	28,822,954	28,815,779	28,813,110
Investment Securities	116,399	108,471	7.31%	105,410	92,943	83,364
Loans and Advances to Customers	359,244	372,696	-3.61%	401,585	418,491	431,080
Total Assets	779,306	770,618	1.13%	899,102	710,483	692,915
Write-offs of Loans and Advances to Customers	10,174	10,151	0.23%	15,230	11,577	12,364
Deposits from Customers	667,007	656,880	1.54%	769,755	574,997	567,608
Total Equity	108,293	109,345	-0.96%	104,427	97,811	97,722
Total Equity - Ordinary Shares	93,293	94,345	-1.12%	89,427	82,811	82,722
Growth in Loans and Advances to Customers	-3.61%	-7.19%		-4.04%	-2.92%	-1.96%
Growth in Total Assets	1.13%	-14.29%		26.55%	2.54%	5.32%
Earnings Per Share	$0.45	$0.67	-33.32%	$0.74	$0.22	$1.11
Price/Earnings	39.96 x	27.12 x	47.08%	20.28 x	61.53 x	13.62 x
Price/Book Value	5.49 x	5.53 x	-0.83%	4.81 x	4.78 x	5.24 x
Dividend Yield	2.70%	2.87%	-5.87%	3.42%	1.60%	5.71%
Return on Average Assets	1.78%	2.50%	-28.98%	2.75%	1.06%	4.97%
Return on Average Ordinary Shareholders' Equity	13.65%	20.94%	-34.83%	24.61%	7.78%	41.34%
Ordinary Dividend Payout Ratio	108.21%	78.00%	38.72%	69.46%	98.62%	76.21%
Efficiency Ratio	60.95%	54.47%	11.90%	49.14%	45.02%	44.70%
Net Interest Margin	6.83%	6.45%	5.94%	6.72%	8.01%	8.84%
Non-Performing Loans to Total Loans	3.49%	3.73%	-6.39%	4.51%	6.76%	3.81%
Non-Performing Loans to Total Assets	1.70%	1.91%	-10.84%	2.15%	4.32%	2.50%
Net Write-offs to Average Loans	2.63%	2.47%	6.47%	3.45%	2.55%	2.69%
Provision for Loan Losses to Total Loans, Including Accrued Interest	3.38%	3.45%	-1.86%	4.11%	5.90%	2.95%
Provision for Loan Losses to Non-Performing Loans	96.91%	92.45%	4.83%	91.01%	87.21%	77.41%

Board of Directors

Jennifer P. Dilbert

Gowon N. G. Bowe

Aziz Sunderji



Alfred H. Stewart
Chairman

Michael A. Anderson

J. Nicholas Freeland

Dawn A. Patton

Stuart M. Bowe

Chairman's Report

Alfred H. Stewart
Chairman

2023 represented a milestone year for the Commonwealth of The Bahamas (The Bahamas) and Fidelity Bank (Bahamas) Limited (the Bank), which gave reason for reflection on the journeys to date for both entities, and an opportunity to reset for their future journeys.

The Bahamas celebrated fifty (50) years of independence, with stability in its financial system, a hallmark of any successful sovereign, being one (1) of its many accomplishments. The institutions established following independence, such as the Central Bank of The Bahamas, the National Insurance Fund, the College of The Bahamas now University of The Bahamas, and the Bahamas Mortgage Corporation, just to name a few, have served the country well during the years of independence. Additionally, the primary pillars of the economy, tourism and financial services, though preceding independence continued to contribute greatly to the progression of The Bahamas. All told, the Bahamian flag flies high and proud, and deservedly so.

The Bank celebrated its forty-fifth (45th) anniversary, and as a locally owned financial institution has been an integral contributor to the previously highlighted financial stability of the country. This milestone year inspired the Bank to reflect on its history, document it more formally and present it to the nation in the form of a documentary, which was premiered following the 2023 Annual General Meeting of shareholders. The original business objective of the Bank was to facilitate first-time home ownership for the working class of an independent Bahamas, and the Bank has evolved into a significantly influential clearing bank. Throughout its existence, the Bank has sought to be a significant contributor to the communities from which it was birthed, offering educational and career opportunities and focusing on youth development and community outreach programmes.

While the reflections for both The Bahamas and the Bank are impassioned and enamoring, the objective critic recognises that certain empirical metrics demonstrate the need for resets, at least in certain areas.

The Bahamas has been challenged by lethargic economic growth for the better part of almost two (2) decades, excluding extraordinary years such as those associated with the recent global pandemic, there has been no significant evolution of the pillars of the economy with the respective industries today not discernibly different from those at independence, and fiscal deficits have been recorded each fiscal year since independence with larger levels in recent years. Tourist numbers in 2023 were the highest on record, achieving in excess of ten (10) million, but the most profitable segment comprising stopover visitors was flat compared to pre-global pandemic levels with growth coming from the cruise visitors that provide a fraction of the contribution per visitor compared with stopover visitors. Financial services continue to be necessary, but the global landscape is vastly different and the local industry is still to sufficiently adjust. Other areas for reset include: the National Insurance Fund, in order to be sustainable; energy stability in the country; and integrated development plans for the Islands of The Bahamas, most glaringly Grand Bahama; and aging infrastructure. The advancement of the National Development Plan is imperative.

The Bank is not exempt from criticism. The financial performance of the Bank for the year ended 31 December 2023 triggered assessments of the business models, including products and services, information systems, and expectations. The net income and total comprehensive income of $13.8 million and resulting return on average ordinary shareholders' equity of 13.65%, while respectable against other local commercial banks, is well below the expectations of shareholders of the Bank given the levels of profitability and returns that had become the norm.

As our Chief Executive Officer (CEO) said when being challenged in an interview, the management team needed to take a serious look "under the hood". This has been done, along with input from the Board of Directors, and several areas for reset have been identified and these resets are being executed effectively if the results of the initial months of 2024 are an indicator. The focus on cards services, including merchant services, expanded targets for lending and aggressive pursuit of recoveries on loans previously written off, along side information system upgrades and enhancing engagement with employees, are several of the resets referred to. But it is important to note that the economic success of the country underpins the prospects of success for the Bank.

Recognising the importance of the human element, the reflection mandates that I recognise and thank Scott F. Elphinstone, the Chairman of the Bank that retired during 2023, for his near twenty (20) years of service to the Bank and its affiliates that were characterised by economic and financial analyses, challenge and advice. The reset leads me to welcome Dawn A. Patton to the Board of Directors of the Bank, as she brings her years and depth of experience in financial services, in particular assurance expertise, while simultaneously making the Board of Directors younger.

Equally, the efforts of our CEO Gowon N.G. Bowe, President H. Gregory Bethel and the other members of the Executive Committee are to be commended in the face of the headwinds presenting themselves. However, the Executive Committee, led by the CEO, have been challenged by the Board of Directors to continue to demonstrate their competence and agility by resetting the business models and modus operandi of the Bank to leverage successes of the past and align with identified requirements for successes in the future, and not be deterred by critics that may wish to hold on to the past and/or not recognise the needs of the future, including the time necessary to reset.

To our shareholders, thank you for your continued confidence and support, and trust that the best of the Bank is yet to come, as it continues on its journey for another successful forty-five (45) years.

Our Executive Team

Spencer Smith
Head of Compliance

Janice Rolle
Vice President, Retail Banking

Malvern Bain
Vice President, Asset Recovery

Gowon N. G. Bowe
Chief Executive Officer

H. Gregory Bethel
President

Crestwell Gardiner
Vice President, Credit & Lending

Alan Loane
Chief Information Officer

Heatherdawn Blake-Brown
Vice President, Cards Services

Communication from the CEO

Gowon N. G. Bowe
Chief Executive Officer

In the 2020 Annual Report, the words of Martin Luther King Jr. were borrowed given the calamity that was the global pandemic that greeted me in my first year as Chief Executive Officer, and those words are repeated here in relation to the current year, "The ultimate measure of a man [woman] is not where he stands in moments of comfort and convenience, but where he stands in times of challenge and controversy".

Reflecting on the year 2023, it was one of several celebrations including the forty-fifth (45th) anniversary of the founding of Fidelity Bank (Bahamas) Limited (the Bank) and the coinciding fiftieth (50th) year of independence of the Commonwealth of The Bahamas; the journeys toward corporate and national development, respectively, will always be intertwined. However, it was also one that necessitated assessments of the business model and modus operandi of the Bank, and the country for that matter, that in turn required resets in certain areas. The financial performance of the Bank for the year ended 31 December 2023 was underwhelming, not because the return on average ordinary shareholders' equity underperformed other financial institutions in The Bahamas as it did not, but because it did not measure up to the level of performance for which the Bank has become known.

The decorated basketball player, B.J. Armstrong, once said that "winning covers a multitude of sins" but only until not winning. The financial performance spurred an intense analyses of the factors contributing to the result to ensure that the "winning" continues by addressing the "sins". These analyses were objective, giving recognition to the positive factors, and targeting a reset for the negative factors. The Executive Committee (ExCom) and key managers dissected the financial performance and identified several facts and factors, including, but not limited to, the following:

- Net income for the years ended 31 December 2020 to 2023 totalled in excess of \$63.5 million, with an average return on average ordinary shareholders' equity of circa 16.75% per annum.

- During the period above, the Bank did not have a single year reporting a net loss, which few financial institutions locally or internationally can boast.

- The contraction in the loan portfolio, the primary profit-making line of business, particularly consumer loans, was representative of the lending in The Bahamas as reported by the Central Bank of The Bahamas (the Central Bank). See below for statistics of the aggregate lending by licensees of the Central Bank.

Loan Type	**31.12.23 \$ Millions**	**31.12.19 \$ Millions**	**Change \$ Millions**	**Change %**
Consumer	1,965.8	2,214.3	(248.5)	(11.22)
Mortgage	2,495.8	2,629.5	(133.7)	(5.08)

- The contraction in the loan portfolio of the Bank was consistent, as the statistics above are the losses by the banking sector whereas those of the Bank do not distinguish losses to competitors versus losses to non-competitors. See below for statistics for the Bank.

Loan Type	31.12.23 $ Millions	31.12.19 $ Millions	Change $ Millions	Change %
Consumer	326.6	391.0	(64.4)	(16.47)
Mortgage	39.0	55.1	(16.1)	(29.22)

- With the growth in consumer loans experienced by the Bank beginning in and around 2010 came higher loan losses, which were compensated for through higher interest rates. The consumer loans written off since that time, and not yet recovered, have accumulated to circa $90 million. Recoveries of these amounts through more aggressive collection initiatives present an opportunity to bolster profitability over the next several years, along with the practicing of more aggressive collections benefitting future lending activities.

- Fees and commissions represent less than 15.00% of total income. Opportunities exist to grow this revenue through new value added services, which customers will embrace as these will contribute to their own financial growth. Further, there are inefficient services provided, which will continue to be provided to those customers demanding them, but at fees and commissions that sufficiently recover the costs of providing those services. The Bank will only seek to charge fees and commissions for standard services at a level to recover its costs, and will focus on value added services for profit-making fees and commissions. The surveys of fees and commissions across financial institutions periodically carried out and published by the Central Bank bears this out when comparing the fees and commissions charged by the Bank with those of its competitors.

- Provisions for loan losses in 2021 and 2022 benefitted from the quality modelling and decisions of the Bank during the peak year of the global pandemic, 2020, as the Bank recovered the value of loans it foreshadowed when a significant provision was recognised during 2020. During 2023, these "global pandemic recoveries" were largely complete, and provision for loan losses reverted to pre-global pandemic levels but with the consequence of lower net interest income due to the contraction in the loan portfolio caused by the impacts of the global pandemic on the country and households.

- The economy of The Bahamas measured by Gross Domestic Product (GDP) has largely recovered to pre-global pandemic levels, however certain underlying factors appear to be have been reset; principally employment, which has not returned to pre-global pandemic levels in absolute numbers despite the GDP recovery. The number of persons working directly impacts the primary line of business of the Bank.

- Information systems, management systems, business model, processes and general modus operandi of the Bank were largely unchanged for many years, which served the Bank well, but do not necessarily position the Bank for level of success it is targeting for years to come.

- Bank and business licence fees increased by $1.4 million, representing 35.17%, over the corresponding period, and unduly, the current "corporate tax" system imposed on the Bank bears no correlation to net income as it is based on total income, regardless of the impact the bank and business licence fees have on profitability.

As expressed by the Chairman and the President, 2023 was a year of reflection and reset. The foundation of the Bank remains structurally sound, and this is due to the people of Fidelity, past and present. But even the most well-built buildings require significant renovations and overhaul after an extended period of time if they are to retain their value and utility. The same holds for the Bank.

The Bank recognises that the traditional products and markets of the Bank have significantly changed leading into, although not clearly identified, and following the global pandemic; see the statistics above. Seeking to chase these markets down the proverbial "rabbit hole" is not sustainable in the long term; the improvement in the creditworthiness of citizens of The Bahamas is a national initiative requiring enhanced financial literacy and instilling of fiscal discipline, which are multi-year efforts. Lenders that are not regulated by the Central Bank are not subject to the same prudential norms, in part, because these lenders do not accept deposits from the general public but are financed strictly by investors. Accordingly, these lenders are at

liberty to take credit risks that the Bank is not willing to pursue, as the Bank fully understands its fiduciary responsibilities to depositors and shareholders, and is acutely aware that death by a thousand cuts, that is loan losses, is protracted but still results in demise. Of note, the regulator of these lenders in recent times appears to be turning a spotlight on the operations for levels of charges levied, including interest rates.

Taking the above into consideration, the Bank is retooling itself to pursue penetration in new markets through some new products, and some not so new but reset products, and through value added services. Concurrently, the traditional products are too being refined to maximise the Bank's share in these traditional markets while appropriately balancing risks and rewards.

The Bank has strong liquidity and capital adequacy ratios, which were appropriately managed notwithstanding the financial performance of 2023 being less than expected, and this in turn provides the support for the reset of the Bank taking place, the results of which are peeking through in 2024.

As the Bank and The Bahamas celebrated their milestones during 2023, both entities are being depended upon by their respective stakeholders, many of which are shared, to be around with equal strength to celebrate the doubling of those milestones when the time comes. The revelations when reflecting on the history of the Bank, including the current year, provided the impetus for more deliberately planning for the future, along with the sense of great responsibility to be a continuing beacon of independence, wealth creation, patience and persistence for future generations of stakeholders.

Being contributors to the discussion and actions of national development, even when unpopular, will always be an undergirding mission of the Bank, as so goes The Bahamas, so goes the Bank in large part. In all instances this will involve partnering with the Government of The Bahamas, even when it requires challenging the decisions being made. As with the Bank and the Government of The Bahamas, difficult decisions are still to be made, but communicating comprehensively and effectively, will facilitate greater acceptance and support among stakeholders.

Recently I sought to inspire certain team members by borrowing from Ecclesiastes 9:11 which begins "…the race is not to the swift…" and Hebrews 3:14 "…if we hold the beginning of our confidence steadfast to the end…", but caveating that our faith is in no way comparable to commercial competition, and noted that the leaders of the Bank must exhibit patience and confidence in the ability of the Bank to persevere and be successful through its team members and strategies. There is belief in this message.

You are invited to read through the Our Community Efforts section of the Annual Report, for an appreciation of how the Bank and its leaders not only talked the talk, but walked the walk, through their contributions to your overall health, be it financial, mental, emotional or physical; and specifically to our shareholders, the contribution of the Bank to your financial health will continue to meet your expectations for generations.

I express my gratitude to colleagues on ExCom and all team members, for taking time to reflect on the history of the Bank and paying appropriate tributes, but immediately participating in deciding on the resets that will have the future leaders here doing the same thing following even greater successes after another forty-five (45) years.

To our shareholders, community partners and other stakeholders, last year it was stated in Bahamian vernacular "you ain't seen nothing yet" and you were encouraged to stay tuned; hopefully, your Bank was visible and made you proud. The Bank hereby expresses its heartfelt appreciation for your ongoing trust, words of encouragement, objective criticism and most importantly unwavering support, and reassures each of you that the best days of the Bank are still ahead of it.

President's Report

H. Gregory Bethel
President

The "post-pandemic reset" continues in the global and Bahamian economies and at "your Bank", Fidelity Bank (Bahamas) Limited (the Bank), following the two (2) "lost years" from March 2020 to March 2022 when up to 60% of the workforce lost some or all of their income. However, the economic recovery of the Commonwealth of The Bahamas (The Bahamas) since the global pandemic, COVID-19, and Hurricane Dorian has yet to match the second quarter of 2019, when real Gross Domestic Product (GDP) came in at $3.4 billion.

The impact of the global pandemic distorted the benchmarking of the Bank's results for the financial years between 2020 and 2023, and the comparability of the results with those of competitors, due to significant fluctuations in key financial metrics. Nevertheless, the financial year 2023 produced a post-pandemic benchmark for the Bank for future results.

While the economic downturn caused by the global pandemic and the related restrictions hindered the credit business, the COVID-19 prevention measures limiting face-to-face interaction accelerated the deployment of point of sale (POS) terminals by businesses and the use of payment cards. Growth in online shopping has also created a demand for prepaid, debit and credit cards. There are opportunities for business development in these digital financial services.

The Bank continues to experience growth with all of its major business development initiatives. Even the credit business, as measured principally by personal loan sales, is yielding promising results after a sharp decline between 2020 and 2022. The decline in the prior years was due to:

i) suspension of face-to-face sales campaigns and events.
ii) lower demand from qualified borrowers.
iii) fewer qualified borrowers due to loss of income.
iv) fewer full-time workers with tenure beyond two (2) years.
v) extreme competitive pressures by traditional rivals, and new rivals that are not regulated consistent with commercial banks (colloquially referred to as "payday" lenders) with more liberal lending guidelines.

Both the traditional and new rivals are aggressively seeking to recover or expand market share by increasing their risk profiles and lowering interest rates.

As a consequence, the Executive Committee and Managers of the Bank intensely reviewed:

1) the recent results of the Bank in various business lines.
2) changes in the local workforce and economic conditions.
3) shifts in the target markets.
4) opportunities in new markets.

Following this intense review, new strategies were agreed to improve Net Income of the Bank, targeting $18.0 – $20.0 million in financial year 2024. These new strategies were reflected in the Budget and Business Objectives for 2024, which comprise the Business Plan for 2024.

The Bank's guiding principle is "to ensure exceptional service by establishing a relationship with our clients that is so profound that it cannot be experienced elsewhere". This is only possible with success in recruiting and developing people – managers, supervisors, and staff. To this end, the Bank has enhanced its training and professional development initiatives to facilitate the expansion into new markets previously dominated by internationally-owned financial institutions. The Bank seeks to be exceptional in all of its pursuits, including sales and solicitation, relationship management and customer service, operations and compliance, and every unit involved in planning, logistics and support.

It was pleasing and rewarding to launch expansion plans during financial year 2023 with initial products offerings in Business Banking and Private Banking. A new office was opened in Exuma, and Eleuthera is next on the horizon.

Our Management Team

Victoria Albury
Financial Centre Manager

Stacia Bowe
Director, Human Resources

Tennessee Bowe
Financial Centre Manager

Lemunique Boyd
Manager, Cards Settlements

Gabrielle Campbell
Deputy Compliance Officer

Mary Lou Capron
Senior Manager, Information Technology Operations

Vanessa Clarke
Head of Internal Audit

Samantha Davis
Manager, Accounts

Tawana Davis
Manager, Client Relations

Carmel Dean
Senior Financial Centre Manager

Dominic Ferguson
Senior Financial Centre Manager

Bridget Forbes
Financial Centre Manager

Leslie Fox
Senior Manager, Loan Administration

Odia Gaskin
Financial Centre Manager

Domicia Hepburn
Manager, Credit & Lending

Brandon Hill
Manager, Information Technology Support

Eunice Johnson
Senior Manager, Cards Services

Samantha Knowles
Manager, Operations Training

Shervone Knowles
Manager, Client Relations

Katherine Lockhart
Manager, Central Services

Tineka Mackey
Manager, Branch Operations

Anatole Major
Manager, Human Resources

Thallise Maycock
Manager, Premises

Rochelle Moss
Manager, Collections

Lakerria Munnings
Manager, Cards Services Operations

Rodger Pinder
Manager, Asset Recovery

Tameka Pratt
Financial Centre Manager

Demetries Rolle
Senior Manager, Information Technology Infrastructu

Antonio Saunders
Manager, Marketing & Promotions

Michelle Sawyer
Manager, Cards Fraud & Risk

Javaughn Strachan
Manager, Compensation

Denay Thompson
Deputy Compliance Officer

Our Community Efforts

Remaining true to the mantra and ethos of its four (4) Cs – customers, colleagues, commitment, and community – Fidelity Bank (Bahamas) Limited (Fidelity or the Bank) has passionately demonstrated its willingness and devotion to the social, educational, cultural, and financial development of the Bahamian people for over forty-five (45) years.

As the first truly indigenous financial institution created within the heart of an emerging nation, Fidelity has courageously charted its organisational course by purposefully pioneering and working towards the goals of home ownership, financial independence, and wealth creation for generations of Bahamians. Engagement, education, enterprise, and empowerment have been the key drivers of its institutional and financial success and that of its customers.

The Fidelity Documentary celebrating forty-five (45) years since its birth, which was showcased at the 2023 Annual General Meeting of shareholders, meticulously and collaboratively reimagined and re-energised the critical milestones, achievements, challenges, triumphs, and continuous pivoting of the Bank as an innovative and forward-thinking financial institution in Bahamian consumer banking, mortgage lending, and corporate business development.

In 2022, Fidelity launched its new branding, and related marketing campaign, which centered on the distinctive colour and fruit, the orange, symbolising its commitment to the financial and physical wellbeing of its customers, shareholders, employees, and the communities of which it is a part.

This branding initiative helped to pronounce the Bank's stability, viability, and sustainability within the Bahamian economy as a bright shining beacon of financial independence, security, and innovation. In many ways, it also reflects the passion and pursuit of the creative orange economy seeking ways to innovate and adapt in an ever-changing national and global environment.

Fido, the orange-clad bulldog mascot of Fidelity, was also introduced as a relatable and endearing brand ambassador for the Bank representing: protection of persons and assets; fierce determination; customer-friendly service; and charitable community outreach, that is Fidelity.

As part of the milestone anniversary celebrations, the Wulff Road Financial Centre was named in honour of Mr. Alfred Stewart, former President and a principal shareholder of the Bank, who has had an integral role with the Bank ever since and including its inception, devoting over thirty (30) years to the growth and development of the Bank in the heart of the over-the-hill communities and premier commercial spaces as a member of the Executive Committee (ExCom), and subsequently as a Director and trusted advisor to successor generations of ExCom.

The vision and mission inspiring the establishment of the Bank were home ownership for most Bahamians who were unable to qualify or afford a first home due to very high financial requirements at the time. More tangibly, the Bank established its equity requirements for a down payment for borrowers to purchase a home at 10.00%, compared with the then market requirements of 25.00%, and extended the possible mortgage loan repayment period to twenty-five (25) years, compared with the then maximum period of market participants of fifteen (15) years.

The wealth creation generated by the Bank's commitment to homeownership helped many Bahamians raise their families, educate their children, and provide a comfortable level of financial security.

Building on its legacy of facilitating financial security and independence within the communities of the Commonwealth of The Bahamas (The Bahamas), the focused expansion of the availability of the Bank's products to more Family Islands, and the provision of a diverse offering of premier banking services to a wider customer base, were the impetuses for the opening of the Exuma Financial Centre in Georgetown, Exuma on 17 November 2023. This opening also signified the Bank leading the way in providing greater access to financial services, innovation, and automation; and enhancing the overall customer experience in the Family Islands.

The Exuma Financial Centre expanded the number of Financial Centres across the archipelago of The Bahamas to eight (8), now covering New Providence, Grand Bahama, Abaco, and Exuma, with the worst-kept secret being that there are more Financial Centres to come in the Family Islands in the near future.

With a resilient story that reflects and embodies the interdependence and camaraderie of its slogan: *"We're Good For You,"* Fidelity continues to demonstrate its selfless contributions to the communities of The Bahamas through its devoted support of various local charities, community projects, national sports programmes and internal philanthropic initiatives, all led by the strategic planning and efforts of the Donations Committee. The Donations Committee has a key mandate to identify, assist, support, and volunteer its time, resources, and the efforts of ExCom and the entire Fidelity Team in the implementation and execution of national and community philanthropic initiatives and programmes, which align with the mission and values of the Bank, keeping in mind its four (4) Cs.

The growing corporate social responsibility of Fidelity to its stakeholders uniquely manifests a more holistic approach to the beneficiaries of its servant leadership and stewardship within our nation. Fidelity believes in the intrinsic value and reward of developing the character, minds, health, and overall wellbeing of the country's citizens, particularly its youth.

The late Anwer J. Sunderji, former Chief Executive Officer and Director of the Bank was a champion and proponent of true character-building, lifelong learning, personal and professional development, and the innumerable benefits of sports, sports training, and sports education, particularly amongst our youth. His was a personal philosophy of the indefatigable pursuit of excellence and ingenuity.

Fidelity pays homage to his outstanding legacy by contributing its financial and human resources, time, and overall support to Bahamian athletic events and initiatives that recognise, nurture, develop, and celebrate athletic talent and ability amongst our youth.

Fidelity supported the annual Bahamas Association of Independent Secondary Schools (BAISS) 2023 Track and Field Championships, which showcases the athletic prowess of the nation's top student athletes from secondary schools across the archipelago.

The Babe Ruth Baseball 2023 Caribbean Baseball Championships, hosted in New Providence, Bahamas, benefitted from the financial resources and support of Fidelity because of its historical legacy of highlighting the baseball skills and talents of young athletes between the ages of thirteen (13) and sixteen (16), including children of the Fidelity family, and the opportunities provided for professional and personal development of youths, camaraderie, athletic training, and expert coaching.

The event is an important pathway to college recruitment, talent development, and character-building – essential educational, social, and values-driven goals that embody and encourage the necessity of a good education while nurturing the moral and social well-being of young people in an environment of team-building and healthy competition.

The 2023 Fidelity National Optimist Championships, a collaboration between Fidelity and the Nassau Yacht Club, continues the tradition of sailing in The Bahamas and underpins and encourages the sport of sailing amongst Bahamian youth, particularly given the recent official and rightful naming of sailing as the national sport of The Bahamas.

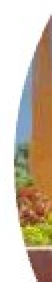
Additionally, Fidelity continued its contributions to the development of lawn tennis networking in The Bahamas by supporting the efforts of the Bahamas Lawn Tennis Association (BLTA), which: trains and assists tennis athletes in competing locally and internationally; and offers training clinics to children and young people in disadvantaged communities. By partnering with the BLTA, Fidelity affirms its commitment to youth and community development in areas most affected by socio-economic challenges.

In keeping with the mission of youth development, sports training, and coaching, Fidelity sponsors several local athletic track clubs in training young athletes in preparation for the track and field events, whether held locally or internationally.

Expanding its community outreach and mandate of a more holistic approach to overall health, fitness, and wellness on a national level, Fidelity increased its support of initiatives such as the Royal Bahamas Defence Force's (RBDF) Annual Fun Run Walk and the University of The Bahamas' (UB) UBFit Fun Run Walk within the past few years and again in 2023.

Through its support and sponsorship of various initiatives of the Broadcasting Corporation of The Bahamas, it was able to showcase and highlight the work of various Bahamians in various disciplines around the world telling their stories while being broadcasted and shared with the local communities.

In a country surrounded by water and in a time when water safety is paramount, Fidelity has adopted the St. Anne's Blue Waves Swim Programme to encourage and empower young people to learn how to swim properly and safely and to gain valuable athletic experience to compete in local and international swimming competitions. This devotion to ensuring critical life and water safety skills for young people and the inspiration to aspiring swimming athletes continues to distinguish Fidelity as a good corporate and socially responsible citizen, in truly giving back to the Bahamian community. The partnership and support are both meaningful and purposeful, and take into consideration, strategically and holistically, the needs of the communities and their constituents.



Both on the sporting front and culturally, Fidelity partners with and supports the National Family Island Regatta, dubbed "the World's Greatest Sailing Event" held annually in Georgetown, Exuma, Bahamas. The Bank fully appreciates the community building, camaraderie, economic stimulus, and national pride that the event fosters, and recognises the development of regatta sailing as part of the national

blueprint for the socio-economic and cultural enhancement of Family Island communities, including those in which the Bank currently, or in the future, operates and services customers.

Strategic partnerships are an important part of Fidelity's philanthropic mission and mandate. As such, the Bank partners with the Royal Bahamas Police Force (RBPF) in Community Giveback initiatives to provide food vouchers, groceries, and gifts to members of disadvantaged communities who are in need socially and economically. Additionally, Fidelity assists with awareness, financial support, and volunteerism, through ExCom, Managers and all Fidelity team members, in many local outreach programmes, including those led by the RBPF, covering special occasions such as Breast Cancer Awareness Month, Mother's Day, Father's Day and Christmas.

The health and well-being of its team members is fundamental to the Bank, along with encouraging volunteerism. Actioning this fundamental belief, the Bank supported the Ride for Hope Bahamas event in Governor's Harbour, Eleuthera, Bahamas, participating in and sponsoring the event to raise awareness and funds for cancer research, treatment, and prevention locally.

HIV/AIDS awareness and prevention is the mission of the AIDS Foundation of The Bahamas, which requires consistent financial support to keep the message front and center. Fidelity donates to this organisation and its cause by sponsoring and attending its Annual Red Ribbon Gala Ball.

Additionally, Fidelity supported the Kingdor Parkinson's Foundation with its Gala Ball to raise awareness of Parkinson's Disease and to assist the organisation in its efforts to prevent and minimise the effects of this neurological disease in The Bahamas.

Fidelity continues to support the work of the Bahamas Red Cross through its various initiatives and programmes from disaster management, first aid and cardiopulmonary resuscitation (CPR), to ambulance services and more, that support our communities. Fidelity sponsors and attends the annual Red Cross Ball.

The Cancer Society of The Bahamas has had a positive impact on the community for decades through its programmes for cancer patients and cancer awareness, and the Bank is steadfast in its partnership, including financially supporting and attending its annual Ball.

Equally important to Fidelity, is the awareness, prevention, and treatment of heart disease in children in The Bahamas, and the Bank sponsors the Victor Sassoon Foundation's Annual Heart Ball.

Food security and the prevention of malnutrition within marginalised and impoverished communities is the mission of the Bahamas Feeding Network (BFN). Fidelity has been a long-serving partner with BFN, and in 2023 played the role of title sponsor of the Annual Tee-Off for Hunger Golf Tournament. This event, along with other fundraising activities, helps BFN in its annual goal to feed a minimum of five thousand (5,000) families. The partnership with BFN gives Fidelity a shared platform to communicate the needs of the hungry and less fortunate within local communities and support a food outreach programme designed to minimise and eradicate hunger.

Also in 2023, Fidelity continued its financial support for the efforts of Bahamas Alliance for Animal Rights and Kindness (BAARK), the animal rights foundation that offers services to low-income pet owners to assist with animal welfare, by partnering with BAARK in its Spay/Neuter Campaign and other educational programmes.

Academic excellence and educational opportunities have always been important charitable causes of Fidelity. As proud sponsors of The Bahamas Primary School Student of the Year scholarship programme over the years, including the current year, which awards scholarships and prizes to the "best and brightest" primary school students in The Bahamas, the Bank underwrites scholarships to deserving students in pursuit of secondary education.

The Bank also sponsors the Governor General's Youth Award Programme, which supports students in areas of physical recreation, life skills development, and community service; values that are not only important to the Bank but essential to building future nation leaders by encouraging discipline, hard work, leadership, personal development, team and community building.

The financial literacy and financial coaching missions of the Bank are to educate its customers, prospective customers, and the wider community on their importance. The Bank and its personnel are featured regularly at: constituency and other town-hall type meetings; presentations to civic organisations; national discussions on the economy, fiscal matters and national development; local television and radio programmes covering a range of issues important to citizens of The Bahamas; and seminars/presentations to young professionals entering the workforce, including but not limited to graduates of the cadet programmes for the RBDF, RBPF and other government agencies. The opening of local gazettes on any given day will demonstrate the contributions of Fidelity and its personnel to the national dialogue of the country; not only does Fidelity contribute towards the efforts to build future nation leaders, it employs and promotes them within its ranks.

Community building, economic empowerment, and an ethos of giving back to the communities in which it operates and serves have been important in ensuring Fidelity remains accountable to all of its stakeholders. In 2016, the Bank adopted the Naomi Blatch Primary School, located adjacent to its Wulff Road Financial Centre. The preschool caters to children between the ages of four (4) and five (5) years old, and since adopting the School, Fidelity has been instrumental in providing school uniforms, school supplies, sleeping mats, lunch mats, composition books, coloring materials, and tote bags. Believing in nurturing, educating, and supporting the whole child, Fidelity continues to provide quality educational materials and support to the preschool.

Fidelity has and will pivot when necessary to keep pace with the changing economic times within The Bahamas and globally, which at times necessitates changes in its business model, profitability targets and products. However, the Bank remains boldly and steadfastly committed to its financial coaching and customer service goals by providing premier consumer and mortgage lending, commercial lending, cards, and savings products to an increasingly knowledgeable and sophisticated clientele.

While maintaining appropriate financial performance levels is paramount to the sustainability, ongoing success, and value proposition of the Bank, Fidelity equally recognises that inherent in achieving financial success is the loyalty to its customers, its other stakeholders, and its communities. The Bank believes its track record is and remains an impeccable blueprint of good corporate citizenry and demonstrates that profits are not placed above people.

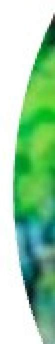
The Bank continues to demonstrate its corporate social responsibility and far exceeds its dictates, mandates, and benchmarks by offering top quality, well-resourced educational, athletic, health and wellness, and community development opportunities to Bahamians of all ages and walks of life. And to ensure this demonstration is sustained, every initiative that Fidelity supports is viewed as a partnership, and relationships are formed with the decision-makers of the recipients to, among other things: chart out multi-year, and often, perennial financial and other support; strategise on opportunities to expand the reach, impact, and successes of the initiative; and understand how Fidelity can lend not only its financial support but also its influences, and moral and personnel support.

As a thriving and continually growing financial institution, Fidelity has signified and extolled the virtues of fiscal discipline, hard work, focus, drive, and determination, and it has much to show for its challenges and triumphs along the way. And noteworthy is that the Bank's commitment to the overall development of health and wellness, particularly amongst the youth of the nation, and its encouragement of discipline, hard work, perseverance, and goal setting are the motivating factors for its philanthropic mission.

Its accomplishments and innovation are noteworthy by any institutional or financial measure, and it remains primed for another forty-five (45) years of expansion, engagement, and empowering financial stability.

Onward.

Management Discussion & Analysis



FINANCIAL POSITION AND FINANCIAL PERFORMANCE

The year ended 31 December 2023 was positively highlighted by Fidelity Bank (Bahamas) Limited (the Bank) celebrating forty-five (45) years of contributing to financial services in the Commonwealth of The Bahamas (The Bahamas). The public relations strategy launched in the prior year matched the common knowledge of oranges and vitamin C being "good for you" with the evolution of the proud history of the Bank and its dedicated and motivated staff, exemplified through exceptional customer relationship management, free financial coaching, innovative products, and laser-focused marketing, and surreptitiously highlighted the ways in which the Bank exemplifies its mantra, *Fidelity, We're Good For You*. The public relations strategy evolved during 2023, to draw attention to the tree that bears the orange fruit and the significance of having strong and deep roots to weather the seasons of life, which will invariably bring challenges, and continually produce a bountiful harvest.

The significance of strong and deep roots was again realised by the Bank during the current year. The Bahamas marked fifty (50) years of independence with extraordinary celebrations reflecting on the many achievements of The Bahamas over this period despite being a relatively young nation. The celebrations provided temporary, but needed, distractions from the throes of the economic recovery following the significant negative impacts of the global pandemic, COVID-19 (commonly referred to as Coronavirus), and prior to this, Hurricane Dorian. The rebound in gross domestic product (GDP) and employment continued during 2023, with GDP ultimately exceeding that of 2019. Tourist arrivals boastfully exceeded ten (10) million, however the growth in these numbers is attributable to the cruise visitors that only stay for one (1) day and spend a mere fraction of the stopover visitors, even on a comparable per day basis; the stopover visitors have rebounded to pre-global pandemic numbers but have not seen any significant growth above that. Employment numbers increased during the year, and the unemployment rates significantly decreased; however, the rates are deceptive as while these have decreased below pre-global pandemic numbers and even years prior, the actual number of persons working in 2023 is less than the number of persons working in 2019.

The substantial negative impacts on the economic performance of the global economy, including that of the economy of The Bahamas, have largely ended but the term "long COVID" has new meaning, as not only is this a health phenomenon, it can also be used to characterise the extended years that the negative impacts of the global pandemic will have on many economies, including The Bahamas. The full impacts of the peak periods of COVID-19 are still being discovered, let alone addressed, and managing a country, business and/or household is, and forever will be, very different.

The financial performance of the Bank for the year ended 31 December 2023 was reminiscent of "long COVID", as there were consequences of the impact of the global pandemic on the core lines of business of the Bank that were masked to a certain extent during the immediate years of recovery in 2021 and 2022. Following the unmasking, intense analyses of the factors underlying the lines of business of the Bank were undertaken, and it was noted that the traditional products and markets were significantly altered and unlikely to revert to the state prior to the global pandemic. Accordingly, the Executive Committee (ExCom) along with key managers of the Bank strategised on the way forward, and concluded that management of certain aspects of the Bank required reset.

Significant growth in GDP and employment is unlikely in the medium term, and the new challenge of inflation that is largely imported into The Bahamas and has been pronounced in the prior year will too have an extended life. Accordingly, the modus operandi of the Bank will require adjustment to adapt to the expected stubborn anaemic growth in GDP and employment and protracted periods of inflation, including resetting products, services and target markets.

During the year, total assets increased by $8,688,097 (2022: decreased by $128,483,518), representing 1.13% (2022: 14.29% decrease) over the prior year, to $779,306,358 (2022: $770,618,261). The increase in total assets principally comprised: an increase in cash on hand and at banks, which are less productive financial assets and fluctuate with the related financial liabilities that originate the financial assets; an increase in investment securities to deploy more funds in income producing financial assets; and an offsetting decrease in loans and advances to customers resulting from the decline in borrowing capacity and number of new quality borrowers.

Total liabilities increased materially consistent with the net increase in total assets, with the increase almost exclusively comprising an increase in deposits from customers, which represent the financial liabilities related to cash on hand and at banks referred to above.

The change in the composition of financial assets from higher earning loans and advances to customers to lower earning investment securities and cash on hand and at banks led to a decrease in interest income, which was offset in part by the change in composition of financial liabilities from higher costing debt securities to lower costing deposits from customers. The focus on value added service offerings contributed to an increase in fees and commissions and the overall total income of the Bank remained consistent with the prior year. However, the cost of generating fees and commissions, the introduction of new bank and business licence fees and the reversion of provision for loan losses to pre-global pandemic levels given the absence of extraordinary recoveries on loans and advances that went into default during the peak year of the global pandemic, all led to a significant increase in total expenses. The result of these changes was net income of $13,779,630 (2022: $20,218,302), representing a decrease of 31.85% (2022: 8.80%) over the prior year. Further, total comprehensive income in the prior year comprised property, plant and equipment revaluation based on the periodic independent appraisals of relevant land and buildings, which does not recur annually and did not in the current year, resulting in a decrease in total comprehensive income of 34.08% (2022: 5.71%) over the prior year, to $13,779,630 (2022: $20,903,116). Earnings per ordinary share for the year ended 31 December 2023 totalled $0.45 (2022: $0.67).

The return on average assets of 1.78% (2022: 2.50%) is the result of changes in the financial asset mix, certain of which is deliberate and associated with the business expansion efforts that will contribute to higher levels of lower yielding cash on hand and at banks and mirroring higher levels of deposits from customers. The return on average ordinary shareholders' equity totalled 13.65% (2022: 20.94%) for the current year, which is below the target levels set by the Bank. The financial performance spurred intense analyses of the Bank and the economic environment in which it operates, which in turn will lead to fundamental resets in certain aspects of the operations of the Bank to maximise profit opportunities going forward in light of the economic realities being faced. The successes of the Bank in recent prior years, and wise management of total equity during that time, have facilitated these resets that are expected to return future profitability to target levels in the near term on a sustained basis, as opposed to requiring any extended period of lower profitability.

Given the underwhelming lending environment that limits the opportunity for exponential growth in the immediate next two (2) years, the lower capital requirements in relation to the financial assets that funds are being deployed, and the forecasted capital requirements to facilitate the resets in the operations, the total equity of the Bank had excess capacity that was simply not generating an appropriate return for ordinary shareholders. Accordingly, for the year ended 31 December 2023, the Bank did not require retention of its net income to build total equity, resulting in the Bank declaring and paying dividends totalling $13,856,002 (2022: $15,010,668), representing $0.48 (2022: $0.52) per share and a dividend payout ratio of 108.21% (2022: 78.00%). The total equity of the Bank, which has comfortably withstood being tried and tested by economic shocks in recent times, will continue to be subjected to active capital management to balance retaining adequate capital, to facilitate capitalising on opportunities for growth, with the ability to generate an appropriate return on ordinary shareholders' equity. That is, growth opportunities that present themselves and have the desired risk and reward ratio will require retention of capital, but excess capital that is not being deployed into appropriate income generating activities will be returned to ordinary shareholders.

The growth in assets was principally the result of increases in: cash on hand and at banks of $14,080,404 (2022: decrease of $102,937,285), representing 5.10% (2022: 27.18% decrease), to $289,897,311 (2022: $275,816,907); and investment securities of $7,927,250 (2022: $3,061,554), representing 7.31% (2022: 2.90%), to $116,398,669 (2022: $108,471,419). This growth was partially offset by a decrease in loans and advances to customers of $13,451,391 (2022: $28,889,430), representing 3.61% (2022: 7.19%), to $359,244,541 (2022: $372,695,932).

Consumer loans and mortgage loans outstanding with licensees of the Central Bank of The Bahamas (the Central Bank) as of 31 December 2023 compared with 31 December 2019, the period immediately preceding the global pandemic, based on statistics published by the Central Bank reported decreases of $248,500,000 and $133,700,000, respectively, notwithstanding an increase of $23,000,000 and further decrease of $14,300,000, respectively, during 2023. The Bank was not exempted from this contraction in its traditional loan portfolios, and given the longer term effects of furloughs and unemployment during the peak of the global pandemic on the finances of many households, improvement in the lending environment will be subdued for an extended period and therefore the availability of quality new credit is limited despite the rebound in the economy of The Bahamas. However, as households seek to restore their finances and creditworthiness, there is opportunity for continued recoveries of loans and advances to customers previously written off; more customers with defaulted loans are presenting themselves to the Bank as a result of the hurdles faced with defaulted loans on credit reports from the credit bureau, now being used by all commercial banks.

A decrease in interest income is the direct result of the contraction in the primary interest earning assets of the Bank, loans and advances to customers, particularly in the consumer loan portfolio that yields higher interest margins. The maturity and redemption of debt securities in the prior year and other interest rate adjustments on deposits from customers resulted in a decrease in interest expense. The offsetting impacts of changes in interest income and interest expense resulted in a moderate decrease in net interest income for the current year by $958,345 (2022: $328,434), thereby demonstrating that the Bank is maximising the yield from its interest earning assets, despite the ongoing pressures from the depressed lending environment and knock on impact on its primary line of business.

Since the peak of the global pandemic, when furloughs and unemployment, particularly in the tourism sector, led to significant increases in the number of loans and advances to customers that fell into delinquency, the yeoman's effort by the Bank during the previous two (2) years led to the rehabilitation of a significant number of such delinquent loans.

The expense for provision for loan losses reverted fully to pre-COVID-19 years and increased by $3,247,920 (2022: $181,167), which was the direct result of exhausting the recoveries of provision for loan losses held against delinquent loans resulting specifically from the furloughs and unemployment during the peak of the global pandemic. The recoveries had significant positive effects on financial performance in 2021 and 2022, but the possible effects were finite. The limiting of poor quality credit due to the consistent underwriting practices of the Bank contained the loan loss ratios to those observed in the two (2) years immediately prior to the global pandemic.

The patience and steadfastness exhibited by the Bank in relation to the expectation of return on investments made during the recent years have continued, but the increase in the efficiency ratio, the key performance metric for operating expenses which calculates total operating expenses, excluding the expense for provision for loan losses and allowances for impairment (collectively, expected credit losses), as a percentage of total operating income to 60.95% (2022: 54.47%) is being intensely analysed. Certain increases in operating expenses represent the investments in people, products and communities as part of the business expansion efforts initiated in the past two (2) years, and the increase in the efficiency ratio as a result of these are expected to inure to the benefit of the Bank through increased operating income and pay for themselves. Other increases in operating expenses are the direct result of: changes in taxes and fees levied on the Bank that it must absorb; and non-recurring expenses as a result of some of the changes in information systems and processes that are expected to improve the efficiency, security and overall experience of the Bank. The actual level of growth is being measured against the expected level of growth, and investments in the form of operating expenses will be adjusted, if necessary. The increase in fees and commissions by $1,213,221 (2022: $2,425,451), representing 19.74% (2022: 65.21%) is a positive sign, which must be met with increases in operating expense at a much lower pace to generate growth in net income.

CASH ON HAND AND AT BANKS

The Bank's objectives in treasury management are to comfortably meet liquidity requirements set internally and by the Central Bank and simultaneously maximise net interest income. These objectives require the constant management of the matching of financial assets and financial liabilities, and the agility to rebalance when mismatches exceed targeted levels.

As of 31 December 2023, cash on hand and at banks comprised: deposits placed with the Central Bank, representing circa 70.00% (2022: circa 58.00%); short-term interest bearing term deposits, representing circa 23.00% (2020: 30.00%); and other cash on hand and current accounts at banks.

Certain cash on hand and at banks are directly connected with business expansion efforts, which contribute to financial performance through fees and commissions as opposed to net interest income, which is suppressed as a result of over 75.00% (2022: over 67.00%) of cash on hand and at banks being non-interest bearing. Surplus cash balances placed in non-interest bearing current accounts at banks, including the Central Bank do: provide a competitive advantage by positioning the Bank to take advantage of economic conditions conducive to growth as and when opportunities present themselves; and comfortably finance operations and shareholder distributions, even during challenging operating environments.

Several factors contributed to the net increase in cash on hand and at banks. Firstly, movements in cash on hand and at banks are primarily elucidated by movements in deposits from customers. The consistent growth and strengthening of the Bank and equitable distribution of income earned from activities largely financed by depositors, namely in the form of interest paid on deposits from customers, led to continued confidence being demonstrated by existing and prospective customers of the Bank that manifested in continued growth in deposits from customers from traditional depositors. And most heartening are the customer communications expressing this confidence, which are constantly being received.

Deposits from customers derived from non-traditional depositors, principally regulated financial institutions and capital markets participants, which pertain to certain business expansion efforts result in cash on hand and at banks. The related deposits are utilised by these depositors as part of their normal operating activities and will therefore fluctuate based on the timing of business activities and the financial reporting of the Bank; accordingly such deposits are considered transitory. Deposits from banks and capital markets participants decreased by $2,536,427 (2022: $65,430,835) and $13,303,622 (2022: $92,322,568), respectively. These customers contribute to profitability of the Bank through fees and commissions, and the Bank largely maintains cash at banks matching the deposits from customers in relation to regulated financial institutions and capital markets participants as it expects fluctuations in the levels of deposits from these depositors.

Secondly, the extended period of the global pandemic and its consequent impacts on the economy and households of The Bahamas has led to continued high volatility in credit risk, and stabilising the performance of the existing portfolio of loans and advances to customers, including rehabilitation of non-performing credit facilities, remains the primary focus of the Bank. Further, the number of new qualified borrowers has been limited by the lower number of persons employed compared with the years immediately preceding the onset of the global pandemic, and therefore significant growth in loans and advances to customers is not expected, particularly when combined with the focus noted above, which in turn led to measured aggressiveness in efforts to grow loans and advances to customers, particularly consumer loans. The writing of new credit facilities was outpaced by repayments and recoveries, thereby contributing to an increase in cash on hand and at banks.

Thirdly, the Bank increased investments in debt securities issued by the Government of the Commonwealth of The Bahamas, as short-term opportunities continue to be sought, albeit judiciously, to deploy the surplus in liquid assets above the regulatory liquidity requirements accumulated in recent years. The Bank restricted its investing activities to debt securities with maturities of one (1) year or less while staggering acquisition dates to have the effect of maturities approximately every six (6) months, which limits the credit exposure of the Bank while deploying excess cash resources and maintaining high liquidity for strategic purposes. The result of these investing activities was a decrease in cash on hand and at banks.

Finally, cash on hand and at banks decreased due to dividends paid to preference shareholders and ordinary shareholders, which exceeded the financial performance of the Bank during the current year which, in the main, was realised in cash balances. The ordinary shareholder dividend payout ratio was 108.21% (2022: 78.00%).

INVESTMENT SECURITIES

The net increase in investment securities during the current year was concentrated in debt securities issued by the Government of The Bahamas with short terms to maturity, as given the limited types of securities available in the capital markets of The Bahamas and foreign exchange controls that largely restrict investments by the Bank to Bahamian dollar (B$) securities, such securities best match certain investment objectives of the Bank, which are to maintain high liquidity and deploy excess cash resources.

The credit ratings issued by international rating agencies for debt securities issued by the Government of The Bahamas are currently non-investment grade, with the initial downgrade to non-investment grade occurring in 2020, followed by subsequent further downgrades with the latest being in 2022. Financial reporting standards require an allowance for impairment for financial assets that is determined based on probabilities of default associated with respective credit ratings, as adjusted for forward-looking information that factors in readily available macroeconomic data such as forecasts for movements in GDP, and therefore the credit ratings of debt securities issued by the Government of The Bahamas impact the measurement of these securities. The absence of changes to the credit ratings during the current year, coupled with the maturity profile of the portfolio, led to no change in the allowance for impairment being required.

The allowance for impairment represents the maximum loss that can reasonably be expected based on factors that impact the ability of issuers of securities to meet obligations as they come due, but does not represent realised losses on investment securities, and can unwind as investment securities mature with full principal being settled.

The Bank considers the credit risk associated with investment securities when making decisions on investment securities to acquire, including the tenor of such securities, as the longer the tenor the greater the probability of default where indicators of possible default exist. The considerations of the macroeconomic factors that impact the creditworthiness of issuers of investment securities resulted in the net increase in investment securities being represented by debt securities with maturities of one (1) year or less. The adjustment by the Bank in the overall maturity profile of investment securities is reflected in the undiscounted cash flows to be realised in one (1) year or less, which represent 56.00% (2022: 43.08%) of the total undiscounted cash flows for investment securities.

The credit risk of issuers of investment securities can be more frequently reassessed based on the current maturity profile, and the appropriate actions taken, including reinvesting maturity proceeds in securities with similar credit risk and tenors. The expected stability in the B$ Prime rate, the projected activity in the capital markets of The Bahamas, including activity by the Government of The Bahamas, and the current economic and fiscal environments in The Bahamas result in the greater reinvestment risk associated with the current maturity profile being considered more acceptable by the Bank than the increased credit and liquidity risks associated with an extended maturity profile.

LOANS AND ADVANCES TO CUSTOMERS

The impacts of COVID-19 on the economy of The Bahamas, and in turn, most households in The Bahamas, have been detailed in the 2020 Annual Report and the recovery efforts have been detailed in the 2021 Annual Report and 2022 Annual Report. It was noted that at least one (1) person in every household is employed in the tourism sector, which experienced unprecedented levels of furloughs and unemployment. As noted earlier, the number of visitors to the shores of The Bahamas were record setting during 2023, however the mix of stopover visitors and cruise visitors was significantly skewed toward the latter grouping that yields significantly lower spend per visitor per day than the former grouping. Beginning gradually in 2021, and accelerating in 2022, the earnings for many households, particularly those more reliant on the tourism sector, experienced restoration that in turn led to the recommencement of loan payments, albeit at reduced levels initially in some instances. Following six (6) months of consecutive loan payments, borrowers are eligible to restructure the terms of related loans and return them to performing status.

As previously reported, at the onset of the global pandemic the Bank elected to take the opportunity to engage with its impacted borrowers to fully understand their specific financial circumstances rather than implement any loan payment deferral programme. This enabled the Bank to agree action plans with customers that would provide for forbearance in the initiation of the normal recovery activities of the Bank, and determine the most affordable strategy for restoring loans to a status of performing once employment and earnings were reinstated. This approach to the challenging circumstances continues to be proven as the most appropriate and dignified approach. The Bank was compassionate to show the appropriate forbearance, but was candid with its customers, and concurrently provided optimism through financial coaching by charting a path to recovery as some form of normalcy in employment and household income resumed.

The approach facilitated an early recognition of worst case scenarios, as loans and advances to customers were accurately aged based on payments received, and the related financial implications were appropriately addressed, including: facilitating the determination of expected credit losses based on the most relevant information; and preventing the inappropriate recognition of interest income by the Bank, the collection of which was uncertain at best.

For the year ended 31 December 2023, consumer and other loans decreased by $11,398,888 (2022: $29,039,990), representing 3.28% (2022: 7.72%), which comprised: a net decrease in regular consumer and other loan types of $9,255,988 (2022: $25,647,090); and a net decrease in loans and advances to the Government of The Bahamas of $2,142,900 (2022: $3,392,900) that represent medium-term syndicated loans to the Government of The Bahamas to assist with the financing of reconstruction and recovery expenditures associated with hurricanes making landfalls in The Bahamas in 2016 and 2019. The economic fallout of the global pandemic devastated the finances and borrowing capacity of many households, which has resulted in limited availability of quality new credit for the Bank to target. The consequence was that the writing of new consumer and other loan types was unable to keep pace with normal loan amortisations, early extinguishments and other credit adjustments, resulting in a decrease in regular consumer and other loan types. As disclosed previously, the commercial banking sector has reported significant contraction in consumer loans since 31 December 2019, with minimal growth during 2023. Therefore, the slowing of the contraction of consumer and other loans of the Bank in the current year compared with the corresponding year has some silver lining, and further contraction is expected to be abated in 2024.

Despite the circumstances and experiences during the past four (4) years, the core principles of the Bank of quality lending centred on a borrower's ability to pay and providing financial coaching to improve the lives of our customers have served it well. As the tourism sector, the primary economic pillar of The Bahamas, strengthened to pre-COVID-19 levels of activity, and furloughs ended and employment increased, a significant number of non-performing loans continue to be restored to performing status. Further, the restructuring efforts associated with recoveries of non-performing loans associated with the fallout from the global pandemic has provided the necessary experience for the Bank to more aggressively pursue loans previously written off and this is an unconventional strategy of growing consumer and other loans, particularly given the tens of millions of dollars in value of such loans.

The significant inventory of slow-moving distressed properties, and the geographical location of The Bahamas on the hurricane belt and the consequent cost of premiums for insuring properties, held as collateral, for such and similar catastrophes represent certain of the structural challenges confronting mortgage lending in The Bahamas. Additionally, legislation in The Bahamas that was enacted with the honourable intention of protecting homeownership has proven to be rife with practical implementation challenges and the unintended consequences of significantly delaying the normal recovery processes involving sale of collateral under the powers of sale granted in mortgage deeds. These structural and legislative challenges, as exacerbated by the economic malaise caused by the global pandemic, has had the effect of significant contraction in mortgage loans reported by the commercial banking sector since 31 December 2019 and the consequent enhanced caution in underwriting by the commercial banking sector, including the Bank, is not expected to see any reversal of the contraction experienced for the foreseeable future. Appropriate resources will be required to be directed to management of the existing mortgage portfolio, in particular non-performing mortgage loans, including diligently enforcing the credit risk management practices of ensuring that, regardless of the status of the payments by the borrowers, properties pledged to the Bank are appropriately insured.

As in the prior year, the only significant activities in the mortgage portfolio during the current year comprised loan amortisations complemented by a number of realisations, through sales pursuant to powers of sale, of properties pledged as collateral. Consequently, mortgage loans decreased by $2,986,464 (2022: $4,391,319), representing 7.10% (2022: 9.46%). The innovative strategies and media employed to attract interest for distressed properties deployed in recent years has led to greater successes in realising collateral on non-performing mortgages, thereby reducing the number of legacy non-performing mortgage loans. The expectation of greater successes in such realisations over the next few years is being proven in 2024, although the processes for closing all legal and administrative activities are experiencing extended timelines. Given the slow recovery of employment and persisting risks in the general economy due to higher susceptibility to external shocks, the numbers of potential borrowers qualifying for new mortgage loans will continue to be limited and more likely contract and therefore growth in traditional mortgages is not being forecasted by the Bank.

The performance and fundamentals of the various types of loans are continuously monitored by ExCom and the Board of Directors and strategies for growth and diversification, including the mix of the loan portfolio, are adjusted as necessary. Legislative and other initiatives implemented and/or discussed by domestic policymakers and financial regulators, market conditions, concentration risks and economic indicators are the key factors in in the deliberations, and ultimate decisions, on the appropriate mix of the loan portfolio for the Bank.

As consumer and other loans continue to earn higher interest margins and have relatively lower default rates and loss ratios, the mix of the loan portfolio as of 31 December 2023 appropriately remained consistent with prior years; consumer and other loans represented 89.58% (2022: 89.20%) of total loans, and mortgage loans represented 10.42% (2022: 10.80%).

Non-performing loans observed decreases during the current year and as of 31 December 2023 totalled $13,248,334 (2022: $14,693,973), representing 3.61% (2022: 3.85%) of total loans and advances to customers, excluding accrued interest. Non-performing mortgage loans totalled $10,346,393 (2022: $12,256,315), representing 78.10% (2022: 83.41%) of total non-performing loans and advances to customers.

As of 31 December 2023, the provision for loan losses totalled $12,839,341 (2022: $13,584,077), which represented 3.49% (2022: 3.56%) of total loans and advances to customers, excluding accrued interest. Despite some persistent economic uncertainty that directly impacts the ability of borrowers to meet loan payment obligations, the decrease in provision for loan losses is consistent with the contraction in the performing loans and the decrease in non-performing loans. Specifically, the provision for loan losses applicable to non-performing loans was $5,622,473 (2022: $6,367,208), which represented 42.44% (2022: 43.33%) of total non-performing loans and advances to customers; the decrease being directly correlated to the decrease in non-performing loans.

The judgments and assumptions during the peak of the global pandemic led to the Bank recognising and managing the worst case scenarios at that time. The assumption that the majority of customers impacted by furloughs, and the related delinquent loans, would be reengaged with gainful employment and subsequently restore contractual loan payments materialised. The challenge in 2023, which will endure for the next few years, is strategising for growth and stability of loans and advances to customers in an economic environment that is forever changed from the years immediately prior to the peak of the global pandemic. Over time, there will emerge greater clarity as consistency in macroeconomic performance, default rates and loss ratios are observed. Details of the calculation of the expense for provision for losses during the year are elucidated below.

The 2022 Annual Report foreshadowed that the lending environment in The Bahamas will likely remain muted for at least the next two (2) years from that time, largely due to the perennial increase in employment uncertainty and the lengthening period of the negative consequences of COVID-19 that are extending the timelines for most households to return to full normalcy, if ever. The change in the needs of existing and potential borrowers from consumption of choice to survival during COVID-19 is persisting, resulting in that period of muteness still being two (2) years, but continuing from the current date. Therefore growth in credit will be more gradual, with shorter term credit, that is consumer loans, likely to be the first types of loans to experience growth, which was borne out in the commercial banking sector during 2023, albeit it negligible. Efforts and resources continued to be directed to expanding the relationships with existing customers in mutually beneficial ways, as expansion is required given the circumstances under which the Bank will operate for the foreseeable future, as opposed to solely recovery. Such expansion comprises encouraging increased digital transacting, which for loan customers primarily refers to increased use of credit, debit and prepaid cards that is without cost to the customer that in turn increases opportunities for fees and commissions for the Bank as an issuer of cards, and a merchant acquirer.

The increase in minimum wage in The Bahamas in 2023, including for the public sector, which comprises the vast majority of performing consumer and other loans, and positive economic activities recorded, albeit with some structural anomalies, indicate conditions conducive to expansion of the lending environment in The Bahamas, but this will be cautious and severely impacted by current global inflation and the fear of a possible recession. Net interest income will continue to be the primary revenue source for the Bank, however this source will be challenged for the foreseeable future given the volatility previously discussed, and the Bank must therefore capitalise on opportunities for income from fees and commissions, while offering value added services, in order to move from recovery to expansion.

DEPOSITS FROM CUSTOMERS

Given the symbiotic benefits produced for the Bank and customers, encouraging longer term deposits through appropriate compensation was an enduring strategy of the Bank. Sustained levels of sufficient deposits from customers enables the Bank to fund investments in assets at a cost significantly lower than: debt securities, known as wholesale funding, based on market interest rates of such securities; and equity securities which demand the higher compensation for the higher risk of immovable capital. Accordingly, recognising that the assets of the Bank are funded in the majority by depositors, the Bank rewards depositors for their commitment and for being key contributors to the success of the Bank by offering to them higher interest rates than competitors, specifically on longer term deposits, representing an equitable distribution of earnings from the assets the depositors have funded. This strategy also builds customer loyalty through stronger customer relationships, which is equally as important.

For the year ended 31 December 2023, deposits from customers increased by $10,127,486 (2022: decreased by $112,875,023), representing 1.54% (2022: 14.66% decrease) over the prior year, to $667,007,413 (2022: $656,879,927). Deposits from customers, excluding deposits from regulated financial institutions and capital markets participants, increased during the current and prior years, as the trend from the prior three (3) years of persons with meaningful wealth concentrating a greater portion of their assets in liquid resources such as savings deposits, concurrent with adjustments in their consumption patterns, endured. The purpose of such a trend is possibly two (2) fold: i) readying estates to take advantage of investment opportunities that could emerge as the economy rebounds; and ii) placing assets in a safe harbour. Conversely, as previously disclosed, deposits from regulated financial institutions and capital markets participants decreased. Deposits from these customers are considered transitory and do not form a part of the funding strategy of the Bank, as the deposits in relation to these customers are expected to fluctuate significantly; these customers generate fees and commissions for the Bank through value added service offerings that are targeted at them.

To offset the lethargic growth in, and performance of, interest earning assets that is projected to continue for several years, the strategy of the Bank is to increase fees and commissions, principally through expanding its services to non-traditional customers of the Bank, that is corporate customers, including: micro, small and medium sized entities, and even large entities as and when the opportunities exist; and regulated financial institutions and capital markets participants. The deposit taking activity related to such customers is net interest income neutral given the related deposits from customers are typically non-interest bearing; generally, no significant interest income can be earned on the cash at banks correlating with the deposits from customers, and no interest expense is incurred on the deposits. The profitability of such relationships is through value added service offerings that maximise opportunities for fees and commissions.

However, given that the majority of deposits from capital markets participants are denominated in United States dollars (US$) and the US$ Prime rates remained abnormally elevated based on actions/inactions of the United States Federal Reserve, cash at banks denominated in US$ and placed in overnight and other very short-term deposits continued to earn meaningful interest income for the Bank, consistent with the experience in the prior year.

The particular business strategy of the Bank associated with capital markets participants also serves to address the barrier to national development of necessary banking facilities not being available to the new quality investors, albeit domestic or foreign, being attracted in new sectors and industries. However, the Bank will onboard only those corporate customers that can satisfy its due diligence and risk assessment, and therefore are within the parameters of the risk appetite of the Bank. New participants continue to lament that despite receiving approvals and licences from the relevant government agencies and regulators, commerce is being prohibited by the inability to establish domestic banking relationships, yet The Bahamas promotes itself as open for business.

Given the significance of correspondent banking partners to the Bank and its ongoing activities, and to ensure such relationships are uninterrupted, the Bank works closely with these counterparts in accepting new business, and where necessary, certain conditions such as limiting the banking facilities to those elements of the business that the Bank is willing, and equipped, to service, are imposed by the Bank on relevant corporate customers.

The principle objective of utilising deposits from customers as the principal source of funding of investments in assets may, prima facie, appear to be contradicted by change in the mix of deposit types resulting from the strategies of the Bank set out above. However, the deposits from customers being utilised for funding purposes exclude those from banks and capital markets participants. Term deposits represent 61.41% (2022: 61.48%) of total deposits from customers, and if non-interest bearing deposits from regulated financial institutions and capital markets participants that are generally matched by cash at banks are excluded from total deposits from customers, term deposits represent 62.65% (2022: 64.78%) of the total of the remaining deposits from customers. Further, analyses of the undiscounted cash flows of term deposits supports the success of the strategy to encourage longer term deposits, as the percentage of the undiscounted cash flows of terms deposits due in the bucket of one (1) to five (5) years is stable and as of 31 December 2023 represented 31.87% (2022: 28.97%) of total undiscounted cash flows of term deposits. Therefore, the objectives and priorities of the Bank are in fact, complimentary.

Continuous assessment of the appropriate mix of funding stability and cost determines the management of deposits from customers and wholesale funding, including the necessary adjustments to the mix of funding. Currently, the increased sustained level of deposits from customers results in the Bank not requiring wholesale funding, which in turn increases the capacity of the Bank to access such funding in future periods, if necessary.

The building of excess liquidity in the banking system has resulted from constrained lending in The Bahamas, which existed prior to the global pandemic and was further constrained during the global pandemic. The current circumstance is expected to persist for the foreseeable future due to the challenges within the macroeconomic environment of The Bahamas, and the Bank must continue to manage this liquidity in excess of normal levels appropriately, to take advantage of opportunities to grow and/or maximise profitability, and enable agility in responding to unforeseen circumstances.

Excess liquidity is the result of an absence of opportunities to deploy funds in income earning activities of appropriate risk, and the interest rate environment in The Bahamas is unlikely to observe any increases in the foreseeable future. Until opportunities to deploy funds present themselves in greater numbers and consistency, the expectations of customers will need to be managed in order to maintain the flexibility to adjust the mix of funding, as interest rates to be offered to customers will continue to decline. Investing in the strongest possible customer relationships is paramount and will continue through initiatives such as free financial coaching to increase the dialogue with potential customers that are referred from existing customers. A continued increase in the numbers of depositors is expected, as the advantages of banking with Fidelity are persistently being circulated by word of mouth.

The Bank will ensure that its interest rates offered are competitive and conducive to the continued stability of funding from the most economical source, as it continues to adhere to its philosophy of equitably distributing the earnings from assets to depositors, shareholders and other stakeholders that fund the investment in assets, naturally based on the level of risk assumed by each stakeholder group. Customers will continue to be educated through financial coaching on the risk/reward analyses necessary to best utilise liquid resources, including deposits placed with the Bank, and guide effective wealth management.

CAPITAL ADEQUACY

For the year ended 31 December 2023, the Bank maintained a ratio of total regulatory capital to risk–weighted assets that met the principles guiding the management of total equity, and in turn regulatory capital including: maintaining a ratio of total regulatory capital to risk–weighted assets at a level that facilitates strategic growth in risk-weighted assets, principally loans and advances to customers; and providing financial capacity sufficient to withstand reasonably possible negative economic events in The Bahamas that could adversely affect risk-weighted assets of the Bank. Said principles are also being met in 2024.

Concurrent with the picture of the future economic environment becoming more certain, will be evolution of the capital management plan of the Bank. As reported in the 2022 Annual Report, the equity of ordinary shareholders will only be retained to the extent that the Bank forecasts that it can generate acceptable returns for the shareholders while factoring in the noted principles. The financial performance of the Bank, notwithstanding the decline in comparison with the prior year, and the historical efficient utilisation of total equity, enabled the Bank to declare and pay ordinary dividends of $13,856,002 (2022: $15,010,668), representing $0.48 (2022: $0.52) per share. Based on the forecasts for limited growth in risk-weighted assets in the medium term, and significant changes in the mix of risk-weighted assets that would increase capital requirements not being expected, the Bank did not require retention of net income in the current year, and surplus equity was returned to the shareholders to facilitate the most profitable deployment of their financial resources; the resulting dividend payout ratio was 108.21% (2022: 78.00%).

As of 31 December 2023, the Bank had total equity of $108,293,281 (2022: $109,344,653), representing a decrease of 0.96% (2022: 4.71% increase) over the prior year, and a ratio of total regulatory capital to risk-weighted assets of 22.60% (2022: 22.20%), which compares well with the ratio of total regulatory capital to risk–weighted assets at or above a minimum of 14.00% required by the Central Bank.

As set out above, the business expansion efforts can possibly lead to fluctuations in cash at banks associated with the deposits from customers, which in turn can possibly result in some moderate fluctuations in total regulatory capital to risk-weighted assets, due to the Bank placing its deposits with financial institutions other than the Central Bank, resulting in higher risk weightings. These possible fluctuations will necessitate the heightening of the roles of treasury management and associated credit risks, and capital management but do not represent any fundamental change in the ratio of total regulatory capital to risk-weighted assets. Further, any consequent fluctuations in capital requirements are considered an acceptable risk and cost of business expansion efforts, as all deposits are placed with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed.

As disclosed earlier, the return on average ordinary shareholders' equity, though comparable with that of other financial institutions, was below expectations and intense analyses have been performed resulting in strategies being devised to restore financial performance and return on average ordinary shareholders' equity to target levels. However, the Bank continues to appropriately deploy its equity in assets and activities that provide returns with acceptable risk, and comfortably maintains the targeted level of regulatory capital.

OPERATING REVENUES

Net Interest Income

For the year ended 31 December 2023, net interest income decreased by 1.81% (2022: 0.62%) over the prior year to $51,982,226 (2022: $52,940,571), with net interest margin on interest bearing financial assets standing at 6.83% (2022: 6.45%).

The following initiatives are elements of the business strategy of the Bank to buttress interest income, the primary source of revenue for Bank, even during these times of economic volatility: focusing efforts on restoring growth in the higher yielding consumer loans; rehabilitating non-performing loans and advances to customers, thereby restoring earnings on such loans and advances to customers; recovering loans and advances to customers previously written off, including restructuring certain of such loans thereby providing future earnings; lending to micro, small and medium sized entities, for which the Bank has improved its understanding of cash flows through other business expansion efforts involving these entities; deploying excess cash resources in investment securities, with tenors that minimise credit and liquidity risks; maximising the placement of cash resources on interest bearing deposits, including term deposits; offering customers competitive interest rates on savings deposit accounts, with emphasis on rewarding longer term commitments; and maximising cost efficiencies in the mix of funding, with the focus on achieving stable deposits from customers that can mitigate the need for wholesale funding that requires comparably higher interest rates.

During the current and prior year, the writing of new loans and advances to customers was outpaced by normal loan amortisations, early extinguishments and other credit adjustments, resulting in decreases in loans and advances to customers, with the decreases being more pronounced in the portfolio of the higher yielding consumer loans. This experience is consistent with the commercial banking sector based on national statistics disclosed earlier. Notwithstanding positive trends in the economy of The Bahamas, there is very limited actual growth in GDP and employment beyond the rebound to levels immediately prior to the global pandemic, with the number of persons employed still not yet achieving even those levels. Therefore, limited new quality credit was available, or will be available in the near term.

Accordingly, interest income earned on loans and advances to customers continued to decline during the current year commensurate with decreases in those balances over the past four (4) years, with the rehabilitation of loans that went delinquent during the peak of the economic fallout of the global pandemic and years prior providing less offsetting impacts due to lower numbers of loans remaining to be rehabilitated; interest income recognition recommences on the rehabilitated loans and advances to customers and previously suspended interest income, the collection of which was uncertain at best, is also recognised.

As disclosed earlier, the Bank continued with the opportunity to place funds associated with deposits from capital markets participants in overnight and other very short-term deposits, as the majority of these deposits were denominated US$. Given the US$ Prime rates remained elevated as the United States Federal Reserve continues to battle inflation in the United States of America, the Bank benefitted from meaningful interest income on the US$ cash at banks, consistent with the prior year. Cash at banks placed in B$ term deposits continued to rollover and therefore increased, with interest rates observed on those term deposits holding materially constant during the current year. Collectively, interest income on deposits with banks increased by 7.22% (2022: 110.15%) over the prior year to $1,521,118 (2022: $1,418,651). This level of income will be largely contingent on US$ Prime rates in future years, and deposits from customers denominated in US$, which can fluctuate significantly.

Interest income on investment securities during the current year was consistent with the prior year, as the deployment of excess cash resources into investment securities increased, with the increase being staged over the course of the year and the interest rates on reinvestment of maturing longer term debt securities being lower.

Interest expense in the current year decreased as a result of debt securities maturing and being redeemed in the prior year thereby avoiding related interest costs in their entirety, which in turn offset some of the decrease in interest income.

Notwithstanding the continuing economic challenges brought on by the global pandemic and recent inflation deferring full harvesting, the quality seeds sown in prior years in the form of supporting existing loan customers in navigating through the financial difficulties and exceptional customer relationship management, including financial coaching, are bearing fruit. However, the full harvesting and size thereof requires supplementing, by sowing new quality seeds in new lending markets, such as areas of micro, small and medium sized entities and investment properties in the Family Islands.

Non-Interest Income

For the year ended 31 December 2023, fees and commissions increased by 19.74% (2022: 65.21%) over the prior year to $7,358,199 (2022: $6,144,978), with non-interest income now representing 12.54% (2022: 10.64%) of total income. Notwithstanding net interest income will remain the overwhelming major contributor to total income, the Bank has set a target of 20.00% of non-interest income to total income, which is considered achievable through focusing on value added service offerings.

The Bank earns fees and commissions on various banking services, certain of which are recurring fees for account maintenance and account servicing, and others are based on transactions executed for and on behalf of customers. The Bank continues to aggressively pursue penetration in credit, debit and prepaid cards business, including the issuance of cards and the offering of merchant acquiring services; that is, enabling merchants to accept cards as payment for goods and services. As the Bank increases its market share in this business, as defined by usage levels, namely the volume and quantum of transactions involving cards as opposed to the number of cards or merchants, the Bank expects to exponentially grow the fees and commissions earned, with a correlation in growth in profitability given significant elements of the required infrastructure and resources are already deployed and only the incremental costs associated with increases in fees and commission will be incurred.

Additionally, the Bank has opportunities to earn fees targeted at meeting the needs of the non-traditional customers being onboarded, as discussed earlier. Through offering new or expanded services that add value to customers, or extending the demographic of customers pursued by the Bank, particularly in light of the continued threats to interest income, the Bank is seeking to broaden its access to the wallets of its customers. The perception of customers and other stakeholders of traditional banking fees that are continually negatively criticised is that increases in banking fees are utilised as a means of replacing lost interest income. The Bank distinguishes itself from other financial institutions by charging traditional banking fees that solely represent recovery of the costs of providing the services, and while increases in these fees are periodically necessary to eliminate the historical subsidising of costs to provide such services, the Bank is making every effort to provide alternatives that minimise the "administrative" costs of banking for its customers, and will clearly and transparently discuss the bases for any increases in traditional banking fees. The opinion of the Bank is that fees charged should add value to the customer, and not solely be a sunk cost.

OPERATING EXPENSES

Expenditure is strategically managed, deliberately taking into consideration the modernisation and advancement of the Bank, to ensure the following priorities are achieved: progressing business expansion efforts; enhancing digitisation and automation, along with the strengthening of information and cyber security to appropriately protect the expanded use of digital outlets; providing stability for team members through job security and appropriately rewarding them for performance; and prioritising expenditure based on cost:benefit analyses and the needs of customers and the primary services required.

For the year ended 31 December 2023, expenses, excluding the expense for provision for loan losses and allowances for impairment, totalled $36,222,898 (2022: $32,284,313), representing an increase of 12.20% (2022: 14.59%) over the prior year.

The single most significant increase is attributable to bank and business licence fees, which increased by $1,359,981 (2022: $111,172), representing 35.17% (2022: 2.96%), to $5,227,261 (2022: $3,867,280), due to changes in legislation that introduced a business licence fee at 2.25% of total income on top of the existing bank and business licence fees that were harmonised in prior years to consolidate fees paid by commercial banks. The change in legislation has been communicated to policymakers as effectively double counting the tax bases without modifying the harmonised fees of recent years, but the legislation remains unchanged. The planned transition to corporate income tax, as communicated by the Government of The Bahamas, would be welcomed by the Bank as the current system of taxation is based on gross income as opposed to net income and business licence fees could very possibly tax an entity into a net loss position, as it is currently legislated.

The remaining increases in the components of general and administrative expenses correlated to business expansion efforts and technology enhancement initiatives. The continued enhancement of the information technology infrastructure and related information and cyber security of the Bank was the principal driver of the increase in office expenses $1,095,417 (2022: $753,300). Cards services costs, including loyalty programme, increased by $1,108,457 (2022: $1,151,376), as a direct result of: expanded merchant services and use of cards, and associated costs, including the transaction costs charged by members of the Payment Card Industry (PCI) Security Standards Council and costs of the loyalty programme; incremental costs associated with the Bank bringing in-house most of the servicing of merchant services customers, certain of which were previously outsourced, to better manage the quality of service to merchants; and implementation costs of new information technology and mandates necessary to remain in front of service offerings given its relevance to business expansion efforts. Legal and professional fees increased by $651,167 (2022: $205,316), based on additional professional services required for: various financial modelling that underpin capital adequacy assessments; special projects for independent attestations that are required periodically as part of the overall third line of defence in the system of internal controls; legal costs for matters in the ordinary course of business, including employee related matters; and training and development of ExCom and the Board of Directors. The other components of general and administrative expenses were principally consistent with those of the prior year.

Salaries and employee benefits decreased by $36,813 (2022: increased by $710,877) over the prior year, representing a decrease of 0.27% (2022: increase of 5.43%), as the Bank continued its steady and cautious expansion of its most valuable resource, human resources. To encourage greater focus on the profitability of the Bank, the concept of collective responsibility and collective reward is embedded in the incentive compensation scheme for employees, which provides all employees a participation in the profitability of the Bank, and in turn demonstrates to employees that the success of the Bank is in each and every one of their best interests.

EXPECTED CREDIT LOSSES

Provision for Loan Losses

Expected credit losses are determined based on the expectation of the portion of financial assets at amortised cost that will experience challenges in collection. For loans and advances to customers, these expected credit losses are referred to as provision for loan losses, which reduces the value of loans and advances to customers by the expected credit loss experience, regardless of whether or not the loans and advances to customers are being serviced according to their terms and conditions. The bifurcation of these financial assets based on terms to maturity and applicable interest rates, which are based on the determined risk of challenges with collection (that is, the higher the risk, the higher the interest rate and vice versa) is an integral process for determination of the expected credit losses in relation to loans and advances to customers.

Note 18 of the consolidated financial statements describes the expected credit loss model, which involves significant estimates, assumptions and judgments. Except when there are material changes in macroeconomic factors, or entity specific portfolio characteristics, that lead to significant changes in loss experiences, the expected credit loss model results in a consistent expense for provision for loan losses, subject to no significant growth or contraction in the respective loan portfolio.

Recognising credit losses concurrent with writing and administering of loans and advances to customers is the primary objective of the expected credit loss model, as opposed to deferring such recognition until actual losses are incurred. The volatility in the expense for provision for loan losses is determined by the quality and veracity of models used; that is, in the absence of unforeseen changes in macroeconomic factors or entity specific portfolio characteristics, appropriate models should not result in significant recognition of provision for loan losses and subsequent reversals of provision for loan losses.

The quality and veracity of the expected credit loss model was maintained during the tumultuous peak of the global pandemic, which facilitated an early recognition of worst case scenarios and the related financial implications. This was the result of the decisions to consistently apply the accounting policies of the Bank for the calculations of individually impaired loans and advances to customers despite the elevated levels of loans and advances to customers that had missed payments and therefore had a status of non-performing, as the Bank did not implement any loan payment deferral programmes and accurately aged loans and advances to customers based on payments received.

The expected credit loss model utilised in the current year was without the modification. Recovery in macroeconomic factors commenced in prior years and simply continued during the current year, and there were no significant changes in macroeconomic factors during the current year; therefore expense for provision for loan losses in the current year was reasonably expected to be consistent with the prior year. This was indeed the case in relation to the expense for provision for loan losses regarding new and existing loans and advances to customers. However, the expense for provision for loan losses also recognises reductions in existing provision for loan losses for non-performing loans as a result of recoveries and/or restructuring. As reported in the 2021 Annual Report and 2022 Annual Report, the Bank benefitted from the rehabilitation of a significant level of non-performing loans that went into default during 2020, the peak of the global pandemic, and had a provision for loan losses established against them. As evidenced by the stabilisation of the non-performing loans and advances to customers as of 31 December 2023 versus 31 December 2022 (Note 6 of the consolidated financial statements), as opposed to significant decreases recorded between 31 December 2022 and 31 December 2021, and between 31 December 2021 and 31 December 2020, the Bank did not have the benefit of reductions in existing provision for loan losses for non-performing loans during the current year; also see analyses of loans and advances to customers by payment status (Note 20 of the consolidated financial statements).

Accordingly, the expense for provision for loan losses for the year ended 31 December 2023 increased by $3,247,920 (2022: $181,167) or 52.54% (2022: 3.02%) over the prior year, and totalled $9,429,616 (2022: $6,181,696). Further, recoveries of loans and advances to customers previously written off totalled $1,623,383 (2022: $1,235,618) as a result of the successes of strategies for collections, recoveries and restructures.

The Bank continuously benchmarks its loss experiences against industry and competitor statistics, and in the current and prior years its loan portfolios have exhibited superior performance, which validates the effectiveness of the lending policies and credit management. Further, the recognition of the expense for provision for loan losses, as benchmarked against industry and competitor information, exhibited the strength of the management decisions and strategies in the current and prior years and the superior quality and veracity of the expected credit loss model.

Overall, the provision for loan losses addresses all reasonable expectations of possible credit losses. Tremendous insight into an additional source of income and profitability for the Bank was obtained from the significant efforts and successes in rehabilitating non-performing loans and advances to customers in the past three (3) years, which will be transferred to loans and advances to customers previously written off, as greater attention is being given to aggressively pursuing these loans. Delinquent borrowers are discovering that their past transgressions are being publicised when approaching financial institutions following the embedding of the credit bureau in The Bahamas, and such persons are subsequently seeking to cure those transgressions, which will aid efforts of recoveries and restructures going forward.

Recoveries in mortgage loans will be more challenging than recoveries in consumer and other loans as a result of structural challenges that exist in The Bahamas, including: the long periods to realise collateral supporting the mortgage loans; the recent enforcement of legislation that imposes certain obligations and limitations on financial institutions; and ultimately, the limited sales of properties due to market conditions in The Bahamas. The sales and recovery efforts during the current year were inspired by the recent successes experienced notwithstanding the structural challenges, and those inspired efforts continue in 2024 with similar successes.

The principal focus of the Bank will remain the monitoring of early signs of delinquency and quality underwriting, as the challenging economic environment is expected to continue for the foreseeable future, and the new threats of inflation and recession are ever present. Complementing the principal focus will be the continued efforts in rehabilitating non-performing loans and advances to customers, and recovering or restructuring loans and advances to customers previously written off.

Allowances for impairment

As previously discussed, the actions of the Government of The Bahamas in relation to debt management, fiscal responsibility and economic growth are actively monitored by ExCom and the Board of Directors and to manage the credit risk associated with debt securities issued by the Government of The Bahamas, the Bank has adjusted its maturity profile and risk appetite.

The investment securities of the Bank have been classified as at amortised cost given the business model associated with the investment securities being to hold such financial assets for the collection of contractual cash flows that represent solely payments of principal and interest. An allowance for impairment is required to be determined based on the expectation of the portion of investment securities that will experience challenges in collection, referred to as an expected credit loss.

The expected credit loss for investment securities is calculated based on probabilities of default associated with respective credit ratings, as adjusted for forward-looking information, and given that the credit ratings of debt securities issued by the Government of The Bahamas have not been changed by international rating agencies in the current year, there is no expense for allowance for impairment recognised in relation to investment securities in the current year.

IMPACTS OF THE ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the year ended 31 December 2023, there were no standards, amendments or interpretations to International Financial Reporting Standards (IFRS) that had a material effect on the accounting policies, and in turn financial position and financial performance, of the Bank.

SUMMARY AND LOOKING FORWARD

The sustained financial performance of the Bank requires it to expand upon the roots that are its existing business model. It has been identified in prior years that sustaining targeted financial performance required "expansion" as opposed to mere "recovery". The economies, sectors, industries, businesses and individuals, globally and more specifically in The Bahamas, will not simply revert to conditions and behaviours of days prior to the global pandemic, as the way commerce is transacted and the manner in which persons will live have been irreversibly revolutionised.

The financial performance for the year ended 31 December 2023 was underwhelming by the standards set by the Bank in recent financial years, although evaluating the financial performance over the past four (4) financial years reveals that it has been superior when benchmarked across the commercial banking sector. Nevertheless, the successes of the past do not provide reprieve from achieving similar successes in the future, and this understanding spurred the intense analyses by ExCom at the end of the year.

The intense analyses performed by ExCom and key managers concluded that the Bank was well positioned to take advantage of opportunities that present themselves in times of economic prosperity due in large part to the behaviours, practices, strategies and decisions of the Bank that carried it through the peak of the global pandemic. However, the complexity of the consequences of the global pandemic on finances of households, and the true trajectory of economic fortunes of those same households and the country at large, will require a reset by the Bank in certain areas. Specifically:

- the quality of new borrowers in the traditional markets targeted by the Bank, and the borrowing capacity of existing customers in those markets will not facilitate exponential growth in the loan portfolio of the Bank if solely targeting those traditional markets. New markets must be targeted and/or developed, including the deeper step into commercial lending and non-traditional mortgage lending.

- greater penetration in credit, debit and prepaid cards business, including the issuance of cards and the offering of merchant acquiring services can significantly increase fees and commissions, but must achieve economies of scale in order to contribute significantly to net income.

- each merchant onboarded for merchant acquiring services is a prospect for additional products and services, which should be aggressively pursued when cash flows from merchant sales and other evidence of viability is obtained through the initial banking relationship.

- aggressive pursuit of loans and advances to customers previously written off can prove to be addressing two (2) birds with one (1) stone – recoveries through settlement is an immediate recognition of net income; and restructuring of such loans provides growth in the loan portfolio, though the credit risk is heightened and the full profitability is only realised over a period of time.

- certain legacy information systems, management systems, business model, processes and modus operandi require resetting, albeit replacement, modification and/or retooling.

- the technology and model adopted for the Exuma Financial Centre has demonstrated being fit for purpose, and thereby opens up the opportunity to expand the Financial Centre network through more of the Family Islands of The Bahamas, based on populations of those islands.

- deployment of excess cash resources in investment securities, with an investment strategy that manages liquidity and credit risks can increase profitability.

The financial performance for the current was negatively impacted by the effects of: contraction in loans and advances to customers in the past few years on net interest income; exhausting the non-performing loans and advance to customers available to be rehabilitated on expense for the provision for loan losses; changes in legislation on bank and business licence, without regard to levels of profitability; costs of providing the services underpinning growth in fees and commissions on general and administrative expenses; and necessary enhancements in information systems infrastructure to accommodate business expansion initiatives on general and administrative expenses. The intense analyses referred to above includes further analyses of costs to ensure the value-for-money proposition is acceptable, but more strategically resets strategies for growth in income, albeit net interest income or fees and commissions.

The Bank continues to demonstrate its commitment to supporting remediation of the structural challenges facing the economy of The Bahamas, including tax reform, through the necessary collaboration with key stakeholders, including but not limited to the Government of The Bahamas, the Central Bank and other financial services regulators, and captains of industries and civil society.

Despite the significant pressure on the banking industry domestically and internationally, the Bank considers it a great honour and responsibility to earn the confidences placed in it by depositors, shareholders, employees and other stakeholders, which it achieves through exhibiting discipline in honouring its fiduciary responsibilities to the aforementioned stakeholders by making decisions that are balanced and take into consideration the social responsibility of the Bank as a key stakeholder in the economy of The Bahamas. Global macroeconomic conditions such as inflation and the risk of recession in major economies, that unfortunately are inherited by The Bahamas, continue to give reason for caution. But the prospects for 2024 and beyond are exciting and full of opportunities that can be capitalised upon with the resets mentioned, as the financial position of the Bank remains strong and can facilitate those resets.

The information above is necessary but mundane, however it is the soft activities of the Bank that best exhibit the character that is the Bank, *Fidelity, We're Good For You;* refer to Our Community Efforts section of the 2023 Annual Report. The public relations strategy has evolved to showcase the importance of strong roots on the ability to bear fruit, while continuing to matching the concept of oranges and vitamin C with being "good for you", words that are put into action consistently and persistently. ExCom and staff of the Bank know that it is hard to lead from the front, but it is the place our shareholders, employees and other stakeholders have come to expect of the Bank. There is no better motivation than the positive pressure to live up to this expectation.

Independent Auditors' Report

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.

PricewaterhouseCoopers, 2 Bayside Executive Park, West Bay Street & Blake Road, P.O. Box N-3910, Nassau, Bahamas T: + 1 242 302 5300, F: + 1 242 302 5350, www.pwc.com/bs

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	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.

assumptions which are subjective and can therefore lead to significant estimation uncertainty over the measurement of the ECL. 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	• Evaluated the appropriateness of the Group's ECL model methodology, data integrity and model performance. • Evaluated the referenced inputs and assumptions as follows: o 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.

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, in the Baseline 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.
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.	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.

• 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.	• 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**

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**

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**			

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, 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.

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.

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.

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

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.

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.

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.

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.

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.

(Expressed in Bahamian dollars)

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 card companies in respect of the issuance of 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**

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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 for 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.

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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.

Fidelity Bank (Bahamas) Limited

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

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.

Fidelity Bank (Bahamas) Limited

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

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.

(Expressed in Bahamian dollars)

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).

(Expressed in Bahamian dollars)

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.

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:

  Quantitative criteria

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.

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.

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.

Sensitivity analyses

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.

(Expressed in Bahamian dollars)

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.

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.

20. Financial Risk Management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and variable rates, and for 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.

20. Financial Risk Management (Continued)

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.

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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.

31 December 2023	Mortgages $	Consumer and Other $	Total $
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.

(Expressed in Bahamian dollars)

20. Financial Risk Management (Continued)

Credit risk (continued)

Individually impaired loans can be analysed as follows:

31 December 2023	Mortgages $	Consumer and Other $	Total $
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**

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
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**

(Expressed in Bahamian dollars)

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**

(Expressed in Bahamian dollars)

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	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	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.

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.

(Expressed in Bahamian dollars)

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**	

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.

(Expressed in Bahamian dollars)

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**					

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.

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 changes 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.

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.

Branching Out:
Deepening our Roots