Independent auditors' report

To the Shareholders of Royal Fidelity Merchant Bank & Trust Limited

Report on the audit of the consolidated financial statement

Our opinion

In our opinion, the consolidated financial statement of Royal Fidelity Merchant Bank & Trust Limited (the Bank) and its subsidiaries (together 'the Group') presents fairly, in all material respects, the financial position of the Group as at 31 December 2019, in accordance with International Financial Reporting Standards.

What we have audited

The Group's financial statement comprises:

- the consolidated statement of financial position as at 31 December 2019; and
- the notes to the financial statement, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Emphasis of Matter – Basis of Accounting and Restriction on use

We draw to users' attention the fact that the consolidated financial statement does not comprise a full set of consolidated financial statements prepared in accordance with International Financial Reporting Standards. The consolidated financial statement is prepared to comply with the requirements of the Group's regulator. As a result, the consolidated financial statement may not be suitable for another purpose.

Our report is intended solely for the Group and the regulator and should not be used by parties other than the Group and the regulator. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the consolidated financial statement

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

In preparing the consolidated financial statement, 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 statement

Our objectives are to obtain reasonable assurance about whether the consolidated financial statement as a whole is 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

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basis of this consolidated financial statement.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 statement, 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 statement 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 statement, including the disclosures, and whether the consolidated financial statement represents 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 statement. 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.

Other Matters

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2019 in accordance with International Financial Reporting Standards, on which we issued a separate auditors' report to the Shareholders dated 30 April 2020.

This report, including the opinion, has been prepared for and only for the Shareholders, collectively as a group, in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants

Nassau, Bahamas

30 April 2020

Royal Fidelity Merchant Bank & Trust Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

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

	2019 $	2018 $
ASSETS		
Cash on hand and at banks (Note 4)	72,842,798	79,771,452
Investment securities (Note 5)	27,323,012	35,729,124
Loans and advances to customers (Note 6)	18,754,859	10,657,407
Other assets (Note 7)	10,650,101	2,486,622
Investments in joint venture (Notes 3 and 8)	708,138	841,883
Intangible assets (Note 9)	-	130,348
Right-of-Use assets (Note 10)	2,098,299	-
Property, plant and equipment (Note 11)	1,971,844	1,196,030
Total assets	**134,349,051**	**130,812,866**
LIABILITIES		
Deposits from customers (Note 12)	96,759,697	105,799,955
Escrow for customers (Note 16)	12,006,097	1,981,167
Lease liabilities (Note 10)	2,192,824	-
Accrued expenses and other liabilities (Note 13)	4,097,815	3,208,160
Total liabilities	**115,056,433**	**110,989,282**
EQUITY		
Capital (Note 14)	11,000,000	11,000,000
Retained earnings	8,292,618	8,823,584
Total equity	**19,292,618**	**19,823,584**
Total liabilities and equity	**134,349,051**	**130,812,866**

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

Director

Director

24 April 2020
Date

Notes to the Consolidated Financial Statement
31 December 2019
(Expressed in Bahamian dollars)

1. General Information

Royal Fidelity Merchant Bank & Trust Limited (the Bank) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on trust and banking business in The Bahamas, and under the Securities Industry Act, 2011 to deal, arrange, manage and advise on securities in The Bahamas. The Bank also has subsidiaries incorporated in Barbados and licensed under the Financial Institutions Act, 1996 to carry on trust and banking business in Barbados, and under the Securities Act, 2001 to carry on securities business in Barbados.

The Bank, and its subsidiaries (Note 3), collectively referred to as the Group, offer a full range of private banking, trustee, investment management, corporate finance, share registrar and transfer agency, pension, administration, brokerage and investment advisory services with rights to conduct the business of merchant banking in The Bahamas and Barbados.

RF Holdings Limited (RFH), a private company incorporated in The Bahamas, entered into purchase agreements with Fidelity Bank (Bahamas) Limited (FBB), a bank incorporated and licensed in The Bahamas, and RBC Holdings (Bahamas) Limited (RBC), a company incorporated in The Bahamas and ultimately owned by Royal Bank of Canada. Effective 9 October 2019, the Bank became a wholly-owned subsidiary of RFH. Prior to the acquisition of the Bank by RFH, ownership was pursuant to a joint venture agreement among the Bank, FBB, and RBC. FBB and RBC each owned 50.00% of the outstanding ordinary shares of the Bank.

Subsequent to the year end, the Bank obtained Central Bank of The Bahamas approval to change its name to RF Bank & Trust (Bahamas) Limited effective 31 March 2020.

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

The preparation of consolidated 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(f), 2(h) and 19.

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

With the exception of IFRS 16 *Leases* (IFRS 16), standards and amendments and interpretations to published standards that became effective for the Group's financial year, beginning on 1 January 2019 were, either not relevant or not significant to the Group's operations and accordingly did not have a material impact the Group's accounting policies or the consolidated financial statement.

The Group adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. It replaces IAS 17 *Leases* (IAS 17) and related Interpretations. IFRS 16 results in the accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for. Accordingly, the Group has recognized a 'right-of-use' asset and a corresponding financial liability on the consolidated statement of financial position. The new accounting policies are disclosed in Note 2(h).

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5%.

In adopting IFRS 16, the Group has used the following practical expedients permitted by the standard:

- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as of 1 January 2019.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and related Interpretations.

Adjustments recognised in the consolidated financial position in 2019
The change in accounting policy affected the following items in the consolidated statement of financial position during 2019:

Right-of-Use assets - increased by $2,317,821
Lease liabilities - increased by $2,317,821

The net impact on retained earnings on initial recognition of the right-to-use assets and lease liabilities was $Nil.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 and not early adopted by the Group

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

(b) Principles of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of 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.

Intercompany 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 investment in joint venture.

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

Transactions and balances

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

(d) Financial assets and liabilities

Financial assets

Classification and measurement

The Group classifies its financial assets as:

- financial assets at fair value through profit or loss (equity securities, included in investment securities);
- financial assets at fair value through other comprehensive income (certain debt securities, included in investment securities); and
- financial assets at amortised cost (cash at banks, certain debt securities, included in investment securities, loans and advances to customers and other receivables).

The classification and subsequent measurement of financial assets depend on the Group's business model for managing the asset, and the cash flow characteristics of the asset. Based on these factors, the Group classifies its financial assets into the following three (3) measurement categories:

- Amortised cost: 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).
- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and cash flows arising from sales, where the contractual cash flows represent SPPI, and that are not designated as financial assets at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying value are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the financial asset's amortised cost which are recognised as a part of net income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to net income. Interest income from these financial assets are recognised using the effective interest rate method.

- Fair value through profit or loss: Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income, are measured at fair value through profit or loss. The Group measures all equity securities, which are securities that do not contain a contractual obligation to pay and that evidence residual interests in the issuers' net assets, at fair value through profit or loss.

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

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and cash flows arising from sales, the Group assesses whether the cash flows of the financial asset represents SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, specifically that interest rate considerations are restricted to the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. The SPPI assessment is performed on initial recognition of a financial asset and is not subsequently reassessed. Critical judgments applied by the Group in assessing the SPPI test are disclosed in Note 19.

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

Initial recognition and measurement

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

Regular way 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.
- Significant change in the interest rate.
- Insertion of additional collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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).

Financial liabilities

The Group's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Escrow for customers represent funds received by the Group from investors participating in placements managed by the Group, which were pending disbursement to the issuers of the respective securities. Funds are disbursed to the issuers of securities following completion of all required elements pursuant to the terms of the documents governing the placements.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(e) Non-performing financial assets

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

(f) Impairment of financial assets at amortised cost and financial assets at fair value through other comprehensive income

The Group assesses, taking into consideration forward looking factors, the ECL for financial assets at amortised costs and financial assets at fair value through other comprehensive income, 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. For relevant financial assets at fair value through other comprehensive income (debt securities), changes in amortised cost, net of allowance for ECL, are recognised in net income and other changes in the carrying value are recognised in other comprehensive income as gains and losses on financial assets at fair value through other comprehensive income.

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

ECL) that is, up until contractual maturity but considering expected prepayments. Critical judgments in determining SICR are disclosed in Note 19.

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

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

As an exception, for certain financial instruments, such as margin facilities, 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, that is, until the ECL would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

For short term financial assets, such as receivables for fees and commissions or other receivables, the Group applies the simplified approach to measuring ECL, which uses a lifetime ECL. To measure the ECL for these financial assets, the financial assets are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles over a period of two (2) prior years and the relevant historical credit losses experienced within that period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the financial assets.

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

(g) Intangible assets

Acquired intangible assets are recognised initially at fair value. Those determined to have a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate costs over the estimated useful life of up to fifteen (15) years. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed the recoverable amount (the higher of the asset's fair value less costs to sell and its value in use). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(h) Leases

Classification and measurement

The Group leases office space. Lease contracts are typically made for fixed periods of three years, with an extension option which are exercisable by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until December 31, 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Initial measurement

(a) Lease liabilities

Lease liabilities are initially measured as the present value (PV) of the lease payments not paid at the adoption date of IFRS 16. The PV is determined by using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used. This rate is defined as the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security to obtain an asset of a similar value to the right-to-use asset in a similar economic environment.

(b) Right-of-Use Assets

Right-of-Use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any incentives received;
- Any initial direct costs; and
- Restoration costs.

Subsequent Measurement

(a) Lease liabilities

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Accordingly, the lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount by the lease payments made.

(b) Right-of-Use Assets

Right-of-Use assets are depreciated using the straight-line method over the shorter period of the lease term and the useful life of the underlying asset. The Group tests the right-of-use asset for impairment in accordance with IAS 36, Impairment of Assets, annually. For the year-ended 31 December 2019, the Group is reasonably certain to exercise the renewal options in its leases, thereby recognizing the lease terms of between six (6) and ten (10) years; which is a period shorter than the useful life of the leased asset.

Critical judgments applied by the Group in determining the measurement of its lease liabilities and right-of-use assets are disclosed in Note 19.

Previous accounting policy until 31 December 2018

The leases entered into by the Group were operating leases. The total payments made under operating leases were charged to the consolidated statement of comprehensive income as a part of net income on a straight-line basis over the period of the lease. When an operating lease was terminated before the lease period had expired, any payment required to be made to the lessor by way of penalty was recognised as an expense in the financial period in which termination took place.

(i) Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of an item.

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.

Depreciation and amortisation are calculated using the straight-line method to allocate costs (net of residual values) over estimated useful lives as follows:

	Estimated Useful Life
Furniture and fixtures	10 years
Equipment	5 years
Leasehold improvements	Lesser of lease term and 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 or 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.

(j) 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.

(k) Provisions

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

(l) Share capital

Share issue costs

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

Dividends

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

(m) Offsetting financial instruments

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

For securities transactions executed through the Bahamas International Securities Exchange (BISX) and other securities exchanges, the Group records a net settlement receivable or payable with other brokers.

(n) Taxation

The Bank is incorporated under the laws of The Bahamas and is therefore not subject to income, capital gains or other corporate taxes. However, the operations of certain of the Group's subsidiaries subject it to taxation in other jurisdictions.

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense in the financial period in which it is incurred. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the date of the consolidated financial statements.

The principal temporary differences arise from tax losses that can be carried forward. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(o) 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, trusts, retirement benefit plans and other entities. These assets are excluded from these consolidated financial statements, as they do not belong to the Group.

(p) Corresponding figures

Corresponding figures in the 'Cash on hand and at banks' have been reclassified to 'Other receivables' to conform with the presentation used in the current year. The related balances in Note 4, Note 7, Note 10 and Note 21 were also reclassified.

3. Subsidiaries and Joint Venture

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

	Country of Incorporation	% Holding
Bahamas Central Securities Depository Limited	Bahamas	33.33%
BF Company Limited	Bahamas	100.00%

HNW Company Limited	Bahamas	100.00%
TG Company Limited	Bahamas	100.00%
RF Executors Ltd.	Bahamas	100.00%
Royal Fidelity Pension and Investment Services Limited	Bahamas	100.00%
Royal Fidelity Share Registrars & Investment Services Limited	Bahamas	100.00%
RFMBT Holdings Limited	St. Lucia	100.00%
Royal Fidelity Merchant Bank & Trust (Barbados) Limited	Barbados	100.00%
Royal Fidelity Capital Markets (Barbados) Limited	Barbados	100.00%

Subsidiaries

The Group's subsidiaries in Barbados carry out various activities, which are disclosed in Note 1, with Royal Fidelity Merchant Bank & Trust Holdings Limited serving as a holding company. Royal Fidelity Pension & Investment Services Limited and Royal Fidelity Share Registrars & Transfer Agents Limited are entities providing trustee, share registrar and transfer agency, pension and administration services. The licenses and activities of R.F.C. Markets Limited have been transferred to the Bank, and during the year the entity has been dissolved. BF Company Limited, HNW Company Limited, and TG Company Limited are nominee companies utilised in the operations of the Group. RF Executors Ltd., a wholly-owned subsidiary of the Bank, is used for executorship services.

Joint Venture

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

4. Cash on Hand and at Banks

	2019 $	2018 $
Cash on hand and demand deposits	67,564,665	74,511,824
Term deposits	1,165,363	1,140,690
Mandatory reserve deposits	4,100,000	4,100,000
	72,830,028	79,752,514
Accrued interest	12,770	18,938
Total	**72,842,798**	**79,771,452**

Mandatory reserve deposits are placed with the Central Bank of The Bahamas (the Central Bank) and other banking regulators 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 and other banking regulators are non-interest bearing. Deposits with other banks earn interest at rates ranging from 0.00% to 2.00% (2018: 0.00% to 3.00%) per annum.

5. Investment Securities

Investment securities comprise:

	2019 $	2018 $
Financial assets at fair value through other comprehensive income	24,998,463	31,513,020
Financial assets at fair value through profit or loss	1,940,048	3,904,803
Financial assets at amortised cost	384,501	311,301
Total	**27,323,012**	**35,729,124**

Financial assets at fair value through other comprehensive income

	2019 $	2018 $
Stage 1 – ECL		
Level 2		
Corporate debt securities	1,606,000	15,907,882
Government debt securities	23,188,231	15,353,036
	24,794,231	31,260,918

	2019	2018
Stage 1 – ECL		
Level 3		
Corporate debt securities	2,500	11,000
Total – all levels	24,796,731	31,271,918
Accrued interest	201,732	241,102
Total	**24,998,463**	**31,513,020**

Financial assets at fair value through profit or loss

	2019 $	2018 $
Level 2		
Equity securities	-	2,012,782
Government debt securities	-	-
Corporate debt securities	-	-
	-	2,012,782
Level 3		
Equity securities	1,136,460	1,125,471
Investment entities	803,588	766,550
Corporate debt securities	-	-
	1,940,048	1,892,021
Total – all levels	1,940,048	3,904,803
Accrued interest	-	-
Total	**1,940,048**	**3,904,803**

During the year, movements in Level 3 securities comprise:

	Equity Securities $	Investment Entities $	Total $
Balance as at 1 January 2019	1,125,471	766,550	1,892,021
Purchases	-	-	-
Sales/Maturities	-	-	-
Net realised gain/(loss)	-	-	-
Net change in unrealised appreciation	10,989	37,038	48,027
Balance as at 31 December 2019	**1,136,460**	**803,588**	**1,940,048**
Balance as at 1 January 2018	1,125,471	763,456	1,888,927
Purchases	-	-	-
Sales/Maturities	-	-	-
Net realised gain/(loss)	-	-	-
Net change in unrealised appreciation	-	3,094	3,094
Balance as at 31 December 2018	**1,125,471**	**766,550**	**1,892,021**

Amortised cost

	2019 $	2018 $
Stage 1 – ECL		
Level 3		
Government debt securities	-	39,426
Stage 3 – ECL		
Level 3		
Government debt securities	510,625	500,000
POCI		
Total – all levels	510,625	539,426
Accrued interest	-	11,875
Allowance for impairment losses	(126,124)	(240,000)
Total	**384,501**	**311,301**

Movements in allowance for impairment losses are as follows:

	2019 $	2018 $
Balance as of the beginning of the year	240,000	-
Allowance for impairment losses	-	240,000
Change in PD's/LGD's/EAD's	(113,876)	-
Balance as at the end of the year	**126,124**	**240,000**

Government debt securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2020 to 2039 (2018: 2019 to 2037) and with variable interest rates ranging from 0.047% to 0.625% (2018: 0.05% to 1.25%) above the B$ Prime rate of 4.25% per annum. The remaining government debt securities earn interest at fixed rates ranging from 1.75% to 7.5% (2018: 1.50% to 6.75%) per annum.

As of 31 December 2019, the cost of investment securities totalled $29,925,473 (2018: $39,203,360), of which $4,636,755 (2018: $4,636,755) represented Level 3 securities.

6. Loans and Advances to Customers

	2019 $	2018 $
Loans and advances to customers	19,560,645	11,384,774
Provision for loan losses	(805,786)	(727,367)
Total	**18,754,859**	**10,657,407**

The effective interest rate earned on loans and advances for the year ended 31 December 2019 was 7.57% (2018: 7.57%).

Movements in provision for loan losses are as follows:

	2019 $	2018 $
Balance as of the beginning of the year	727,367	664,990
Provisions	78,419	62,377
Write-offs	-	-
Balance as at the end of the year	**805,786**	**727,367**

The provision for loan losses represents 4.12% (2018: 6.39%) of the total loan portfolio, inclusive of accrued interest, and 49.37% (2018: 47.60%) of total non-performing loans and advances. As of 31 December 2019, principal and interest balances of non-performing loans and advances totalled $1,632,170 (2018: $1,528,032), representing 8.34% (2018: 13.42%) of the total loans and advances to customers.

7. Other Assets

	2019 $	2018 $
Due from brokers	7,931,616	-
Fees and commissions receivable	853,674	991,457
Other	1,864,811	1,495,165
Total	**10,650,101**	**2,486,622**

8. Investments in Joint Venture

The fair value of the initial investment in BCSD exceeded the net book value of tangible net assets, with the excess representing intangible assets contributed to BCSD, which is being amortised over fifteen (15) years. Movements in investments in joint ventures comprise:

	2019 $	2018 $
Balance as of the beginning of the year	841,883	943,310
Share of profits of joint ventures	154,181	141,164
Dividends received	(287,926)	(242,591)
Balance as at the end of the year	**708,138**	**841,883**

9. Intangible Assets

	2019 $	2018 $
Opening net book value	130,348	260,695
Amortisation	(130,348)	(130,347)
Net book value	**-**	**130,348**
As of 31 December		
Cost	1,644,857	1,644,857
Accumulated amortisation	(1,644,857)	(1,514,509)
Net book value	**-**	**130,348**

10. Right-of-Use Assets and Lease Liabilities

The Group leases office premises in Barbados and Bahamas.

Right-of-Use Assets

	2019 $
Opening net book value	-
Additions	2,317,821
Depreciation	(219,522)
Closing net book value	**2,098,299**

For the year-ended 31.December 2019, there were no direct costs incurred by the Group upon entering a lease; and lease incentives, rent-free period for the first three months for the lease of office premises in Bahamas, is recognized as part of the measurement of the right-of-use-assets and lease liabilities.

	2019 $
Cost	2,317,821
Accumulated depreciation	(219,522)
Closing net book value	**2,098,299**

Lease liabilities

	2019 $
Opening net book value	-
Additions	2,317,821
Interest expense on lease liabilities	85,523
Repayment on lease liabilities	(210,520)
Closing net book value	**2,192,824**
Of which is:	
Current lease liabilities	239,917
Non-current lease liabilities	1,952,907
	2,192,824

For the year-ended 31 December 2019, the incremental borrowing rate is 4.5% per annum.

11. Property, Plant and Equipment

	Furniture & Fixtures $	Equipment $	Motor Vehicle $	Leasehold Improvements $	Total $
As at 31 December 2019					
Opening net book value	52,195	159,959	-	983,876	1,196,030
Additions	-	150,156	22,952	857,537	1,030,645
Depreciation	(16,253)	(75,654)	(3,825)	(159,099)	(254,831)
Closing net book value	**35,942**	**234,461**	**19,127**	**1,682,314**	**1,971,844**

As at 31 December 2019					
Cost	292,774	960,364	22,952	2,311,979	3,588,069
Accumulated depreciation	(256,832)	(725,903)	(3,825)	(629,665)	(1,616,225)
Net book value	**35,942**	**234,461**	**19,127**	**1,682,314**	**1,971,844**

	Furniture & Fixtures $	Equipment $	Leasehold Improvements $	Total $
As at 31 December 2018				
Opening net book value	77,727	220,729	2,216	300,672
Additions	-	10,231	993,661	1,003,892
Depreciation	(25,532)	(71,001)	(12,001)	(108,534)
Closing net book value	**52,195**	**159,959**	**983,876**	**1,196,030**
As at 31 December 2018				
Cost	292,774	810,208	1,454,442	2,557,424
Accumulated depreciation	(240,579)	(650,249)	(470,566)	(1,361,394)
Net book value	**52,195**	**159,959**	**983,876**	**1,196,030**

12. Deposits from Customers

	2019 $	2018 $
Demand deposits	84,977,944	93,904,977
Term deposits	11,596,072	11,716,797
	96,574,016	105,621,774
Accrued interest	185,681	178,181
Total	**96,759,697**	**105,799,955**

Included in deposits from customers are deposits from banks totalling $6,844,546 (2018: $11,624,530). Deposits carry fixed interest rates ranging from 0.00% to 4.00% (2018: 0.00% to 4.00%) per annum, but the fixed interest rates are determined based on market rates and can be adjusted at the respective maturities of the deposits based on changes in market rates. The effective interest rate incurred on deposits from customers for the year ended 31 December 2019 was 0.17% (2018: 0.17%).

13. Accrued Expenses and Other Liabilities

	2019 $	2018 $
Accrued expenses	2,259,679	476,951
Other liabilities	1,838,136	2,731,209
Total	**4,097,815**	**3,208,160**

14. Capital

	2019 $	2018 $
Authorised		
2,000,000 ordinary shares of $1.00 each	**2,000,000**	**2,000,000**
Issued and Fully Paid		
1,833,334 ordinary shares of $1.00 each	1,833,334	1,833,334
Share premium	9,166,666	9,166,666
Total	**11,000,000**	**11,000,000**

15. Taxation

The Group has accumulated losses for tax purposes which may be carried forward and set off against future taxable income as follows:

Income Year	Losses Brought Forward $	Adjust-ments $	Losses Incurred $	Losses Utilised $	Losses Carried Forward $	Expiry Date
2013	119,394	(1,601)	-	(16,985)	100,808	-
2014	364,339	(191,932)	-	-	172,407	2023
2016	119,630	-	-	-	119,630	2023
2017	1,839	-	-	-	1,839	2024
	605,202	**(193,533)**	**-**	**(16,985)**	**394,684**	

As of 31 December 2019, the Group has a potential deferred tax asset totalling $47,343(2018: $367,399), which has not been recognised in the consolidated financial statements. During the year, the corporation tax rate was decreased from 30% to a sliding scale of 5.50% to 1%.

Components of the potential deferred tax are as follows:

	2019 $	2018 $
Unutilised tax losses	394,683	605,200
Delayed tax depreciation	339,974	379,463
Impairment losses on investment securities	126,124	240,000
Total	**860,781**	**1,224,663**

16. Related Party Balances

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, not disclosed elsewhere in this consolidated financial statement, are as follows:

	2019 $	2018 $
ASSETS		
Cash at banks		
FBB/RBC	-	27,873,133
Other related parties	-	439,316
Investment securities		
FBB/RBC	-	-
Other related parties	2,235,800	2,483,432
Loans and advances to customers		
Key management personnel	246,279	475
Other related parties	3,931,095	2,671,664
Right-of-Use assets		
Other related parties	1,834,831	-
Other assets		
FBB/RBC	-	2,173
Other related parties	-	664,868

Cash at banks earned interest at rates ranging from 0.00% to 0.05% per annum as of 31 December 2018 and matured within one (1) year.

Investment securities as of 31 December 2019 comprise investments in debt and equity securities of related parties, certain of which are listed on BISX. Level 3 securities totalled $724,076 (2018: $766,550).

Loans and advances to customers earn interest at rates ranging from 0% to 7.50% (2018: 0.00% to 7.50%) per annum and mature within one (1) year. There is no provision for loan losses in respect of these balances.

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

	2019 $	2018 $
LIABILITIES		
Deposits from customers		
FBB/RBC	-	11,458,899
Key management personnel	1,870,350	341,823
Other related parties	15,518,989	45,278,210
Lease liabilities	1,924,627	
Escrow for customers	11,400,155	
Accrued expenses and other liabilities		
FBB/RBC	-	4,101
Key management personnel	42,250	-
Other related parties	-	980

Related party deposits from customers carry interest rates ranging from 0.00% to 0.75% (2018: 0.00% to 0.75%) per annum and mature within one (1) year.

Escrow for customers, amounting to $12,006,097 (2018: $1,981,167), include balances owed to RFH amounting to $11,400,155 (2018: $Nil).

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

17. Commitments

Loan commitments

In the normal course of business, the Group enters into various credit-related arrangements to meet the needs of customers and earn income. These financial instruments are subject to the Group's standard credit policies and procedures. As of 31 December 2019, the Group had outstanding loan commitments amounting to $5,290,280 (2018: $9,514,878).

Line of credit

The Group has a line of credit in the amount of $500,000 (2018: $500,000). The facility incurs interest at a rate of 8.00% (2018: 8.00%) per annum, is supported by the pledge of certain investment securities, and is repayable on demand. As of 31 December 2019 and 2018, and for the years then ended, the facility was not utilised.

18. Contingent Liabilities

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

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

The Group performed detailed analyses of its business models for managing financial assets and financial liabilities, and analyses of the respective cash flow characteristics. The analyses performed resulted in investment securities being classified as: financial assets at amortised cost; financial assets at fair value through other comprehensive income; and financial assets at fair value through profit or loss.

<u>Financial assets at amortised cost</u>

Certain government debt securities have cash flow characteristics that meet the requirements for SPPI, and the Group's business model is to hold these debt securities without an intention to sell. The Group invests in the respective government debt securities principally for the purposes of maintaining appropriate capital based on the requirements of the regulators in jurisdictions in which it operates through financial assets that yield investment income.

<u>Financial assets at fair value through other comprehensive income</u>

Other debt securities, including remaining government debt securities, have cash flow characteristics that meet the requirements for SPPI, and the Group's business model is to collect both the contractual cash flows and cash flows arising from the sale of financial assets, as the Group participates in corporate finance transactions that can result in the purchasing of securities as part of those transactions and subsequent sale of securities as market conditions facilitate. Further, the Group invests in such securities as part of its management of liquidity, with the intent of maximising income yields while managing maturity profiles and exit strategies to secure liquidity in the event of significant events requiring cash and cash equivalents.

Financial assets at fair value through profit or loss

For all other securities, which do not meet the requirements for SPPI, the Group classifies these investment securities as part of 'other' business model and measures such securities at fair value through profit or loss.

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

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 macro-economic scenarios. The Group reviews its financial assets at amortised cost and financial assets at fair value through other comprehensive income 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/other counterparty 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 contractual payments from the borrower/other counterparty are past due in excess of ninety (90) days or other qualitative criteria, such as a failure to satisfy margin calls.

  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.

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

- EAD is based on the balance of the financial asset expected to be outstanding at the time of default, over the next twelve (12) months (12-month EAD) or over the remaining lifetime (lifetime EAD). For example, for financial instruments that include an undrawn commitment component, the Group includes the current 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.

For short term financial assets, with contractual maturities of one (1) year or less, the financial assets are grouped based on shared credit risk characteristics and the days past due, and the expected loss rates are based on the payment profiles over a period of two (2) prior years and the relevant historical credit losses experienced within that period, as adjusted based on current and forward-looking information on macroeconomic factors impact the ability of the counterparties to settle the financial assets.

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 ECLs, 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, investment securities, loans and advances to customers and other individually significant financial assets classified as at amortised cost and as at fair value through other comprehensive income are assessed for SICR on an individual basis by monitoring the triggers stated below. For other financial assets, SICR is assessed on a portfolio basis unless mechanisms exist for rating credit risk on an individual basis.

A financial asset is considered to have experienced SICR when contractual payments from the borrower/other counterparty are past due in excess of thirty (30) days or some other qualitative indicator of credit quality, such as credit rating, experience multiple benchmark decreases. Additionally, margin facilities which exceed established limit are considered to have experienced SICR.

With respect to the cure for SICR, a significant decrease in credit risk is considered to have occurred when no contractual payments are past due, and contractual payments have been received from the counterparty for six (6) consecutive months, or other qualitative indicator of credit quality reverts to benchmark immediately prior to being deemed to have SICR.

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. The criteria used to identify SICR are monitored and evaluated periodically for relevance and appropriateness by the relevant sub-committee of the Executive Committee (ExCom).

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 economic variables impacting credit risk and ECL for each type of financial asset.

These economic variables and their associated impact on the PD, EAD and LGD vary by type of financial asset, and requires judgment. Forecasts of these economic variables are determined periodically based on benchmark information available in The Bahamas and other jurisdictions in which the Group operates, which provide the best estimate view of the economy over the medium term. 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.

The most significant assumptions impacting financial assets are: independent credit rating, which is an indication of the ability of a counterparty to meet contractual payments, including principal and interest, based on assessed credit rating; and gross domestic product (GDP) growth. For financial assets, the changes to ECL calculations for reasonable possible changes in the parameters used in the economic variable assumptions were immaterial.

Grouping of financial assets for losses measured on a collective basis

For ECLs 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.

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

Fair value of Level 3 investment securities

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair value is estimated from observable data in respect of similar financial instruments or using valuation techniques, including comparable arm’s length transactions, discounted cash flow analyses and other valuation models. Observable market inputs, when available, are used in the valuation techniques, and where observable market inputs are not available, they are estimated based on appropriate assumptions. Key inputs include interest rate yield curves, foreign exchange rates, price and other volatilities, input correlations, probabilities of default, market multiples on cash flows, and counterparty risk premiums. Price and other volatilities, input correlations, probabilities of default, market multiples on cash flows and counterparty risk premiums represent those inputs requiring the most significant estimates and assumptions. The valuation techniques are validated and periodically reviewed by qualified personnel.

The fair values of certain equity securities are determined using the fair value of net assets of the investees, discounted based on the theory of *Discount for Lack of Marketability*. An increase/decrease in the discount factor by +/-10.00% would result in a decrease/increase of $41,238 in the carrying values of these equity securities. The fair values of certain other equity securities are determined using discounted cash flow analyses based on projected future cash flows, market multiples on cash flows and market discount rates. The carrying value of such securities would increase/decrease by $186,000/($129,500) were the discount rate to decrease/increase by -/+5.00%, and would increase by $47,200/$31,500 were the market multiples to increase/decrease by +/-0.50 points.

The fair values of current holdings of debt securities is not subject to significant price sensitivity. See Note 21 for price sensitivity for debt securities in The Bahamas and for investment entities.

Allowance for impairment losses on investment securities

During the year, the issuer of certain government debt securities announced the suspension of interest and principal payments on its debt securities, and the planned restructuring of the respective debt securities, which was factored into the calculation of ECL of such securities and the disclosure of maturities. The issuer further announced that existing government debt securities would be exchanged for new debt securities that will carry new terms and conditions, including interest rates and repayment dates, which will vary based on the designation of entity type of the respective holders of existing debt securities.

The allowance for impairment losses on these debt securities are determined using discounted cash flow analyses, with the discount rates based on interest rate yield curves obtained from independent qualified valuation specialists relative to the new debt securities expected to be received.

Critical judgements in determining the lease term and incremental borrowing rate

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates or internal) when available and is required to make certain entity-specific adjustments.

Impairment of intangible assets

The impairment of intangible assets requires the carrying amount be assessed against the recoverable amount, which is the higher of the fair value less costs to sell and the value in use. There is no regular market for the customer relationships representing intangible assets, and therefore the value in use utilising discounted cash flow analyses is determined. The principle inputs comprise future cash flows and market discount rates. If future cash flows from customers were lower than management's estimates by 10.00%, the Group would still not have incurred any impairment loss as of 31 December 2019. Further, if the market discount rate utilised in the discounted cash flow analyses increased by 1.00%, the Group would still not have incurred any impairment loss as of 31 December 2019.

Other liabilities

The Group is party to legal proceedings in the ordinary course of its fiduciary activities and as of 31 December 2019 has recognised provisions, which are included in accrued expenses and other liabilities. Based on proceedings to date and the advice of legal counsel, the provisions recognised are considered to be sufficient and appropriate, however the final amounts to be settled, if any, are subject to the conclusion of the legal proceedings.

20. Capital Management

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

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques designed to ensure compliance with guidelines established by the Central Bank and other regulators, including quantitative and qualitative measures. The required information is filed 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 8.00%. For the year ended 31 December 2019 and as of 31 December 2018, the Group complied with all of the externally imposed capital requirements to which it is subject.

21. Financial Risk Management

Strategy in using financial instruments

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

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

Concentration of risks

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

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

Credit risk

Credit risk is the risk of suffering financial losses should any of the Group's customers or other counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to customers, including loan commitments arising from such lending activities, cash at banks, investments in debt securities as part of the Group's treasury management activities, and other receivables. The Group seeks to raise its interest margins by obtaining above-average margins, net of provisions for loan losses, through lending to institutional and high net worth 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.

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

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 the relevant sub-committee of ExCom and the Directors. It is the Group's policy to lend responsibly and establish loans that are within a customer's ability to repay rather than relying exclusively on security.

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

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed. Investment securities with credit risk comprise debt securities issued by the Government of the Commonwealth of The Bahamas, which currently maintains investment grade credit ratings; debt securities issued by other governments, which announced the suspension of interest and principal payments on their debt securities and the planned restructuring of the respective debt securities, that is, in default and accordingly, an allowance for impairment losses has been recognised; and debt securities issued by reputable private and public companies.

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 financial assets held by customers in their brokerage accounts. The Group also provides loans to private equity investment companies as part of the Group's capital market operations. As of 31 December 2019, margin loans totalled $18,004,459, net of provisions for loan losses of $606,186 (2018: $9,907,007, net of provisions for loan losses of $527,767), and loans to private equity investment companies totalled $750,400, net of provisions for loan losses of $199,600 (2018: $750,400, net of provisions for loan losses of $199,600).

The fair value of collateral in the form of financial assets is initially measured consistent with the accounting policy for investment securities disclosed at Note 2(d). Subsequently, the fair value is updated concurrently with the valuation of the Group's investment securities.

The days past due metric is used by the Group to determine loans and advances to customers in the Stages for the ECL calculations. Loans and advances not past due, except for those specifically assessed as having other conditions of default, and up to thirty (30) days past due are Stage 1; past due in excess of thirty (30) days but less than three (3) months, or in excess of approved margin limits, are Stage 2; and those past due in excess of three (3) months, or with unsettled margin calls, are Stage 3.

As of 31 December 2019, loans and advances to customers totalling $$1,632,170 (2018: $1,528,032) represent facilities, which are past due in excess of three (3) months or with unsettled margin calls, and accordingly classified as Stage 3 for the purposes of ECL calculations; all remaining loans and advances to customers are classified as Stage 1.

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 18 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 risks. Interest margins may increase as a result of such changes but may reduce gains or create losses in the event that unexpected movements arise.

The Group does not attempt to hedge specifically against the impact of changes in market interest rates on cash flow and interest margins and relies on the fact that the loan portfolio generally is based on variable interest rates linked to the B$ Prime rate or other market rates 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 or other market rates and can be reset following the maturity of any deposits. The Group maintains a general policy of fixing the interest rate spread between interest earned on financial assets and interest incurred on financial liabilities.

As of 31 December 2019, the Group’s investment portfolio are principally at variable rates linked to the B$ Prime rate or other market rates.

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 2019	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	-	-	1,178,133	-	-	71,664,665	72,842,798
Investment securities	5,406,400	2,827,845		5,307,220	10,537,127	3,244,420	27,323,012
Loans and advances to customers	18,004,459	-	-	-	-	750,400	18,754,859
Other assets	-	-	-		-	10,650,101	10,650,101
Total financial assets	**23,410,859**	**2,827,845**	**1,178,133**	**5,307,220**	**10,537,127**	**86,309,586**	**129,570,770**
LIABILITIES							
Deposits from customers	-	5,356,204	5,236,879	1,003,070	-	85,163,544	96,759,697
Escrow for customers	-	-	-	-	-	12,006,097	12,006,097
Lease liabilities	-	-	-	-	-	2,192,824	2,192,824
Accrued expenses and other liabilities	-	-	-	-	-	4,097,815	4,097,815
Total financial liabilities	**-**	**5,356,204**	**5,236,879**	**1,003,070**	**-**	**103,460,280**	**115,056,433**
Interest repricing gap	**23,410,859**	**(2,528,359)**	**(4,058,746)**	**4,304,150**	**10,537,127**	**(17,150,694)**	

31 December 2018	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	439,316	-	1,159,628	-	-	78,172,508	79,771,452
Investment securities	5,834,769	1,541,357	1,536,959	5,691,821	17,219,415	3,904,803	35,729,124
Loans and advances to customers	9,907,007	-	-	-	-	750,400	10,657,407
Other assets	-	-	-	-	-	2,486,622	2,486,622
Total financial assets	**16,181,092**	**1,541,357**	**2,696,587**	**5,691,821**	**17,219,415**	**85,314,333**	**128,644,605**
LIABILITIES							
Deposits from customers	-	5,857,461	4,881,321	1,156,196	-	93,904,977	105,799,955
Escrow for customers	-	-	-	-	-	1,981,167	1,981,167
Accrued expenses and other liabilities	-	-	-	-	-	2,999,422	2,999,422
Total financial liabilities	**-**	**5,857,461**	**4,881,321**	**1,156,196**	**-**	**98,885,566**	**110,780,544**
Interest repricing gap	**16,181,092**	**(4,316,104)**	**(2,184,734)**	**4,535,625**	**17,219,415**	**(13,571,233)**	

As of 31 December 2019, an increase/decrease in market interest rates by 0.50%, with all other variables remaining constant, would decrease/increase net income by $106,090 (2018: $127,400).

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 arises from the Group's investments in corporate debt securities, equity securities and investment entities. The Group's strategy is to acquire securities as part of its brokerage, investment management and placement activities and to dispose of the securities as market conditions permit; the investment strategy does not contemplate the holding of investment securities for extended periods, with the exception of government debt securities that are used in its liquidity risk management.

Trading levels in The Bahamas and Barbados, whether on BISX, Barbados Stock Exchange 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 are the face values of such securities. Similarly, prices for fixed income securities in The Bahamas currently being observed are the face values of such securities.

The carrying amounts of debt securities with issuers domiciled in Barbados, excluding government debt securities, would increase/decrease by $Nil (2018: $13,750) were the base interest rate from the yield curve to decrease/increase by -/+1.00%.

See Note 19 for analyses of impact of changes in market factors on the carrying values of Level 3 investment securities, excluding investment entities. The effect on remaining investment securities, including investment entities, of changes in market prices of 2.25%, based on the BISX All Share Index movement for the year ended 31 December 2019, would be an increase/decrease in carrying value of $46,533 (2018: $53,100).

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 2019	Repayable on demand $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Total $
ASSETS						
Cash on hand and at banks	71,664,665	-	1,186,045	-	-	72,850,710
Investment securities	15,215,128	1,672,789	1,260,311	5,926,566	17,828,868	41,903,662
Loans and advances to customers	18,004,459	-	-	750,400	-	18,754,859
Other assets	-	10,650,101	-	-	-	10,650,101
Total financial assets	**104,884,252**	**12,322,890**	**2,446,356**	**6,676,966**	**17,828,868**	**144,159,332**
LIABILITIES						
Deposits from customers	85,163,545	2,167,478	8,671,757	879,386	-	96,882,166
Escrow for customers	12,006,097	-	-	-	-	12,006,097
Lease liabilities	-	86,516	259,548	1,729,941	900,150	2,976,155
Accrued expenses and other liabilities	114,523	3,869,335	-	-	-	3,983,858
Total financial liabilities	**97,284,165**	**6,123,329**	**8,931,305**	**2,609,327**	**900,150**	**115,848,276**
Net liquidity gap	**7,600,087**	**6,199,561**	**(6,484,949)**	**4,067,639**	**16,928,178**	
Loan commitments	**5,290,280**					

31 December 2018	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	78,611,824	-	645,371	-	-	79,257,195
Investment securities	3,138,253	4,428,177	1,522,711	13,465,023	34,383,946	56,938,110
Loans and advances to customers	9,907,007	-	-	750,400	-	10,657,407
Other assets	-	2,486,622	-	-	-	2,486,622
Total financial assets	**91,657,084**	**6,914,799**	**2,168,082**	**14,215,423**	**34,383,946**	**149,339,334**
LIABILITIES						
Deposits from customers	93,904,977	5,864,714	4,911,626	1,241,859	-	105,923,176
Escrow for customers	-	1,981,167	-	-	-	1,981,167
Accrued expenses and other liabilities	-	2,999,422	-	-	-	2,999,422
Total financial liabilities	**93,904,977**	**10,845,303**	**4,911,626**	**1,241,859**	**-**	**110,903,765**
Net liquidity gap	**(2,247,893)**	**(3,930,504)**	**(2,743,544)**	**12,973,564**	**34,383,946**	
Loan commitments	**9,514,878**					

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 mandatory reserve deposits (Note 4) and liquidity balances, and the Group was in compliance with these requirements for the years ended 31 December 2019 and 2018.

As of 31 December 2019, principal and interest balances of the deposits of the ten (10) largest customers, comprising individuals and entities, totalled $27,141,790 (2018: $58,090,933) representing 28.05% (2018: 54.91%) of total deposits from customers.

Currency risk

Currency risk is the risk that the fair values and/or amounts realised on sales of financial instruments or the settlement of financial liabilities may fluctuate due to change in foreign exchange rates. The Group is not exposed to currency risk, as its financial instruments along with financial activity are predominantly denominated in B$ or Barbados dollars. The remaining financial instruments and financial activity are denominated in the United States dollar. Currency risk is mitigated because the B$:US$ exchange rate is fixed at 1:1, and the Barbados dollar: US$ exchange rate is fixed at 2:1.

22. Fiduciary Risk Management

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

23. Fair Values of Financial Instruments

Fair value hierarchy

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

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset.

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.

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

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

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

Fair values

Financial instruments utilised by the Group comprise the recorded financial assets and liabilities disclosed in the consolidated financial statements. The Group's financial instruments are principally short term in nature, have interest rates that reset to market rates, or are carried at fair value; accordingly, their fair values approximate their carrying values.

Financial instruments, except certain investment securities, are principally Level 2 in the fair value hierarchy. The fair value of the financial assets and liabilities disclosed under that category have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the B$ Prime rate or other market rates as the discount rate.

24. Subsequent event

Beginning of January 2020, global financial markets and local businesses have experienced and may continue to experience significant volatility from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty which could impact the demand for the Group's services. The extent and duration of the impact of COVID-19 on global and local economies, financial markets, and sectors and specific industry in which the Group's operates is uncertain at this point and has the potential to adversely affect the Group's business, results of operations or financial condition, the impact of which is still under assessment.