



Consolidated Financial Statements of

**COMMONWEALTH BANK LIMITED**

Year ended December 31, 2019

# COMMONWEALTH BANK LIMITED

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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Commonwealth Bank Limited

### ***Opinion***

We have audited the consolidated financial statements of Commonwealth Bank Limited and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

### ***Basis for Opinion***

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

### ***Emphasis of Matter - comparative information***

We draw attention to Note 25 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2018 has been amended and restated. Our opinion is not modified in respect of this matter.

### ***Key Audit Matters***

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



***Application of IFRS 9 in the calculation of impairment of Loans and advances to customers (“Loans”) (See Notes 9 and 24)***

<b><i>The risk</i></b>	<b><i>Our response</i></b>
<p>As at December 31, 2019, Loans comprise a major portion of the Group’s assets, with total gross Loans amounting to \$1.019 billion and the related impairment allowance amounting to \$86.41 million. Of the \$86.41 million, \$11.7 million is related to a management overlay that increases provisions as a direct result of the impact and uncertainty specific to Hurricane Dorian impacted loans.</p> <p>Impairment of Loans was considered to be a key audit area primarily for the following reasons:</p> <ul style="list-style-type: none"> <li>• IFRS 9 is a complex accounting standard which requires significant judgment to determine both the timing and measurement of impairment losses.</li> <li>• The determination of expected credit loss (“ECL”) allowances is highly subjective and judgmental. Small changes in key assumptions may result in material differences in the Group’s consolidated financial statements. Key judgments and estimates in respect of the timing and measurement of ECLs include: <ul style="list-style-type: none"> <li>- The interpretation of the requirements to determine impairment under IFRS 9, which are reflected in the Group’s ECL model;</li> <li>- The identification of exposures with a significant deterioration in credit quality;</li> <li>- The allocation of Loans to stages 1, 2 and 3 using criteria in accordance with IFRS 9;</li> <li>- Reasonableness of assumptions used in the calculation of management overlays;</li> <li>- Completeness and accuracy of data used to calculate the ECL; and</li> <li>- Accuracy and adequacy of related financial statement disclosures.</li> </ul> </li> </ul> <p>Given the assumptions and judgements used in the calculation of the ECL, there is a risk that the actual results may materially differ from estimates.</p>	<p>In assessing the impairment losses on Loans, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the Group’s methodology to determine the impairment allowance under IFRS 9.</li> <li>• Updated our understanding of the Group’s key credit processes and related controls, including granting, recording, monitoring and ECL provisioning.</li> <li>• Involved KPMG credit specialists in testing the assumptions, inputs and formulas used in the ECL model and the management overlays. This included assessing the model’s arithmetic accuracy and consistency with the requirements of IFRS 9.</li> <li>• Involved KPMG credit specialists to stress test assumptions used by management.</li> <li>• Involved KPMG credit specialists to replicate ECL calculations.</li> <li>• Tested the completeness and accuracy of key data inputs sourced from underlying systems that are applied in the calculation of the impairment allowance.</li> <li>• Recalculated the risk ratings for a sample of Loans to assess if they were appropriately allocated to the relevant stage, (i.e. stages 1, 2 and 3).</li> <li>• Performed a retrospective review of assumptions and inputs used in the ECL calculation for the prior period estimate.</li> <li>• Reviewed relevant IFRS standards to ensure disclosures are accurate and complete.</li> </ul>



### ***Other information***

Management is responsible for the other information. The other information comprises the information to be included in the Group's annual report (but does not include the consolidated financial statements and our auditors' report thereon). Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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



***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)***

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is John Lopez.

Nassau, Bahamas  
May 25, 2020

## **CERTIFICATION**

This Certificate is prepared in accordance with the provisions of the Insurance Act, 2005 in respect of the life and health insurance business of Laurentide Insurance and Mortgage Company Limited.

I have examined the financial position and valued the policy liabilities for its balance sheet as at December 31, 2019, and the corresponding change in the policy liabilities in the income statement for the year then ended.

In my opinion

1. The methods and procedures used in the verification of the valuation data are sufficient and reliable and fulfill the required standards of care
2. The methods and assumptions used to calculate the actuarial and the other policy liabilities are appropriate to the circumstances of the company and of the said policies and claims
3. The valuation of actuarial and other policy liabilities has been made in accordance with generally accepted actuarial practice (with such changes as determined and any directions made by the Commission)
4. The valuation is appropriate under the circumstances of the company and the financial statements fairly reflect its results
5. Having regard for the results of the investigation performed pursuant to section 62 of the Insurance Act, 2005 the value of actuarial and other policy liabilities, when taken together with the total capital available makes good and sufficient provisions for all unmatured obligations under the terms of the policies in force



**Na Ta**

Fellow of the Society of Actuaries  
Fellow of the Canadian Institute of Actuaries

February 14, 2020

# COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

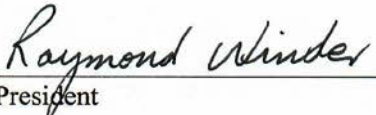
As at December 31, 2019, with corresponding figures as at December 31, 2018 and January 1, 2018  
(Expressed in Bahamian \$000s)

	Notes	2019	2018 (Restated)	January 1, 2018 (Restated)
<b>ASSETS</b>				
Cash and deposits with banks	5,7	\$ 117,244	\$ 34,010	\$ 30,611
Balances with The Central Bank of The Bahamas	5,7	164,296	147,772	98,288
Investments	5,8	436,224	457,572	404,841
Loans and advances to customers	5,9,21,26	932,796	994,795	1,056,231
Other assets	10	16,059	15,961	18,011
Premises and equipment	6,11	42,530	47,494	44,818
<b>TOTAL ASSETS</b>	6	<u>\$ 1,709,149</u>	<u>\$ 1,697,604</u>	<u>\$ 1,652,800</u>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Deposits from customers	5,12,21	\$ 1,419,290	\$ 1,311,244	\$ 1,274,262
Life insurance fund liability	13	1,682	2,951	5,599
Other liabilities	14,21	15,340	15,513	14,991
Total liabilities	6	<u>1,436,312</u>	<u>1,329,708</u>	<u>1,294,852</u>
<b>EQUITY:</b>				
Share capital	15	1,921	83,441	83,444
Share premium	15	2,708	17,198	19,195
General reserve	17	10,500	10,500	10,500
Retained earnings	26	257,708	256,757	244,809
Total equity		<u>272,837</u>	<u>367,896</u>	<u>357,948</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<u>\$ 1,709,149</u>	<u>\$ 1,697,604</u>	<u>\$ 1,652,800</u>

The accompanying notes form an integral part of the consolidated financial statements.

These consolidated financial statements were approved by the Directors on May 25, 2020, and are signed on its behalf by:

  
Executive Chairman

  
President



# COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended December 31, 2019, with corresponding figures for December 31, 2018

(Expressed in Bahamian \$000s)

	Notes	2019	2018
<b>INCOME</b>			
Interest income, effective interest rate method	5,21	\$ 141,630	\$ 153,978
Interest expense	5,6,21	<u>(14,737)</u>	<u>(19,505)</u>
Net interest income		126,893	134,473
Credit life insurance premiums, net		4,849	2,423
Fees and other income	5,19	18,447	15,865
Unrealised gains on equity investment at FVTPL	5	2,417	820
Insurance recoveries	11	4,854	-
Other income		<u>30,567</u>	<u>19,108</u>
Total income	6	<u>157,460</u>	<u>153,581</u>
<b>NON-INTEREST EXPENSE</b>			
General and administrative	20,21,22	70,626	71,078
Impairment losses on financial assets	9	48,038	27,693
Insurance claims	13	1,928	2,089
Change in insurance reserves	13	(1,269)	(2,648)
Depreciation and amortization	6,11	3,499	3,157
Losses on disposal of premises and equipment	11	21	-
Losses on hurricane impaired assets	11	2,733	-
Directors' fees		273	273
Total non-interest expense		<u>125,849</u>	<u>101,642</u>
<b>TOTAL PROFIT</b>	6,16	<u>31,611</u>	<u>51,939</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gain (loss) of defined benefit obligation	22	<u>763</u>	<u>(299)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>\$ 32,374</u>	<u>\$ 51,640</u>
<b>BASIC AND DILUTED EARNINGS</b>			
PER COMMON SHARE (expressed in dollars)	16	<u>\$ 0.10</u>	<u>\$ 0.16</u>

The accompanying notes form an integral part of the consolidated financial statements.

# COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2019, with corresponding figures for December 31, 2018  
(Expressed in Bahamian \$000s)

2019							
	Notes	Share Capital (Common)	Share Capital (Preference)	Share Premium	General Reserve	Retained Earnings	Total
<b>As at December 31, 2018 - Restated</b>		\$1,943	\$81,498	\$17,198	\$10,500	\$256,757	367,896
<u>Comprehensive Income</u>							
Total profit						31,611	31,611
Remeasurement loss of defined benefit obligation		-	-	-	-	763	763
		-	-	-	-	32,374	32,374
<u>Transaction with owners</u>							
Repurchase of common shares		(22)		(14,490)			(14,512)
Redemption of preference shares			(81,498)				(81,498)
Dividends - common shares	15					(29,009)	(29,009)
Dividends - preference shares	16					(2,414)	(2,414)
		(22)	(81,498)	(14,490)	-	(31,423)	(127,433)
<b>As at December 31, 2019</b>		<u>\$ 1,921</u>	<u>\$ -</u>	<u>\$ 2,708</u>	<u>\$ 10,500</u>	<u>\$ 257,708</u>	<u>\$ 272,837</u>
Dividends per common share (expressed in dollars)				<b>\$0.10</b>			

2018							
		Share Capital (Common)	Share Capital (Preference)	Share Premium	General Reserve	Retained Earnings	Total
<b>As at December 31, 2017</b>		\$1,946	\$81,498	\$19,195	\$10,500	\$242,547	\$355,686
IFRS 9 transition adjustment (restated)	2,9,25	-	-	-	-	2,262	2,262
<b>As at January 1, 2018 - Restated</b>	25	\$1,946	\$81,498	\$19,195	\$10,500	\$244,809	\$357,948
<u>Comprehensive Income</u>							
Total profit						51,939	51,939
Remeasurement gain of defined benefit obligation		-	-	-	-	(299)	(299)
		-	-	-	-	51,640	51,640
<u>Transaction with owners</u>							
Repurchase of common shares		(3)		(1,997)			(2,000)
Dividends - common shares	15					(35,000)	(35,000)
Dividends - preference shares	16					(4,692)	(4,692)
		(3)	-	(1,997)	-	(39,692)	(41,692)
<b>As at December 31, 2018 - Restated</b>		<u>\$ 1,943</u>	<u>\$ 81,498</u>	<u>\$ 17,198</u>	<u>\$ 10,500</u>	<u>\$256,757</u>	<u>\$ 367,896</u>
Dividends per common share (expressed in dollars)				<b>\$0.12</b>			

The accompanying notes form an integral part of the consolidated financial statements.

# COMMONWEALTH BANK LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2019, with corresponding figures for December 31, 2018

(Expressed in Bahamian \$000s)

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		\$ 129,978	\$ 139,100
Interest payments		(14,737)	(19,003)
Credit life insurance premiums received, net		4,849	2,423
Insurance claims and expenses paid		(2,595)	(2,575)
Fees and other income received		17,865	16,238
Recoveries, loans and advances to customers	9	16,955	12,665
Cash payments to employees and suppliers		<u>(70,974)</u>	<u>(71,930)</u>
		81,341	76,918
Increase (decrease) in minimum reserve requirement	7	2,361	(4,510)
Increase in restricted time deposit	7	-	(371)
(Increase) decrease in loans and advances to customers		(2,994)	22,057
Increase in deposits from customers		<u>108,046</u>	<u>36,982</u>
Net cash from operating activities		<u>188,754</u>	<u>131,076</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments		(302,135)	(297,127)
Interest receipts from investments		17,062	16,177
Redemption of investments		327,139	245,317
Purchase of premises and equipment	11	(1,289)	(5,933)
Net proceeds from sale of premises and equipment	11	<u>21</u>	<u>184</u>
Net cash from (used in) investing activities		<u>40,798</u>	<u>(41,382)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	15,16	(31,423)	(39,692)
Repurchase of common shares		(14,512)	(2,000)
Redemption of preference shares		<u>(81,498)</u>	<u>-</u>
Net cash used in financing activities		<u>(127,433)</u>	<u>(41,692)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		102,119	48,002
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<u>125,211</u>	<u>77,209</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	7	<u>\$ 227,330</u>	<u>\$ 125,211</u>

The accompanying notes form an integral part of the consolidated financial statements.

# COMMONWEALTH BANK LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2019, with corresponding figures as at and for the year ended December 31, 2018

*(All amounts stated as actual amounts, except tabular amounts which are expressed in Bahamian \$000s)*

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### 1. INCORPORATION AND ACTIVITIES

Commonwealth Bank Limited (the “Bank”) is incorporated in The Commonwealth of The Bahamas (“The Bahamas”) and is licensed by The Ministry of Finance to carry out banking business in The Bahamas under the provisions of the Banks and Trust Companies Regulations Act 2000.

The principal activities of the Bank and its subsidiaries (“the Group”) are described in Note 6.

The registered office of the Bank is situated at Sassoon House, Shirley Street, Nassau, Bahamas.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

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

#### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### (b) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

#### (c) Principles of consolidation

Subsidiaries are all entities (including structured 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They 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 an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(d) Changes in significant accounting policies**

*New standards, amendments and interpretations adopted by the Group*

IFRS 16 *Leases* (“IFRS 16”) became effective for fiscal periods beginning on or after January 1, 2019 and specifies how the Group should recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

The adoption of IFRS 16 did not have a material impact on the Group’s financial statements.

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

IFRS 17 *Insurance Contracts* (“IFRS 17”) was issued in May 2017. The current standard, IFRS 4, allows insurers to use local GAAP. IFRS 17 defines clear and consistent rules that aims to increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

The new standard is applicable for annual periods beginning on or after January 1, 2023. The Group has not yet assessed the impact of adopting this standard and the proposed amendments.

There were no other new standards or proposed amendments which we expect to have a material impact on the consolidated financial statements.

**(e) Loans and advances**

Loans and advances in the statement of financial position include loans and advances measured at amortised cost which are initially measured at fair value, and subsequently at their amortised cost using the effective interest method. Loans and advances mandatorily measured at fair value through profit and loss (“FVTPL”) or designated as at FVTPL are measured at fair value with changes recognised immediately in profit or loss.

**(f) Recognition of income and expense**

The Group recognises interest income and expense in the consolidated statement of profit or loss and other comprehensive income for all financial instruments measured at amortised cost using the method described below, with the exception of financial assets

that have subsequently become credit-impaired ('Stage 3' financial assets). For these financial assets, interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected impairment loss allowance).

Loan origination fees for loans are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loans. The adjustment to the effective interest rate has been determined by using the estimated terms of loans to maturity, or repayment if earlier.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee income is recorded in the consolidated statement of profit or loss and other comprehensive income as "Fees and other income" and is generally recognised on an accrual basis when the service has been provided.

Credit life insurance premium income is recognised at the time a policy comes into effect. Premiums are shown net of refunds. Policies written prior to 2017 were paid in full at the origination of the contract for the term of contract. The maximum term of any contract is 72 months. For these policies, the contract amount is recognised as premium income with an associated expense being recognised relative to life insurance fund liability. Refunds on insurance contracts which have not yet expired are allowed on early withdrawal using the "Rule of 78" method. Premiums for policies written in 2017 and subsequent are assessed on a monthly basis and are calculated on the current balance of the associated loan. Such premiums are recognised when assessed.

Insurance proceeds are recorded in the consolidated statement of profit or loss and other comprehensive income when it is determined that the recovery claim will be settled by the insurer.

In accordance with local regulatory guidelines, a loan is classified as non-performing when payment is contractually 90 days in arrears or the total amount outstanding outside of contractual arrangements is equal to at least 90 days' worth of payments.

When a loan is classified as non-performing, recognition of interest ceases, and interest 90 days in arrears is reversed from income. Loans are generally returned to performing status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

The Bank continues to accrue interest to income on loans specifically assessed as non-performing and where the estimated net realizable value of security held, where applicable, is sufficient to recover the payment of outstanding principal and accrued interest.

Other income and expenses are recognised on an accrual basis.

**(g) Cash and cash equivalents**

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and unrestricted deposits with banks that have original maturities of three months or less. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

**(h) Foreign currency translation**

*Functional and presentation currency*

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

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the rates of exchange prevailing at the dates 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 profit or loss and other comprehensive income as a part of total profit. Translation differences on monetary financial assets measured at FVTPL are included as a part of the fair value gains and losses.

**(i) Premises and equipment**

Premises and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses. 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 statement of profit or loss and other comprehensive income as a part of net profit during the financial period in which they are incurred.

Land is not depreciated. Depreciation and amortization on other assets are computed on a straight-line basis, net of residual values, and are charged to non-interest expense over their estimated useful lives as follows:

Buildings	The shorter of the estimated useful life or a maximum of 40 years
Leasehold improvements	The shorter of the estimated useful life or the lease term
Furniture, fittings and equipment	3 - 10 years
Site improvements	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses arising from the disposal or retirement of an item of premises and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset. Such gains or losses are recognised in the consolidated statement of profit or loss and other comprehensive income.

**(j) Impairment of non-financial assets**

At each reporting date, management reviews the carrying amount of non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that there is revaluation surplus.

**(k) Earnings per common share**

Earnings per share is computed by dividing total profit, after deducting dividends declared on preference shares, by the weighted average number of common shares outstanding during the year and not held by Group companies.

**(l) Retirement benefit costs**

The Bank maintains defined benefit ("DB Provisions") and defined contribution ("DC Provisions") pension plans covering all of its employees. Assets of the plans are administered by, and under the control of, independent trustees.

The Pension Committee is responsible for advising the Board of Directors in fulfilling its fiduciary and oversight duties for the Bank's pension arrangements. As a part of this responsibility, members of the committee review the performance of the trustees, administrator and investment manager in accordance with the trust deed, plan rules and investment policy statement, as well as providing support and making recommendations, as appropriate. The Pension Committee comprises members of the Bank's Board of Directors, one management employee and one non-management employee elected by the employees triennially.

The Bank's contributions under the defined contribution pension plan are recognised as staff costs in general and administrative expenses.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. The defined benefit obligation is calculated annually by independent actuaries. The asset or liability amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less the fair value of plan assets.



Pension costs under the DB Provisions include the present value of the current year service cost based on estimated final salaries, interest on obligations less interest on assets, and estimated administrative costs. Current service cost and net interest on the net defined benefit asset or liability are charged to general and administrative expenses.

Changes in the net defined benefit asset or liability recorded to other comprehensive income include actuarial gains and losses on obligations, and assets arising from experience different than assumed and changes in assumptions.

**(m) Share-based payments**

*Equity-settled share-based payments*

The Bank issues equity-settled share-based payments to certain management staff. The Bank determines the fair value of stock options on their grant date using the Black Scholes Model and records this amount as compensation expense. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. When the stock options are exercised the proceeds are recorded in share capital and share premium.

*Other Stock Based Compensation Plan*

The Bank offers non-management staff the option of purchasing common shares at a 10% discount from the prevailing market rate at the time of the offer. The amount of discount is recorded as compensation expense with a corresponding increase to share premium. Payments by staff for the shares are credited to share capital and share premium.

**(n) Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. Ordinary shares, and preference shares whose terms do not create contractual obligations, are classified as equity (Note 15).

*Treasury shares*

Treasury stock represent the portion of authorized shares that the Bank owns. Treasury shares are purchased and sold at par value. Treasury shares are deducted from equity and no gain or loss is recognized on the purchase, sale, issue or cancellation of shares. Any premium or discount to par value is shown as an adjustment to share premium.

**(o) Financial assets**

The Group's financial assets comprise cash and deposits with bank, balances with the Central Bank of The Bahamas, investments, and loans and advances to customers.

For the purposes of the consolidated statement of financial position, financial assets comprise:

- i. Cash;
- ii. Equity instruments of other entities;
- iii. A contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Group;
- iv. A contract that will or may be settled in the Group's own equity instrument and is either a non-derivative for which the Group is or may be obliged to receive a variable number of the Group's own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

### ***Classification***

Financial assets are measured at fair value on initial recognition. The Group then classifies its financial assets in the following measurement categories:

#### **i. Amortised cost**

A financial asset is measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets classified at amortised cost are carried at the amount at which the asset was measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any write-down for impairment or uncollectibility.

#### **ii. Fair value through other comprehensive income ("FVOCI")**

A financial asset is measured at FVOCI income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

#### **iii. Fair value through profit or loss ("FVTPL")**

A financial asset is measured at FVTPL if it does not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income.

The classification of financial assets is generally based on the business model under which the asset is held and its contractual cash flow characteristics as described below.

### *Business model assessment*

A business model assessment is performed to determine how a portfolio of financial assets is managed in order to achieve the Group's business objectives. Judgment is used in determining the appropriate business model for a financial asset. The three categories of business models are hold to collect, hold to collect and sell, and other.

For the assessment of a business model, the Group takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to Executives and other key decision makers within the Group's business lines;
- How compensation is determined for the Group's business lines' management that manages the assets;
- Whether the assets are held for trading purposes i.e., assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity. Information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are not held to collect, or both held to collect and sell are assessed at a portfolio level reflective of how the asset or group of assets are managed together to achieve a particular business model. Financial assets whose performances are evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### *Contractual cash flow assessment*

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payment of principal and interest on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group claim to cash flows from specified assets; and features that modify consideration of the time value of money.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of

premium/discount. Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Group identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

With the exception of investments in equity securities, all financial instruments are classified at amortised cost at the reporting date. Investments in equity securities are classified at FVTPL.

The Group reclassifies its financial assets when and only when its business model for managing those assets changes.

### ***Recognition and derecognition***

The Group initially recognises loans and advances to customers and deposits from customers on the date on which they are originated. All other financial instruments, (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. For loans and advances to customers, this generally occurs when either borrowers repay their obligations, or the loans are sold or written off. 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.

### ***Measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Subsequent measurement of financial assets depends on the Group's business model for managing the asset and the cash flow characteristic of the asset. The three measurement categories are as noted above.

### ***Modification***

The terms of a financial asset may be modified such that the contractual cash flows are changed. The treatment of a modification depends on the nature of the expected changes.

If the cash flows are substantially different (generally a change of 10% or more), the contractual rights to cash flows from the original asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is

recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of the eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

When a new financial asset is recognised, it will generally be recorded in Stage 1, unless it is credit impaired on recognition.

If cash flows are modified when the borrower is in financial difficulty, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. The financial asset continues to be monitored for increases in credit risk and impairment.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated using the original effective interest rate of the asset and the adjustment is recognised as a modification gain or loss in profit or loss.

**(p) Financial guarantees and loan commitments**

Financial guarantee contracts require the Group to make payments to reimburse the holder for a loss it incurs if a debtor does not make a payment in accordance with the terms of the debt agreement. Financial guarantees are recognised in the consolidated statement of financial position for the fair value of the obligation. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

**(q) Investments**

Investments in the consolidated statement of financial position include:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- equity investment securities mandatorily measured at FVTPL; these are measured at fair value with changes recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

**(r) Impairment of financial assets**

The Group recognises loss allowance for expected credit losses (“ECL”) on financial assets measured at amortised cost and measures impairment losses at an amount equal to the 12-month ECL or lifetime ECL depending on the stage in which the asset is classified.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Impairment of financial assets is recognised in three stages:

**Stage 1** – Performing financial assets are categorized as Stage 1 and an allowance is recognised based on default events expected to occur within the next 12 months. On subsequent reporting dates, 12-month ECL continues to apply where there is no significant increase in credit risk since initial recognition.

**Stage 2** – Performing financial assets are categorized as Stage 2 when there is a significant increase in credit risk since initial recognition but the financial asset is not credit impaired. The Group recognises the full lifetime expected credit losses on Stage 2 financial assets.

**Stage 3** - If one or more default events occur which are expected to have an adverse effect on the estimated future cash flows from the financial asset, the Group continues to recognise the full lifetime expected credit losses. At this stage, the financial asset is credit-impaired and categorized as Stage 3.

In determining whether a significant increase in credit risk has occurred since initial recognition, and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs. Assets that are more than 30 days past due, but not credit-impaired, are classed as stage 2.

Changes in credit loss, including the impact of movements between the first stage (12 month expected credit losses) and the second stage (lifetime expected credit losses), are recorded in profit or loss.

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The requirement to consider a range of economic scenarios and their possible impact on impairment allowances is a subjective feature of the IFRS 9 ECL model. The Group continues to develop its capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes.

IFRS 9 does not alter the definition of default currently used to determine whether or not there is objective evidence of impairment of a financial asset.

The Group considers a financial asset to be in default when:

- The credit facility is 90 days past due
- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group through actions such as realizing security (if any held);
- The financial asset is credit impaired; and/or
- The borrower is on principal only repayment terms.

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

#### *Write-off of loans and advances*

Loans and advances (and the related impairment allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. Consumer installment and credit card loans are written-off in the month after principal and/or interest payments become 180 days contractually in arrears.

#### *Recovery of previously written-off loans*

Recoveries of principal and/or interest on previously written off loans are recognised in provisions for credit losses, net in the consolidated statement of profit or loss and other comprehensive income on a cash basis or when the loan is rewritten on normal terms prevailing at the time of the rewrite.

#### *Renegotiated loans*

Loans subject to impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

### **(s) Financial liabilities**

Financial liabilities are any liabilities that are:

- i. Contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group;
- ii. Contracts that will or may be settled in the Group's own equity instruments and are either a non-derivative for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative that will or may be settled either by exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments.

Financial liabilities are classified as either a) FVTPL or b) amortised cost.

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value with any resulting gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities classified at amortised cost are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis.

The Group's financial liabilities comprise deposits accepted from customers, life insurance fund liability, and other liabilities. Financial liabilities (or parts thereof) are derecognised when the liability has been extinguished and the obligation specified in the contract is discharged, cancelled, or expires.

**(t) Offsetting financial instruments**

Financial assets and financial 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.

**(u) Related party**

A related party is a person or entity that is related to the reporting entity:

- i. A person or close member of that person's family is related to a reporting entity if the person:
  - a. has control or joint control of the Group
  - b. has significant influence over the Group; or
  - c. is a member of the Group's key management personnel, including directors.
- ii. An entity is related to the Group if any of the following conditions exist:
  - a. An entity is a member of the same group as the Group;
  - b. An entity is associated with, or is a joint venture partner with the Group;
  - c. An entity is a post-employment benefit plan for the benefit of employees of the Group;
  - d. An entity has the ability to control or exercise significant influence over the Group in making financial or operational decisions; and
  - e. An entity is jointly controlled or significantly influenced by parties described in i) above.

A related party transaction is a transfer of resources, services or obligations between the Group and a related party. Transactions with related parties are disclosed in Note 21.

**(v) Leases**

*Policy prior to January 1, 2019*



All of the Bank's leases were classified as operating leases in accordance with IAS 17 *Leases*. Operating lease payments were recognised as an expense on a straight-line basis over the term of the lease.

*Policy after January 1, 2019*

The Bank recognises a right-of-use asset and corresponding lease liability for agreements to which it's a lessee, except for leases of short-term leases or low value assets. For short-term and low value leases, lease payments are recorded as an operating expense on a straight-line basis over the lease term.

The lease liability is measured at the present value of the future lease payments, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

The right-of-use asset is initially measured based on the lease liability, and is then adjusted for initial direct costs incurred, an estimate of costs to dismantle or restore the asset, lease incentives, and any payments made before the commencement date of the lease.

The right-of-use asset is subject to depreciation based on the earlier of the lease term and the useful life. If ownership of the asset will transfer to the Group, or if the Group is reasonably certain to exercise a purchase option, the depreciation is based on the useful life of the right-of-use asset. Where there is reasonable certainty to exercise an extension or termination option on a lease, these are included in the lease term.

The right-of-use asset is also subject to the impairment policies for non-financial assets, as described within this note.

**(w) Taxation**

Life insurance premium tax is incurred at the rate of 3% of premiums written by the Group's insurance company, and recognised as an expense on an accrual basis in general and administrative expenses.

Effective July 1, 2018 value added tax ("VAT") was increased from 7.5% to 12%. The Group is required to pay value added tax at a rate of 12% on goods and services as prescribed by the Value Added Tax Act. The Group also pays business license fees in accordance with the Business License Act.

There are no other income, capital gains or corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

**(x) Rounding of amounts**

All amounts disclosed in the consolidated financial statements and notes have been rounded to the nearest thousand, unless otherwise stated.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are critical estimates and key judgments that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### *Critical estimates*

##### **(a) Loan impairment allowances**

The allowance for loan impairment represents management's estimate of expected credit losses.

The measurement of the ECL allowance for financial assets is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

ECL is defined as the weighted expected probable value of the discounted credit loss (on principal and interest) determined by evaluating a range of possible outcomes and future economic conditions. It represents the present value of the difference between the contractual cash flows and the expected cash flows.

The process for determining the allowance involves significant quantitative and qualitative assessments. Particularly, a number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- i. Determining criteria for significant increase in credit risk;
- ii. Choosing appropriate models and assumptions for the measurement of ECL;
- iii. Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- iv. Assessing the risk rating and impaired status of loans;
- v. Estimating cash flows and realisable collateral values;
- vi. Developing default and loss rates based on historical data;
- vii. Estimating the impact on this historical data by changes in policies, processes and credit strategies;
- viii. Assessing the current credit quality based on credit quality trends; and
- ix. Determining the current position in the economic cycle.

The inputs, assumptions and estimation techniques used in measuring ECL are further detailed in Note 24.

##### **(b) Post-retirement benefit obligation**

The Bank maintains a defined benefit plan as outlined in Note 2 (l). Due to the long term nature of pension plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality, and termination rates. Any

difference between the actual experiences and actuarial assumptions will affect the benefit obligation and expense.

**(c) Life insurance fund liability**

Laurentide Insurance and Mortgage Company Limited (“Laurentide”) calculates its actuarial liabilities for individual life insurance policies using the Canadian Policy Premium Method (“PPM”). The calculation of these policy reserves is based on assumptions as to future rates for mortality and morbidity, investment yields, policy lapse and expenses, which contain margins for adverse deviations. Changes in the liability are estimated with the assistance of an independent actuary and charged to profit or loss.

***Key judgments***

**(d) Fair value of financial instruments**

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. The best evidence of fair value is quoted price in an active market. In most cases the Group’s financial instruments are not typically traded on an open market, and therefore management applies judgement to determine their fair value.

The following methods and assumptions have been used in determining fair value:

- Investments – The estimated fair value of the Group’s investments was determined based on their market values and other observable inputs and are disclosed in Note 8.

- Loans and advances to customers - The estimated fair value of loans and advances to customers was determined by valuing the receivables based on current market interest rates relative to the Group's interest rates. Fair values relative to loans and advances to customers are disclosed in Note 9.
- Deposits from customers - The estimated fair value of deposits from customers was determined by valuing the deposits based on current market interest rates relative to the Group's interest rates. The fair values of deposit from customers approximate their carrying values.
- Other financial instruments - Due to their short-term maturity, the carrying values of these financial instruments approximate their fair values.

The majority of the Group's financial assets and liabilities are valued as Level 2 instruments.

No transfers were made during the period for any investments within the hierarchy.

Since the calculation of fair value is based on management's estimates, which involve uncertainties, the actual fair value realised in a sale or immediate settlement of the instruments may differ from the estimated amount.

#### 4. SUBSIDIARIES

The Group has interests in the following entities:

Name	Country of Incorporation	Shareholding
Laurentide Insurance and Mortgage Company Limited ("Laurentide")	Bahamas	100%
Laurentide Insurance Agency Limited	Bahamas	100%
C. B. Holding Co. Ltd.	Bahamas	100%
C.B. Securities Ltd.	Bahamas	100%

#### 5. FINANCIAL INSTRUMENTS

The carrying amounts of significant financial assets and financial liabilities are as follows:

	<b>2019</b>		
	<b>Amortised Cost</b>	<b>Fair Value Through Profit or Loss</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>			
Cash and deposits with banks	\$ 117,244	\$ -	\$ 117,244
Balances with The Central Bank of The Bahamas	\$ 164,296	\$ -	\$ 164,296
Investments	\$ 429,659	\$ 6,565	\$ 436,224
Loans and advances to customers	\$ 932,796	\$ -	\$ 932,796
<b>FINANCIAL LIABILITIES</b>			
Deposits from customers	\$ -	\$ -	\$ 1,419,290
	<b>2018</b>		
	<b>Amortised Cost</b>	<b>Fair Value Through Profit or Loss</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>			
Cash and deposits with banks	\$ 34,010	\$ -	\$ 34,010
Balances with The Central Bank of The Bahamas	\$ 147,772	\$ -	\$ 147,772
Investments	\$ 453,424	\$ 4,148	\$ 457,572
Loans and advances to customers	\$ 994,795	\$ -	\$ 994,795
<b>FINANCIAL LIABILITIES</b>			
Deposits from customers	\$ -	\$ -	\$ 1,311,244

The following table shows consolidated statement of profit or loss and other comprehensive income information on financial instruments:

	<b>2019</b>	<b>2018</b>
<b>Interest income, effective interest rate method</b>		
Loans and advances to customers	\$ 124,304	\$ 137,700
Investments	17,325	16,277
Other	<u>1</u>	<u>1</u>
	<u>\$ 141,630</u>	<u>\$ 153,978</u>
<b>Interest expense</b>		
Deposits from customers	<u>\$ 14,737</u>	<u>\$ 19,505</u>
<b>Fees and other income</b>		
Loans and advances to customers	\$ 6,334	\$ 6,818
Investments	\$ 2,417	\$ 864
Deposits from customers	<u>\$ 10,726</u>	<u>\$ 8,982</u>
	<u>\$ 19,477</u>	<u>\$ 16,664</u>

## 6. BUSINESS SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee which is responsible for allocating resources to the reportable segments and assessing their performance. The Group has five operating segments which are organised based on nature of the products and services provided by each segment.

- i. Retail banking – the provision of full service personal banking including the acceptance of savings, fixed and demand deposits, providing consumer financing through loans, overdrafts and credit cards and mortgage financing on real estate and the sale of foreign exchange.
- ii. Credit life insurance – the provision of credit life insurance in respect of the Bank’s borrowers through Laurentide.
- iii. Real estate holdings - ownership and management of real property which is rented to branches and departments of the Bank through C.B. Holding Co. Ltd.
- iv. Investment holdings – holdings of investments in the Bank’s common shares through C.B. Securities Ltd.
- v. Insurance agency operations – provision of insurance agency services to the Group’s insurance company, its sole client through Laurentide Insurance Agency Limited.

The entities within the Group operate within the same geographical area. Non-Bahamian dollar assets and liabilities are not material and are therefore not allocated into business segments. Inter-segment revenues are charged at competitive market prices. Inter-segment expenses are transferred at cost. All transactions between segments are eliminated on consolidation.



## 7. CASH AND CASH EQUIVALENTS

	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 26,614	\$ 17,954
Deposits with banks	90,630	16,056
Balances with The Central Bank of The Bahamas	<u>164,296</u>	<u>147,772</u>
	281,540	181,782
Minimum reserve requirement	(51,897)	(54,258)
Time deposit securing letter of credit	<u>(2,313)</u>	<u>(2,313)</u>
Cash and cash equivalents	<u>\$ 227,330</u>	<u>\$ 125,211</u>

The minimum reserve requirement comprises deposits placed with the Central Bank of The Bahamas ('the Central Bank') to meet statutory requirements of the Bank's licenses and are not available for use in the Bank's day to day operations. As such, these amounts are excluded from balances held with the Central Bank to arrive at cash and cash equivalents. All balances with the Central Bank are non-interest bearing. Cash and deposit balances disclosed above are recoverable within one year and are classified as current assets.

## 8. INVESTMENTS

Investments are as follows:

	<b>2019</b>		
	Amount	Maturity years	Interest rates
Bahamas Government debt	404,921	2020-2037	1.80% - 4.88%
Government related debt	18,267	2023-2035	4.25% - 7.00%
United States Government debt	1,000	2023-2024	6.25% - 7.50%
Equity investments	6,741		
Accrued interest receivable	<u>5,295</u>		
Total investment securities	<u>\$ 436,224</u>		



	<b>2018</b>		
	Amount	Maturity years	Interest rates
Bahamas Government debt	\$ 428,898	2019-2037	1.80% - 4.88%
Government related debt	18,285	2023-2035	4.25% - 7.00%
United States Government debt	1,000	2023-2024	6.25% - 7.50%
Equity	4,357		
Accrued interest receivable	<u>5,032</u>		
Total investment securities	<u>\$ 457,572</u>		

Investments categorized by maturity are as follows:

	<b>2019</b>	<b>2018</b>
Current (due within one year)	253,418	130,149
Non-current (due after one year)	<u>182,806</u>	<u>327,423</u>
	<u>\$ 436,224</u>	<u>\$ 457,572</u>

The majority of the Group's investments are government related, including security investment in The Bahamas Mortgage Corporation which are guaranteed by the government. There is not a very active market for these investments. Primary brokers of these types of instruments trade similar instruments at par value. Accordingly, management determined that their fair values approximate their carrying values.

The Group's common share holdings in MasterCard Incorporated account for the majority of its equity investments. These shares are carried at fair value with any resulting gains or losses recorded in the consolidated statement of profit or loss and other comprehensive income.

## 9. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are as follows:

	<b>2019</b>	<b>2018</b>
Residential mortgage	\$ 180,530	\$ 200,756
Business	25,650	29,613
Personal	735,310	777,517
Credit card	40,719	36,847
Government	<u>37,000</u>	<u>22,500</u>
	1,019,209	1,067,233
Less: Impairment allowances	<u>(86,413)</u>	<u>(72,438)</u>
	<u>\$ 932,796</u>	<u>\$ 994,795</u>

Loans categorized by maturity are as follows:

Current (due within one year)	\$ 57,235	\$ 53,063
Non-current (due after one year)	<u>875,561</u>	<u>941,732</u>
	<u>\$ 932,796</u>	<u>\$ 994,795</u>

Included within the carrying amount of gross loans and advances to customers are accrued interest and late fees amounting to \$14.2 million (2018: \$15.3 million), and effective interest rate adjustments of \$6.1 million (2018: \$5.9 million), the latter principally comprising deferred fees and other direct costs incurred to originate loans.

The fair value of loans and advances to customers as determined by management is \$1.02 billion (2018: \$ 1.08 billion).

*Movement in Impairment Allowances:*

	<b>2019</b>				
	Balance at Beginning of Year	Loans Written off	Recoveries	Impairment Losses	Balance at End of Year
Residential mortgage	\$ 12,918	\$ (2,213)	98	2,318	13,121
Business	1,201	(312)	-	(382)	507
Personal	56,472	(47,264)	16,331	44,882	70,421
Credit card	1,847	(1,229)	526	1,220	2,364
<b>Total</b>	<b>\$ 72,438</b>	<b>\$ (51,018)</b>	<b>\$ 16,955</b>	<b>\$ 48,038</b>	<b>\$ 86,413</b>

	<b>2018 (Restated)</b>					
	Balance at Beginning of Year	IFRS 9 Transition Adjustment	Loans Written off	Recoveries	Impairment Losses	Balance at End of Year
Residential mortgage	\$ 22,035	\$ (7,621)	\$ (723)	41	(814)	12,918
Business	1,728	(498)	(9)	-	(20)	1,201
Personal	49,845	6,424	(40,000)	12,054	28,149	56,472
Credit card	3,592	(567)	(2,126)	570	378	1,847
<b>Total</b>	<b>\$ 77,200</b>	<b>\$ (2,262)</b>	<b>\$ (42,858)</b>	<b>\$ 12,665</b>	<b>\$ 27,693</b>	<b>\$ 72,438</b>

## 10. OTHER ASSETS

The composition of other assets is as follows:

	<b>2019</b>	<b>2018</b>
Pension asset	\$ 5,339	\$ 11,674
Prepaid expenses	4,333	2,920
Other	6,387	1,367
	<u>\$ 16,059</u>	<u>\$ 15,961</u>

The pension asset comprises the defined benefit plan. The Guaranteed Investment Contract (GIC) was discontinued effective June 30, 2019 by way of Board resolution. Upon termination of the GIC, employees elected to transfer their assets to the CB Managed Fund or one of the existing funds managed by the administrator. The current plans have no guaranteed rate of return so that all gains and losses on the investments accrue to employees.

The net pension asset is classified as non-current. All other assets are expected to be recovered within one year and are classified as current.

Other assets are primarily computer inventory and accounts receivable.

## 11. PREMISES AND EQUIPMENT

The movement of premises and equipment which is a non-current asset is as follows:

	<u>Land/Site Improvements</u>	<u>Buildings</u>	<u>Leasehold Improvements</u>	<u>Furniture, Fittings and Equipment</u>	<u>Total</u>
<b>Cost</b>					
December 31, 2017	\$ 14,466	\$ 35,908	\$ 965	\$ 30,772	\$ 82,111
Additions		773	17	5,143	5,933
Disposals	-	-	-	(529)	(529)
December 31, 2018	14,466	36,681	982	35,386	87,515
Additions	30	107	143	1,009	1,289
Transfers					-
Writeoffs	-	(3,676)	(35)	(780)	(4,491)
Disposals	-	-	-	7	7
December 31, 2019	<u>14,496</u>	<u>33,112</u>	<u>1,090</u>	<u>35,622</u>	<u>84,320</u>
<b>Accumulated Depreciation and Amortization</b>					
December 31, 2017	561	11,397	856	24,479	37,293
Charge for the year	72	874	20	2,191	3,157
Disposals	-	-	-	(429)	(429)
December 31, 2018	633	12,271	876	26,241	40,021
Charge for the year	57	889	32	2,521	3,499
Transfers					-
Writeoffs	-	(1,072)	(27)	(628)	(1,727)
Disposals	-	-	-	(3)	(3)
December 31, 2019	<u>690</u>	<u>12,088</u>	<u>881</u>	<u>28,131</u>	<u>41,790</u>
<b>Net Book Value</b>					
December 31, 2019	<u>\$ 13,806</u>	<u>\$ 21,024</u>	<u>\$ 209</u>	<u>\$ 7,491</u>	<u>\$ 42,530</u>
December 31, 2018	<u>\$ 13,833</u>	<u>\$ 24,410</u>	<u>\$ 106</u>	<u>\$ 9,145</u>	<u>\$ 47,494</u>

During September, 2019 Hurricane Dorian impacted the Bank's branches in Grand Bahama and Abaco. The Bank engaged specialists to assess the value of the assets impacted by the hurricane. Based on this assessment, assets with a net book value of \$2.8 million were written off during the year.

During December, 2019, the Bank settled insurance claims related to the hurricane-damaged assets of \$4.9 million.

## 12. DEPOSITS FROM CUSTOMERS

The composition of deposits from customers is as follows:

	<b>2019</b>	<b>2018</b>
Demand deposits	\$ 293,677	\$ 177,085
Savings accounts	402,182	341,573
Certificates of deposit	<u>723,431</u>	<u>792,586</u>
	<u>\$ 1,419,290</u>	<u>\$ 1,311,244</u>

Deposits from customers categorized by maturity are as follows:

Current (due within one year)	\$ 1,027,299	\$ 844,082
Non-current (due after one year)	<u>391,991</u>	<u>467,162</u>
	<u>\$ 1,419,290</u>	<u>\$ 1,311,244</u>

Management has determined that the fair value of deposits from customers approximates their carrying values.

Included in deposits from customers is accrued interest payable to customers totaling \$19.9 million (2018: \$22.6 million).

## 13. LIFE INSURANCE FUND LIABILITY

The Group provides credit life insurance in respect of certain of its borrowers through Laurentide.

The life insurance fund liability in respect of credit life insurance contracts is calculated as:

- i. The sum of the present value of expected future death claims, withdrawal claims and administrative expenses for single premium contracts, and
- ii. The sum of the present value of expected future death claims, withdrawal claims, commissions and administrative expenses, less expected future monthly premiums, for monthly premium contracts.

An actuarial valuation of the life insurance fund liability was conducted as at December 31, 2019 by Oliver Wyman of Toronto, Canada. The valuation included a provision of \$322 thousand (2018: \$339 thousand) for claims incurred but not yet reported.

The movement in the life insurance fund liability is as follows:

	<b>2019</b>	<b>2018</b>
Balance at beginning of the year	\$ 2,951	\$ 5,599
Change in assumptions	23	(2)
Termination policies	(812)	(1,653)
Impact of aging	(524)	(1,173)
Change in claims incurred but not reported	(17)	114
New business	22	18
Change in unearned premium reserve	<u>39</u>	<u>48</u>
Net change in insurance reserve	<u>(1,269)</u>	<u>(2,648)</u>
Balance at end of the year	<u>\$ 1,682</u>	<u>\$ 2,951</u>

Balances at the end of the year are expected to be settled as follows:

Current (within one year)	\$ 1,093	\$ 1,328
Non-current (after one year)	<u>589</u>	<u>1,623</u>
	<u>\$ 1,682</u>	<u>\$ 2,951</u>

#### *Actuarial Assumption Sensitivities*

The table below provides the impact of a 10% change in assumptions on mortality rates, policy lapse rates, loan interest rates, expenses and inflation:

Scenario	<b>2019</b>								B\$ Increase over Base	% Increase over Base
	Mortality per \$1,000	Lapse Rate	Loan Interest Rate	Expense per Policy	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve (B\$)		
Base 2019	4.5	48%	15.50%	\$13.86	3.30%	3.45%	3.25%	1,153		
Lower Interest Rate	4.5	48%	15.50%	\$13.86	3.30%	3.11%	2.93%	1,157	4	0.4%
Mortality = 4.95	5.0	48%	15.50%	\$13.86	3.30%	3.45%	3.25%	1,218	65	5.7%
Lapse = 43.20%	4.5	43%	15.50%	\$13.86	3.30%	3.45%	3.25%	1,173	21	1.8%
Loan Interest = 17.05%	4.5	48%	17.05%	\$13.86	3.30%	3.45%	3.25%	1,156	3	0.3%
Expenses = 15.25	4.5	48%	15.50%	\$15.25	3.30%	3.45%	3.25%	1,176	24	2.1%
Inflation = 3.63%	4.5	48%	15.50%	\$13.86	3.63%	3.45%	3.25%	1,154	1	0.1%

**2018**

Scenario	Mortality		Loan Interest Rate	Expense per Policy	Inflation Rate	Initial Interest Rate	Ultimate Interest Rate	Total Reserve (B\$)	B\$	%
	per \$1,000	Lapse Rate							Increase over Base	Increase over Base
Base 2018	4.5	54%	15.50%	\$13.86	3.30%	3.45%	3.25%	2,443		
Lower Interest Rate	4.5	54%	15.50%	\$13.86	3.30%	3.11%	2.93%	2,451	8	0.3%
Mortality = 4.95	5.0	54%	15.50%	\$13.86	3.30%	3.45%	3.25%	2,532	90	3.7%
Lapse = 59.40%	4.5	59%	15.50%	\$13.86	3.30%	3.45%	3.25%	2,446	3	0.1%
Loan Interest = 17.05%	4.5	54%	17.05%	\$13.86	3.30%	3.45%	3.25%	2,447	5	0.2%
Expenses = 15.25	4.5	54%	15.50%	\$15.25	3.30%	3.45%	3.25%	2,470	27	1.1%
Inflation = 3.63%	4.5	54%	15.50%	\$13.86	3.63%	3.45%	3.25%	2,444	2	0.1%

**14. OTHER LIABILITIES**

The composition of other liabilities, classified as current liabilities, is as follows:

	<b>2019</b>	<b>2018</b>
Accruals and accounts payable	\$ 7,335	\$ 6,249
Cashier's cheques outstanding	4,453	3,703
Employee related	1,708	2,641
Other	1,844	2,920
	<u>\$ 15,340</u>	<u>\$ 15,513</u>

**15. SHARE CAPITAL**

**Preference Shares**

	<b>Authorised</b>	
	<b>Rate</b>	<b>Par \$</b>
Class E	Prime + 1.5%	100 45,000
Class F	Prime + 1.5%	100 10,000
Class G	Prime + 1.5%	100 10,000
Class H	Prime + 1.5%	100 10,000
Class I	Prime + 1.5%	100 10,000
Class J	Prime + 1.5%	100 10,000
Class K	Prime + 1.5%	100 10,000
Class L	Prime + 1.5%	100 10,000
Class M	Prime + 1.5%	100 10,000
Class N	Prime + 1.5%	100 10,000
		<u>\$ 135,000</u>

	<b>Outstanding</b>			
	<b>2019</b>			
	<b>Beginning of year</b>	<b>Redemptions</b>	<b>Conversion</b>	<b>End of Year</b>
Class E	\$ 32,614	\$ (32,614)	\$ -	\$ -
Class J	9,924	(9,924)	-	-
Class K	9,999	(9,999)	-	-
Class L	9,987	(9,987)	-	-
Class M	8,974	(8,974)	-	-
Class N	10,000	(10,000)	-	-
	<u>\$ 81,498</u>	<u>\$ (81,498)</u>	<u>\$ -</u>	<u>\$ -</u>

	<b>Outstanding</b>			
	<b>2018</b>			
	<b>Beginning of year</b>	<b>Redemptions</b>	<b>Conversion</b>	<b>End of Year</b>
Class E	\$ 32,614	\$ -	\$ -	\$ 32,614
Class J	9,924	-	-	9,924
Class K	9,999	-	-	9,999
Class L	9,987	-	-	9,987
Class M	8,974	-	-	8,974
Class N	10,000	-	-	10,000
	<u>\$ 81,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,498</u>

All classes are non-cumulative, non-voting with no maturity and require that the shares must have been issued for at least five years. Central Bank approval must also be obtained prior to redemption. Redemption is solely at the option of the Group.

With approval from the Central Bank, the Group redeemed all of its preference shares effective May 1, 2019 for class J, K, L, M and N and October 1, 2019 for class E.

For all classes of shares, dividend rates are variable with Bahamian Prime Rate. In 2019, the Bahamian Prime Rate was 4.25% (2018: 4.25%). All preference shares are authorized for reissuance.

## Common Shares

	<b>2019</b>	<b>2018</b>
<b>Authorised:</b>		
675,000,000 (2018: 675,000,000) shares of \$0.00667 per share	<u>\$ 4,500</u>	<u>\$ 4,500</u>
<b>Issued and fully paid:</b>		
295,268,556 (2018: 295,268,556) shares of \$0.00667 per share	\$ 1,968	\$ 1,968
Share premium	27,010	27,011
Less: 7,114,879 (2018: 3,806,184) shares held in treasury	<u>(24,349)</u>	<u>(9,838)</u>
Total	<u>\$ 4,629</u>	<u>\$ 19,141</u>
Share capital	\$ 1,921	\$ 1,943
Share premium	<u>2,708</u>	<u>17,198</u>
	<u>\$ 4,629</u>	<u>\$ 19,141</u>

The holdings of treasury shares are to fund the Group's stock based compensation plans and inject liquidity into the local market.

Share capital on the statement of financial position is comprised of the following:

	<b>2019</b>	<b>2018</b>
Common shares	\$ 1,921	\$ 1,943
Preference shares	<u>-</u>	<u>81,498</u>
	<u>\$ 1,921</u>	<u>\$ 83,441</u>

During the year the Group repurchased some of its common shares through its subsidiary, C.B. Securities. Details of the purchases are disclosed in Note 21.

During the year the Group paid quarterly common share dividends of \$0.02 (2018: \$0.02) per share and extraordinary dividends of \$0.02 (2018: \$0.04) per share. These payments totaled \$29.0 million (2018: \$35.0 million) in common share dividend payments.



## 16. EARNINGS PER SHARE

	2019	2018
Total profit	\$ 31,611	\$ 51,939
Preference share dividends	<u>(2,414)</u>	<u>(4,692)</u>
Total profit available to common shareholders	<u>\$ 29,197</u>	<u>\$ 47,247</u>
Weighted average number of common shares (in thousands)	<u>289,866</u>	<u>291,546</u>
Earnings per share (expressed in dollars)	<u>\$ 0.10</u>	<u>\$ 0.16</u>

## 17. GENERAL RESERVE

The general reserve is non-distributable and was created with a \$10.0 million allocation from retained earnings in 2003 to allow the Bank to address unusual issues or distress situations should they occur. In 2007, the Bank increased the general reserve by \$0.5 million to further allow for the potential impact of hurricanes.

## 18. EMPLOYEE SHARE BASED PAYMENT PLANS

### *Stock Option Plan*

On May 16, 2007, the shareholders approved an employee stock option plan (the Plan) of 2 million shares for designated officers and management staff. The number of shares included in the Plan is amended each time there is a stock split (Note 15). Currently, there are 18 million shares approved under the Plan.

The main details of the Plan are as follows:

- a. Options will be granted annually to participants at the prevailing market price on the date of the grant.
- b. Options vest on a straight-line basis over a three-year period.
- c. Vested options expire one year after the date of vesting.
- d. Options may only be exercised while in the employment of the Bank or subsidiary or affiliated companies unless otherwise approved by the Board.
- e. Exercised options are subject to a six-month restriction period before they can be transferred by the participant.
- f. Unless otherwise terminated by the Board, the Plan shall continue until the pool of common shares has been exhausted.

The Plan is being funded by CB Securities Ltd. purchasing shares from the market in advance of the options being exercised. The Bank recognised expenses of \$nil (2018: \$nil) related to this equity settled share based payment plan during the year.

### *Other share based payment plan*

Under the Bank's employee share purchase plan, non-management staff may purchase the Bank's shares at 90% of the closing market price on the date of grant for a restricted period each year. Employees' ability to purchase shares is restricted to a percentage of their salary according to their position. Shares so purchased vest immediately but are released to the employee on payment for the shares. No shares were made available under this plan in 2019 (2018: nil shares).

There were no shares outstanding to be exercised under the stock option plans as at December 31, 2019 (2018: nil). Options available to be granted under the plans totaled 14,034,000 (2018: 14,034,000).

## **19. FEES AND OTHER INCOME**

Fees and other income derived from contracts with customers are as follows:

	<b>2019</b>	<b>2018</b>
Loan and credit card fees, excluding commitment and origination fees	\$ 6,334	\$ 6,601
Deposit account fees	5,007	4,238
Debit card fees	2,643	1,593
Foreign exchange	3,075	2,293
Other	1,388	1,140
	<u>\$ 18,447</u>	<u>\$ 15,865</u>

## **20. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses is as follows:

	<b>2019</b>	<b>2018</b>
Staff costs	\$ 37,472	\$ 39,623
Licences and taxes (including premium taxes)	9,959	9,662
Professional and service fees	9,378	8,518
Occupancy	4,403	4,252
Advertising	2,580	2,221
Other	6,834	6,802
	<u>\$ 70,626</u>	<u>\$ 71,078</u>

Staff costs include pension costs of \$2.1 million (2018: \$2.0 million) of which \$0.2 million (2018: \$0.3 million) relates to the DB Provisions (see Note 22). Occupancy includes rental costs for leased properties (see Note 23).

## 21. RELATED PARTIES' BALANCES AND TRANSACTIONS

The following table shows balances and transactions with related parties not disclosed elsewhere in these consolidated financial statements:

	2019			2018		
	Key	Other	Total	Key	Other	Total
	Management	Related		Management	Related	
	Personnel	Parties	Personnel	Parties		
\$	\$	\$	\$	\$	\$	
Loans and advances to customers	2,658	867	3,525	3,356	814	4,170
Deposits from customers	35,201	227,301	262,502	34,991	259,521	294,512
Other liabilities	-	47	47	-	107	107
Interest income	131	71	202	169	53	222
Interest expense	728	5,582	6,311	868	6,918	7,786
General and administrative expense	-	721	721	-	773	773
Commitments under revolving credit lines	927	2,434	3,361	1,074	4,717	5,791

Amounts included in loans and advances to customers that relate to residential mortgages and business loans are secured. Amounts related to personal loans and credit cards are unsecured. Impairment allowances in respect of these balances are not material.

As at December 31, 2019 a total of 83,194,370 (2018: 83,829,799) common shares and \$nil (2018: \$130,654) preference shares were held by key management personnel and directors.

### *Compensation of Key Management Personnel*

The remuneration of Directors and other members of key management personnel, those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank, in addition to Directors' fees disclosed in the consolidated statement of profit or loss and other comprehensive income is as follows:

	2019	2018
Short term benefits	\$ 5,828	\$ 7,111
Post employment benefits	<u>936</u>	<u>863</u>
	<u>\$ 6,764</u>	<u>\$ 7,974</u>

### *Purchase of Shares by Subsidiary*

During the year, the Bank's wholly-owned subsidiary C.B. Securities purchased 3,308,695 of its common shares for \$14.5 million (2018: 499,575 shares for \$2.0 million). C.B. Securities holds 7,114,879 (2018: 3,806,184) of the Bank's shares which have a market value of approximately \$32 million (2018: \$17.2 million).

As at December 31, 2019, C.B. Securities held nil of the Bank's preference shares (2018: \$110,000). The market value of these shares approximated their carrying value.

## 22. BANK PENSION SCHEME

The pension plan consists of the Defined Benefit Provisions (DB Provisions) and Defined Contribution Provisions (DC Provisions).

### *DB Provisions*

The DB Provisions, which is closed to new members, provides pensions based on years of service, contributions and weighted average earnings at retirement. The Bank's funding policy is to make monthly contributions to the DB Provisions based on triennial valuations. The Bank pays on demand to the DB Provisions such periodic contributions as may be required to meet the obligations of the DB Provisions.

All employees in active employment of the Bank who had at least 3 years of service or had reached the age of 25, and who met the eligibility requirements were eligible for the DB Provisions. After October 1, 2013 entry to the DB Provisions was closed to all employees.

The DB Provisions typically expose the Bank to the following actuarial risks:

- i. Investment risk: Currently the DB Provisions has a balanced investment in Bahamian Government (and Government-related) securities and private securities. The present value of the DB Provisions liability is calculated using a discount rate of 1.25% (2018: 1%) above Bahamian Prime Rate of 4.25% (2018: 4.25%) (Note 20). If the return on assets is below this rate, it will create a deficit.
- ii. Interest risk: A decrease in the Bahamian Prime Rate will increase the DB Provisions liability.
- iii. Longevity risk: The present value of the DB Provisions liability is calculated by reference to the best estimate of the mortality of participants both during and after their employment. An increase in the life expectancy of the DB Provisions participants will increase the DB Provisions' liability.
- iv. Salary risk: The present value of the DB Provisions liability is calculated by reference to the future salaries of participants. As such, an increase in the salary of the participants will increase the DB Provisions' liability.

Actuarial work on the DB Provisions was undertaken by Mercer (Canada) Limited, Toronto, Canada as at December 31, 2019.

The following tables present information related to the Bank's DB Provisions, including amounts recorded in the consolidated statement of financial position and the components of net periodic benefit cost:

	<b>2019</b>	<b>2018</b>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 28,833	\$ 29,037
Interest income	1,486	1,447
Actual return on plan assets	(90)	(888)
Administrative costs	(107)	(81)
Employer contributions	165	447
Participant contributions	72	79
Benefits paid	(780)	(749)
Withdrawals from plan	(293)	(459)
Settlement payments	-	-
Fair value of plan assets at end of year	<u>\$ 29,286</u>	<u>\$ 28,833</u>
Change in defined benefit obligation:		
Benefit obligation at beginning of year	\$ 24,206	\$ 25,582
Current employer service costs	358	433
Participant contributions	72	79
Interest cost	1,244	1,262
Withdrawals from plan	(293)	(459)
Benefits paid	(780)	(749)
Experience adjustment	(62)	(91)
Settlement payments	-	-
Changes in financial assumptions	<u>(798)</u>	<u>(1,851)</u>
Benefit obligation at end of year	<u>\$ 23,947</u>	<u>\$ 24,206</u>
Benefit obligation at end of year	\$ 23,947	\$ 24,206
Fair value of plan assets at end of year	<u>(29,286)</u>	<u>(28,833)</u>
Net defined benefit asset	<u>\$ (5,339)</u>	<u>\$ (4,627)</u>

	<b>2019</b>	<b>2018</b>
Net defined benefit asset:		
Balance at beginning of year	\$ (4,627)	\$ (3,455)
Defined benefit included in profit or loss	216	348
Remeasurement included in other comprehensive income	(763)	(1,073)
Employer contributions	<u>(165)</u>	<u>(447)</u>
Balance at end of year	<u>\$ (5,339)</u>	<u>\$ (4,627)</u>

Components of defined benefit cost:		
Current employer service costs	\$ 358	\$ 433
Interest cost on defined benefit obligation	1,244	1,262
Interest income on plan assets	(1,486)	(1,447)
Administrative costs	<u>100</u>	<u>100</u>
Pension benefit expense included in staff costs	<u>\$ 216</u>	<u>\$ 348</u>

	<b>2019</b>	<b>2018</b>
Components of remeasurements:		
Changes in financial assumptions	\$ (798)	\$ (1,851)
Experience adjustments	(62)	(91)
Return on plan assets excluding interest income	<u>97</u>	<u>869</u>
Remeasurements included in other comprehensive income	<u>\$ (763)</u>	<u>\$ (1,073)</u>

Weighted-average assumptions to determine defined benefit obligations:		
Discount rate	5.50%	5.25%
Rate of pension increases	1.00%	1.00%
Rate of increase in future compensation	3.50%	3.50%
Mortality Table	UP 1994 Fully generational	UP 1994 Fully generational

Weighted-average assumptions to determine defined benefit cost:		
Discount rate	5.25%	5.00%
Rate of pension increases	1.00%	1.00%
Rate of increase in future compensation	3.50%	3.50%
Mortality Table	UP 1994 Fully generational	UP 1994 Fully generational

Actuarial assumption sensitivities:

The discount rate is sensitive to changes in market conditions arising during the reporting period.

The results of a 25 basis points increase or decrease over the financial assumptions used in the measurement of the defined benefit obligation and defined benefit expense are summarized in the table below:

<b>2019</b>			
	Discount Rate	Compensation	Pension
Pension obligation	\$ 798	\$ 200	\$ 616
Pension expense	\$ 67	\$ 16	\$ 42

<b>2018</b>			
	Discount Rate	Compensation	Pension
Pension obligation	\$ 851	\$ 195	\$ 604
Pension expense	\$ 70	\$ 15	\$ 43

The effect of assuming an increase of 1 year in life expectancy would increase the benefit obligation by \$0.5 million (2018: \$0.5 million) and pension benefits expense by \$36,000 (2018:\$37,000).

The weighted average duration of the defined benefit obligation was 13.8 years (2018: 14.5 years).

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the year) has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

The DB Provisions owns 1,410,825 (2018: 1,410,825) common shares and \$nil (2018: \$0.6 million) preference shares of the Bank. These shares have a market value of \$6.3 million (2018: \$6.9 million) which represents 21.63% (2018: 23.93%) of the DB Provisions' assets.

The major categories of DB Provisions assets at December 31, 2019 are as follows:

	<b>Fair Value of Plan Assets</b>	
	<b>2019</b>	<b>2018</b>
Balance at banks	\$ 942	\$ 1,214
Equity instruments	10,724	10,532
Government bonds	13,270	12,523
Other debt instruments	1,869	1,875
Preferred equity	2,528	2,718
Other Assets	7	-
Liabilities	<u>(54)</u>	<u>(29)</u>
Fair value of plan assets	<u>\$ 29,286</u>	<u>\$ 28,833</u>

Given that the DB Provisions is currently overfunded, the Bank does not expect to make any contributions in 2019 in respect of the DB Provisions.

DB Provisions funds held at the Bank and related interest expense are as follows:

	<b>2019</b>	<b>2018</b>
Deposits from customers	<u>\$ 680</u>	<u>\$ 981</u>
Interest expense	<u>\$ 14</u>	<u>\$ 21</u>

### **DC Provisions**

The DC Provisions requires a defined contribution be made by the Bank for plan members. Eligibility in the DC Provisions includes all employees in active employment of the Bank who have at least 1 year of service or have reached the age of 25, and who met the eligibility requirements of the DC Provisions on or after October 1, 2013 or were hired after September 1, 2013. Contributions to the DC Provisions started on November 1, 2013 for eligible employees.

Prior to June 30, 2019, the DC Provisions included a guaranteed investment option at the discretion of the employee whereby the Bank guaranteed a specified return as defined by the Bank (the “Guaranteed Investment Contract”). This option was primarily invested in Bahamian Government (and Government-related) debt, other fixed income securities, and equity shares in the Bank. The Bank guaranteed a rate of 4.25% which expired in June, 2019.

The Guaranteed Investment Contract was replaced by the CB Managed Fund which has no guaranteed rate of return so that all gains and losses on the investments accrue to employees.

Contributions to the DC Provisions are deposited into the account of each employee and administered by the pension plan’s investment manager. Employees may choose from three



investment options, two of which are investment funds offered by the investment manager and the other being the CB Managed Fund.

The amounts recognised as an expense under the DC Provisions are as follows:

	<b>2019</b>	<b>2018</b>
Pension expense included in staff costs	\$ 1,646	\$ 1,630

The DC Provisions owns 683,778 (2018: 2,882,980) common shares and \$nil (2018: \$1.8 million) preference shares of the Bank. These shares have a market value of \$3.1 million (2018: \$14.8 million) which represents 25.9% (2018: 29.0%) of the DC Provisions assets.

The GIC available through the DC Provisions expired on July 31, 2019. At termination of the GIC, the surplus of \$7.1 million was settled. As a result, there was no pension asset or liability relative to the GIC as at December 31, 2019.

The remeasurement gain of defined benefit obligation included in other comprehensive income is as follows:

	<b>2019</b>	<b>2018</b>
DB Provisions	\$ 763	\$ 1,073
DC Provisions - Guaranteed Investment Contract	<u>-</u>	<u>(1,372)</u>
	<u>\$ 763</u>	<u>\$ (299)</u>

## **23. COMMITMENTS AND CONTINGENCIES**

### *Loan commitments*

In the ordinary course of business, the Group had commitments as at December 31, 2019, as follows:

	<b>2019</b>	<b>2018</b>
Mortgage commitments	\$ 5,261	\$ 4,308
Revolving credit lines	<u>37,332</u>	<u>27,959</u>
	<u>\$ 42,593</u>	<u>\$ 32,267</u>

Revolving credit lines are undrawn lending facilities that have been approved by the Bank to meet the requirements of customers. They are revocable at the Bank's discretion. The amount shown represents the maximum amount of additional credit that the Bank could be obligated to extend.

These financial instruments are subject to the Group's standard credit policies and procedures.

### *Capital commitments*

As at December 31, 2018 the Bank had capital commitments in the amount of \$3.8 million (2018: \$nil).

*Lease commitments*

The future minimum rental payments required under non-cancellable operating leases as at December 31, 2019 are as follows:

<b>Year</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
2019	639	567
2020	384	198
2021	195	13
2022	175	-
2023	-	-
	<u>\$ 1,393</u>	<u>\$ 778</u>

*Letters of Credit*

The Bank has a standby letter of credit with Citibank N.A. for US\$2.3 million, which was established to secure settlement transactions with MasterCard and Visa. This standby letter of credit is secured by time deposits totaling \$2.3 million (2018: \$2.3 million) which are included in 'Cash and deposits with banks' in the consolidated statement of financial position.

*Other 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 material losses will arise as a result of these proceedings.

## **24. RISK MANAGEMENT**

- a. ***Capital management*** - The Group manages its capital to ensure that it has a strong capital base to support the development of its business. The capital maintained exceeds regulatory capital requirements. The Group maximizes the return to shareholders through optimization of its debt and equity balance. The Group's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the Group's risk appetite, the Bank's policies and the maximization of shareholder return.

The capital structure of the Bank consists of preference shares and equity attributable to the common equity holders of the Bank, comprising issued capital, general reserves, share premium and retained earnings as disclosed in Notes 15 and 17. The Board Executive Committee reviews the capital structure at least annually. As part of this review, the Executive Committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Executive Committee the Bank manages its capital structure through the payment of dividends, new share issues, (common or preference) and the redemption of preference shares.

The Central Bank requires that the Bank maintains a ratio of total regulatory capital to risk-weighted assets at a minimum of 17% (2018:17%). The Bank's capital ratio for 2019 was 26% (2018: 34%)

Capital regulatory requirements for subsidiary companies are managed through the Bank. The Group's strategy is unchanged from 2018.

Laurentide is licensed to conduct long term insurance business under The Insurance Act 2005 (the "Act").

Under paragraph 60(1)A of The Insurance (General) Regulations, 2010 (the "Regulations") an insurance company is required to have a minimum paid-up and unencumbered share capital of not less than three million dollars. As at December 31, 2019 Laurentide has \$300,300 (2018: \$300,300) in share capital and \$2,750,000 (2018: \$2,750,000) in contributed surplus. Laurentide's board passed a resolution on December 6, 2011 making the contributed surplus non-distributable.

Laurentide is required to establish and maintain a minimum statutory deposit of \$2 million, such deposit to be held in trust pursuant to section 43(2) of the Act and paragraph 62 of the Regulations. The LIM (Laurentide Insurance Management) Statutory Reserve Trust was established on December 20, 2011 with assets valued at \$2,289,300 as at December 31, 2019 (2018: \$2,289,300).

Laurentide is required to maintain a solvency margin pursuant to paragraph 90 of the Regulations. For the purposes of the Regulations, margin of solvency means the excess of the value of its admissible assets over the amount of its liabilities. The required margin of solvency is the greater of (a) twenty per cent of the premium income, including annuity premiums, in its last financial year; or (b) five hundred thousand dollars, plus the minimum amount of capital required. As at December 31, 2019, the minimum margin of solvency was \$4,026,720 (2018: \$3,746,402). Laurentide's solvency margin at December 31, 2019 was \$38,280,493 (2018: \$36,985,371) resulting in a surplus of \$34,253,773 (2018: \$33,238,969).

Paragraph 68 of the Regulations stipulates that of the value of the admissible assets which Laurentide must at any time have in order to maintain the minimum margin of solvency required by the Act, at least sixty per cent shall be in the form of qualifying assets. As at December 31, 2019, Laurentide had \$40,043,420 (2018: \$39,993,331) in qualifying assets and \$40,043,420 (2018: \$39,993,331) in admissible assets as defined under paragraphs 70 and 72 of the Regulations, respectively.

During the year, the Group was in compliance with all externally imposed capital requirements.

- b. **Interest rate risk** - Interest rate risk is the potential for a negative impact on the consolidated statement of financial position and/or consolidated statement of profit or loss and other comprehensive income arising from adverse changes in the value of financial instruments as a result of changes in interest rates.

Interest rate risk or interest rate sensitivity results primarily from differences in the repricing dates of assets and liabilities. Interest rate risk exposures or "gaps" may

produce favourable or unfavourable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base. The following table sets out the Group's interest rate risk exposure as at December 31, 2019, and represents the Group's risk exposure at this point in time only.

### ***Interest Rate Sensitivity***

If interest rates increase/decrease by 50 basis points and all other variables remain constant, the Group's profit over the next 12 months is estimated to increase/decrease by \$1.8 million (2018: \$1.1 million).

<b>As of December 31, 2019</b>	Repricing date of interest sensitive instruments				Non interest rate sensitive	Total
	Within 3 Months	3 - 12 months	1 - 5 Years	Over 5 years		
<b>Assets</b>						
Cash and deposits with banks	\$ 785	\$ 1,528	\$ -	\$ -	\$ 114,931	\$ 117,244
Balances with The Central Bank of The Bahamas	-	-	-	-	164,296	164,296
Investments	364,566	10,143	33,390	21,384	6,741	436,224
Loans and advances to customers	8,621	14,809	226,581	682,785	-	932,796
Other assets	-	-	-	-	4,858	4,858
Total financial assets	\$ 373,972	\$ 26,480	\$ 259,971	\$ 704,169	\$ 290,826	\$ 1,655,418
<b>Liabilities</b>						
Deposits from customers	\$ 828,363	\$ 204,035	\$ 376,243	\$ 10,649	\$ -	\$ 1,419,290
Other liabilities	-	-	-	-	15,340	15,340
Total financial liabilities	\$ 828,363	\$ 204,035	\$ 376,243	\$ 10,649	\$ 15,340	\$ 1,434,630
<b>Interest rate sensitivity gap</b>	<b>\$ (454,391)</b>	<b>\$ (177,555)</b>	<b>\$ (116,272)</b>	<b>\$ 693,520</b>		

<b>As of December 31, 2018 (Restated)</b>	Repricing date of interest sensitive instruments				Non interest rate sensitive	Total
	Within 3 Months	3 - 12 months	1 - 5 Years	Over 5 years		
<b>Assets</b>						
Cash and deposits with banks	\$ 785	\$ 1,528	\$ -	\$ -	\$ 31,697	\$ 34,010
Balances with The Central Bank of The Bahamas	-	-	-	-	147,772	147,772
Investments	400,112	-	37,657	15,445	4,358	457,572
Loans and advances to customers	8,959	13,630	232,954	739,252	-	994,795
Other assets	-	-	-	-	15	15
Total financial assets	\$ 409,856	\$ 15,158	\$ 270,611	\$ 754,697	\$ 183,842	\$ 1,634,164
<b>Liabilities</b>						
Deposits from customers	\$ 682,227	\$ 239,536	\$ 379,047	\$ 10,434	\$ -	\$ 1,311,244
Other liabilities	-	-	-	-	15,513	15,513
Total financial liabilities	\$ 682,227	\$ 239,536	\$ 379,047	\$ 10,434	\$ 15,513	\$ 1,326,757
<b>Interest rate sensitivity gap</b>	<b>\$ (272,371)</b>	<b>\$ (224,378)</b>	<b>\$ (108,436)</b>	<b>\$ 744,263</b>		

- c. **Credit risk** - Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour a financial obligation. This is the most significant measurable risk faced by the Group.

The Bank's credit policies are designed to maximize the risk/return trade off. The Bank's credit policies, including authorized lending limits, are based on a segregation of authority and centralized management approval with periodic independent review by the Bank's Internal Audit department. Consumer credit is assessed and authorized in branches within credit policies established by the Bank. Credit scoring systems are used to ensure that these policies are consistently applied across the Bank. A key factor in the Bank managing and constraining its credit risk exposure is the close review and follow up of its credit portfolios to quickly identify indications of potential failure to perform according to the terms of the contract and to take the appropriate steps to maintain or restore these accounts to performing according to the terms of the contracts.

During the year the Bank constrained its credit policy to reduce lending in higher risk operating as the economy still struggled during the year amid increasing competition for higher quality loans. As a result, the Bank's loan portfolio contracted during the year.

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed.

#### ***Expected Credit Loss Measurement***

Expected credit loss is the discounted product of the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") parameters defined as follows:

- PD – The estimate of the likelihood of default over a given time period.
- LGD – The estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including discounted cash flows from any collateral. LGD is expressed as a percentage of the EAD.
- EAD – The estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Group uses a Point-in-Time ("PIT") analysis while having regard to historical loss data and forward looking macro-economic data.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan.

The table below shows the average lifetime PD for financial assets for which ECL amounts are recognised.

	<b>2019</b>	<b>2018</b>
Residential mortgage	56%	50%
Business	53%	45%
Personal	44%	35%
Credit card	52%	34%
Government	3%	3%
All portfolios	45%	36%

The estimate of expected cash shortfalls reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the Bank (e.g. properties collateralized for mortgage loans are not recognised on the Bank's balance sheet).

Such estimates reflect the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable.

Any cash flows that are expected from the realization of the collateral beyond the contractual maturity of the contract are included in ECL modelling. Where appropriate, the Group considers the time to sell and the cost to sell. Further, "Forced Sale" discounts are also included to account for reductions in value due to forced sales and deterioration of collateral held.

In addition, the cost directly associated with realizing collateral form part of the ECL calculation. In the short term, this is set by the Group's executive management and is based on their understanding of the market, the economic environment and the Group's experience. This is expressed as a discount factor (nominal value). The Group also includes recovery cash flow assumptions in LGD which are discounted back to the point of default at the original effective interest rate.

### ***Internal Risk Ratings***

Internal risk ratings are assigned according to the Group's risk management framework. Changes in internal risk ratings are primarily reflected in the PD parameters, which are estimated based on the Group's historical loss experience at the relevant risk segment or risk rating level, adjusted for forward-looking information.

### ***Weighting of Expected Credit Loss***

A multiple probability model has been adopted by the Group. The model was developed to allow scenario analysis and management overlay where deemed necessary (this applies to the weighing assigned to the estimates grouping). Three calculations for ECL estimates are generated representing base case, best case and worse case. Once an ECL calculation has been developed for each scenario, a weight is applied to each estimate based on the likelihood of occurrence to arrive at a final weighted ECL.

The weighting assigned to each scenario as at December 31, 2019 and December 31, 2018 was as follows:

	Base	Best	Worse
Residential mortgage	70%	10%	20%
Business	70%	10%	20%
Personal	70%	10%	20%

### ***Significant Increases in Credit Risk***

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower specific quantitative and qualitative information without consideration of collateral, and the impact of forward looking macroeconomic factors.

The common assessment for significant increases in credit risk on loan portfolios normally include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are considered as part of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower. The ECL model may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of this include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting the portfolio. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

As a result of Hurricane Dorian, the Group included an overlay in the ECL model to reflect the increased credit risk in the islands impacted by the hurricane. This overlay resulted in an increase of \$11.8 million to the overall ECL.

In addition, due to the increased credit risk for customers in the impacted islands, a loan forbearance was extended to customers whose loans were current.

### ***Maximum Exposure to Credit Risk***

For financial assets recognised on the consolidated statement of financial position, the exposure to credit risk equals their carrying amount. For standby letters of credit, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the standby letters of credit are called upon.

For mortgage commitments and revolving credit lines that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following table contains an analysis of the credit risk exposure of financial assets for which an ECL allowance is recognised. The gross carrying amount of the financial assets represents the Group's maximum exposure to the credit risk of these assets.



	<b>2019</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount</b>				
Residential mortgage	\$ 78,422	\$ 59,261	\$ 42,847	\$ 180,530
Business	14,209	7,241	4,200	25,650
Personal	541,662	173,206	20,442	735,310
Credit card	35,807	3,632	1,280	40,719
Government	37,000	-	-	37,000
	<u>707,100</u>	<u>243,340</u>	<u>68,769</u>	<u>1,019,209</u>
<b>Impairment allowances</b>				
Residential mortgage	205	2,603	10,313	13,121
Business	226	96	185	507
Personal	23,367	29,190	17,864	70,421
Credit card	1,040	544	780	2,364
Government	-	-	-	-
	<u>24,838</u>	<u>32,433</u>	<u>29,142</u>	<u>86,413</u>
<b>Carrying amount</b>				
Residential mortgage	78,217	56,658	32,534	167,409
Business	13,983	7,145	4,015	25,143
Personal	518,295	144,016	2,578	664,889
Credit card	34,767	3,088	500	38,355
Government	37,000	-	-	37,000
	<u>\$ 682,262</u>	<u>\$ 210,907</u>	<u>\$ 39,627</u>	<u>\$ 932,796</u>

	<b>2018 (Restated)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount</b>				
Residential mortgage	\$ 86,796	\$ 73,188	\$ 40,772	\$ 200,756
Business	18,175	7,243	4,195	29,613
Personal	652,066	106,373	19,078	777,517
Credit card	32,115	3,896	836	36,847
Government	<u>22,500</u>	<u>-</u>	<u>-</u>	<u>22,500</u>
	811,652	190,700	64,881	1,067,233
<b>Impairment allowances</b>				
Residential mortgage	314	4,569	8,035	12,918
Business	399	300	502	1,201
Personal	16,696	23,510	16,266	56,472
Credit card	856	583	408	1,847
Government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	18,265	28,962	25,211	72,438
<b>Carrying amount</b>				
Residential mortgage	86,482	68,619	32,737	187,838
Business	17,776	6,943	3,693	28,412
Personal	635,370	82,863	2,812	721,045
Credit card	31,259	3,313	428	35,000
Government	<u>22,500</u>	<u>-</u>	<u>-</u>	<u>22,500</u>
	<u>\$ 793,387</u>	<u>\$ 161,738</u>	<u>\$ 39,670</u>	<u>\$ 994,795</u>

### ***Transfers between Stages***

At each reporting date, the Group assesses whether the credit risk on its financial assets has increased significantly since initial recognition. The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs.

Transfers between Stages 1 and 2 are based on the assessment of significant increases in credit risk relative to initial recognition. The impact of moving from 12-month expected credit losses to lifetime expected credit losses, or vice versa, varies by portfolio and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in the Group's expected credit losses.

### ***Movement in Impairment Allowances by Stage***

The impairment allowance recognised in the period is impacted by a variety of factors, including but not limited to:

- Transfers between Stage 1 and 2 or 3 due to financial assets experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in

the period, and the consequent “step up” (or “step down”) between 12-month and lifetime ECL;

- Additional allowances for new financial assets recognised during the period, as well as releases for financials assets de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs, and LGDs in the period, arising from regular refreshing of inputs to the model;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the period and write-offs of allowances related to the assets that were written off during the period.

The following tables explain the changes in the impairment allowance by portfolio between the beginning and the end of the annual period due to these factors.

	Stage 1	Stage 2	Stage 3	Total
<b>Residential mortgage</b>				
Impairment allowances as at January 1, 2018 (restated)	\$ 554	\$ 5,747	\$ 8,113	\$ 14,414
Transfers:				
Transfers from Stage 1 to Stage 2	(39)	39		-
Transfers from Stage 1 to Stage 3	(14)		14	-
Transfers from Stage 2 to Stage 1	3	(3)		-
Transfers from Stage 2 to Stage 3		(579)	579	-
Transfers from Stage 3 to Stage 1	47		(47)	-
Transfers from Stage 3 to Stage 2		1,217	(1,217)	-
 New financial assets originated	 28	 2	 -	 30
 Changes in PDs/LGDs/EADs	 (227)	 (1,541)	 1,321	 (447)
 Financials assets derecognised	 (38)	 (313)	 (5)	 (356)
 Financials assets written-off	 -	 -	 (723)	 (723)
Impairment allowances as at December 31, 2018	<u>\$ 314</u>	<u>\$ 4,569</u>	<u>\$ 8,035</u>	<u>\$ 12,918</u>
 Transfers:				
Transfers from Stage 1 to Stage 2	(9)	9		-
Transfers from Stage 1 to Stage 3	(1)		1	-
Transfers from Stage 2 to Stage 1	194	(194)		-
Transfers from Stage 2 to Stage 3		(601)	601	-
Transfers from Stage 3 to Stage 2		99	(99)	-
 New financial assets originated	 28	 5	 6	 39
 Changes in PDs/LGDs/EADs	 (299)	 (1,101)	 4,011	 2,611
 Financials assets derecognised	 (22)	 (183)	 (29)	 (234)
 Financials assets written-off	 -	 -	 (2,213)	 (2,213)
Impairment allowances as at December 31, 2019	<u>\$ 205</u>	<u>\$ 2,603</u>	<u>\$ 10,313</u>	<u>\$ 13,121</u>

	Stage 1	Stage 2	Stage 3	Total
<b>Business</b>				
Impairment allowances as at January 1, 2018 (restated)	\$ 255	\$ 344	\$ 631	\$ 1,230
Transfers:				
Transfers from Stage 1 to Stage 2	(1)	1		-
Transfers from Stage 1 to Stage 3	(2)		2	-
Transfers from Stage 2 to Stage 1	4	(4)		-
Transfers from Stage 2 to Stage 3		(162)	162	-
Transfers from Stage 3 to Stage 1	176		(176)	-
Transfers from Stage 3 to Stage 2		5	(5)	-
 New financial assets originated	 178			 178
 Changes in PDs/LGDs/EADs	 (211)	 116	 320	 225
 Financials assets derecognised			 (423)	 (423)
 Financials assets written-off	 -	 -	 (9)	 (9)
 Impairment allowances as at December 31, 2018	 <u>\$ 399</u>	 <u>\$ 300</u>	 <u>\$ 502</u>	 <u>\$ 1,201</u>
 Transfers:				
Transfers from Stage 1 to Stage 2	(2)	2		-
 New financial assets originated	 1			 1
 Changes in PDs/LGDs/EADs	 (167)	 (206)	 54	 (319)
 Financials assets derecognised	 (5)		 (59)	 (64)
 Financials assets written-off	 -	 -	 (312)	 (312)
 Impairment allowances as at December 31, 2019	 <u>\$ 226</u>	 <u>\$ 96</u>	 <u>\$ 185</u>	 <u>\$ 507</u>

	Stage 1	Stage 2	Stage 3	Total
<b>Personal</b>				
Impairment allowances as at January 1, 2018 (restated)	\$ 20,408	\$ 19,296	\$ 16,565	\$ 56,269
Transfers:				
Transfers from Stage 1 to Stage 2	(1,209)	1,209		-
Transfers from Stage 1 to Stage 3	(1,587)		1,587	-
Transfers from Stage 2 to Stage 1	936	(936)		-
Transfers from Stage 2 to Stage 3		(4,589)	4,589	-
Transfers from Stage 3 to Stage 1	1,030		(1,030)	-
Transfers from Stage 3 to Stage 2		2,077	(2,077)	-
 New financial assets originated/recoveries	 5,494	 2,035	 1,251	 8,780
Changes in PDs/LGDs/EADs	(3,342)	5,561	36,033	38,252
Financials assets derecognised	(5,034)	(1,143)	(652)	(6,829)
Financials assets written-off	-	-	(40,000)	(40,000)
Impairment allowances as at December 31, 2018	<u>\$ 16,696</u>	<u>\$ 23,510</u>	<u>\$ 16,266</u>	<u>\$ 56,472</u>
Transfers:				
Transfers from Stage 1 to Stage 2	(2,598)	2,598		-
Transfers from Stage 1 to Stage 3	(371)		371	-
Transfers from Stage 2 to Stage 1	1,281	(1,281)		-
Transfers from Stage 2 to Stage 3		(1,967)	1,967	-
Transfers from Stage 3 to Stage 1	377		(377)	-
Transfers from Stage 3 to Stage 2		1,188	(1,188)	-
 New financial assets originated/recoveries	 6,020	 3,575	 1,663	 11,258
Changes in PDs/LGDs/EADs	6,280	3,900	47,220	57,400
Financials assets derecognised	(4,318)	(2,333)	(792)	(7,443)
Financials assets written-off	-	-	(47,266)	(47,266)
Impairment allowances as at December 31, 2019	<u>\$ 23,367</u>	<u>\$ 29,190</u>	<u>\$ 17,864</u>	<u>\$ 70,421</u>

	Stage 1	Stage 2	Stage 3	Total
<b>Credit Cards</b>				
Impairment allowances as at January 1, 2018	\$ 852	\$ 915	\$ 1,258	\$ 3,025
Transfers:				
Transfers from Stage 1 to Stage 2	(59)	59		-
Transfers from Stage 1 to Stage 3	(9)		9	-
Transfers from Stage 2 to Stage 1	617	(617)		-
Transfers from Stage 2 to Stage 3		(41)	41	-
Transfers from Stage 3 to Stage 1	477		(477)	-
Transfers from Stage 3 to Stage 2		135	(135)	-
New financial assets originated/recoveries	59	14	10	83
Changes in PDs/LGDs/EADs	(1,081)	118	1,828	865
Financials assets written-off	-	-	(2,126)	(2,126)
Impairment allowances as at December 31, 2018	<u>\$ 856</u>	<u>\$ 583</u>	<u>\$ 408</u>	<u>\$ 1,847</u>
Transfers:				
Transfers from Stage 1 to Stage 2	(41)	41		-
Transfers from Stage 1 to Stage 3	(14)		14	-
Transfers from Stage 2 to Stage 1	360	(360)		-
Transfers from Stage 2 to Stage 3		(48)	48	-
Transfers from Stage 3 to Stage 1	127		(127)	-
Transfers from Stage 3 to Stage 2	58		(58)	-
New financial assets originated/recoveries	89	69	146	304
Changes in PDs/LGDs/EADs	(395)	259	1,443	1,307
Financials assets written-off	-	-	(1,094)	(1,094)
Impairment allowances as at December 31, 2019	<u>\$ 1,040</u>	<u>\$ 544</u>	<u>\$ 780</u>	<u>\$ 2,364</u>

## *Credit quality*

The following table is an analysis of financial instruments by credit quality:

	2019			2018		
	Original Contract	Restructured	Total	Original Contract	Restructured	Total
<b>Cash and deposit with banks &amp; Balances with the Central Bank of The Bahamas</b>						
Neither past due or impaired	\$ 281,540	\$ -	\$ 281,540	\$ 181,782	\$ -	\$ 181,782
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 281,540</u>	<u>\$ -</u>	<u>\$ 281,540</u>	<u>\$ 181,782</u>	<u>\$ -</u>	<u>\$ 181,782</u>
<b>Investments</b>						
Neither past due or impaired	\$ 436,224	\$ -	\$ 436,224	\$ 457,572	\$ -	\$ 457,572
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 436,224</u>	<u>\$ -</u>	<u>\$ 436,224</u>	<u>\$ 457,572</u>	<u>\$ -</u>	<u>\$ 457,572</u>
<b>Loans and advances to customers</b>						
Neither past due or impaired	\$ 715,812	\$ 107,206	\$ 823,018	\$ 763,755	\$ 93,169	\$ 856,924
Past due but not impaired	111,907	15,515	127,422	130,265	15,163	145,428
Impaired	42,520	26,249	68,769	37,929	26,952	64,881
	<u>\$ 870,239</u>	<u>\$ 148,970</u>	<u>\$ 1,019,209</u>	<u>\$ 931,949</u>	<u>\$ 135,284</u>	<u>\$ 1,067,233</u>

Financial assets are past due when a counterparty has failed to make a payment when contractually due.

The average mortgage balance was \$105,829 (2018: \$108,522) while the average business account balance was \$218,846 (2018: \$223,909). The average consumer balance was \$20,699 (2018: \$21,547). The largest exposure to a single customer, other than the Government of The Bahamas (Note 9), was approximately \$1.8 million (2018: \$2.0 million). Mortgage loans and business loans can extend up to 35 years and 10 years, respectively while consumer loans can extend up to 10 years.



The credit quality of loans and advances to customers is shown in the following table:

	2019			2018		
	Original			Original		
	Contract	Restructured	Total	Contract	Restructured	Total
<b>Loans and advances to customers</b>						
<b>Residential mortgage</b>						
Neither past due or impaired	\$ 75,473	\$ 26,168	\$ 101,641	\$ 80,676	\$ 33,142	\$ 113,818
Past due but not impaired	30,156	5,886	36,042	40,137	6,029	46,166
Impaired	23,519	19,328	42,847	23,177	17,595	40,772
	<u>\$ 129,148</u>	<u>\$ 51,382</u>	<u>\$ 180,530</u>	<u>\$ 143,990</u>	<u>\$ 56,766</u>	<u>\$ 200,756</u>
<b>Business</b>						
Neither past due or impaired	\$ 14,227	\$ 2,402	\$ 16,629	\$ 14,525	\$ 3,261	\$ 17,786
Past due but not impaired	4,398	423	4,821	7,399	233	7,632
Impaired	3,511	689	4,200	3,545	650	4,195
	<u>\$ 22,136</u>	<u>\$ 3,514</u>	<u>\$ 25,650</u>	<u>\$ 25,469</u>	<u>\$ 4,144</u>	<u>\$ 29,613</u>
<b>Personal</b>						
Neither past due or impaired	\$ 557,429	\$ 78,636	\$ 636,065	\$ 617,211	\$ 56,766	\$ 673,977
Past due but not impaired	69,597	9,206	78,803	75,561	8,901	84,462
Impaired	14,210	6,232	20,442	10,371	8,707	19,078
	<u>\$ 641,236</u>	<u>\$ 94,074</u>	<u>\$ 735,310</u>	<u>\$ 703,143</u>	<u>\$ 74,374</u>	<u>\$ 777,517</u>
<b>Credit card</b>						
Neither past due or impaired	\$ 31,683	\$ -	\$ 31,683	\$ 28,843	\$ -	\$ 28,843
Past due but not impaired	7,756	-	7,756	7,168	-	7,168
Impaired	1,280	-	1,280	836	-	836
	<u>\$ 40,719</u>	<u>\$ -</u>	<u>\$ 40,719</u>	<u>\$ 36,847</u>	<u>\$ -</u>	<u>\$ 36,847</u>
<b>Government</b>						
Neither past due or impaired	\$ 37,000	\$ -	\$ 37,000	\$ 22,500	\$ -	\$ 22,500
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 37,000</u>	<u>\$ -</u>	<u>\$ 37,000</u>	<u>\$ 22,500</u>	<u>\$ -</u>	<u>\$ 22,500</u>
	<u>\$ 870,239</u>	<u>\$ 148,970</u>	<u>\$ 1,019,209</u>	<u>\$ 931,949</u>	<u>\$ 135,284</u>	<u>\$ 1,067,233</u>

All financial assets outside of loans and advances to customers are neither past due nor impaired.

The table below shows the distribution of loans and advances to customers that are neither past due or impaired:

	2019	2018
Satisfactory risk	\$ 818,118	\$ 849,797
Watch list	<u>4,900</u>	<u>7,127</u>
	<u>\$ 823,018</u>	<u>\$ 856,924</u>

Watch list accounts are those that are exhibiting signs of distress or accounts that have been in distress in the past. Indications of distress include: consistent arrears reflecting reduced income of the borrower, death of one of the parties to the loan, marital issues or divorce, illness, diminished business cash flow etc.

Conversely, satisfactory accounts are accounts that are generally being serviced as agreed with no material indications that the borrower will default.

The analysis of the age of loans and advances to customers that were past due but not impaired is as follows:

	<b>2019</b>				
	<b>Residential mortgage</b>	<b>Business</b>	<b>Personal</b>	<b>Credit card</b>	<b>Total</b>
Past due up to 29 days	\$ 25,229	\$ 3,969	\$ 50,999	\$ 5,096	\$ 85,293
Past due 30 - 59 days	8,792	839	16,427	1,860	27,918
Past due 60 - 89 days	<u>2,021</u>	<u>13</u>	<u>11,377</u>	<u>800</u>	<u>14,211</u>
	<u>\$ 36,042</u>	<u>\$ 4,821</u>	<u>\$ 78,803</u>	<u>\$ 7,756</u>	<u>\$ 127,422</u>

	<b>2018</b>				
	<b>Residential mortgage</b>	<b>Business</b>	<b>Personal</b>	<b>Credit card</b>	<b>Total</b>
Past due up to 29 days	\$ 35,086	\$ 7,051	\$ 56,157	\$ 4,204	\$ 102,498
Past due 30 - 59 days	6,304	460	17,015	1,807	25,586
Past due 60 - 89 days	<u>4,776</u>	<u>121</u>	<u>11,290</u>	<u>1,157</u>	<u>17,344</u>
	<u>\$ 46,166</u>	<u>\$ 7,632</u>	<u>\$ 84,462</u>	<u>\$ 7,168</u>	<u>\$ 145,428</u>

### ***Restructured loans***

Restructuring activity is designed to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, approved debt management plans, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances. Restructuring of consumer loans normally results in additional collateral, a co-signer or guarantor or a garnishee of salary being added to the loan. Following restructuring, an overdue consumer account is normally reset from delinquent to current status. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that repayment will probably continue. These policies are continually reviewed and their application varies according to the nature of the market, the product, and the availability of empirical data.

In the Group's current IFRS 9 ECL weighted risk rating model, restructured accounts attract a higher risk weighting than accounts which have not been restructured.

### ***Collateral Relative to Loans and advances to customers***

It is the Bank's policy to determine that, at the time of origination, loans are within the customer's capacity to repay, rather than to rely excessively on security. Loans classified as personal typically take into account the customer's standing and employment and credit histories and are generally unsecured. The Bank has guidelines

as part of its credit policy on the acceptability of specific classes of collateral which are reviewed regularly.

The principal collateral types are as follows:

- **Personal** - garnishees over salary and chattel mortgages;
- **Residential mortgage** - mortgages over residential properties;
- **Commercial and industrial** - charges over business assets such as premises, stock and debtors;
- **Commercial real estate** - charges over the properties being financed.

The Group closely monitors collateral held for financial assets considered credit-impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

	<b>2019</b>			
	<b>Gross exposure</b>	<b>Impairment allowance</b>	<b>Carrying amount</b>	<b>Value of collateral held</b>
Residential mortgage	\$ 42,847	\$ 10,313	\$ 32,534	\$ 31,810
Business	4,200	185	4,015	6,130
Personal	20,442	17,864	2,578	-
Credit card	1,280	780	500	-
	<u>\$ 68,769</u>	<u>\$ 29,142</u>	<u>\$ 39,627</u>	<u>\$ 37,940</u>

	<b>2018 (Restated)</b>			
	<b>Gross exposure</b>	<b>Impairment allowance</b>	<b>Carrying amount</b>	<b>Value of collateral held</b>
Residential mortgage	\$ 40,772	\$ 8,035	\$ 32,737	\$ 33,677
Business	4,195	\$ 502	3,693	5,538
Personal	19,078	\$ 16,266	2,812	-
Credit card	836	408	428	-
	<u>\$ 64,881</u>	<u>\$ 25,211</u>	<u>\$ 39,670</u>	<u>\$ 39,215</u>

The Group's policies regarding obtaining collateral have not changed during the reporting period. There has been no significant change in the overall quality of the collateral held by the Group since the prior period.

#### ***ECL sensitivity analysis***

Set out below is the impact of changes to the Bank's ECL that would result from reasonably possible changes to the Bank's key ECL drivers.

If the loss given default increases/decreases by 5% and all other variables remain constant, the Group's ECL is estimated to increase/decrease as noted below.

<b>Loss Given Default (LGD)</b>				
	<b>2019</b>		<b>2018</b>	
Residential mortgage	\$	658	\$	34
Business		9		4
Personal		2,965		3,152
Credit cards		118		196
	\$	3,750	\$	3,386

If the weightings for the ECL scenarios are increased/decreased by 5% and all other variables remain constant, the Group's ECL is estimated to increase/decrease as noted below.

<b>ECL Scenario Weighting</b>				
	<b>2019</b>		<b>2018</b>	
	<b>Best</b>	<b>Worst</b>	<b>Best</b>	<b>Worst</b>
Residential mortgage	\$ 541	\$ 750	\$ 211	\$ 187
Business	5	12	6	13
Personal	1,528	5,174	1,008	2,829
	\$ 2,074	\$ 5,936	\$ 1,225	\$ 3,029

- d. **Liquidity risk** - Liquidity risk is the potential for loss if the Group is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, pledging and investment commitments. Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

The Group manages liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress. The Directors' Executive Committee oversees the Group's liquidity and funding risk management framework which includes operating within clearly defined Board limits, regulatory liquidity requirements and strong effective processes to monitor and manage risk, including contingency plans to facilitate managing through a distress situation. Standby lines of credit which are a part of the contingency plan are disclosed in Note 23.

Included in deposits from customers are deposits totaling \$234.0 million (2018: \$235.0 million) from a single customer representing 17% of the total deposits from customers. The amounts are comprised primarily of certificate of deposits from a related party.

There have been no changes in the policies and procedures for managing liquidity risk compared to the prior year.

The following table summarizes the cash flows from financial instruments into maturity groupings, based on the remaining period to the contractual maturity dates. The cash flows presented are undiscounted.

<b>As of December 31, 2019</b>	<b>Within 3</b>		<b>Over 1 - 5</b>			
	<b>Months</b>	<b>3 - 12 months</b>	<b>Years</b>	<b>Over 5 years</b>	<b>Total</b>	
<b>Assets</b>						
Cash and deposits with banks	\$ 116,087	\$ 1,157	\$ -	\$ -	\$ -	\$ 117,244
Balances with The Central Bank of The Bahamas	164,296	-	-	-	-	164,296
Investments	72,677	48,283	104,705	203,023	-	428,688
Loans and advances to customers	12,847	15,631	317,889	1,447,251	-	1,793,618
Other assets	4,858	-	-	-	-	4,858
Total financial assets	\$ 370,765	\$ 65,071	\$ 422,594	\$ 1,650,274	\$ -	\$ 2,508,704
<b>Liabilities</b>						
Deposits from customers	\$ 823,354	\$ 205,665	\$ 394,783	\$ 14,939	\$ -	\$ 1,438,741
Life insurance fund liability	273	820	589	-	-	1,682
Other liabilities	15,340	-	-	-	-	15,340
Total financial liabilities	\$ 838,967	\$ 206,485	\$ 395,372	\$ 14,939	\$ -	\$ 1,455,763
<b>Net liquidity gap</b>	<b>\$ (468,202)</b>	<b>\$ (141,414)</b>	<b>\$ 27,222</b>	<b>\$ 1,635,335</b>	<b>\$ -</b>	<b>\$ 1,052,941</b>

<b>As of December 31, 2018</b>	<b>Within 3</b>		<b>Over 1 - 5</b>			
	<b>Months</b>	<b>3 - 12 months</b>	<b>Years</b>	<b>Over 5 years</b>	<b>Total</b>	
<b>Assets</b>						
Cash and deposits with banks	\$ 32,853	\$ 1,157	\$ -	\$ -	\$ -	\$ 34,010
Balances with The Central Bank of The Bahamas	147,772	-	-	-	-	147,772
Investments	99,408	31,589	96,819	357,527	-	585,343
Loans and advances to customers	12,800	14,374	326,154	1,557,119	-	1,910,447
Other assets	15	-	-	-	-	15
Total financial assets	\$ 292,848	\$ 47,120	\$ 422,973	\$ 1,914,646	\$ -	\$ 2,677,587
<b>Liabilities</b>						
Deposits from customers	\$ 682,361	\$ 241,784	\$ 404,387	\$ 15,348	\$ -	\$ 1,343,880
Life insurance fund liability	332	996	1,623	-	-	2,951
Other liabilities	15,513	-	-	-	-	15,513
Total financial liabilities	\$ 698,206	\$ 242,780	\$ 406,010	\$ 15,348	\$ -	\$ 1,362,344
<b>Net liquidity gap</b>	<b>\$ (405,358)</b>	<b>\$ (195,660)</b>	<b>\$ 16,963</b>	<b>\$ 1,899,298</b>	<b>\$ -</b>	<b>\$ 1,315,243</b>

- e. **Insurance risk** - Insurance risk is the risk of loss resulting from the occurrence of an insured event. Laurentide issues contracts for credit life insurance only on loans written by the Bank. All lives insured are debtors under closed-end consumer credit transactions that arise from direct loans with the Bank. The underwriting strategy aims to ensure that the underwritten risks are well diversified to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. At present, this risk does not vary significantly in relation to the location of the risk insured by the Group. To mitigate risk, no insurance contract is issued to persons aged 65 and over. Prior to 2017 no insurance contract was issued to persons aged 60 and over. The amount of life insurance at risk on any one policy is as follows:

*Policies written up to 2016:*

Auto loans - Maximum of \$10,000 or net indebtedness to the Bank

All other loans - Maximum of \$20,000 or net indebtedness to the Bank

*Policies written after 2016:*

All loans - Maximum of \$70,000 or net indebtedness to Bank

- f. **Currency risk** - Currency risk is the risk that the fair values and/or amounts realised on settlement of financial instruments, and settlements of foreign currency transactions, will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised monetary assets and liabilities are denominated in currencies other than the Bank's functional currency. The Bank is not subject to significant currency risk as its foreign currency transactions and monetary assets and liabilities are predominately denominated in currencies with foreign exchange rates currently fixed against the Bank's functional currency.
- g. **Operational risk** - Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human error or external events not related to credit, market or liquidity risks. The Group manages this risk by maintaining a comprehensive system of internal control and internal audit, including organizational and procedural controls. The system of internal control includes written communication of the Group's policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel and sound and conservative accounting policies, which are regularly updated. These controls and audits are designed to provide the Group with reasonable assurance that assets are safeguarded against unauthorized use or disposition, liabilities are recognised, and the Group is in compliance with all regulatory requirements.

## 25. Prior Period Adjustment

While preparing the consolidated financial statements of the Group for the year ended December 31, 2019 management identified that a data input error occurred when entering loan and accrued interest information into the ECL model to determine the IFRS 9 transition adjustment at January 1, 2018. This resulted in an overstatement of the impairment loss on Stage 3 loans at January 1, 2018 of \$2.377 million. The opening adjustment to retained earnings therefore includes the correction of a prior period error for \$2.377 million, partially offset by the existing transition adjustment of \$115 thousand.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	<b>Impact of Error</b>		
	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
<b>Consolidated Statement of Financial Position</b>			
<b>January 1, 2018</b>			
Loans and advances to customers	\$ 1,053,969	\$ 2,262	\$ 1,056,231
Retained earnings	242,547	2,262	244,809
Total equity	355,686	2,262	357,948
<b>December 31, 2018</b>			
Loans and advances to customers	992,418	2,377	994,795
Retained earnings	254,380	2,377	256,757
Total equity	365,519	2,377	367,896

## 26. Subsequent Events

### *Central Bank Annual License Fee*

Up to July 1, 2019, the Bank was required to pay a business license fee of 3% of gross turnover. Effective January 2020, the Bank will be required to pay a new annual license fee to the Central Bank of The Bahamas which includes a 'base fee' calculated by factoring the Bank's total domestic assets, a 'further charge' based upon total domestic liabilities, and a 'Domestic Systemically Important Institution (DSII) levy' based upon the Bank's risk weighted assets (RWA).

### *COVID-19*

On December 31, 2019 the World Health Organization ("WHO") was alerted of a novel coronavirus ("COVID-19") emerging in Wuhan, China. On March 11, 2020, the outbreak was declared a global pandemic. COVID-19 health consequences have developed rapidly, and have had adverse impacts on economic and market conditions, both globally and locally.

The Government of The Bahamas has closed the borders, implemented a nationwide lockdown, and restricted the provision of non-essential services.

Moreover, major hotel chains announced mass temporary layoffs during March, 2020. Consequently, management performed a COVID-19 impact assessment to determine the potential financial consequences to the Group. This preliminary assessment indicates that the Group is likely to experience higher than budgeted impairment losses on its loans and investments, and decreases in its original net income projections for the year ending December 31, 2020. Further, in response to the economic impacts of COVID-19 on the Bank's customers, a six-month forbearance was granted to customers who maintained their accounts in good standing. This will result in decreased cash flows from the Bank's loan portfolio.

Management continues to monitor developments relating to the pandemic, and is directing its operational responses based on existing business continuity plans, guidance from the Government of The Bahamas, and general pandemic response best practices. Management is of the view that the Group has the ability to meet current and foreseeable obligations, based on strong capital and liquidity positions.