FIDELITY

2022 ANNUAL REPORT


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Summary Of Results

31 December (B$000)	2022	2021	% Change	2020	2019	2018
Interest Income	63,860	65,347	-2.28%	67,217	70,502	66,892
Interest Expense	(10,919)	(12,078)	-9.60%	(11,970)	(12,638)	(12,675)
Net Interest Income	52,941	53,269	-0.62%	55,247	57,864	54,217
Provision for Loan Losses	(6,182)	(6,001)	3.02%	(24,968)	(10,205)	(12,738)
Net Interest Income after Expected Credit Losses	46,199	46,268	-0.15%	30,280	47,659	41,480
Non-Interest Income	6,328	4,069	55.52%	3,618	3,358	3,289
Non-Interest Expenses	(32,284)	(28,174)	14.59%	(26,502)	(27,369)	(24,571)
Share of Profits/(Losses) of Joint Ventures	(25)	6	-516.67%	18	1,613	2,166
Net Income	20,218	22,170	-8.80%	7,414	32,823	22,364
Total Comprehensive Income	20,903	22,170	-5.71%	7,414	33,548	22,364
Net Income Attributable to Ordinary Shareholders	19,243	21,195	-9.21%	6,439	31,848	21,389
Book Value per Ordinary Share	$3.27	$3.10	5.50%	$2.87	$2.87	$2.60
Dividends per Ordinary Share	$0.52	$0.51	1.96%	$0.22	$0.86	$0.52
Year End Share Price	$18.10	$14.91	21.40%	$13.75	$15.05	$12.85
Weighted Average Ordinary Shares	28,830,129	28,822,954	0.02%	28,815,779	28,813,110	28,803,525
Investment Securities	108,471	105,410	2.90%	92,943	83,364	83,058
Loans and Advances to Customers	372,696	401,585	-7.19%	418,491	431,080	439,700
Total Assets	770,618	899,102	-14.29%	710,483	692,915	657,901
Write-offs of Loans and Advances to Customers	10,151	15,230	-33.35%	11,577	12,364	13,441
Deposits from Customers	656,880	769,755	-14.66%	574,997	567,608	532,735
Total Equity	109,345	104,427	4.71%	97,811	97,722	89,868
Total Equity - Ordinary Shares	94,345	89,427	5.50%	82,811	82,722	74,868
Growth in Loans and Advances to Customers	-7.19%	-4.04%		-2.92%	-1.96%	7.60%
Growth in Total Assets	-14.29%	26.55%		2.54%	5.32%	4.80%
Earnings Per Share	$0.67	$0.74	-9.23%	$0.22	$1.11	$0.74
Price/Earnings	27.12 x	20.28 x	33.74%	61.53 x	13.62 x	17.30 x
Price/Book Value	5.53 x	4.81 x	15.07%	4.78 x	5.24 x	4.94 x
Dividend Yield	2.87%	3.42%	-16.01%	1.60%	5.71%	4.05%
Return on Average Assets	2.50%	2.75%	-9.11%	1.06%	4.97%	3.48%
Return on Average Ordinary Shareholders' Equity	20.94%	24.61%	-14.91%	7.78%	41.34%	28.68%
Ordinary Dividend Payout Ratio	78.00%	69.46%	12.30%	98.62%	76.21%	70.18%
Efficiency Ratio	54.47%	49.14%	10.86%	45.02%	44.70%	42.73%
Net Interest Margin	6.45%	6.72%	-4.12%	8.01%	8.84%	8.81%
Non-Performing Loans to Total Loans	3.73%	4.51%	-17.32%	6.76%	3.81%	4.84%
Non-Performing Loans to Total Assets	1.91%	2.15%	-11.11%	4.32%	2.50%	3.42%
Net Write-offs to Average Loans	2.47%	3.45%	-28.45%	2.55%	2.69%	3.01%
Provision for Loan Losses to Total Loans, Including Accrued Interest	3.45%	4.11%	-16.01%	5.90%	2.95%	3.35%
Provision for Loan Losses to Non-Performing Loans	92.45%	91.01%	1.58%	87.21%	77.41%	69.12%

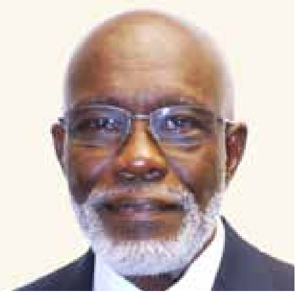
Board of Directors

Scott F. Elphinstone
Chairman

Gowon N. G. Bowe

Stuart M. Bowe

Alfred H. Stewart



Aziz Sunderji

Jennifer P. Dilbert
Compensation Committee Chairperson

Michael A. Anderson

J. Nicholas Freeland
Audit & Risk Management Committee Chairman

Scott F. Elphinstone
Chairman

Chairman's Report

The Bank's financial results for the year ended December 31, 2022, were strong, with a return on average ordinary shareholders' equity of 20.94%

> *The Bank's equity position is stable and exceeds the requirements of the Central Bank of The Bahamas.*

As this is my last Chairman's report, I spent some time reflecting on events since I was first appointed to the Boards of Directors of the Fidelity Group; first, the former Fidelity Bank (Cayman) Limited in 2004 and subsequently, Fidelity Bank (Bahamas) Limited (the Bank) in 2009. There have been many challenges, including the global pandemic COVID-19, but the greatest was the illness and eventual passing of the former Chief Executive Officer (CEO), Anwer J. Sunderji. Anwer guided the Bank with exceptional vision and leadership, and he challenged me, the other members of the Board of Directors, and Executive Management to be better strategic thinkers, for which I am grateful. His absence required all of us to be better to live up to his legacy. I am confident that I am retiring from the Board of Directors at a time when the Bank has a robust business strategy, a strong Board of Directors and Executive Management team, and sturdy financial position. I would like to thank management, staff, and fellow Directors for making my time on the Board of Directors most rewarding.

The global economic backdrop which I highlighted last year remains concerning. Consumer inflation measures, while coming down from early last year, seem stuck well above the target levels set by global central banks. In response, global interest rates have increased substantially more than expected during 2022 and 2023 to date. United States Federal Reserve interest rates have been raised by 500bps since January 2022 with more interest rate raises to come. However, the global economy has proven much stronger than expected with interest rates increasing so quickly. This strength has driven significant growth in global tourism, as post COVID-19 most people are valuing experiences over acquiring goods. A recession still seems inevitable before the end of 2024. The combination of increasing operating costs, the higher cost of foreign currency borrowings and a potential recession, with its expected lower tourism demand, has reduced the fiscal flexibility of the Government of the Commonwealth of The Bahamas, whose continued success is critical to the performance of the Bank. The Board of Directors is closely monitoring these developments.

The Bank's financial results remained strong for the year ended 31 December 2022, with a return on average ordinary shareholders' equity of 20.94%. Loans and advances to customers decreased by 7.19% due to decreasing credit demand and increasing competition in the consumer loans market. Provision for loan losses is stable, and delinquency remains much lower than the peers of the Bank with non-performing loans to total loans below 5.00%. The renewed effort in the credit card segment has started to generate results with non-interest income increasing by 55.52% over the prior year. Inflation continues to have an impact on the Bank, as non-interest expenses grew again this year at an even higher rate of 14.59% year over year. Cost management will be important to maintaining profits in the years ahead. The Bank's equity position remains stable and comfortably exceeds the requirements of the Central Bank of The Bahamas.

I would again like to thank our CEO Gowon N.G. Bowe, President H. Gregory Bethel and the Executive Management team who as usual, provided outstanding leadership during a year characterised by flat credit demand and intense competition. Thank you, the shareholders, for your support during my time as Chairman. Please continue to support incoming Chairman Alfred H. Stewart and incoming Director, Dawn A. Patton, the rest of the members of the Board of Directors and the Executive Management team. It has been a pleasure to serve you for these many years.

Our Executive Team

Gowon N. G. Bowe
Chief Executive Officer

H. Gregory Bethel
President

Janice Rolle
Vice President, Retail Banking

Alan Loane
Chief Information Officer

Malvern Bain
Vice President, Asset Recovery

Spencer Smith
Head of Compliance

Heatherdawn Blake-Brown
Vice President, Cards Services

Crestwell Gardiner
Vice President, Credit & Lending

Gowon N. G. Bowe
Chief Executive Officer

Communication from the CEO

The Bank encourages the Government of The Bahamas to treat all stakeholders equitably when making difficult decisions for national development.

> *The Bank has focused on business expansion efforts, making upfront investments to generate future diversified revenues and profits.*

The health of a nation is the wealth of a nation is an often cited concept, which resonates more intimately with every individual around the world following the global pandemic, COVID-19 (commonly referred to as Coronavirus). This is because the word "nation" can easily be substituted for "person", "family" or "organisation", and have the same meaning. Additionally, "health" was traditionally considered physical health, but the world has learnt that indeed "health" also covers mental, emotional and financial health, as all contribute to the general concept of good health – if one (1) element suffers, the others do as well whether or not it is initially realised.

The development of the new public relations strategy took into consideration the concept of "health" and realised that the mantra *Fidelity, We're Good For You* embedded this concept, whether subconsciously or intentionally. Oranges and vitamin C are well known to be an integral part of a diet and supplement regime that promote physical health, but as noted above, physical health is but one (1) component. Fidelity Bank (Bahamas) Limited (the Bank) seeks to support its stakeholders primarily in financial health, which in turn should lead to better mental and emotional health, and in turn overall health. But as our community efforts depict, the Bank is an active contributor to youth sports and development, and so the Bank does not leave out physical health.

The Management Discussion & Analysis sets out the financial position and financial performance of the Bank. In my prior year communication, the defining principles and behaviours of the Bank and its competent teams of Board of Directors, Executive Management, Line Management and staff, both past and present, were set out and are worth repeating – these comprise: quality lending; savings plans attached to loans and advances; financial coaching; equitable distribution of income among depositors and shareholders based on the risk assumed by each group; prudent though less popular decisions regarding loan payment deferral programmes; realistic financial reporting based on not blissfully ignoring realities being experienced; capital management strategies that provide capacity to strategically grow and withstand negative economic events; and expending to secure modernisation and advancement. Simply put, treating all stakeholders of the Bank equitably.

The economic environment in which the Bank operates continues to be challenged, although the challenges evolve. The wake of recent Hurricanes and the global pandemic continues to create ripples in the economic waters among individuals, organisations and the Government of The Bahamas; and these impact the Bank. And during 2022 and continuing in to 2023, the new challenge of inflation and threat of recession add to these ripples. The financial performance of the Bank for the current year indicates that traditional sources of revenue will not observe significant expansion in the near to medium term, even if the Bank had no competition, which is not the case. Therefore, the Bank must "tack and move". And it has done this through its business expansion efforts. As all farmers understand, there is tremendous effort required between the planting of seeds and harvesting, and at times strategies are needed to mitigate the impact of events beyond the control of the farmer. The Bank has planted seeds, and is continuing to cultivate them and this has led to increases in operating costs, which represent investments to generate future and more diversified revenues and profits. However, some patience and persistence will be required.

In May 2023, the Bank proudly achieved the age of forty-five (45) years, which is a testament to its history of patience and persistence. As this milestone is celebrated, it is tempered with the reality that there is another forty-five (45) years to go, at least. Accordingly, the existing teams noted above must plan for the success of stakeholders for generations to come and not sacrifice the future for immediate gain in the present.

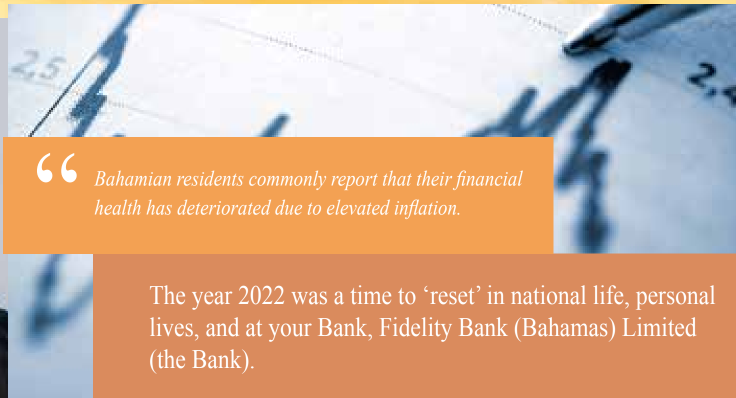
Interestingly, my first bank account was opened with the predecessor of the Bank and continues with me today. This brings home in a personal way the message of planning and sacrificing for the future. The Bank and its key personalities continue to contribute to the discussion and actions of national development, even when unpopular, and encourage the Government of The Bahamas to adopt the Bank's principle of treating all stakeholders equitably. Difficult decisions must be made and some will be painful in the present, but without making those decisions, the future will be in significant jeopardy. Fortunately, the Bank can attest that when difficult decisions are made but communicated comprehensively and effectively, stakeholders are prepared to accept the arguments albeit with the gnashing of teeth.

The new financial year has started slower than desired, but analyses of the fundamental numbers indicate appropriate capital, stabilisation of core revenues and greater contribution from new revenues. The challenges remain on upfront investments necessary to continue business expansion, which depress profitability in the short term, and volatility in delinquencies that are abating slowly. And as persons become more fully employed, the Bank is politely reminding those with obligations not honoured in the past, that these obligations still exits and if not addressed may hinder their financial health for years to come.

On behalf of the Board of Directors, I can repeat enough the expressions of profound gratitude to the Executive Management and all team members, and while it is appreciated that it is not always an easy road, the race is not for the swift, but who can endure it. The team at the Bank has been successful in the many battles it has faced over the past forty-five (45) years, but the war continues. However, there is no army that I would wish to lead into future battles than the one (1) currently being led.

To our shareholders, community partners and other stakeholders, the Bank thanks you for your confidence and support and looks forward to demonstrating that reciprocal confidence and support through its contributions to your overall health, be it financial, mental, emotional or physical. For those that believe that it seems that the Bank and the brand Fidelity is everywhere, my words to you, in true Bahamian vernacular, are "you ain't seen nothing yet". Stay tuned.

H. Gregory Bethel
President



> “*Bahamian residents commonly report that their financial health has deteriorated due to elevated inflation.*

The year 2022 was a time to ‘reset’ in national life, personal lives, and at your Bank, Fidelity Bank (Bahamas) Limited (the Bank).

Message from the President

The year 2022, was a time to “reset” in national life, personal lives and at “your Bank, Fidelity Bank (Bahamas) Limited” (the Bank). What is considered normal – prior to the challenges of a Category 5 Hurricane in the Northern Bahamas, a global pandemic, the results and costs of expansive fiscal policies of the Government of the Commonwealth of The Bahamas (The Bahamas), and a war in Europe – has been changed, causing the “reset” of expectations, plans and results. There were changes and a “reset” globally, locally, and at your Bank.

Rising interest rates and high inflation have affected the global economy. Most countries are adjusting their public finances so they can deal with the increased national debt and higher debt servicing costs caused by the global pandemic, whilst they prepare for the next local or external shock.

The Government of The Bahamas – faced with substantial increases in expenditure and national debt, due to the aforementioned challenges – must now place greater emphasis on keeping its finances in line with prudential norms, or risk undermining the confidence of the lenders and investors which buy the debt securities issued by the Government of The Bahamas and effectively fund its operations and activities. Greater national debt levels are no longer appropriate now that the cost of servicing the national debt is more significant in the national budget. External national debt is even more costly, as interest rates have been raised in the United States of America and Europe in an effort to combat the widespread threat of inflation. Although unpopular, tax increases and/or tax collection efficiency are better alternatives than losing the trust of lenders and investors, not to mention credit rating downgrades by the international rating agencies.

Bahamian residents commonly report or opine that their financial health has deteriorated. In the face of elevated inflation, most persons are impacted by a higher cost of living with no proportionate increase in income and little, if any, savings. Many persons are saying “I am barely surviving” or “I am finding it difficult to meet my obligations”. Therefore, against the backdrop of all the issues previously mentioned, the Bank has seen a reduction in the rate of growth in its traditional banking products, especially loans and other credit facilities. The Bank has sought to offset this experience by offering new value added service offerings, including credit cards and merchant acquiring services to businesses and individuals. Additionally, the Bank has invested significant sums in information systems and personnel for these new lines of business and sources of revenue, and expects the full and consistent return on its investment in the next two (2) to three (3) years.

In addition to relationship management activities to retain customers, efforts to restructure delinquent loans and business development initiatives to grow the credit cards and merchant acquiring services, the Bank has set the following top ten (10) priorities for the “Way Forward”:

1) The automation of account opening, loan application, and various deposit administration processes, which will be vital for growth and the ability to compete against other financial institutions.
2) The digitisation of all banking forms and integration into the website of the Bank, so customers can interact with the Bank more efficiently from digital platforms if so preferred, rather than requiring face-to-face branch visits.
3) The opening of offices in Exuma.
4) The opening of offices in Eleuthera.
5) The upgrade of digital banking platforms, including automated teller machines, online banking, mobile banking application, and the website.
6) The extension and greater formalisation of the employee share ownership programme to maximise employee retention and empowerment.
7) The development and formalisation of a subset of the employee share ownership programme specifically for managers and executive management to maximise employee empowerment.
8) The implementation of a modern client relationship management (CRM) tool to enhance the ability of the Bank to "mine" and "harvest" customer data and facilitate targeted marketing.
9) The launch of a Corporate Banking Unit.
10) The launch of a Private Banking Unit.

Digital banking, credit cards, business loans, merchant acquiring services and electronic banking, along with a new Professional Client Programme that will comprise a VIP loan product and expansion of credit to the private sector, are the foundations for priorities #9 and #10.

The Bank has an opportunity to take market share from other financial institutions during the next five (5) years. In other words, this is the path to annual net income of $50,000,000 by the 50th Anniversary of the Bank.

Finally, the Board of Directors and Executive Management are always aware that the people at your Bank who provide products and services to its customers, have to perform at a high level even while being impacted by the vicissitudes caused by climate change, a global pandemic, policies of the Government of The Bahamas and other events beyond their control. Their efforts and contributions are recognised and sincerely appreciated, and the Bank makes every effort to reward them so that they – along with shareholders – benefit from the success of your Bank.

Our Management Team

Victoria Albury
Financial Centre Manager

Stacia Bowe
Director, Human Resources

Tennessee Bowe
Financial Centre Manager

Lemunique Boyd
Manager, Cards Settlements

Gabrielle Campbell
Deputy Head of Compliance

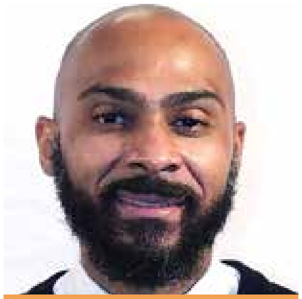
Mary Lou Capron
Senior Manager, Information Technology Operations

Vanessa Clarke
Head of Internal Audit

Samantha Davis
Manager, Accounts

Tawana Davis
Manager, Client Relations

Carmel Dean
Financial Centre Manager



Dominic Ferguson
Senior Financial Centre Manager

Bridget Forbes
Financial Centre Manager

Leslie Fox
Senior Manager, Loan Administration

Odia Gaskin
Financial Centre Manager

Domicia Hepburn
Manager, Credit & Lending

Brandon Hill
Manager, Information Technology Support

Eunice Johnson
Senior Manager, Cards Services

Samantha Knowles
Manager, Financial Centre Training

Shervone Knowles
Manager, Client Relations

Katherine Lockhart
Manager, Central Services

Tineka Mackey
Manager, Branch Operations

Anatole Major
Manager, Human Resources

Thallise Maycock
Manager, Premises

Rochelle Moss
Manager, Collections Administration

Lakerria Munnings
Manager, Cards Services Operations

Rodger Pinder
Manager, Asset Recovery

Tameka Pratt
Financial Centre Manager

Demetries Rolle
Senior Manager, Information Technology Infrastructure

Antonio Saunders
Manager, Marketing & Promotions

Michelle Sawyer
Manager, Cards Fraud & Risk

Javaughn Strachan
Manager, Compensation

Denay Thompson
Deputy Head of Compliance & MLRO

FIDELITY - AN UNWAVERING DEDICATION TO THE BAHAMIAN COMMUNITY

For nearly half a century, Fidelity Bank (Bahamas) Limited (Fidelity) has served as a staple in the Bahamian community. It stays true to the reason that it was established in the first place - to be a beacon of hope and support for Bahamians. Fidelity opened its doors forty-five (45) years ago as First Home Banking Corporation. The purpose of its establishment was to grant the wish of Bahamians to own their own home, particularly, their first home. When Fidelity opened its doors on May 26, 1978, it seemed nearly impossible for the average Bahamian to have the funding to do so. First Home brought the solution. As a result, thousands of Bahamians were able to have their first homes.

Additionally, Fidelity is the only commercial bank that can boast of being birthed from the womb of The Bahamas and grown to compete toe to toe with any financial institution, both domestically and internationally.

Fidelity prides itself in being established by the Bahamian people, for the Bahamian people. As such, the community is viewed as a vital stakeholder. Plainly put, without the community, first home would not have satisfied a need and would not have transformed itself into the respected Bahamian-bred financial institution that it is today.

The Fidelity Group Donations Committee (the Committee) was established to direct the efforts of Fidelity to support the communities around The Bahamas which comprises 700 islands and cays.

Based on Fidelity's guiding philosophy of "We're good for you", the Committee has a commitment that goes beyond its offerings of financial products, services, and expertise. Instead, it has a primary focus on Bahamian families. Its initiatives include donating thousands of dollars each year to activities which support community development and improve the socio-economic conditions of Bahamians.

Every year since the Committee's establishment, Fidelity has donated finances to charitable causes and organisations. Fidelity's staff is heavily involved in its community projects, having served thousands of man-hours.

In 2016, Fidelity adopted Naomi Blatch, a publicly run preschool located behind its Wulff Road Branch on the island of New Providence. The school caters to children ages four (4) through five (5). Each year, Fidelity supplies uniforms for each student enrolled in the school. In addition to school supplies, each child receives a sleeping mat, lunch eating mat, black and white books, colouring books and crayons along with a tote bag.

In 2022, Fidelity launched a new campaign inked with its orange branding. The purpose of the launch is to embrace its guiding philosophy: 'We're Good For You'. Its symbolism is one that shows commitment to the financial and physical health of its clients and the country at large. Additionally, it reinforces the fact that forty-five (45) years after Fidelity opened its doors, relationship banking coupled with concern for the community remains constant and strong.

Since the new campaign rolled out, the Bank has increased its involvement in initiatives centered around health care, sports, community involvement, education, religion, armed forces, quasi-government, and civic organisations.

In 2023, the Bank remains dedicated to remaining a staple in local communities continuing in the way it started from its inception - providing hope for Bahamians to make their goals a reality in all circumstances.


FIDELITY


PLATINUM
THE DUKE OF EDINBURGH CUP
BAHAMAS SEMI-FINALS
ATLANTIS
FIDELITY

Management Discussion & Analysis

FINANCIAL POSITION AND FINANCIAL PERFORMANCE

For Fidelity Bank (Bahamas) Limited (the Bank), the year ended 31 December 2022 was jumpstarted with the launch of its public relations strategy, that all and sundry now recognise by the signature fruit in the campaign, oranges. In the past three (3) years, the economic resolve of the Commonwealth of The Bahamas (The Bahamas) has been significantly tested, beginning in 2019 with Hurricane Dorian and continuing in 2020 with the onset of the global pandemic, COVID-19 (commonly referred to as Coronavirus). The wake from these extraordinary events continues to have substantial negative impacts on the economic performance of the global economy, including that of the economy of The Bahamas. However, with the world better learning to "live" with COVID-19 and the associated risk of volatility in economic performance, there was a significant rebound in gross domestic product (GDP) and employment in The Bahamas. It is important to note that this rebound is simply returning the metrics to levels observed in the fiscal periods immediately prior to the events of 2019 and 2020, but there has been no actual significant growth in GDP and employment, which has been stubbornly anaemic since the infamous Great Recession that gripped the global economy in 2008.

The artificial growth in global GDP and employment, which really represents rebounds to pre-COVID-19 levels, has brought with it a new challenge – inflation. The Bahamas effectively "imports" inflation and therefore has very little control over it, but does feel the effects throughout the economy, and while these economic cycles have been observed for generations, the additional uncertainty is unwelcomed as it disrupts attempts to achieve stability in the fiscal and economic affairs of The Bahamas.

The recently launched public relations strategy in the midst of the continuing national economic uncertainty focused the attention of a captive audience on the Bank and its mantra, Fidelity, We're Good For You, matching the common knowledge of oranges and vitamin C being "good for you" with the evolution of the proud history of the Bank and its dedicated and motivated staff exemplified through exceptional customer relationship management, free financial coaching, innovative products, and laser-focused marketing. However, the spotlight increases the attention on the ability of the Bank to execute and achieve desired results.

The foundation for the future successes of the Bank, that has been set out in the most recent Annual Reports, continued to demonstrate its resilience during 2022. In spite of the uncertainty brought about by COVID-19, on both the financial and non-financial performance of the Bank, the business and risk management decisions made in prior years and continued during the current year led to a sustained level of profitability.

The confluence of events that contributed to changes in financial position and financial performance during the prior year persisted during the current year with various twists, and are constantly being monitored and addressed through deliberate strategic initiatives to mitigate the negative, and further foster the positive, indications of future financial position and financial performance.

During the year, total assets decreased by $128,483,518 (2021: increased by $188,618,422), representing 14.29% (2021: 26.55% increase) over the prior year, to $770,618,261 (2021: $899,101,779). The decrease in total assets comprised: a decrease in less productive financial assets, namely cash on hand and at banks, that were accumulated in the prior year for specific business purposes; a decrease in loans and advances to customers resulting from the continuing subdued lending environment; and an offsetting decrease in non-performing financial assets and related provision for loan losses, as existing borrowers returned to more normal levels of income during the economic recovery experienced during the current year.

The decrease in the less productive assets was matched by: the decrease in the related financial liabilities that originate the financial assets, namely deposits from customers; and the maturity and redemption of more costly debt securities.

The overall change in various financial assets and financial liabilities, combined with the focus on value added service offerings that generate fees and commissions, resulted in: net income of $20,218,302 (2021: $22,169,732), representing a decrease of 8.80% (2021: increase of 199.01%) over the prior year; and total comprehensive income of $20,903,116 (2021: $22,169,732), representing a decrease of 5.71% (2021: increase of 199.01%) over the prior year. Earnings per ordinary share for the year ended 31 December 2022 totalled $0.67 (2021: $0.74).

The return on average assets of 2.50% (2021: 2.75%) is consistent with the prior year albeit lower, and is the result of business expansion efforts in the prior year that resulted in changes in the asset mix that in turn will contribute to lower returns on average assets than in pre-COVID-19 years, as the referenced business expansion efforts will also contribute to higher average liabilities. However, the true litmus test of the viability of these business expansion efforts will be in the return on average ordinary shareholders' equity, which totalled 20.94% (2021: 24.61%) for the current year and within the target levels set by the Bank. Staying consistent with the practice of pursuing growth only when met with appropriate risk and reward has achieved the commendable return on average ordinary shareholders' equity in the current year notwithstanding the ongoing depression in the lending environment in The Bahamas, and equally as important, provides firm footing as the Bank steps out into less chartered territories.

For the year ended 31 December 2022, the historical and target dividend payout ratio was employed to facilitate direct participation by shareholders in the financial performance of the Bank. Consequently, the Bank declared and paid dividends totalling $15,010,668 (2021: $14,722,002), representing $0.52 (2021: $0.51) per share and a dividend payout ratio of 78.00% (2021: 69.46%). Capital management by the Bank, tried and tested by economic shocks in recent times, has positioned the Bank to capitalise on opportunities for growth, with the appropriate risk and reward ratio, as they present themselves.

The following decreases were the principal drivers in the overall contraction in assets: cash on hand and at banks of $102,937,285 (2021: increase of $191,096,005), representing 27.18% (2021: 101.83% increase), to $275,816,907 (2021: $378,754,192); and loans and advances to customers of $28,889,430 (2021: $16,905,761), representing 7.19% (2021: 4.04%), to $372,695,932 (2021: $401,585,362). An increase in investment securities of $3,061,554 (2021: $12,466,994), representing 2.90% (2021: 13.41%), to $108,471,419 (2021: $105,409,865) partially offset the aforementioned decreases.

Statistics from the Central Bank of The Bahamas (the Central Bank) report that consumer loans and mortgage loans outstanding with commercial banks as of 31 December 2022 decreased by $89,000,000 and $38,100,000 compared with 31 December 2021, which demonstrates that the availability of quality new credit is limited even as the economy of The Bahamas experiences its rebound. Since the peak of the global pandemic, when furloughs and unemployment, particularly in the tourism sector, led to significant increases in the number of loans and advances to customers that fell into delinquency, the yeoman's effort by the Bank during the past two (2) years led to the rehabilitation of a significant number of such delinquent loans. However certain such loans remain as of year-end and when combined with the contraction in the primary interest earning assets of the Bank, loans and advances to customers, particularly in the consumer loan portfolio that yields higher interest margins, resulted in a decrease interest income. This was offset by the decrease in interest expense as a result of the maturity and redemption of debt securities and other interest rate adjustments. Overall, net interest income for the current year decreased by $328,434 (2021: $1,978,453) demonstrating that the Bank, despite pressures from contraction in its primary line of business, is maximising yield from its interest earning assets.

The efforts in rehabilitating delinquent loans led to the recovery of provision for loan losses held against delinquent loans as such loans were restored to current status following receipt of consistent payments, albeit at a level less than in the prior year, and the consistent underwriting practices that limit poor quality credit, resulted in the expense for provision for loan losses consistent with the prior year and recent pre-COVID-19 years. The expense for provision for loan losses increased by $181,167 (2021: decreased by $18,967,061).

As part of business expansion efforts, that are expected to inure to the benefit of the Bank for years to come, investments in our people, our products and our communities continued and resulted in increases in certain operating expenses. The efficiency ratio, the key performance metric for operating expenses which calculates total operating expenses, excluding the expense for provision for loan losses and allowances for impairment (collectively, expected credit losses), as a percentage of total operating income for the year ended 31 December 2022 increased over the prior year to 54.47% (2021: 49.14%). The Bank is exhibiting patience and steadfastness in relation to the expectation of return on investments made during the recent years, but is closely monitoring and managing operating expenses to ensure that the expected growth is materialising before continuing to invest. The proverbial "proof of the pudding" is emerging as fees and commissions increased by $2,425,451, representing 65.21% over the prior year; revenue growth outpacing operating expense growth is "the eating" the Bank is confident in achieving for the long term.

CASH ON HAND AND AT BANKS

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

As of 31 December 2022, cash on hand and at banks comprised: deposits placed with the Central Bank, representing circa 58.00% (2021: circa 50.00%); short-term interest bearing term deposits, representing circa 30.00% (2020: 14.00%); and other cash on hand and current accounts at banks.

Some suppression of net interest income performance is the result of over 65.00% (2021: over 80.00%) of cash on hand and at banks being non-interest bearing. However, certain cash on hand and at banks are directly connected with business expansion efforts and these contribute to financial performance through fees and commissions and not net interest income. Further, although surplus cash balances placed in non-interest bearing current accounts at banks, including the Central Bank, do not directly contribute to the financial performance of the Bank, they do: enable comfortable financing of operations and shareholder distributions, even during challenging operating environments; and position the Bank to take advantage of economic conditions conducive to growth as and when opportunities present themselves, thereby providing a competitive advantage.

The overall net decrease in cash on hand and at banks was the result of several factors. Firstly, the underlying movements in deposits from customers elucidates the primary movement in cash on hand and at banks. As noted above, certain business expansion efforts result in cash on hand and at banks derived from deposits from customers that are not the traditional depositors but rather regulated financial institutions and capital markets participants. The deposits placed with the Bank by such non-traditional depositors are considered transitory, as they are utilised by these depositors as part of their normal operating activities and accordingly balances will fluctuate based on the timing of business activities and the financial reporting of the Bank. Specifically, in the prior year deposits from banks and capital markets participants increased by $42,461,955 and circa $120,000,000, respectively. Conversely, during the current year deposits from banks and capital markets participants decreased by $65,430,835 and $93,000,000. The Bank does expect such fluctuations and largely maintains cash at banks matching the deposits from customers in relation to regulated financial institutions and capital markets participants; these customers contribute to profitability of the Bank through fees and commissions.

Deposits from customers in relation to traditional depositors continued the growth experienced in recent years, evidencing the confidence that existing and prospective customers have in the Bank. The equitable distribution of income earned from activities largely financed by depositors, namely in the form of interest paid on deposits from customers, and the consistent strengthening of the Bank are the primary reasons for this confidence based on customer communications received.

Secondly, with the growth and persistence in deposits from customers, excluding those customers with expected transitory deposits, along with the comfortable level of capital and surplus cash on hand and at banks, the Bank effected the maturity and redemption of the outstanding debt securities totalling $20,000,000 during the current year.

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

Fourthly, the financial performance of the Bank during the current year was, in the main, realised in cash balances contributing to an increase in cash on hand and at banks, however the net retained financial performance was impacted by the dividends paid to preference shareholders and ordinary shareholders; specifically, the ordinary shareholder dividend payout ratio was 78.00% (2021: 69.46%).

Finally, the net decrease in loans and advances to customers due to repayments and recoveries, which continued to outpace the writing of new credit facilities, contributed to an offsetting of the decreases in cash on hand and at banks noted previously. Given the continued high volatility in credit risk as a result of the extended period of the global pandemic and its consequent impacts on the economy of The Bahamas, the Bank continued its focus on stabilising the performance of the existing portfolio of loans and advances to customers, including rehabilitation of non-performing credit facilities, and deferred any aggressive growth in loans and advances to customers.

INVESTMENT SECURITIES

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

Debt securities issued by the Government of The Bahamas currently have non-investment grade credit ratings issued by international rating agencies following the initial downgrade to non-investment grade credit ratings in 2020, and subsequent further downgrades during 2021 and 2022. The deterioration in credit ratings of debt securities issued by the Government of The Bahamas has consequences for the Bank, as financial reporting standards require an allowance for impairment for financial assets that is determined based on probabilities of default associated with respective credit ratings, as adjusted for forward-looking information that factors in readily available macroeconomic data such as forecasts for movements in GDP. An expense for allowance for impairment was recorded in the current and prior years, as a result of consecutive downgrades.

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

When making decisions on securities to acquire, the Bank considers the credit risk associated with investment securities, including the tenor of such securities, as the longer the tenor the greater the probability of default where indicators of possible default exist. The net increase in investment securities being represented by debt securities with maturities of one (1) year or less reflects the considerations by the Bank of the macroeconomic factors that impact the creditworthiness of issuers of investment securities acquired. Further, the undiscounted cash flows demonstrate that consequent adjustment in the overall maturity profile of investment securities, with 43.08% (2021: 45.17%) of undiscounted cash flows to be realised in one (1) year or less.

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

LOANS AND ADVANCES TO CUSTOMERS

For the year ended 31 December 2022, consumer and other loans decreased by $29,039,990 (2021: $22,488,496), representing 7.72% (2021: 5.64%), which comprised: a net decrease in regular consumer and other loan types of $25,647,090 (2021: $20,256,321); and a net decrease in loans and advances to the Government of The Bahamas of $3,392,900 (2021: $2,232,175) that represent medium-term syndicated loans to the Government of The Bahamas to assist with the financing of reconstruction and recovery expenditures associated with hurricanes making landfalls in The Bahamas in 2016 and 2019. Normal loan amortisations, early extinguishments and other credit adjustments during the current year that were not matched by the writing of new consumer and other loan types due to the limited availability of quality new credit following the economic fallout of the global pandemic, which leaves its wake even today, led to the decrease in regular consumer and other loan types.

The impacts of COVID-19 on the economy of The Bahamas, and in turn, most households in The Bahamas, which comprise at least one (1) person employed in the sector that experienced unprecedented levels of furloughs and unemployment, namely tourism, were detailed in the 2020 Annual Report and the initial recovery efforts were detailed in the 2021 Annual Report. The Bank was candid with its customers, but was compassionate to show the appropriate forbearance, provide the necessary financial coaching, and provide optimism by charting a path to recovery as some form of normalcy in employment and household income resumed. The election by the Bank not to implement any loan payment deferral programmes, but rather take the opportunity to engage with its impacted borrowers to fully understand their specific financial circumstances and agree action plans that would provide for forbearance in the initiation of the normal recovery activities of the Bank, and determine the most affordable strategy for restoring loans to a status of performing once employment and earnings were reinstated was further proven to be the most appropriate and dignified approach to the challenging circumstances.

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

The gradual restoration of earnings for many households, particularly those more reliant on the tourism sector, began during 2021 and accelerated during 2022, which led to the recommencement of loan payments, albeit at reduced levels initially in some instances. Following six (6) months of consecutive loan payments, borrowers are eligible to restructure the terms of related loans and return them to performing status.

Quality lending centred on a borrower's ability to pay and providing financial coaching to improve the lives of our customers, the core principles of the Bank, served it well despite the circumstances and experiences during the past three (3) years. As a result, a significant number of non-performing loans were restored to performing status, as the primary economic pillar of The Bahamas, the tourism sector, strengthened to pre-COVID-19 levels of activity, and furloughs ended and unemployment decreased.

Overall, mortgage loans decreased by $4,391,319 (2021: $3,713,583), representing 9.46% (2021: 7.41%). Loan amortisations complimented by a number of realisations, through sales pursuant to powers of sale, of properties pledged as collateral were the only significant activities in the mortgage portfolio during the current year. Unfortunately, the contraction in the numbers of potential borrowers qualifying for new mortgage loans experienced by the Bank in recent years persisted during the current year, as the general economic uncertainty and slow recovery of employment exacerbated the situation. However, the Bank achieved greater successes in realising collateral on non-performing mortgages during the current year through innovative strategies and media employed to attract interest for distressed properties, thereby reducing the number of legacy non-performing mortgage loans. Efforts in this regard aggressively continue in 2023, and it is expected that even greater successes will be achieved in the coming years.

Structural challenges confront mortgage lending in The Bahamas, including: the significant inventory of slow-moving distressed properties; and the geographical location of The Bahamas on the hurricane belt and the consequent cost of premiums for insuring properties, held as collateral, for such and similar catastrophes. Management of the existing mortgage portfolio, in particular non-performing mortgage loans, requires appropriate resources to be directed to the efforts, including diligently enforcing the credit risk management practices of ensuring that, regardless of the status of the payments by the borrowers, properties pledged to the Bank are appropriately insured. The underwriting of any new mortgage loans will also require great caution.

Executive Management and those charged with governance continuously monitor the performance and fundamentals of the various types of loans, and in turn adjust strategies for growth and diversification, as necessary, including the mix of the loan portfolio. Consumer and other loans earn higher interest margins and have relatively lower default rates and loss ratios, which have returned to historical levels experienced by the Bank over the past decade, following the temporary exponential increase in default rates and loss ratios during the peak of COVID-19; a reality for all loan types during that period.

The key factors in the deliberations, and ultimate decisions, on the appropriate mix of the loan portfolio for the Bank comprise economic indicators, market conditions, legislative and other initiatives implemented and/or discussed by domestic policymakers and financial regulators, and concentration risks. Therefore, the mix of the loan portfolio as of 31 December 2022 appropriately remained consistent with prior years; consumer and other loans represented 89.20% (2021: 89.01%) of total loans, and mortgage loans represented 10.80% (2021: 10.99%).

The decrease in non-performing loans observed in the prior year continued during the current year and as of 31 December 2022 totalled $14,693,973 (2021: $19,287,450), representing 3.85% (2021: 4.66%) of total loans and advances to customers, excluding accrued interest. Non-performing mortgage loans totalled $12,256,315 (2021: $13,974,220), representing 83.41% (2021: 72.45%) of total non-performing loans and advances to customers.

Consequent with the decrease in non-performing loans and the contraction in the performing loans, and despite some persistent economic uncertainty that directly impacts the ability of borrowers to meet loan payment obligations, the expected credit loss also proportionately decreased. As of 31 December 2022, the provision loan losses totalled $13,584,077 (2021: $17,553,040), which represented 3.56% (2021: 4.24%) of total loans and advances to customers, excluding accrued interest. Specifically, the provision for loan losses applicable to non-performing loans was $6,367,208 (2021: $9,674,278), which represented 43.33% (2021: 50.16%) of total non-performing loans and advances to customers; the decrease being directly correlated to the decrease in non-performing loans.

The deliberate limitation of the optimism included in judgments and assumptions made during the 2020, the peak of the global pandemic, given the magnified significance of such judgments and assumptions as a result of the abnormal times, led to the Bank recognising and managing the worst case scenarios at that time. Further, the materialising of the assumption by the Bank that the severity of the economic fallout experienced during COVID-19 and the resultant impact on the performance of the loans and advances to customers was anomalous, and more than the majority of such customers would be reengaged with gainful employment and subsequently restore contractual loan payments, which commenced in the prior year continued during the current year. The recovery of financial performance was only recognised during the current and prior years following greater clarity and the observance of: consistency in positive macroeconomic performance; and improvements in default rates and loss ratios. Details of the calculation of the expense for provision for losses during the year are elucidated below.

The discipline and mettle of the management and staff of the Bank continue to be tested, as the needs of existing and potential borrowers that changed from consumption of choice to survival during COVID-19 have not reverted. Accordingly, as credit begins to grow, it is expected that shorter term credit, that is consumer loans, are likely to be the first types of loans to experience growth. The growth in credit in The Bahamas continued to be muted during the current year and will likely remain muted for at least the next two (2) years, given the wake of COVID-19, and its negative consequences, along with the perennial increase in employment uncertainty that are extending the timelines for most households to return to full normalcy, if ever. Accordingly during the current year, the Bank continued directing efforts and resources to expanding the relationships with existing customers in mutually beneficial ways, as the circumstances under which the Bank operates require expansion as opposed to solely recovery. Such expansion comprises encouraging increased digital transacting, which for loan customers primarily refers to increased use of credit, debit and prepaid cards that is without cost to the customer. This in turn increased the opportunity for fees and commissions for the Bank as an issuer of cards, and a merchant acquirer.

Economic activity continues to rebound and there has been a recent increase in the minimum wage in The Bahamas, including for the public sector, which comprises the vast majority of performing consumer and other loans. Therefore, conditions indicate that the pace of consumption is likely to increase albeit cautiously and severely impacted by current global inflation and the fear of a possible recession. With this volatility for the foreseeable future, to move from recovery to expansion the Bank must capitalise on opportunities for income from fees and commissions, while offering value added services, as although net interest income will continue to be the primary revenue source for the Bank, this source will be challenged.

DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES

For the year ended 31 December 2022, deposits from customers decreased by $112,875,023 (2021: increased by $194,757,557), representing 14.66% (2021: 33.87% increase) over the prior year, to $656,879,927 (2021: $769,754,950), which was solely the result of significant changes in the levels of deposits from regulated financial institutions and capital markets participants. Such levels of deposits are expected to fluctuate significantly, and deposits from these customers are considered transitory and do not form a part of the funding strategy of the Bank; these customers are targeted for the purposes of value added service offerings that generate fees and commissions. Specifically, deposits from customers, excluding deposits from regulated financial institutions and capital markets participants, increased during the current and prior years. Persons with meaningful wealth continued the pattern observed in the prior two (2) years of adjusting consumption patterns and concentrating a greater portion of their assets in liquid resources such as savings deposits, possibly with the dual purpose of it being a safe harbour, and readying their estates to take advantage of investment opportunities that could emerge as the economy rebounds.

The strategy of encouraging longer term deposits through appropriate compensation continues, as it produces symbiotic benefits for the Bank and customers. Interest rates on deposits from customers are significantly lower than market interest rates on debt securities, and therefore sustained levels of sufficient deposits from customers enables the Bank to fund investments in assets at a lower cost than debt securities, known as wholesale funding, and equity securities which demand the higher compensation for the higher risk of immovable capital. Accordingly, the offering of higher interest rates to customers than competitors, specifically on longer term deposits as a reward to customers for such commitment, demonstrates recognition that the assets of the Bank are funded in the majority by depositors and the equitable distribution of earnings from those assets to depositors rewards them for being key contributors to the success of the Bank. Equally as important, this strategy results in the building of stronger customer relationships and in turn, customer loyalty.

During the current year, the Bank continued expanding its services to non-traditional customers of the Bank, corporate customers, including: regulated financial institutions and capital markets participants; and micro, small and medium sized entities. The objective of this strategy is to increase fees and commissions to offset the projected lethargic growth in, and performance of, interest earning assets in the medium term. These deposits from customers are generally non-interest bearing and therefore the related deposit taking activity is net interest income neutral; generally, no significant interest income can be earned on the cash at banks correlating with the deposits from customers, and no interest expense is incurred on the deposits. Maximising fee and commission generating service opportunities, through value added service offerings, will produce the profitability of such relationships. However, during the current year given that the majority of deposits from capital markets participants were denominated in United States dollars (US$), along with the increases in US$ Prime rates associated with actions of the United States Federal Reserve, the Bank unexpectedly was able to earn meaningful interest income on the cash at banks placed in overnight and other very short-term deposits.

The onboarding of such customers also represents a contribution by the Bank to the national development of The Bahamas through ensuring that necessary banking facilities are available to the new quality investors, albeit domestic or foreign, being attracted in new sectors and industries.

As The Bahamas promotes itself as open for business, new participants have lamented that despite receiving approvals and licences from the relevant government agencies and regulators, commerce is being prohibited by the inability to establish domestic banking relationships. The revised business strategy of the Bank seeks to address this barrier to national development within the parameters of its risk appetite; that is, the Bank will onboard those corporate customers that can satisfy the Bank's due diligence and risk assessment. The Bank also works closely with its correspondent banking partners in accepting new business to ensure such relationships are uninterrupted, given their significance to the Bank and its ongoing activities and where necessary, the Bank imposes certain conditions on corporate customers, such as limiting the banking facilities to those elements of the business that the Bank is willing, and equipped, to service.

The prima facie change in the mix of deposit types resulting from the priorities of the Bank set out above appears inconsistent with the principle objective of utilising deposits from customers as the principal source of funding of investments in assets, given that term deposits represent 61.48% (2021: 53.05%) of total deposits from customers. Greater analyses of the mix of deposit types, excluding non-interest bearing deposits from regulated financial institutions and capital markets participants that are generally matched by cash at banks, demonstrates that term deposits represent 64.07% (2021: 70.23%) of the total of the remaining deposits from customers. Further, analyses of the undiscounted cash flows of term deposits supports the success of the strategy to encourage longer term deposits, as the percentage of the undiscounted cash flows of terms deposits due in the bucket of one (1) to five (5) years is stable and as of 31 December 2022 represented 28.66% (2021: 34.91%) of total undiscounted cash flows of term deposits. Therefore, the objectives and priorities of the Bank are in fact, complimentary.

During the current and prior years, the increased sustained level of deposits from customers facilitated the redemption of debt securities of $20,000,000 (2021: $4,000,000) upon their respective maturities, which in turn increased the capacity of the Bank to access such funding in future periods. The management of deposits from customers and debt securities is based on continuous assessment of the appropriate mix of funding stability and cost, and adjustments to the mix of funding are made accordingly.

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

The interest rate environment in The Bahamas is unlikely to observe any increases in the foreseeable future, and excess liquidity is the result of an absence of opportunities to deploy funds in income earning activities of appropriate risk. Therefore, interest rates to be offered to customers will continue to decline until such opportunities present themselves in greater numbers and consistency, and this will require the management of expectations of customers to maintain the flexibility to adjust the mix of funding. The investment in the strongest possible customer relationships will continue, including emphasising free financial coaching to increase the dialogue with potential customers that are referred from existing customers, as word of mouth persistently circulates about the advantages of banking with Fidelity, and this is expected to result in the continued increase in the numbers of depositors that has been observed in recent years.

Additionally, the philosophy of the Bank to equitably distribute the earnings from assets to depositors, shareholders and other stakeholders that fund the investment in assets, naturally based on the level of risk assumed by each stakeholder group, will continue to be adhered to and the Bank will also ensure that its interest rates offered are competitive and conducive to the continued stability of funding from the most economical source. Where appropriate, financial coaching will seek to educate customers on the risk/reward analyses necessary to guide effective wealth management and best utilisation of liquid resources, including deposits placed with the Bank.

CAPITAL ADEQUACY

As of 31 December 2022, the Bank had total equity of $109,344,653 (2021: $104,427,205), representing an increase of 4.71% (2021: 6.76%) over the prior year, and a ratio of total regulatory capital to risk-weighted assets of 22.20% (2021: 19.64%), which compares well with the ratio of total regulatory capital to risk–weighted assets at or above a minimum of 14.00% required by the Central Bank. During the year, the regulations governing capital adequacy were updated by the Central Bank limiting eligible capital to that of ordinary share capital and concurrently modifying the calculation of risk-weighted assets; the new regulations did not have any material negative impact on the ratio of the Bank.

The ratio of total regulatory capital to risk-weighted assets will fluctuate as a consequence of business expansion efforts, as in periods of increased cash at banks associated with increased deposits from customers the ratio will experience downward pressure due to the Bank placing its deposits with financial institutions other than the Central Bank, which results in higher risk weightings. The ratio will revert to historical levels in periods of decreased cash at banks. These fluctuations are not fundamental changes in the ratio of total regulatory capital to risk-weighted assets but will necessitate the heightening of the roles of treasury management and associated credit risks, and capital management. Further, all deposits are placed with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed, and therefore the fluctuations in capital requirement are considered an acceptable risk and cost of business expansion efforts.

The return on average ordinary shareholders' equity, disclosed earlier, demonstrates the sustainability of the return to acceptable returns for shareholders of the Bank, as management maintains the targeted level of regulatory capital and appropriately deploys the equity of the Bank in assets and activities that provide returns with acceptable risk.

During the current year, the financial performance of the Bank, along with efficient utilisation of total equity, enabled the Bank to declare and pay ordinary dividends of $15,010,668 (2021: $14,722,002), representing $0.52 (2021: $0.51) per share and a dividend payout ratio of 78.00% (2021: 69.46%).

The principles guiding the management of total equity, and in turn regulatory capital are: providing financial capacity sufficient to withstand reasonably possible negative economic events in The Bahamas that could adversely affect risk-weighted assets of the Bank; and maintaining a ratio of total regulatory capital to risk–weighted assets at a level that facilitates strategic growth in risk-weighted assets, principally loans and advances to customers. For the year ended 31 December 2022, the Bank maintained a ratio of total regulatory capital to risk–weighted assets that met these principles, and continues to do so in 2023.

The capital management plan of the Bank will evolve as the picture of the future economic environment becomes more certain. Specifically, the equity of ordinary shareholders will only be retained to the extent that the Bank forecasts that it can generate acceptable returns for the shareholders while factoring in the noted principles; any surplus equity will be returned to the shareholders to facilitate the most profitable deployment of their financial resources.

OPERATING REVENUES

Net Interest Income

As disclosed earlier, following the economic fallout of the global pandemic, which leaves its wake even today, the availability of quality new credit remains limited. There was a significant rebound in GDP and employment in The Bahamas, but this rebound is simply returning the metrics to levels observed in the fiscal periods immediately prior to the significant events in the past three (3) years and is not actual growth in GDP and employment. The national statistics report a significant decline in lending to individual borrowers, namely consumer loans and mortgage loans, of over $127,000,000 for the year ended 31 December 2022 and the Bank was not immune to this experience. During the current and prior years, loans and advances to customers decreased due to normal loan amortisations, early extinguishments and other credit adjustments that were not matched by the writing of new loans and advances to customers. The decrease was more pronounced in the portfolio of the higher yielding consumer loans, consistent with national statistics.

Accordingly, interest income earned on loans and advances to customers continues to decline commensurate with decreases in those balances, offset in part by the rehabilitation of loans that went delinquent during the peak of the economic fallout of the global pandemic and years prior, as interest income recognition recommenced on the rehabilitated loans and advances to customers and previously suspended interest income, the collection of which was uncertain at best, is also recognised.

Interest rates observed on cash at banks placed in B$ term deposits held materially constant during the current year and balances placed in B$ term deposits continued to rollover and therefore increased. In addition, the majority of deposits from capital markets participants were denominated US$ and the Bank placed these funds in overnight and other very short-term deposits. This led to the Bank benefiting from increases in US$ Prime rates as the United States Federal Reserve battles inflation in the United States of America. Therefore, the Bank unexpectedly earned meaningful interest income on the US$ cash at banks. Collectively, interest income on deposits with banks doubled during the current year, but this is not a benefit that is certain to recur, particularly at such levels as the related deposits from customers are transitory and fluctuate significantly.

Further, the deployment of excess cash resources into investment securities increased the amount of income earning financial assets, and accordingly interest income on investment securities during the current year was on par with the prior year.

The Bank redeemed the remaining debt securities during the current year, which eliminated comparably higher interest expense associated with these debt securities. Stable deposits from customers, which are more cost effective sources of funding, facilitated this redemption, and the decrease in interest expense led to an improvement in net interest income.

For the year ended 31 December 2022, net interest income decreased by 0.62% (2021: 3.58%) over the prior year to $52,940,571 (2021: $53,269,005), with net interest margin on interest bearing financial assets standing at 6.45% (2021: 6.72%).

Exceptional customer relationship management, including financial coaching, and supporting existing loan customers in navigating through the financial difficulties represent the quality seeds sown in priors years, and tilled in the prior and current years, and provide the basis for continued optimism on the eventual harvest and size thereof, albeit that the continuing economic challenges brought on by the global pandemic and recent inflation are still deferring the full harvesting.

Overall, initiatives of prior years that buttressed interest income of the Bank during the prior year continued to so in the current year. The following initiatives are constant elements of the business strategy of the Bank to buttress interest income during these volatile economic times: maximising the placement of cash resources on term deposits; deploying excess cash resources in investment securities, with tenors that minimise credit and liquidity risks; focusing efforts on restoring growth in the higher yielding consumer loans; rehabilitating non-performing loans and advances to customers, thereby restoring earnings on such loans and advances to customers; offering customers competitive interest rates on savings deposit accounts, with emphasis on rewarding longer term commitments; and maximising cost efficiencies in the mix of funding, with the focus on achieving stable deposits from customers that can replace debt securities issued by the Bank at comparably higher interest rates. An additional initiative implemented with greater intent during the current year included lending to micro, small and medium sized entities, for which the Bank has improved its understanding of cashflows through other business expansion efforts involving these entities.

Non-Interest Income

The Bank has sought to broaden its access to the wallets of its customers of the Bank through new or expanded service offerings to customers that add value, or an extension of the demographic of customers pursued by the Bank, particularly in light of the continued threats to interest income. There may also be increases in certain traditional banking fees, but this will be limited to the extent of recovering the costs of providing the services and will not be utilised as a means of replacing lost interest income, which is the perception of customers and other stakeholders of traditional banking fees that are continually negative criticised.

The Bank earns fees and commissions on various banking services, certain of which are recurring fees for account maintenance and account servicing, and others are based on transactions executed for and on behalf of customers. As described earlier, the Bank onboards non-traditional customers, which provides opportunities to earn fees targeted at meeting the needs of these customers. Additionally, the Bank has more aggressively pursued penetration in credit, debit and prepaid cards business, including the issuance of cards and the offering of merchant acquiring services; that is, enabling merchants to accept cards as payment for goods and services.

The Bank expects to exponentially grow the fees and commissions earned, with an almost direct correlation in growth in profitability, as it increases market share in this business, as defined by usage levels, namely the volume and quantum of transactions involving cards as opposed to the number of cards or merchants, given significant elements of the required infrastructure and resources are already deployed.

The exponential growth materialised in part during the year ended 31 December 2022, with fees and commissions increasing by 65.21% (2021: 19.03%) over the prior year to $6,144,978 (2021: $3,719,527), with non-interest income now representing 10.64% (2021: 7.11%) of total income. Continuing the exponential growth in the contribution of non-interest income to total income to a target of 20.00% is considered achievable through solely focusing on value added service offerings, notwithstanding net interest income will remain the overwhelming major contributor to total income.

OPERATING EXPENSES

For the year ended 31 December 2022, expenses, excluding the expense for provision for loan losses and allowances for impairment, totalled $32,284,313 (2021: $28,173,818), representing an increase of 14.59% (2021: 6.31%) over the prior year.

Significant increases in the components of general and administrative expenses were principally directly correlated to business expansion efforts. Cards services costs, including loyalty programme, increased by $1,151,376 (2021: $475,419), as a direct result of: implementation costs of new information technology and mandates necessary to remain in front of service offerings given its relevance to business expansion efforts; expanded use of credit cards and associated costs, including the loyalty programme; and incremental costs associated with readying the Bank to bring in-house most of the servicing of merchant services customers, certain of which were previously outsourced. Public relations expenses increased by $854,544 (2021: decreased by $174,873), which is significant however it is a reversion to levels in pre-COVID-19 years, but with much greater effectiveness as evidenced by the successful launch of the public relations strategy at the beginning of the current year; certain of the expenditure also represents an increased presence in sporting and youth-related events, which while enabling promotion of the Fidelity brand also supported the communities in which the Bank operates and has led to the Bank being seen as a leading corporate social partner in The Bahamas. Office expenses increased by $753,300 (2021: $263,377) due in part to the continued enhancement of the information technology infrastructure and related information and cyber security of the Bank; and value added tax (VAT) expense increased by $53,456 (2021: $123,110), as the Bank is not eligible to recover the majority of the VAT it incurs given the vast majority of its income, interest income, is VAT exempt. The other components of general and administrative expenses were principally consistent with those of the prior year.

During the current year, the Bank continued its steady and cautious expansion of its most valuable resource, human resources. The incentive compensation scheme for employees, which was introduced in the prior year and provides all employees a participation in the profitability of the Bank, demonstrates to employees that the success of the Bank is in each and every one of their best interests. Overall, salaries and employee benefits increased by $710,877 (2021: $986,460) over the prior year, representing an increase of 5.43% (2021: 8.14%), and the concept of collective responsibility and collective reward is encouraging greater focus on the profitability of the Bank. Therefore, the increased costs are projected to bolster profitability of the Bank and not compromise it.

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

EXPECTED CREDIT LOSSES

Provision for Loan Losses

For the year ended 31 December 2022, the expense for provision for loan losses totalled $6,181,696 (2021: $6,000,529), representing an increase of $181,167 (2021: decrease of $18,967,061) or 3.02% (2020: decrease of 75.97%), over the prior year. Further, recoveries of amounts previously written off totalled $1,235,618 (2021: $833,551) as a result of efforts to rehabilitate non-performing loans and advances to customers, along with strategies for collections and recoveries. The stabilisation of the loan portfolio during the current and prior years, along with the successes of rehabilitating a noteworthy level of non-performing loans and advances to customers that came about during the peak of the global pandemic and even prior, are reflected in the expense for the provision for loan losses recognised and can be easily validated by consistent improvement in the amount of non-performing loans and advances to customers as reported as of 31 December 2022 versus 31 December 2021 (Note 6 of the consolidated financial statements), and the analyses of loans and advances to customers by payment status (Note 21 of the consolidated financial statements).

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

The expected credit loss model involves significant estimates, assumptions and judgments, which are described in Note 19 of the consolidated financial statements. Subject to no significant growth or contraction in the respective loan portfolio, the expected credit loss model results in a consistent expense for provision for loan losses, except when there are material changes in macroeconomic factors, or entity specific portfolio characteristics, that lead to significant changes in loss experiences. The primary objective of the expected credit loss model is to recognise credit losses concurrent with writing and administering of loans and advances to customers, as opposed to deferring such recognition until actual losses are incurred. The quality and veracity of models used are determined by the volatility in the expense for provision for loan losses; that is, appropriate models should not result in significant recognition of provision for loan losses and subsequent reversals of provision for loan losses, in the absence of unforeseen changes in macroeconomic factors or entity specific portfolio characteristics.

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

The expected credit loss model utilised in the current year was without the modification. Given there was no significant change in macroeconomic factors during the current year, as recovery in macroeconomic factors commenced in the prior year and simply accelerated during the current year, consistent expense for provision for loan losses should be reasonably expected in the current year and this was indeed the case for the Bank. Therefore, the profitability of the Bank in the current and prior years are not artificially inflated by material volatility in the recognition and subsequent reversal of provision for loan losses, given The Bahamas did not experience any unforeseen changes in macroeconomic factors during the current and prior years that would justify such volatility.

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

Overall, the provision for loan losses addresses all reasonable expectations of possible credit losses. The significant efforts made in rehabilitating non-performing loans and advances to customers in the current year provided tremendous insight into an additional source of income and profitability for the Bank and greater attention is being given to aggressively pursuing those non-performing loans previously written off even prior to the extraordinary circumstances brought about by COVID-19. Such recovery efforts are being aided by the embedding of the credit bureau in The Bahamas, as delinquent borrowers are discovering that their past transgressions are being publicised when approaching financial institutions and are subsequently seeking to cure those transgressions.

Structural challenges that exist in The Bahamas will make recoveries in mortgage loans more challenging than recoveries in consumer and other loans, including: the long periods to realise collateral supporting the mortgage loans; the recent enforcement of legislation that imposes certain obligations and limitations on financial institutions; and ultimately, the limited sales of properties due to market conditions in The Bahamas. Despite this, the sales and recovery efforts during the current year were inspired by the successes experienced, and those inspired efforts continue in 2023 with similar successes.

As the challenging economic environment continues, with the new threats of inflation and recession ever present, the principal focus of the Bank will remain quality underwriting and monitoring of early signs of delinquency, as it continues its significant efforts in rehabilitating non-performing loans and advances to customers.

Allowances for impairment

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

The expected credit loss for investment securities is calculated based on probabilities of default associated with respective credit ratings, as adjusted for forward-looking information, and given that debt securities issued by the Government of The Bahamas have had credit ratings downgraded by international rating agencies over the past three (3) years, an expense for allowance for impairment was recognised in relation to investment securities in the current and prior years.

As previously discussed, Executive Management and those charged with governance continue to closely monitor the actions of the Government of The Bahamas in relation to debt management, fiscal responsibility and economic growth and the Bank has adjusted its maturity profile and risk appetite to manage the credit risk associated with debt securities issued by the Government of The Bahamas.

IMPACTS OF THE ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the year ended 31 December 2022, there were no standards, amendments or interpretations to International Financial Reporting Standards (IFRS) that had a material effect on the accounting policies, and in turn financial position and financial performance, of the Bank.

SUMMARY AND LOOKING FORWARD

In the prior year, the Bank quickly identified that the return to the desired profitability, and sustaining that financial performance, required much more than mere “recovery”, but rather “expansion”. The way commerce is transacted and the manner in which persons will live have gone through an irreversible revolution, and accordingly the economies, sectors, industries, businesses and individuals, globally and more specifically in The Bahamas, will not simply recover to pre-COVID-19 conditions. Therefore sustained financial performance requires the Bank to expand upon the roots that are its existing business model.

The year ended 31 December 2022 represented the furtherance of the expansion efforts commenced in the year ended 31 December 2021, and more importantly provided clear evidence of the wisdom of those efforts.

The financial performance for the year ended 31 December 2022 was supported by the reinforcement and extension of the behaviours, practices, strategies and decisions of the Bank that carried it through the peak of the global pandemic battered… but not beaten…and battle ready for the challenges ahead. The result was sustained profitability on par with the year ended 31 December 2021. The optimism, though cautious it may have been, that was abound that the Bank was well positioned to take advantage of the economic recovery through business expansion efforts materialised in part. Specifically, the Bank:

- deployed more of its excess cash resources in investment securities, with an investment strategy that manages liquidity and credit risks; and took advantage of increasing US$ Prime rates and surplus US$ deposits at banks. These actions bolstered interest income.

- aggressively pursued penetration in credit, debit and prepaid cards business, including the issuance of cards and the offering of merchant acquiring services. These actions significantly increased fees and commissions.

- aggressively embarked upon rehabilitating a significant number of non-performing loans and advances to customers. These actions: provided interest income replacement of a contracting loan portfolio, as interest income recognition recommenced on the rehabilitated loans and advances to customers and previously suspended interest income was recognised; and decreased the expense for provision for loan losses as a result of recoveries of amounts previously written off.

- expanded its services to non-traditional customers of the Bank, including regulated financial institutions and capital markets participants, and micro, small and medium sized entities. These actions contributed to the increase in fees and commissions.

- maintained favourable interest rates on deposits from customers, specifically on longer term deposits as a reward to customers for such commitment, which has strengthened customer relationships and loyalty while funding the investments in assets. These actions facilitated the redemption of debt securities that carried higher interest costs, and thereby contributed to sustained net interest income.

- strategically managed expenditure to ensure modernisation and advancement of the Bank. These actions prepared the Bank to capitalise on opportunities for business expansion, and in turn sustain profitability.

- managed capital to provide financial capacity to withstand negative economic events and to facilitate strategic growth. Also, adhered to a dividend payout ratio that balances capital growth and the desire of shareholders for cash distributions, effectively maximising capital utilisation.

The financial position and financial performance experienced a confluence of events, which are undoubtedly likely to recur for the foreseeable future, but the foundation of the Bank's operations provides the necessary footing to step out into less chartered territories, as and when advantageous.

The Bank continues to demonstrate its commitment to the necessary collaboration of key stakeholders, including but not limited to the Bank, the Central Bank and other financial services regulators, the Government of The Bahamas, captains of industries and civil society to remediate the structural challenges facing the economy of The Bahamas. Of particular interest is the reform of taxation in The Bahamas, which requires appropriate empirical analysis and carefully devised plans of implementation that ensure competitiveness of the jurisdiction, equity among citizens and residents, and facilitation of national development and economic growth.

The Bank considers it a responsibility and great honour to live up to the confidences placed in it by depositors, shareholders and other stakeholders, despite the significant pressure on the banking industry domestically and internationally. The Bank will achieve this through its discipline in honouring its fiduciary responsibilities to aforementioned stakeholders by making decisions that are balanced and take into consideration the social responsibility of the Bank as a key stakeholder in the economy of The Bahamas.

The prospects for 2023 and beyond remain positive, however the initial experience with continuing contraction in loans and advances to customers and increased loan delinquency has refortified the resolve of the Bank to appropriately diversify its sources of profitability through business expansion, with expansion in presence in the Family Islands front and centre with the impending opening of offices in Exuma.

Further, macroeconomic projections report returns to pre-COVID-19 GDP levels, but growth thereafter is what is needed. Recent global macroeconomic conditions that unfortunately are inherited by The Bahamas, such as inflation and the risk of recession in major economies, continue to give reason for caution.

Customers, potential customers, shareholders and potential shareholders continue to recognise the strength of the financial position and financial performance of the Bank, along with the value this brings to stability and peace of mind. This requires that when taking actions that may not always be popular among certain stakeholder groups but are deliberate and in the best interest of the Bank as a whole, the Bank remains communicative.

Fidelity, We're Good For You, is being borne out each day and as the Bank leverages the public relations strategy matching the concept of oranges and vitamin C with being "good for you", the Bank must put the words into action consistently and persistently. It is not an easy road ahead, but the management and staff of the Bank are determined to keep the many eyes set on them "glued to the screen" as the organisation strives to not only get to the head of the class, but more importantly, never move from that seat. The race is not for the swift, but who can endure it – the Bank is set on a good pace, which it is confident it can sustain, and increase at the opportune times.

Indepedent Auditors' Report

pwc

Independent auditors' report

To the Shareholders of Fidelity Bank (Bahamas) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fidelity Bank (Bahamas) Limited (the Bank) and its subsidiaries (together 'the Group') as of 31 December 2022, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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Our audit approach

Overview

- Overall group materiality: $1,005,000, which represents approximately 5% of net income.

- We planned and scoped our audit for 2022 reflecting the Group structure including its subsidiaries. The audit procedures covered approximately 100% of the Group's net assets.

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

Audit scope

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

How we tailored our group audit scope

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

Materiality

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

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

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Overall Group materiality	$1,005,000
How we determined it	Approximately 5% of net income
Rationale for the materiality benchmark applied	We chose net income as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose approximately 5% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $50,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit loss ("ECL") allowances for Stages 1 and 2 of loans and advances to customers *Refer to notes 2(d), 6, 19 and 21 to the consolidated financial statements for disclosures of related accounting policies, balances, judgments and estimates.* At 31 December 2022, the Bank reported total gross loans and advances to customers of $389.2 million and $13.6 million of expected credit loss provisioning, of which, $7.2 million relates to Stages 1 and 2. The ECL model requires that management exercise judgment, from the date the loan is recognised, in determining inputs and assumptions which are subjective and can therefore lead to significant estimation uncertainty over the measurement of the ECL.	Our approach, with the assistance of our internal experts, involved the following procedures, amongst others: Updated our understanding of the methodology and assumptions used by management in the ECL models.

The inputs and assumptions include:

- Model estimations: Inherently judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), any Significant Increase in Credit Risk ("SICR") and the Loss Given Default ("LGD"). The PD models, which incorporate economic scenarios and any SICR, are the key drivers of the ECLs and also impact the staging of loans and advances to customers. As a result, they are considered the most significant judgmental aspect of the Group's ECL modelling approach.

- Economic scenarios: The Group used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macroeconomic forecasting model with three macroeconomic scenarios to calculate unbiased and probability weighted ECL: most likely outcome (Baseline); and two less likely scenarios being better than Baseline (Upside) and worse than Baseline (Downside). For credit exposure in The Bahamas, the weight for the Baseline is set to 80.00% whilst 11.05% and 8.95% weights are applied to the Upside and Downside scenarios, respectively. The Baseline scenario utilises the projected unemployment rate or GDP growth rate for the year ending 31 December 2023, after assessing these against the experienced unemployment rate and GDP growth rate in the past thirteen years and twenty-nine years, respectively.

  The Upside and Downside scenarios utilise the best and worst unemployment

Evaluated the appropriateness of the Group's ECL model methodology, data integrity and model performance.

Evaluated the referenced inputs and assumptions as follows:

- Model estimations: Recalculated the days past due for the assets in Stages 1, 2 and 3 and assessed if they were allocated to the appropriate Stage. Formed an independent conclusion as to the appropriateness of the staging of the loans at year-end.

  This included challenging management's staging process and any qualitative factors, to assess whether any loans should have been reclassified or if there has been a default event which would warrant a loan moving to Stage 3.

  Tested, on a sample basis, the appropriateness of the model design and formulae used, modifications made to the model, and recalculated the PD and LGD.

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

- Economic scenarios: Assessed the reasonableness of management's assumptions in utilising a macroeconomic forecasting model with three scenarios to calculate a probability weighted ECL that considers a Baseline, Upside and Downside case scenario. This included applying a sensitivity analysis to management's weighted average probabilities of forecasted economic scenarios.

The results of our procedures indicated that the inputs and assumptions used by management for rate or GDP growth rate, respectively, experienced over the same timeframe.

The chosen input factors for three macroeconomic scenarios have the impact of eliminating the outlier factors experienced in the year ended 31 December 2020, considered the peak of the global pandemic COVID-19, in the Baseline scenarios.

determining the ECL for Stages 1 and 2 of loans and advances to customers were not unreasonable.

Credit impaired ("Stage 3") mortgage loans

Refer to notes 2(e), 6, 19 and 21 to the consolidated financial statements for disclosures of related accounting policies, balances, judgments and estimates.

The Lifetime ECL on credit impaired mortgage loans (MLs) for Stage 3 totalled $3.6 million at the date of the consolidated statement of financial position.

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

- Valuation of real estate property pledged as collateral for MLs. This is the most significant repayment source for impaired mortgages. The collateral value depends on market trends as well as the circumstances of the specific property and involves judgment and specialised skills. Management engaged a number of independent valuation experts to assist in determining the valuation of real estate property pledged as collateral.
- The estimated costs forced sale values and time to sell the pledged collateral.

With the assistance of our external real estate experts, we performed the following procedures, amongst others:

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

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

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

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

For all actual sales throughout the period, performed lookback procedures to assess the reliability of management's historical estimation process by assessing the provisions previously established against amounts collected from collateral sold during the year. This also entailed consideration of the forced sale value, real estate agency fees, legal fees and other costs incurred to

- The recoverable amount of accrued interest on MLs specifically identified as potentially impaired, which is recoverable from collateral held.

sell the pledged collateral as well as the average number of months to sell the property.

On a sample basis, tested the accuracy of management's Stage 3 provision on MLs by reperforming the calculation of the amounts recorded within the consolidated financial statements.

Compared the accrued interest amount against the excess of collateral held over the principal amount of such loans in respect of the recoverable amount of accrued interest on MLs classified under Stage 3.

The results of our procedures indicated that management's methodologies and assumptions used for determining Lifetime ECLs on credit impaired MLs were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises the Fidelity Bank (Bahamas) Limited Annual Report for 2022 (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

When we read Fidelity Bank (Bahamas) Limited Annual Report for 2022, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

1 May 2023

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

Consolidated Statement of Financial Position
As of 31 December 2022
(Expressed in Bahamian dollars)

	2022 $	2021 $
ASSETS		
Cash on hand and at banks (Note 4)	275,816,907	378,754,192
Investment securities (Note 5)	108,471,419	105,409,865
Loans and advances to customers (Note 6)	372,695,932	401,585,362
Other assets	2,156,416	1,937,147
Investments in joint ventures (Note 7)	170,750	195,695
Property, plant and equipment (Note 8)	11,306,837	11,219,518
Total assets	**770,618,261**	**899,101,779**
LIABILITIES		
Deposits from customers (Note 9)	656,879,927	769,754,950
Accrued expenses and other liabilities	4,393,681	4,851,294
Debt securities (Note 10)	-	20,068,330
Total liabilities	**661,273,608**	**794,674,574**
EQUITY		
Capital – ordinary shares (Note 11)	20,449,512	20,449,512
Capital – preference shares (Note 11)	15,000,000	15,000,000
Revaluation reserve	1,820,116	1,176,670
Retained earnings	72,075,025	67,801,023
Total equity	**109,344,653**	**104,427,205**
Total liabilities and equity	**770,618,261**	**899,101,779**

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

Director **Director**

26 April 2023
Date

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

Fidelity Bank (Bahamas) Limited

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2022
(Expressed in Bahamian dollars)

	2022 $	2021 $
INCOME		
Interest income		
Bank deposits, loans and advances	59,894,117	61,364,667
Investment securities	3,965,156	3,982,687
	63,859,273	65,347,354
Interest expense	(10,918,702)	(12,078,349)
Net interest income	**52,940,571**	**53,269,005**
Fees and commissions	6,144,978	3,719,527
Other income	183,707	349,834
	59,269,256	**57,338,366**
EXPENSES		
General and administrative (Note 13)	16,891,161	13,599,790
Salaries and employee benefits (Note 14)	13,809,185	13,098,308
Provision for loan losses (Note 6)	6,181,696	6,000,529
Allowances for impairment (Note 5)	560,000	1,000,000
Depreciation and amortisation (Note 8)	1,583,967	1,475,720
	39,026,009	**35,174,347**
Operating profit	**20,243,247**	**22,164,019**
Share of profits/(losses) of joint ventures (Note 7)	(24,945)	5,713
Net income	**20,218,302**	**22,169,732**
OTHER COMPREHENSIVE INCOME		
Items not reclassified to net income		
Property, plant and equipment revaluation (Note 8)	684,814	-
Total comprehensive income	**20,903,116**	**22,169,732**

Fidelity Bank (Bahamas) Limited

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2022
(Continued)
(Expressed in Bahamian dollars)

	2022 $	2021 $
Attributable to:		
Ordinary shareholders		
Net income	19,243,302	21,194,732
Other comprehensive income	684,814	-
	19,928,116	21,194,732
Preference shareholders		
Net income	975,000	975,000
Other comprehensive income	-	-
	975,000	975,000
	20,903,116	**22,169,732**
Earnings per share (Note 12)	**0.67**	**0.74**

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

Fidelity Bank (Bahamas) Limited

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2022
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Retained Earnings $	Total $
As of 1 January 2022	20,449,512	15,000,000	1,176,670	67,801,023	104,427,205
Comprehensive income					
Net income	-	-	-	20,218,302	20,218,302
Other comprehensive income					
Property, plant and equipment revaluation	-	-	684,814	-	684,814
Total comprehensive income	-	-	684,814	20,218,302	20,903,116
Transfers					
Depreciation transfer	-	-	(41,368)	41,368	-
Total transfers	-	-	(41,368)	41,368	-
Transactions with owners					
Issuance of ordinary shares	-	-	-	-	-
Dividends – preference shares	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	(15,010,668)	(15,010,668)
Total transactions with owners	-	-	-	(15,985,668)	(15,985,668)
As of 31 December 2022	**20,449,512**	**15,000,000**	**1,820,116**	**72,075,025**	**109,344,653**
Dividends per share	**0.52**	**0.65**			

Fidelity Bank (Bahamas) Limited

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Retained Earnings $	Total $
As of 1 January 2021	20,410,050	15,000,000	971,225	61,429,700	97,810,975
Comprehensive income					
Net income	-	-	-	22,169,732	22,169,732
Other comprehensive income					
Property, plant and equipment revaluation	-	-	-	-	-
Total comprehensive income	-	-	-	22,169,732	22,169,732
Transfers					
Depreciation transfer	-	-	205,445	(205,445)	-
Total transfers	-	-	205,445	(205,445)	-
Transactions with owners					
Issuance of ordinary shares	39,462	-	-	104,038	143,500
Dividends – preference shares	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	(14,722,002)	(14,722,002)
Total transactions with owners	39,462	-	-	(15,592,964)	(15,553,502)
As of 31 December 2021	**20,449,512**	**15,000,000**	**1,176,670**	**67,801,023**	**104,427,205**
Dividends per share	**0.51**	**0.65**			

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

Fidelity Bank (Bahamas) Limited

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2022
(Expressed in Bahamian dollars)

	2022 $	2021 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	20,218,302	22,169,732
Adjustments for:		
Interest income	(63,859,273)	(65,347,354)
Interest expense	10,918,702	12,078,349
Salaries and employee benefits	-	143,500
Provision for loan losses	6,181,696	6,000,529
Allowances for impairment	560,000	1,000,000
Depreciation and amortisation	1,583,967	1,475,720
Share of (profits)/losses of joint ventures	24,945	(5,713)
Interest received	60,218,985	61,659,602
Interest paid	(9,905,896)	(11,412,258)
(Increase)/Decrease in operating assets		
Current accounts at banks – pledged balances	(2,650,000)	(500,000)
Term deposits – contractual maturities greater than three (3) months	(652,584)	(716,019)
Mandatory reserve deposits	(1,083,473)	(1,687,039)
Loans and advances to customers	26,532,526	14,541,594
Other assets	(219,269)	(986,827)
Increase/(Decrease) in operating liabilities		
Deposits from customers	(113,956,159)	194,150,581
Accrued expenses and other liabilities	(883,052)	(10,114,480)
Net cash from/(used in) operating activities	**(66,970,583)**	**222,449,917**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	-	12,973
Purchases of investment securities	(107,123,484)	(30,868,303)
Proceeds from sales/maturities of investment securities	103,312,600	17,500,400
Purchases of property, plant and equipment	(561,033)	(1,157,337)
Net cash used in investing activities	**(4,371,917)**	**(14,512,267)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemptions of debt securities	(20,000,000)	(4,000,000)
Dividends paid on preference shares	(975,000)	(975,000)
Dividends paid on ordinary shares	(15,010,668)	(14,722,002)
Net cash used in financing activities	**(35,985,668)**	**(19,697,002)**
Net increase/(decrease) in cash and cash equivalents	**(107,328,168)**	**188,240,648**
Cash and cash equivalents as of the beginning of the year	299,432,124	111,191,476
Cash and cash equivalents as of the end of the year (Note 4)	**192,103,956**	**299,432,124**

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

1. General Information

Fidelity Bank (Bahamas) Limited (the Bank) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed under the Banks and Trust Companies Regulation Act, 2020 to carry on banking business in The Bahamas. The Bank, and its subsidiaries (Note 3), collectively referred to as the Group, offer a full range of retail banking services, including internet and telephone banking, acceptance of deposits, granting of loans, credit card services and the provision of foreign exchange services through each of its five (5) branches in New Providence, its branch in Grand Bahama and its branch in Abaco.

The ordinary shares of the Bank are listed and traded on The Bahamas International Securities Exchange (BISX). Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 74.54% (2021: 74.54%) of the outstanding ordinary shares of the Bank.

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

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

New standards, amendments and interpretations adopted by the Group

Standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2022 were either not relevant or not significant to the Group's operations, and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

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

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

2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation

Subsidiaries

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

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

Joint ventures

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

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

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

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

(c) Foreign currency translation

Functional and presentation currency

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

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2022
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation (continued)

Transactions and balances

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

(d) Financial assets

Classification and measurement

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Classification and measurement (continued)

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

Initial recognition and measurement

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

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

Derecognition

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

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

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

Modifications

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced that substantially affect the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2022
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Modifications (continued)

- Significant change in the interest rate.

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

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

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

(e) Non-performing financial assets

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

(f) Impairment of financial assets at amortised cost

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(h) Deposits from customers

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

(i) Borrowings

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

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

(j) Provisions

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

(k) Share capital

Share issue costs

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

Dividends

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

(l) Offsetting financial instruments

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

2. Summary of Significant Accounting Policies (Continued)

(m) Income and expense recognition

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

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

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

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

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

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

Other income and expenses are recognised on the accrual basis.

2. Summary of Significant Accounting Policies (Continued)

(n) Leases

The Group is the lessee

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

The Group is the lessor

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

(o) Employee benefits

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

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

(p) Taxation

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

(q) Cash and cash equivalents

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

(r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is the person or group responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the Group.

2. Summary of Significant Accounting Policies (Continued)

(r) Segment reporting (continued)

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

(s) Fiduciary activities

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

(t) Corresponding figures

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

3. Subsidiaries and Joint Ventures

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

	Country of Incorporation	% Holding 2022	% Holding 2021
Bahamas Automated Clearing House Limited	Bahamas	14.29%	14.29%
Pinnacle Cars Limited	Bahamas	100.00%	100.00%
West Bay Development Company Limited	Bahamas	100.00%	100.00%

Subsidiaries

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

Joint ventures

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

(Expressed in Bahamian dollars)

4. Cash on Hand and at Banks

	2022 $	2021 $
Cash on hand	3,306,766	2,769,024
Current accounts at banks	161,947,190	297,163,100
Term deposits	82,840,100	52,187,516
Mandatory reserve deposits	27,563,662	26,480,189
	275,657,718	378,599,829
Accrued interest	159,189	154,363
Total	**275,816,907**	**378,754,192**

Included in current accounts are amounts totalling $3,150,000 (2021: $500,000), which have been pledged to support guarantees provided by other financial institutions pursuant to agreements with credit card companies in respect of the issuance of credit cards by the Group. Mandatory reserve deposits are placed with the Central Bank of The Bahamas (the Central Bank) to meet requirements of the Group's licences and are not available for use in the Group's day to day operations.

Cash on hand, and mandatory reserve deposits and other deposits with the Central Bank are non-interest bearing. Deposits with other banks earn interest at rates ranging from 0.00% to 4.10% (2021: 0.00% to 1.25%) per annum.

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

	2022 $	2021 $
Cash on hand	3,306,766	2,769,024
Current accounts at banks	161,947,190	297,163,100
Term deposits	82,840,100	52,187,516
Mandatory reserve deposits	27,563,662	26,480,189
	275,657,718	378,599,829
Current accounts at banks – pledged balances	(3,150,000)	(500,000)
Term deposits – contractual maturities greater than three (3) months	(52,840,100)	(52,187,516)
Mandatory reserve deposits	(27,563,662)	(26,480,189)
Total	**192,103,956**	**299,432,124**

(Expressed in Bahamian dollars)

5. Investment Securities

	2022 $	2021 $
Amortised cost		
Stage 1 – ECL		
Level 2		
Government debt securities	56,662,154	26,148,970
Stage 2 – ECL		
Level 2		
Government debt securities	49,910,800	76,863,100
Level 3		
Corporate debt securities	2,500,000	2,250,000
	52,410,800	79,113,100
Total – all stages	109,072,954	105,262,070
Accrued interest	958,465	1,147,795
Allowance for impairment	(1,560,000)	(1,000,000)
Total	**108,471,419**	**105,409,865**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2023 to 2050 (2021: 2022 to 2050) and with either fixed interest rates ranging from 3.13% to 5.69% (2021: 3.00% to 5.69%) per annum or variable interest rates ranging from 0.03% to 0.75% (2021: 0.02% to 0.75%) above the B$ Prime rate of 4.25% per annum.

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

Movements in allowance for impairment are as follows:

	2022 $	2021 $
Balance as of the beginning of the year	1,000,000	-
Allowance for impairment	560,000	1,000,000
Write-offs	-	-
Balance as of the end of the year	**1,560,000**	**1,000,000**

(Expressed in Bahamian dollars)

6. Loans and Advances to Customers

	2022 $	2021 $
Mortgages	42,034,462	46,425,781
Consumer and other loans	347,154,272	376,194,262
	389,188,734	422,620,043
Unamortised loan origination fees	(7,660,410)	(8,401,894)
Accrued interest	4,751,685	4,920,253
Provision for loan losses	(13,584,077)	(17,553,040)
Total	**372,695,932**	**401,585,362**

The effective interest rate earned on loans and advances for the year ended 31 December 2022 was 14.70% (2021: 14.21%).

Movements in provision for loan losses are as follows:

	2022			2021		
	Mortgages $	Consumer and Other $	Total $	Mortgages $	Consumer and Other $	Total $
Balance as of the beginning of the year	4,256,857	13,296,183	17,553,040	3,868,603	22,913,584	26,782,187
Provision	(345,502)	6,527,198	6,181,696	569,339	5,431,190	6,000,529
Write-offs	(130,497)	(10,020,162)	(10,150,659)	(181,085)	(15,048,591)	(15,229,676)
Balance as of the end of the year	**3,780,858**	**9,803,219**	**13,584,077**	**4,256,857**	**13,296,183**	**17,553,040**

Recoveries of amounts previously written off recognised in provision for loan losses in the consolidated statement of comprehensive income totalled $1,235,618 (2021: $833,551).

The provision for loan losses represents 3.56% (2021: 4.24%) of the total loan portfolio, excluding accrued interest, and 92.45% (2021: 91.01%) of total non-performing loans. As of 31 December 2022, principal balances of non-performing loans totalled $14,693,973 (2021: $19,287,450), representing 3.85% (2021: 4.66%) of the total loan portfolio, excluding accrued interest.

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2022
(Continued)
(Expressed in Bahamian dollars)

7. Investments in Joint Ventures

Movements in the investment in joint venture comprise:

	2022 $	2021 $
Balance as of the beginning of the year	195,695	202,955
Share of profits/(losses) of joint venture	(24,945)	5,713
Dividends received	-	(12,973)
Balance as of the end of the year	**170,750**	**195,695**

The financial information of the joint venture is as follows:

	2022 $	2021 $
ASSETS		
Cash on hand and at banks	892,104	1,074,095
Other assets	194,541	124,508
Property, plant and equipment	162,082	196,265
Total assets	**1,248,727**	**1,394,868**
LIABILITIES		
Accrued expenses and other liabilities	64,582	65,870
Total liabilities	**64,582**	**65,870**
EQUITY		
Share capital	70,000	70,000
Other reserves	80,000	40,000
Retained earnings	1,034,145	1,218,998
Total equity	**1,184,145**	**1,328,998**
Total liabilities and equity	**1,248,727**	**1,394,868**
INCOME		
Fees and commissions	815,433	802,636
Interest income	5,272	8,526
	820,705	**811,162**

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2022
(Continued)
(Expressed in Bahamian dollars)

7. Investments in Joint Ventures (Continued)

	2022 $	2021 $
EXPENSES		
Salaries and employee benefits	476,839	437,395
Depreciation and amortisation	47,953	17,240
Other	440,766	360,281
	965,558	**814,916**
Net loss and total comprehensive loss	**(144,853)**	**(3,754)**

8. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Assets & Improvements $	Total $
Year ended 31 December 2022						
Opening net book value	6,622,892	947,074	5,850	562,512	3,081,190	11,219,518
Revaluation	684,814	-	-	-	-	684,814
Additions	119,614	208,736	-	21,294	636,828	986,472
Disposals						
Cost	-	-	-	-	(458,247)	(458,247)
Accumulated depreciation	-	-	-	-	458,247	458,247
Depreciation	(227,320)	(222,900)	(4,492)	(268,589)	(860,666)	(1,583,967)
Closing net book value	**7,200,000**	**932,910**	**1,358**	**315,217**	**2,857,352**	**11,306,837**
As of 31 December 2022						
Cost or valuation	7,200,000	6,406,841	135,989	11,916,730	11,460,188	37,119,748
Accumulated depreciation	-	(5,473,931)	(134,631)	(11,601,513)	(8,602,836)	(25,812,911)
Net book value	**7,200,000**	**932,910**	**1,358**	**315,217**	**2,857,352**	**11,306,837**
Year ended 31 December 2021						
Opening net book value	6,784,168	536,678	11,158	773,592	2,132,305	10,237,901
Revaluation	-	-	-	-	-	-
Additions	53,823	602,458	-	149,758	1,651,298	2,457,337
Disposals						
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Depreciation	(215,099)	(192,062)	(5,308)	(360,838)	(702,413)	(1,475,720)
Closing net book value	**6,622,892**	**947,074**	**5,850**	**562,512**	**3,081,190**	**11,219,518**
As of 31 December 2021						
Cost or valuation	7,053,823	6,198,105	135,989	11,895,436	11,281,607	36,564,960
Accumulated depreciation	(430,931)	(5,251,031)	(130,139)	(11,332,924)	(8,200,417)	(25,345,442)
Net book value	**6,622,892**	**947,074**	**5,850**	**562,512**	**3,081,190**	**11,219,518**

(Expressed in Bahamian dollars)

8. Property, Plant and Equipment (Continued)

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

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

Fair value is based on valuation methods using discounted cash flow projections, which reflect, among other things, assumptions about rental rates and vacancy rates in light of current market conditions, and market discount rates. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the land and buildings.

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

Estimate/Assumption	**Change**	**Impact on fair value**
Rental revenue	+5.00%/-5.00%	$358,000/($358,000)
Vacancy rates	+2.00%/-2.00%	($151,000)/$151,000
Discount rate	+0.50%/-0.50%	($377,000)/$421,000

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

	2022	**2021**
	$	**$**
Cost	8,666,547	8,546,933
Accumulated depreciation	(3,286,663)	(3,100,711)
Net book value	**5,379,884**	**5,446,222**

9. Deposits from Customers

	2022	**2021**
	$	**$**
Term deposits	400,405,170	405,960,439
Savings deposits	149,387,431	116,809,783
Demand deposits	96,940,365	237,989,371
Escrow deposits	4,508,291	4,437,823
	651,241,257	765,197,416
Accrued interest	5,638,670	4,557,534
Total	**656,879,927**	**769,754,950**

(Expressed in Bahamian dollars)

9. Deposits from Customers (Continued)

Included in deposits from customers are deposits from banks totalling $19,522,395 (2021: $84,953,230). Deposits carry fixed interest rates ranging from 0.00% to 5.00% (2021: 0.00% to 5.00%) per annum, but the fixed interest rates are determined based on market rates and can be adjusted at the respective maturities of the deposits based on changes in market rates. The effective interest rate incurred on deposits from customers for the year ended 31 December 2022 was 1.45% (2021: 1.60%).

10. Debt Securities

	2022 $	2021 $
Series F redeemable variable rate notes; B$ Prime + 1.25%; 2022	-	19,969,441
	-	19,969,441
Accrued interest	-	98,889
Total	**-**	**20,068,330**

As part of a $50,000,000 note programme approved by the Directors, the Bank offered through private placement, unsecured fixed and variable rate notes. During the year, the Series F variable rate notes were redeemed. Interest was payable on these notes semi-annually on 30 May and 30 November each year at the variable interest rate of the B$ Prime rate plus 1.25%.

11. Capital

	2022 $	2021 $
Authorised		
35,000,000 ordinary shares of $0.30 each	**10,500,000**	**10,500,000**
10,000,000 preference shares of $1.00 each	**10,000,000**	**10,000,000**
Issued and Fully Paid		
28,866,670 ordinary shares of $0.30 each	8,660,001	8,660,001
Share premium	11,890,000	11,890,000
	20,550,001	20,550,001
36,541 (2021: 36,541) ordinary shares held in treasury	(100,489)	(100,489)
Total	**20,449,512**	**20,449,512**
1,500,000 preference shares of $1.00 each	1,500,000	1,500,000
Share premium	13,500,000	13,500,000
Total	**15,000,000**	**15,000,000**

(Expressed in Bahamian dollars)

11. Capital (Continued)

Series A variable rate non-cumulative redeemable preference shares are perpetual, but are redeemable at the sole option of the Bank with ninety (90) days written notice to the shareholders at any time after the fifth anniversary of the closing date with the prior approval of the Central Bank. As of 31 December 2022, there are 1,500,000 (2021: 1,500,000) preference shares eligible for redemption by the Bank. Preference shareholders rank in priority to ordinary shareholders.

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

The Bank has an employee share ownership trust, which was established through the issuance of 200,000 ordinary shares at $2.75 per share, representing the fair value of ordinary shares based on BISX prices at the date of establishment. For the year ended 31 December 2021, compensation to employees settled using ordinary shares of the Bank resulted in 14,350 ordinary shares being issued by the trust, with the remaining shares treated as treasury shares. The ordinary shares were issued to employees at $10.00 per share with an equivalent expense recognised in salaries and employee benefits.

12. Earnings per Share

	2022 $	2021 $
Net income attributable to ordinary shareholders	19,243,302	21,194,732
Weighted average number of ordinary shares outstanding	28,830,129	28,822,954
Earnings per share	**0.67**	**0.74**

13. General and Administrative Expenses

	2022 $	2021 $
Office expenses	5,049,721	4,296,421
Bank and business licence fees	3,867,280	3,756,108
Card services costs, including loyalty programme	3,730,615	2,579,239
Public relations expenses	1,398,798	544,254
Legal and professional fees	771,445	566,129
Value added tax	730,743	677,287
Insurance expenses	406,002	380,686
Directors' cost	201,803	146,833
Premises related costs	73,797	300,612
Other	660,957	352,221
Total	**16,891,161**	**13,599,790**

14. Employee Benefits

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

Employees in the Plan contribute a percentage of gross salary, and the Group matches employee contributions. The Group's contributions vest 20.00% upon completion of four (4) years of employment with incremental vesting following each additional year of employment and fully vest upon completion of ten (10) years of employment. Pension expense for the year ended 31 December 2022 totalled $344,040 (2021: $331,939).

15. Segment Analysis

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

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

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

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

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

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

Fees and commissions

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

16. Related Party Balances and Transactions

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

(Expressed in Bahamian dollars)

16. Related Party Balances and Transactions (Continued)

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

	2022 $	2021 $
ASSETS		
Cash at banks		
Other related parties	937,984	4,265,690
Loans and advances to customers		
Key management personnel	967,718	1,222,222
Other related parties	520,104	175,070
Other assets		
The Parent	1,517,904	646,529
Other related parties	-	730,573

Cash at banks earn interest at a rate of 0.00% (2021: 0.00% to 0.25%) per annum, and mature within one (1) year.

Loans and advances to customers earn interest at fixed rates ranging from 0.00% to 2.25% (2021: 0.00% to 2.25%) per annum, with maturities up to twenty (20) years. There is no provision for loan losses in respect of these balances.

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

	2022 $	2021 $
LIABILITIES		
Deposits from customers		
The Parent	1,390,333	1,724,989
Key management personnel	9,047,846	5,572,944
Other related parties	17,054,750	77,560,558
Debt securities		
Other related parties	-	9,379,600

Deposits from customers incur interest at fixed rates ranging from 0.00% to 5.00% (2021: 0.00% to 5.00%) per annum, and mature within one (1) year.

EQUITY

As of 31 December 2022, key management personnel and other related parties hold 1,504,890 (2021: 1,475,715) outstanding ordinary shares and 520,081 (2021: 520,081) outstanding preference shares.

(Expressed in Bahamian dollars)

16. Related Party Balances and Transactions (Continued)

	2022 $	2021 $
INCOME		
Interest income		
The Parent	9,390	-
Key management personnel	24,493	26,644
Other related parties	14,010	4,321
Interest expense		
The Parent	-	20,635
Key management personnel	107,721	89,084
Other related parties	22,526	57,717
Fees and commissions		
Other related parties	59,450	59,026
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	201,803	150,583
Key management personnel (executive Directors and other)	1,992,718	2,061,393
Costs allocated from related parties		
The Parent	771,750	771,750
Costs allocated to related parties		
Other related parties	-	(539,369)

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

17. Commitments

Loan commitments

In the normal course of business, the Group enters into various credit-related arrangements to meet the needs of customers and earn income. These financial instruments are subject to the Group's standard credit policies and procedures. As of 31 December 2022, the Group had outstanding loan commitments amounting to $21,912,773 (2021: $20,242,115).

(Expressed in Bahamian dollars)

17. Commitments (Continued)

Lease commitments

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

	2022 $	2021 $
2022	-	659,061
2023	665,547	646,347
2024	630,617	611,417
2025	458,270	442,270
2026	261,042	261,042
Total	**2,015,476**	**2,620,137**

18. Contingent Liabilities

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

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Classification of financial assets and financial liabilities

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

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

For the years ended 31 December 2022 and 2021, there were no changes in the Group's business model for each of its financial assets and financial liabilities, and accordingly, there were no reclassifications of financial assets and financial liabilities.

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

Inputs, assumptions and estimation techniques factored into measuring ECL

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

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

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

  <u>Quantitative criteria</u>

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

  <u>Qualitative criteria</u>

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

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

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

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

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

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

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

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

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

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

Significant increase in credit risk

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

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

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

<u>Investment securities</u>

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

- Change from investment grade credit rating to non-investment grade credit rating.

- Two (2) notch downgrade within investment grade credit rating bands.

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

Significant increase in credit risk (continued)

Loans and advances to customers

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

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

Investment securities

- There are no contractual payments past due.

- Credit rating reverts to level immediately prior to being deemed to have SICR.

Loans and advances to customers

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

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

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

Should an additional 10.00% of loans and advances to customers currently in Stage 1, and measured at 12-months ECL, be considered to have experienced SICR and accordingly measured at lifetime ECL, the provision for loan losses as of 31 December 2022 would increase by $15,839,358 (2021: $17,647,590).

The low credit risk exemption has not been used for the years ended 31 December 2022 and 2021.

Forward-looking information factored into ECL models

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

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

Forward-looking information factored into ECL models (continued)

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

In addition to the base economic scenario, other possible scenarios along with scenario weightings are determined. The number of other scenarios used is set based on the analyses of each major type of financial asset to ensure non-linear relationships are appropriately factored in. The number of scenarios and their attributes are reassessed at each financial reporting date. As of 31 December 2022, three (3) scenarios were deemed to appropriately capture non-linear relationships. The scenario weightings are determined by a combination of statistical analysis and judgment, taking into account the range of possible outcomes each chosen scenario is representative of.

The Group used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macroeconomic forecasting model with three (3) macroeconomic scenarios to calculate unbiased and probability weighted ECL: most likely outcome (Baseline); and two (2) less likely scenarios being better than Baseline (Upside) and worse than Baseline (Downside). For credit exposure in The Bahamas, the weight for the Baseline is set to 80.00% (2021: 80.00%) and 11.05% and 8.95% (2021: 14.18% and 5.82%) weights are applied to Upside and Downside, respectively, in relation to loans and advances; and 80.00%, 1.24% and 18.76% (2021: 80.00%, 14.88% and 5.12%), respectively in relation to investment securities. The Baseline scenario utilises the projected unemployment rate or gross domestic product (GDP) growth rate for the year ending 31 December 2023, after assessing these against the experienced unemployment rate and GDP growth rate in the past thirteen (13) years and twenty-nine (29) years, respectively. The Upside and Downside scenarios utilise the best and worst unemployment rate or GDP growth rate, respectively, experienced over the same timeframe.

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

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

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

(Expressed in Bahamian dollars)

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

Forward-looking information factored into ECL models (continued)

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

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

Sensitivity analyses

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

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

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

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

For loans and advances to customers, a 10.00% increase/decrease in credit loss experience based on the ECL model used for the years ended 31 December 2022 and 2021 would result in an increase/decrease in provision for loan losses of $1,358,408 (2021: $1,755,304) as of 31 December 2022.

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

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

(Expressed in Bahamian dollars)

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

Forward-looking information factored into ECL models (continued)

Sensitivity analyses (continued)

The following changes in scenario inputs and weightings would result in the respective changes in provision for loan losses as of 31 December 2021:

Scenario Weightings			Projected Baseline	Increase/(Decrease)
Baseline %	Upside %	Downside %	Unemployment	in Provision $
80.00	15.00	5.00	Increase 110 bps	1,496,205
80.00	10.00	10.00	No change	1,130,996
80.00	5.00	15.00	No change	2,658,916

Grouping of financial assets for losses measured on a collective basis

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

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

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

20. Capital Management

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

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

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

The Central Bank, the Group's principal regulator, requires that the Group maintains a ratio of total regulatory capital to risk-weighted assets at or above a minimum of 14.00%. For the years ended 31 December 2022 and 2021, the Group complied with all of the externally imposed capital requirements to which it is subject.

21. Financial Risk Management

Strategy in using financial instruments

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

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

Concentration of risks

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

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

Credit risk

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

Credit risk is one of the most significant risks facing the Group and management therefore carefully manages its exposure to credit risk. Impairment provisions are provided for ECL as of the date of the statement of financial position (Notes 5 and 6). Significant changes in the economies or sectors that represent a concentration in the Group's portfolio could result in losses that are different from those provided for as of the date of the statement of financial position.

21. Financial Risk Management (Continued)

Credit risk (continued)

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

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

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed. Investment securities with credit risk principally comprise debt securities issued by the Government of The Bahamas, which were downgraded to non-investment grade credit ratings during 2020 and further downgraded during the current and prior years, resulting in all securities acquired prior to the most recent two (2) notch downgrade being classified to Stage 2 for purposes of assessing ECL.

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

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

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

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

	2022		2021	
	$	%	$	%
Consumer	325,848,368	83.73	350,430,495	82.92
Family residential property	33,450,576	8.59	37,156,834	8.79
Undeveloped land	8,583,886	2.21	9,268,947	2.19
Cash secured	5,136,250	1.32	5,810,488	1.38
Commercial property	3,705,283	0.95	3,070,656	0.73
Overdrafts	1,214,446	0.31	2,239,798	0.53
Other	11,249,925	2.89	14,642,825	3.46
	389,188,734	**100.00**	**422,620,043**	**100.00**

The average mortgage loan balance is $78,000 (2021: $78,000) and the average consumer loan balance is $40,000 (2021: $38,000) with the largest exposure to a single customer totalling approximately $11,249,925 (2021: $14,642,825). Mortgage loans can extend up to twenty-five (25) years, and consumer loans up to twelve (12) years.

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

	2022		2021	
	$	%	$	%
Not impaired				
– Neither past due nor impaired	368,401,098	94.66	399,433,398	94.51
– Past due but not impaired	9,533,180	2.45	7,896,011	1.87
Impaired				
– Past due up to 3 months	1,627,355	0.42	988,703	0.24
– Past due 3 – 6 months	1,636,529	0.42	1,651,414	0.39
– Past due 6 – 12 months	322,258	0.08	1,308,361	0.31
– Past due over 12 months	7,668,314	1.97	11,342,156	2.68
	389,188,734	**100.00**	**422,620,043**	**100.00**
Provision for loan losses				
– Individually impaired	6,367,208	46.87	9,674,278	55.11
– Portfolio allowance	7,216,869	53.13	7,878,762	44.89
	13,584,077	**100.00**	**17,553,040**	**100.00**

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

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

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

31 December 2022	**Mortgages $**	**Consumer and Other $**	**Total $**
Past due up to 3 months	1,439,175	3,027,133	4,466,308
Past due 3 – 6 months	424,909	200,573	625,482
Past due 6 – 12 months	359,973	140,165	500,138
Past due over 12 months	3,941,252	-	3,941,252
Total past due but not impaired	**6,165,309**	**3,367,871**	**9,533,180**
31 December 2021			
Past due up to 3 months	941,377	1,969,115	2,910,492
Past due 3 – 6 months	752,936	141,710	894,646
Past due 6 – 12 months	507,163	73,965	581,128
Past due over 12 months	3,499,174	10,571	3,509,745
Total past due but not impaired	**5,700,650**	**2,195,361**	**7,896,011**

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

Individually impaired loans can be analysed as follows:

31 December 2022	**Mortgages $**	**Consumer and Other $**	**Total $**
Carrying amount	7,530,182	3,724,274	11,254,456
Provision for loan losses	3,630,483	2,736,725	6,367,208
31 December 2021			
Carrying amount	9,214,947	6,075,687	15,290,634
Provision for loan losses	4,152,411	5,521,867	9,674,278

21. Financial Risk Management (Continued)

Credit risk (continued)

The classification of loans as past due but not impaired, and provision for loan losses, are determined by reference to the fair value of collateral pledged in support of the respective loans and advances to customers in respect of such loans. As of 31 December 2022, a decrease of 10.00% in the fair value of collateral would result in a decrease of $662,710 (2021: $354,775) in the carrying value of loans classified as past due but not impaired and an increase in past due and impaired loans by an equal amount, and provision for loan losses would increase by $434,724 (2021: $532,064).

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

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

- Increases for provision and/or allowances for new financial assets recognised during a financial period, and decreases for financial assets derecognised in a financial period.

- Impacts on the measurement of ECL due to changes made to model methodologies and assumptions.

- Decreases in provision and/or allowances related to financial assets written off during a financial period.

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

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

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

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2022	6,324,167	1,450,149	5,521,867	13,296,183
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(124,447)	1,555,885	-	1,431,438
Transfer from Stage 1 to Stage 3	(49,552)	-	1,716,639	1,667,087
Transfer from Stage 2 to Stage 1	13,242	(83,092)	-	(69,850)
Transfer from Stage 2 to Stage 3	-	(41,792)	86,856	45,064
Transfer from Stage 3 to Stage 2	-	5,915	(1,578,254)	(1,572,339)
Loans and advances written	2,025,467	-	-	2,025,467
Changes to models and assumptions	(1,829,191)	(638,827)	8,613,347	6,145,329
Loans and advances derecognised	(1,407,745)	(133,685)	(1,603,568)	(3,144,998)
Provision for loan losses	(1,372,226)	664,404	7,235,020	6,527,198
Write-offs	-	-	(10,020,162)	(10,020,162)
Other movements	-	-	(10,020,162)	(10,020,162)
Balance as of 31 December 2022	**4,951,941**	**2,114,553**	**2,736,725**	**9,803,219**

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Total	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2022	6,404,995	1,473,767	9,674,278	17,553,040
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(129,113)	1,579,811	-	1,450,698
Transfer from Stage 1 to Stage 3	(50,654)	-	1,780,664	1,730,010
Transfer from Stage 2 to Stage 1	14,224	(91,318)	-	(77,094)
Transfer from Stage 2 to Stage 3	-	(45,981)	86,856	40,875
Transfer from Stage 3 to Stage 2	-	13,974	(1,698,895)	(1,684,921)
Loans and advances written	2,035,305	-	-	2,035,305
Changes to models and assumptions	(1,793,082)	(641,581)	8,278,532	5,843,869
Loans and advances derecognised	(1,418,210)	(135,268)	(1,603,568)	(3,157,046)
Provision for loan losses	(1,341,530)	679,637	6,843,589	6,181,696
Write-offs	-	-	(10,150,659)	(10,150,659)
Other movements	-	-	(10,150,659)	(10,150,659)
Balance as of 31 December 2022	**5,063,465**	**2,153,404**	**6,367,208**	**13,584,077**

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2021.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2021	65,072	39,375	3,764,156	3,868,603
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(565)	1,411	-	846
Transfer from Stage 1 to Stage 3	(2,398)	-	31,707	29,309
Transfer from Stage 2 to Stage 1	2,291	(12,257)	-	(9,966)
Transfer from Stage 2 to Stage 3	-	(17,591)	33,519	15,928
Transfer from Stage 3 to Stage 2	-	7,884	(142,348)	(134,464)
Loans and advances written	13,989	-	-	13,989
Changes to models and assumptions	13,543	6,908	648,649	669,100
Loans and advances derecognised	(11,104)	(2,112)	(2,187)	(15,403)
Provision for loan losses	15,756	(15,757)	569,340	569,339
Write-offs	-	-	(181,085)	(181,085)
Other movements	-	-	(181,085)	(181,085)
Balance as of 31 December 2021	**80,828**	**23,618**	**4,152,411**	**4,256,857**

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2021	6,162,028	1,604,320	15,147,236	22,913,584
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(91,691)	1,091,087	-	999,396
Transfer from Stage 1 to Stage 3	(138,086)	-	1,801,580	1,663,494
Transfer from Stage 2 to Stage 1	21,600	(347,732)	-	(326,132)
Transfer from Stage 2 to Stage 3	-	(109,678)	211,991	102,313
Transfer from Stage 3 to Stage 2	-	64,654	(1,462,602)	(1,397,948)
Loans and advances written	2,179,257	-	-	2,179,257
Changes to models and assumptions	(71,296)	(365,349)	6,974,698	6,538,053
Loans and advances derecognised	(1,737,645)	(487,153)	(2,102,445)	(4,327,243)
Provision for loan losses	162,139	(154,171)	5,423,222	5,431,190
Write-offs	-	-	(15,048,591)	(15,048,591)
Other movements	-	-	(15,048,591)	(15,048,591)
Balance as of 31 December 2021	**6,324,167**	**1,450,149**	**5,521,867**	**13,296,183**

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Total	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2021	6,227,100	1,643,695	18,911,392	26,782,187
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(92,256)	1,092,498	-	1,000,242
Transfer from Stage 1 to Stage 3	(140,484)	-	1,833,287	1,692,803
Transfer from Stage 2 to Stage 1	23,891	(359,989)	-	(336,098)
Transfer from Stage 2 to Stage 3	-	(127,269)	245,510	118,241
Transfer from Stage 3 to Stage 2	-	72,538	(1,604,950)	(1,532,412)
Loans and advances written	2,193,246	-	-	2,193,246
Changes to models and assumptions	(57,753)	(358,441)	7,623,347	7,207,153
Loans and advances derecognised	(1,748,749)	(489,265)	(2,104,632)	(4,342,646)
Provision for loan losses	177,895	(169,928)	5,992,562	6,000,529
Write-offs	-	-	(15,229,676)	(15,229,676)
Other movements	-	-	(15,229,676)	(15,229,676)
Balance as of 31 December 2021	**6,404,995**	**1,473,767**	**9,674,278**	**17,553,040**

Fidelity Bank (Bahamas) Limited

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(Continued)
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21. Financial Risk Management (Continued)

Credit risk (continued)

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2022, which elucidate the significance of such changes to the changes in provision for loan losses.

Mortgages	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2022	31,511,261	946,710	15,390,380	47,848,351
Transfers				
Transfer from Stage 1 to Stage 2	(897,276)	897,276	-	-
Transfer from Stage 1 to Stage 3	(211,661)	-	211,661	-
Transfer from Stage 2 to Stage 1	255,722	(255,722)	-	-
Transfer from Stage 2 to Stage 3	-	(140,311)	140,311	-
Transfer from Stage 3 to Stage 2	-	574,478	(574,478)	-
Loans and advances written	2,548,131	-	-	2,548,131
Changes to exposure other than full derecognition	(2,615,948)	(613,831)	(881,762)	(4,111,541)
Loans and advances derecognised	(2,147,190)	(64,023)	(231,447)	(2,442,660)
Write-offs	-	-	(130,497)	(130,497)
Balance as of 31 December 2022	**28,443,039**	**1,344,577**	**13,924,168**	**43,711,784**
Consumer and other loans				
Balance as of 1 January 2022	348,348,721	17,690,560	5,250,770	371,290,051
Transfers				
Transfer from Stage 1 to Stage 2	(3,332,964)	3,332,964	-	-
Transfer from Stage 1 to Stage 3	(1,716,639)	-	1,716,639	-
Transfer from Stage 2 to Stage 1	381,865	(381,865)	-	-
Transfer from Stage 2 to Stage 3	-	(86,856)	86,856	-
Transfer from Stage 3 to Stage 2	-	267,999	(267,999)	-
Loans and advances written	81,663,855	-	-	81,663,855
Changes to exposure other than full derecognition	(26,207,174)	(6,380,998)	8,726,351	(23,861,821)
Loans and advances derecognised	(74,614,950)	(285,180)	(1,603,568)	(76,503,698)
Write-offs	-	-	(10,020,162)	(10,020,162)
Balance as of 31 December 2022	**324,522,714**	**14,156,624**	**3,888,887**	**342,568,225**

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Total	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2022	379,859,982	18,637,270	20,641,150	419,138,402
Transfers				
Transfer from Stage 1 to Stage 2	(4,230,240)	4,230,240	-	-
Transfer from Stage 1 to Stage 3	(1,928,300)	-	1,928,300	-
Transfer from Stage 2 to Stage 1	637,587	(637,587)	-	-
Transfer from Stage 2 to Stage 3	-	(227,167)	227,167	-
Transfer from Stage 3 to Stage 2	-	842,477	(842,477)	-
Loans and advances written	84,211,986	-	-	84,211,986
Changes to exposure other than full derecognition	(28,823,122)	(6,994,829)	7,844,589	(27,973,362)
Loans and advances derecognised	(76,762,140)	(349,203)	(1,835,015)	(78,946,358)
Write-offs	-	-	(10,150,659)	(10,150,659)
Balance as of 31 December 2022	**352,965,753**	**15,501,201**	**17,813,055**	**386,280,009**

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2021, which elucidate the significance of such changes to the changes in provision for loan losses.

Mortgages	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Balance as of 1 January 2021	32,572,850	2,134,250	16,716,543	51,423,643
Transfers				
Transfer from Stage 1 to Stage 2	(56,244)	56,244	-	-
Transfer from Stage 1 to Stage 3	(290,377)	-	290,377	-
Transfer from Stage 2 to Stage 1	469,816	(469,816)	-	-
Transfer from Stage 2 to Stage 3	-	(605,662)	605,662	-
Transfer from Stage 3 to Stage 2	-	641,784	(641,784)	-
Loans and advances written	2,847,217	-	-	2,847,217
Changes to exposure other than full derecognition	(2,581,570)	(720,711)	(1,249,024)	(4,551,305)
Loans and advances derecognised	(1,450,431)	(89,379)	(150,309)	(1,690,119)
Write-offs	-	-	(181,085)	(181,085)
Balance as of 31 December 2021	**31,511,261**	**946,710**	**15,390,380**	**47,848,351**

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2021	373,966,438	4,505,021	15,378,208	393,849,667
Transfers				
Transfer from Stage 1 to Stage 2	(16,880,342)	16,880,342	-	-
Transfer from Stage 1 to Stage 3	(1,801,580)	-	1,801,580	-
Transfer from Stage 2 to Stage 1	809,914	(809,914)	-	-
Transfer from Stage 2 to Stage 3	-	(211,991)	211,991	-
Transfer from Stage 3 to Stage 2	-	1,474,006	(1,474,006)	-
Loans and advances written	86,189,114	-	-	86,189,114
Changes to exposure other than full derecognition	(22,235,790)	(2,251,441)	6,484,033	(18,003,198)
Loans and advances derecognised	(71,699,033)	(1,895,463)	(2,102,445)	(75,696,941)
Write-offs	-	-	(15,048,591)	(15,048,591)
Balance as of 31 December 2021	**348,348,721**	**17,690,560**	**5,250,770**	**371,290,051**

Total				
Balance as of 1 January 2021	406,539,288	6,639,271	32,094,751	445,273,310
Transfers				
Transfer from Stage 1 to Stage 2	(16,936,586)	16,936,586	-	-
Transfer from Stage 1 to Stage 3	(2,091,957)	-	2,091,957	-
Transfer from Stage 2 to Stage 1	1,279,730	(1,279,730)	-	-
Transfer from Stage 2 to Stage 3	-	(817,653)	817,653	-
Transfer from Stage 3 to Stage 2	-	2,115,790	(2,115,790)	-
Loans and advances written	89,036,331	-	-	89,036,331
Changes to exposure other than full derecognition	(24,817,360)	(2,972,152)	5,235,009	(22,554,503)
Loans and advances derecognised	(73,149,464)	(1,984,842)	(2,252,754)	(77,387,060)
Write-offs	-	-	(15,229,676)	(15,229,676)
Balance as of 31 December 2021	**379,859,982**	**18,637,270**	**20,641,150**	**419,138,402**

Renegotiated loans and advances to customers

Restructuring activities include extended payment arrangements and modification and deferral of payments. Restructuring policies and practices are determined based on indicators or criteria that indicate that payment will most likely continue, and such policies are under constant review. Renegotiated loans and advances that would otherwise be past due or impaired totalled $11,925,527 (2021: $13,184,766) as of 31 December 2022.

21. Financial Risk Management (Continued)

Credit risk (continued)

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. See Note 17 for loan commitments.

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

Geographical concentrations of financial assets

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

Interest rate risk

Interest rate risk is the risk that the future cash flows or the fair values of financial instruments will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow interest rate risks. Interest margins may increase as a result of such changes but may reduce gains or create losses in the event that unexpected movements arise.

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

As of 31 December 2022, the Group is exposed to fair value interest rate risk on $78,400,887 (2021: $73,117,897) of its investments in debt securities, which are at fixed interest rates with maturity dates ranging from 2023 to 2050 (2021: 2022 to 2050). The remainder of debt securities in the Group's investment portfolio are at variable rates linked to the B$ Prime rate.

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Interest rate risk (continued)

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

31 December 2022	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	4,851,486	61,945,605	21,053,684	-	-	187,966,132	275,816,907
Investment securities	30,070,531	22,165,761	25,406,639	21,648,775	9,179,713	-	108,471,419
Loans and advances to customers	50,409,678	195,042	1,387,193	45,548,140	274,584,626	571,253	372,695,932
Other assets	-	-	-	-	-	2,156,416	2,156,416
Total financial assets	**85,331,695**	**84,306,408**	**47,847,516**	**67,196,915**	**283,764,339**	**190,693,801**	**759,140,674**
LIABILITIES							
Deposits from customers	153,906,497	87,191,309	202,885,560	115,956,196	-	96,940,365	656,879,927
Accrued expenses and other liabilities	-	-	-	1,758,225	-	2,635,456	4,393,681
Debt securities	-	-	-	-	-	-	-
Total financial liabilities	**153,906,497**	**87,191,309**	**202,885,560**	**117,714,421**	**-**	**99,575,821**	**661,273,608**
Interest repricing gap	**(68,574,802)**	**(2,884,901)**	**(155,038,044)**	**(50,517,506)**	**283,764,339**	**91,117,980**	

31 December 2021	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	4,765,690	31,549,279	20,792,600	-	-	321,646,623	378,754,192
Investment securities	32,291,968	34,255,323	17,327,303	1,083,364	20,451,907	-	105,409,865
Loans and advances to customers	52,939,786	534,057	1,285,558	66,485,048	279,680,603	660,310	401,585,362
Other assets	-	-	-	-	-	1,937,147	1,937,147
Total financial assets	**89,997,444**	**66,338,659**	**39,405,461**	**67,568,412**	**300,132,510**	**324,244,080**	**887,686,566**
LIABILITIES							
Deposits from customers	121,265,247	79,909,351	191,540,217	139,050,764	-	237,989,371	769,754,950
Accrued expenses and other liabilities	-	-	15,589	1,837,113	-	2,998,592	4,851,294
Debt securities	20,068,330	-	-	-	-	-	20,068,330
Total financial liabilities	**141,333,577**	**79,909,351**	**191,555,806**	**140,887,877**	**-**	**240,987,963**	**794,674,574**
Interest repricing gap	**(51,336,133)**	**(13,570,692)**	**(152,150,345)**	**(73,319,465)**	**300,132,510**	**83,256,117**	

As of 31 December 2022, an increase/decrease in market interest rates by 0.50% (2021: 0.50%), being the assumption of reasonable potential changes in interest rates as of the respective date, with all other variables remaining constant, would increase/decrease net income by $41,008 (2021: $75,925).

Price risk

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

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Liquidity risk

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

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

31 December 2022	Repayable on demand $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Total $
ASSETS						
Cash on hand and at banks	192,817,618	62,003,737	21,165,709	-	-	275,987,064
Investment securities	500,000	24,693,005	29,766,922	38,605,807	34,006,676	127,572,410
Loans and advances to customers	1,214,446	35,460,306	59,508,701	279,442,081	242,228,968	617,854,502
Other assets	-	2,156,416	-	-	-	2,156,416
Total financial assets	**194,532,064**	**124,313,464**	**110,441,332**	**318,047,888**	**276,235,644**	**1,023,570,392**
LIABILITIES						
Deposits from customers	250,836,087	69,008,324	182,056,352	100,862,771	-	602,763,534
Accrued expenses and other liabilities	-	2,799,636	501,367	1,349,929	-	4,650,932
Debt securities	-	-	-	-	-	-
Total financial liabilities	**250,836,087**	**71,807,960**	**182,557,719**	**102,212,700**	**-**	**607,414,466**
Net liquidity gap	**(56,304,023)**	**52,505,504**	**(72,116,387)**	**215,835,188**	**276,235,644**	
Loan commitments	**21,912,773**					

31 December 2021	Repayable on demand $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Total $
ASSETS						
Cash on hand and at banks	326,412,313	31,608,485	20,904,309	-	-	378,925,107
Investment securities	250,000	35,390,360	21,205,896	18,928,858	50,085,571	125,860,685
Loans and advances to customers	2,239,798	35,280,240	62,843,745	300,094,786	276,826,872	677,285,441
Other assets	-	1,937,147	-	-	-	1,937,147
Total financial assets	**328,902,111**	**104,216,232**	**104,953,950**	**319,023,644**	**326,912,443**	**1,184,008,380**
LIABILITIES						
Deposits from customers	359,236,977	81,887,771	195,335,053	148,691,246	-	785,151,047
Accrued expenses and other liabilities	-	3,162,011	495,642	1,961,076	-	5,618,729
Debt securities	-	-	20,550,000	-	-	20,550,000
Total financial liabilities	**359,236,977**	**85,049,782**	**216,380,695**	**150,652,322**	**-**	**811,319,776**
Net liquidity gap	**(30,334,866)**	**19,166,450**	**(111,426,745)**	**168,371,322**	**326,912,443**	
Loan commitments	**20,242,115**					

The relative distribution of financial instruments based on the maturity ranges in the analysis above is representative of the relative distribution of financial instruments that would result on the basis of discounted cash flows. Regulatory authorities set limits for liquidity balances, and the Group was in compliance with these requirements for the years ended 31 December 2022 and 2021.

As of 31 December 2022, principal and interest balances of the deposits of the ten (10) largest customers totalled $146,603,290 (2021: $293,516,992) representing 22.32% (2021: 38.13%) of total deposits from customers.

21. Financial Risk Management (Continued)

Currency risk

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

22. Fiduciary Risk Management

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

23. Fair Values of Financial Instruments

Fair value hierarchy

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

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

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

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

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

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

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

23. Fair Values of Financial Instruments (Continued)

Fair value hierarchy (continued)

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

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

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

Fair values

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

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

In 2022, we proudly affirm that Fidelity has proven to be as beneficial and essential to our stakeholders as oranges are to one's well-being. Just like the nourishing and invigorating properties of oranges, Fidelity continues to demonstrate its commitment to delivering financial solutions that are 'good for you,' empowering our clients and communities with stability, growth, and prosperity.