EXPANSION 2021

ANNUAL REPORT

FIDELITY

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Financial Highlights

For the years ended 31 December (B$000)	2021	2020	% Change	2019	2018	2017
Interest Income	65,347	67,217	-2.78%	70,502	66,892	61,287
Interest Expense	(12,078)	(11,970)	0.90%	(12,638)	(12,675)	(14,831)
Net Interest Income	53,269	55,247	-3.58%	57,864	54,217	46,456
Provision for Loan Losses	(6,001)	(24,968)	-75.97%	(10,205)	(12,738)	(8,961)
Net Interest Income after Expected Credit Losses	46,268	30,280	52.80%	47,659	41,480	37,495
Non-Interest Income	4,069	3,618	12.47%	3,358	3,289	3,215
Non-Interest Expenses	(28,174)	(26,502)	6.31%	(27,369)	(24,571)	(22,005)
Share of Profits of Joint Ventures	6	18	-66.67%	1,613	2,166	2,348
Net Income	22,170	7,414	199.03%	32,823	22,364	21,054
Total Comprehensive Income	22,170	7,414	199.03%	33,548	22,364	21,054
Net Income Attributable to Ordinary Shareholders	21,195	6,439	229.17%	31,848	21,389	20,078
Book Value per Ordinary Share	$3.10	$2.87	7.94%	$2.87	$2.60	$2.58
Dividends per Ordinary Share	$0.51	$0.22	131.82%	$0.86	$0.52	$0.50
Year End Share Price	$14.91	$13.75	8.44%	$15.05	$12.85	$10.45
Weighted Average Ordinary Shares	28,822,954	28,815,779	0.02%	28,813,110	28,803,525	28,795,142
Investment Securities	105,410	92,943	13.41%	83,364	83,058	88,497
Loans and Advances to Customers	401,585	418,491	-4.04%	431,080	439,700	408,644
Total Assets	899,102	710,483	26.55%	692,915	657,901	627,770
Write-offs of Loans and Advances to Customers	15,230	11,577	31.55%	12,364	13,441	9,048
Deposits from Customers	769,755	574,997	33.87%	567,608	532,735	493,517
Total Equity	104,427	97,811	6.76%	97,722	89,868	89,317
Total Equity - Ordinary Shares	89,427	82,811	7.99%	82,722	74,868	74,317
Growth in Loans and Advances to Customers	-4.04%	-2.92%		-1.96%	7.60%	5.65%
Growth in Total Assets	26.55%	2.54%		5.32%	4.80%	11.27%
Earnings Per Share	$0.74	$0.22	229.06%	$1.11	$0.74	$0.70
Price/Earnings	20.28 x	61.53 x	-67.05%	13.62 x	17.30 x	14.99 x
Price/Book Value	4.81 x	4.78 x	0.46%	5.24 x	4.94 x	4.05 x
Dividend Yield	3.42%	1.60%	113.78%	5.71%	4.05%	4.78%
Return on Average Assets	2.75%	1.06%	160.71%	4.97%	3.48%	3.53%
Return on Average Ordinary Shareholders' Equity	24.61%	7.78%	216.33%	41.34%	28.68%	28.11%
Ordinary Dividend Payout Ratio	69.46%	98.62%	-29.57%	76.21%	70.18%	71.89%
Efficiency Ratio	49.14%	45.02%	9.14%	44.70%	42.73%	44.30%
Net Interest Margin	6.72%	8.01%	-16.09%	8.84%	8.81%	8.15%
Non-Performing Loans to Total Loans	4.51%	6.76%	-33.27%	3.81%	4.84%	6.25%
Non-Performing Loans to Total Assets	2.15%	4.32%	-50.37%	2.50%	3.42%	4.26%
Write-offs to Average Loans	3.45%	2.55%	35.51%	2.69%	3.01%	2.17%
Provision for Loan Losses to Total Loans, including Accrued Interest	4.11%	5.90%	-30.36%	2.95%	3.35%	2.42%
Provision for Loan Losses to Non-Performing Loans	91.01%	87.21%	4.35%	77.41%	69.12%	38.76%

Board of Directors

Scott Elphinstone
Chairman

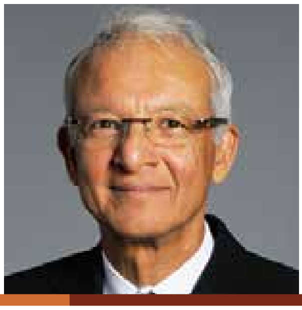
Michael A. Anderson

Gowon N. G. Bowe

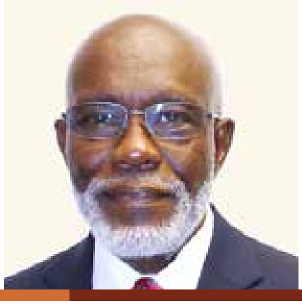
Stuart M. Bowe

Jennifer P. Dilbert
Compensation Committee Chairperson

J. Nicholas Freeland
Audit & Risk Management Committee Chairman



Jaffer Sunderji



Alfred H. Stewart

Chairman's Report

The Bank's financial performance reflected the improved economic conditions.

Scott Elphinstone
Chairman

> "I am encouraged that my optimism that the 2021/22 winter tourist season would be back to near normal actually happened.

As I reviewed the Chairman's Report in the 2020 Annual Report in preparation for writing this Chairman's Report, I am encouraged that my optimism that the 2021/22 winter tourist season would be back to near normal actually happened. This had a significant positive effect on the performance of the economy of Commonwealth of The Bahamas, which impacted favourably the financial performance of Fidelity Bank (Bahamas) Limited (the Bank). While the effects of the COVID-19 crises still linger, 2021 can only be thought of as the comeback year we had all hoped for. I would like to again thank the staff for their relentless focus on our customers that allowed the Bank to operate successfully during yet another difficult year.

The Bank's financial performance reflected the improved economic conditions. The conservative provision for loan losses established as of 31 December 2020 proved adequate and therefore had no drag on the current year, improving the expense for provision for loan losses by $18,967,061. One of the lasting impacts of the COVID-19 crises is that loan demand remains lower than in the recent pre-COVID-19 era, contributing to a reduction in net interest income of 3.58% over the prior year. In response, there is a renewed focus on card merchant acquiring services, which contributed to an increase in non-interest income. Inflation is the major consequence of the global health crisis. Not unexpectedly, the Bank's non-interest expenses grew by 6.31% year over year and cost management will be important to maintaining profits in the years ahead. The Bank's equity position remains strong and more than what is required by the Central Bank of The Bahamas (the Central Bank).

Unlike this time last year, the global economic backdrop is concerning. Consumer inflation measures have moved up sharply to levels not seen for forty (40) years. In response the central banks in all large, western, developed countries are increasing interest rates. The likelihood that they will increase interest rates to levels that put the global economy into a recession in 2023 is high. In a recession, consumers will be quick to reduce discretionary expenses such as travel. As we all live in a small island country, we know that when the big economies catch a cold, we get the flu. The stability of the fiscal performance of the Government of The Bahamas in the context of a global recession requires very close monitoring, which is continuous by the Board of Directors.

I would like to thank our Chief Executive Officer Gowon N.G. Bowe, President H. Gregory Bethel and the Executive Management team who provided exceptional leadership during the year. I also want to recognise the contributions of Jaffer Sunderji, who is retiring from the Board of Directors at the Annual General Meeting and welcome Aziz Sunderji to the Board of Directors, subject to the approvals of the shareholders and the Central Bank. Aziz will bring his experience as a global economist and a more youthful perspective to the Board of Directors, both of which will be useful in the uncertain times ahead.

As always, I would like to thank you the shareholders for your continued confidence and support.

Our Executive Team

Gowon N. G. Bowe
Chief Executive Officer

H. Gregory Bethel
President

Malvern Bain
Vice President, Asset Recovery

Heatherdawn E. Blake-Brown
Vice President, Cards Services

Crestwell R. Gardiner
Vice President, Credit & Lending

Alan Loane
Chief Information Officer

Janice Rolle
Vice President, Retail Banking

Spencer Smith
Head of Compliance

Gowon N. G. Bowe
Chief Executive Officer

Communication from the CEO

The past two (2) years have demonstrated the importance of being well grounded

> "The year ended 31 December 2021 is characterised by Fidelity Bank (Bahamas) Limited (the Bank) as one of validation, optimism, and most importantly expansion.

The past two (2) years have demonstrated the importance of being well grounded and establishing a solid foundation, whether it be in personal, professional, civic or national life, as volatility can emerge at any time. In the prior year, I began by reflecting on the words of Ecclesiastes 3:1 "For everything there is a season, a time for every activity under heaven", and used them as the basis for optimism for the future. When in the midst of dark days, we must continuously remind ourselves that "it is always darkest before the dawn". The year ended 31 December 2021 is characterised by Fidelity Bank (Bahamas) Limited (the Bank) as one of validation, optimism, and most importantly expansion.

The negative impacts of the global pandemic, COVID-19 (commonly referred to as Coronavirus), that set upon the world in 2020, including the Commonwealth of The Bahamas (The Bahamas), unfortunately did not abate during 2021. However, with the opening of the domestic and international economies, the degree of negative impacts lessened, as health officials around the world encouraged mass vaccinations to, at the very least, significantly reduce the health risks associated with contracting COVID-19. In The Bahamas, the opening of the economy was gradual throughout the year, with vaccination penetration being even more gradual. And this led to some recovery in all sectors in the domestic economy, but most importantly in the primary economic pillar, the tourism sector. The sentimental value of seeing tourists throughout New Providence and the other islands, along with observing United States dollars in the cash tills, cannot by underscored enough, as economic recovery is as much about perception as it is reality; belief inspires actions, which inspire behaviours that in turn achieve the beliefs.

The Management Discussion & Analysis sets out the financial position and financial performance of the Bank. And as stated above, the financial position and financial performance provided validation and optimism, whereas the decisions of the Executive Management team and those charged with governance demonstrated the sowing of seeds for future expansion. The appropriateness of the principles that are the hallmark of the Bank, and can be summarised as treating all stakeholders of the Bank equitably, were validated during 2021. These defining principles and behaviours of the Bank and its competent team, both past and present, 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.

The team at the Bank remained unwavering in its diligence and commitment to serving customers and the wider community during 2021, though the members of the team personally experienced the same challenges of COVID-19, that endured during 2021, as the wider population of The Bahamas. On behalf of the Board of Directors, I express profound gratitude to Executive Management and all team members, and continue to assure each of you of a continued safe, enjoyable and rewarding environment.

The experience and competency of the Board of Directors and Executive Management is invaluable in analysing international and domestic happenings, and reviewing the strategies of the Bank in this context to ensure the Bank is always in a state of readiness to attack the future.

The validation of past decisions through the current financial performance, particularly when compared with competitors, has inspired the confidence among the team at the Bank that "together we can do great things" (Mother Theresa). The analyses of international and domestic happenings mentioned above results in the consensus view that there will be no "recovery" to pre-COVID-19 prosperity without "expansion". Therefore, the Bank viewed the financial performance of 2021 not solely as the harvest of seeds of the past, but also as fertile soil for planting the seeds of the future.

The physical structure of the Bank continued its expansion and revitalisation, led by restoration of the Marsh Harbour branch, the renovations of the Wulff Road branch and the upgrade of the property on Frederick Street to better signify a head office of a successful business. The demographic of customers of the Bank was expanded to encompass a wider range of corporate customers, including licensed and regulated financial institutions and capital markets participants, and micro, small and medium sized entities, which positions the Bank to provide various value add services, introduce additional streams of income, and grow existing streams of income. Proudly, the expansion of demographics of customers and service offerings significantly contribute to national development. The Government of The Bahamas can have bold aspirations regarding the nurturing of new industries and sectors, and modernisation of the economy and society, but such aspirations can only be achieved with the support of the private sector. Fidelity is proud to provide such support by: the customers it now accepts; the contribution towards digitising the Bahamian society by the expansion in digital payment options, namely credit, debit and prepaid cards and merchant acquiring services; and the expansion into the Family Island communities in a manner that is sustainable for the Bank and supportive of the communities. The recent successes of the past and investments in the future, provide the optimism that great things are to come, and the launch of the new public relations strategy in 2022 has created an excitement in and out of the Bank; there is certainly more to come.

As in the seasons of life, there are hellos and goodbyes at the Bank. As we welcomed new members to the team at the Bank, we also said goodbyes to several retiring team members, but only as day to day colleagues and not as family. We wish them many years of enjoyment of the fruits of their labours with the Bank, with continued health and strength in retirement. Sadly, in early 2022, we also said an earthly goodbye to Anwer J. Sunderji, a former Chief Executive Officer and Director of the Bank, and significant shareholder. Anwer may no longer be with us physically, but he will forever remain a giant in the hearts and minds of his colleagues in, and out of, the Bank and wider Fidelity Group, and he will continue to serve as an inspiration to the Fidelity Group family to live up to its mantra for its stakeholders and the wider Bahamas, *We're Good For You*.

My colleagues often say to me that I have "plenty hard mouth", in Bahamian vernacular, when publicly speaking about the activities and performance of the Bank or contributing to national development discussions. My reply is quite simple – I can have hard mouth because I have a very capable army, comprising Directors, Executive Management, Managers and other team members behind me. So to our shareholders, depositors, other customers, team members and the Bahamian society, I can attest to the overall mettle of the team at the Bank and I welcome each of you to join in the optimism as we continue to trust in this team to meet and exceed your expectations.

I end with the following inspirational words of Romans 5:3-4 "..we also glory in tribulations because we know tribulation produces perseverance, perseverance produces character, and character produces hope." The global pandemic provided an opportunity to produce much hope, and the Bank is the better for it.

H. Gregory Bethel
President

We expanded our customer base by 13,000 accounts or almost 100.00% during the last decade.

Message from the President

> "As a reminder, we closed the last decade with an overall growth of $428 million or 152.00% on our consolidated statement of financial position.

After being stationary for two (2) years due to economic uncertainty and various restrictions caused by the global pandemic, I am pleased to report that the 'Fidelity Bank Train' is moving towards normal. We are not quite there yet, but we are moving in the right direction led by our Chief Executive Officer, Executive Management, and Managers. We have reopened our Marsh Harbour Financial Centre, which was severely damaged by Hurricane Dorian and resumed business development activities in our major Family Islands. Growth in sales of all products has resumed and is expected to accelerate during 2022.

The obstacles to economic recovery caused by Russia's invasion of Ukraine, the supply chain issues (in reaction to pent-up demand and production lags due to COVID-19 cases in China), and extraordinary inflation are a concern. They continue to suppress demand for credit.

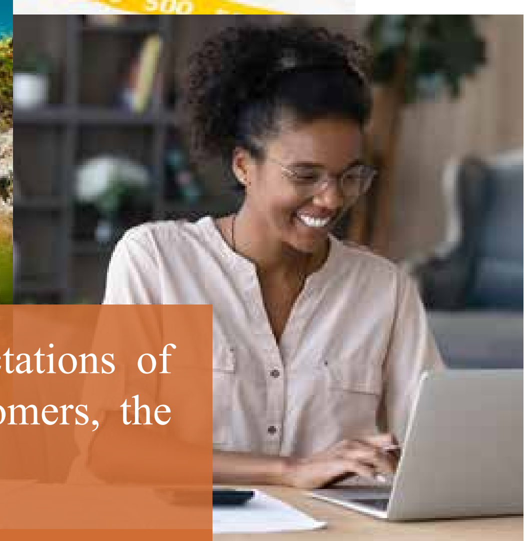
As a reminder, we closed the last decade with an overall growth of $428 million or 152.00% on our consolidated statement of financial position. We expanded our customer base by 13,000 accounts or almost 100.00%, whilst the share price moved from $2.17 to $13.75 based primarily on a highly successful credit business. However, due to the global pandemic, we began the new decade with a 'reset' of our credit business. The restrictions imposed due to the global pandemic suppressed demand for credit and increased the risk of default. Therefore, we declined to focus on growth but focused instead on the retention of quality borrowers. Nevertheless, these unwelcomed restrictions also presented an opportunity to relaunch our enhanced card merchant acquiring services and digital banking platforms.

We are confident that our progression through the current decade will continue to show impressive growth due to outstanding leadership, expansion of our target markets, prudent use of information from the recently established credit bureau, and the refinement of our digital products and services. These initiatives will be executed by our colleagues at Head Office and the Financial Centres who are as dedicated as they are competent. Business development, solicitation, sales, relationship management, and customer service are concentrated at our Financial Centres in New Providence, Grand Bahama (Freeport), and Abaco (Marsh Harbour). These Financial Centres also have responsibilities for our initiatives and representation in Andros, the Berry Islands, Bimini, Eleuthera, Exuma and Long Island. Sales support, technology support, product development, and risk management are the responsibility of Executive Management and Managers at the Head Office.

We anticipate new initiatives in 2022 including:

1. The upgrade of our social media presence, website, banking app, and online banking platform.
2. Recruitment of new staff who can thrive in Fidelity's high-performance, customer-centric, and strong sales culture.
3. Retention of staff who thrive in Fidelity's unique culture with competitive compensation and employee engagement initiatives.
4. Expansion in the Family Islands with digital banking solutions, representative offices, and part-time on-island presence (without a physical branch with tellers).

We are committed to meeting the expectations of colleagues, loan customers, deposit customers, the community, and capital providers. A special tribute is due to our colleagues who have consistently performed well even when faced with greater challenges in their personal lives. A return on average ordinary shareholders' equity of 24.61%, an efficiency ratio of 49.14% and a threefold increase in net income are evidence of their performance and the highly competent leadership of the Executive Management and Managers.



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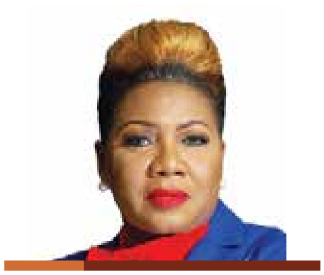
Our Management Team

Victoria Albury
Financial Centre Manager



Stacia Bowe
Director, Human Resources

Tennessee Bowe
Financial Centre Manager

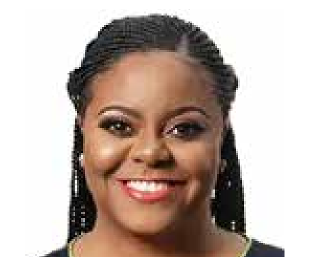
Lemunique Boyd
Manager, Cards Settlements

Gabrielle Campbell
Deputy Head of Compliance

Mary Lou Capron
Senior Manager, Information Technology Operations

Vanessa Clarke
Manager, Internal Audit

Samantha Davis
Manager, Accounts



Tawana Davis
Senior Customer Service Officer

Carmel Dean
Financial Centre Manager

Dominic Ferguson
Senior Financial Centre Manager

Khrystle Ferguson
Corporate Secretary & Legal Counsel

Bridget Forbes
Financial Centre Manager

Leslie Fox
Manager, Loan Administration

Odia Gaskin
Financial Centre Manager

Domicia Hepburn
Manager, Credit & Lending

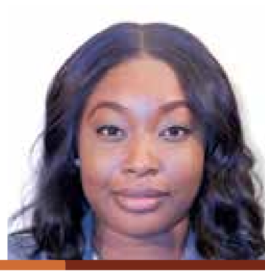
Brandon Hill
Manager, Information Technology Helpdesk

Eunice Johnson
Manager, Cards Services

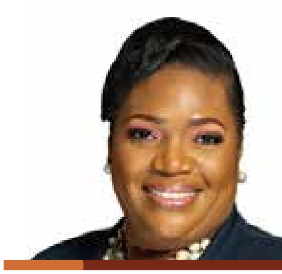
Samantha Knowles
Financial Centre Operations Manager

Shervone Knowles
Senior Customer Service Officer

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 Customer Service

Rodger Pinder
Manager, Asset Recovery

Tameka Pratt
Financial Centre Manager

Demetries Rolle
Senior Manager, Information Technology Infrastructure

Antonio Saunders
Manager, Marketing Media & Graphics

Michelle Sawyer
Manager, Cards Fraud & Risk

Javaughn Strachan
Manager, Technical Training

Denay Thompson
Deputy Head of Compliance & MLRO

Community Giving

Making a meaningful contribution to the communities in which we operate continues to be our main focus. “In the past year, COVID-19 has compelled us to rethink the way we do many things and to respond rapidly to ongoing challenges”, says Crestwell Gardiner, Chairman, Donations Committee. Despite the pandemic, our staff was able to get engaged in volunteering and giving back to the local communities last year.

425 food packages prepared

Despite the pandemic, our staff was able to get engaged in volunteering and giving back to the local communities last year.

“By making a meaningful contribution to the communities in which we operate and continuing to build trust.

Pictured from L to R: Phlip Smith, Executive Director, Bahamas Feeding Network, Odia Gaskin, Vice Chair, Donations Committee.

"The pandemic exponentially increased food insecurity and the need for food assistance across the country, and we continue to respond at an elevated distribution rate," says Bahamas Feeding Network Executive Director Philip Smith, the largest food bank in the nation in terms of distribution.

Pictured from L to R: Mr. & Mrs C. B. Moss, Mt. Olive Baptist Church, Tennessee Bowe, Manager.

Mt Olive Baptist Church is a non-profit organisation that assists needy residents of Bains & Grants Town and the surrounding areas. Fidelity is honored to have the opportunity to give back to its community through the ministry at Mt. Olive Baptist.

What better time than christmas to spread joy, laughter and cheer to others?

During the Christmas season our Donations Committee hosted our annual Christmas Party for students at the Naomi Blatch Primary School. The event replaced the traditional Children's Christmas Party because of the need for social distancing due to COVID-19. *Pictured above from left to right:* Tennessee Bowe, Manager, Odia Gaskin, Manager and Vice Chair Donations Committee.

Our Wulff Road branch staff and the marketing team work together to coordinate the event. Despite restrictions, the children enjoyed themselves.

Fidelity proudly supports the Bahamas Humane Society in its important work to provide for the health and well-being of companion animals in need and to find each a loving home.

Fidelity provided financial support to Zonta Club of Nassau, Bahamas.

The Rotary Club of Nassau Sunrise receives support from Fidelity for the charity golf tournament to raise funds to “serve to change lives” in The Bahamas.

Management Discussion & Analysis

FINANCIAL POSITION AND FINANCIAL PERFORMANCE

The tumult that has defined the world since the onset of the global pandemic, COVID-19 (commonly referred to as Coronavirus), during 2020, and even before that in the Commonwealth of The Bahamas (The Bahamas) with Hurricane Dorian during 2019, continued to negatively impact economies globally during 2021. Unfortunately, the "post-COVID-19" era did not commence as hoped during 2021 and has not to date, and it is widely recognised that such an era may be elusive for some time to come and the world will simply have to "live" with COVID-19 and the associated risk of volatility in economic performance.

As has been reported in the most recent Annual Reports of Fidelity Bank (Bahamas) Limited (the Bank), gross domestic product (GDP) growth and employment in The Bahamas were stubbornly anaemic in the preceding decade, and the anaemia was exacerbated by the financial and social costs of recovering from the natural disaster, Hurricane Dorian, and the subsequent onset of the global pandemic.

Management of the Bank became quickly familiar with the level of 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, as referred to in recent Annual Reports, proved to have provided the foundation for the Bank successfully navigating the maze that was the economy of The Bahamas during these past several years. This is evidenced by the steady but deliberate return to a level of profitability that shareholders of the Bank have become accustomed.

Of great importance, management of the Bank has identified that the return to the desired profitability, and sustaining that financial performance, will require much more than mere "recovery", but rather "expansion". The economies, sectors, industries, businesses and individuals, globally and more specifically in The Bahamas, will not simply recover to pre-COVID-19 conditions, as the way commerce is transacted and the manner in which persons will live have gone through an irreversible revolution. Therefore, continued financial performance consistent with the recent pre-COVID-19 years requires the Bank to expand upon the roots that are its existing business model, and that expansion began in 2021, which contributed to the financial performance for the year ended 31 December 2021.

The changes in financial position and financial performance during the year experienced a confluence of events, which require further analyses: for a comprehensive understanding of the reason for results; and more importantly, to provide an indication of future financial position and financial performance. During the year, total assets increased by $188,618,422 (2020: $17,568,473), representing 26.55% (2020: 2.54%) over the prior year, to $899,101,779 (2020: $710,483,357). The increase in total assets comprised: an increase in less productive financial assets, albeit for other business purposes; a decrease in non-performing financial assets, as borrowers experiencing financial challenges in the prior year returned to more normal levels of income; and a decrease in loans and advances to customers, as the lending environment is significantly subdued.

The confluence of these events led to an overall positive impact on financial performance, resulting in net income and total comprehensive income of $22,169,732 (2020: $7,414,389), representing an increase of 199.01% (2020: decrease of 77.41%) over the prior year. The resulting earnings per ordinary share was $0.74 (2020: $0.22).

The return on average assets of 2.75% (2020: 1.06%) represented a significant recovery from the decline experienced in the prior year, but the change in asset mix during the current year, as part of other business expansion efforts, will not facilitate returns on average assets achieved in the recent pre-COVID-19 years. However, the stewardship of the Bank through focused growth with appropriate risk and reward in the recent pre-COVID-19 years that continued during the prior and current years, along with the foresight in business expansion efforts, was manifested in a return on average ordinary shareholders' equity of 24.61% (2020: 7.78%). This represented a significant rebound over the prior year and approximately 83.00% of the returns on average ordinary shareholders' equity achieved in the recent pre-COVID19 years, excluding gains on assets held for sale, all while continuing to manage the lingering fallout in the economy of The Bahamas caused by the global pandemic.

For the year ended 31 December 2021, the Bank declared and paid dividends totalling $14,722,002 (2020: $6,350,668), representing $0.51 (2020: $0.22) per share and a dividend payout ratio of 69.46% (2020: 98.62%). The Bank reverted to its historical and target dividend payout ratio during the current year, after exceptionally increasing the payout ratio in the prior year to maximise the support provided to shareholders through what has turned out to be the peak of the negative impacts of the global pandemic, recognising that shareholders would benefit from cash distributions as they grappled with the challenges presented by the global pandemic. The plan embarked on by the Bank in prior years for capital management facilitated growth and sustainability through reasonably expected economic shocks, as evidenced during the prior year when the Bank had appropriate surplus equity that enabled it to prudently continue cash distributions to shareholders without jeopardising its financial strength despite an economic shock that was anything but reasonably expected. During the current year, the Bank reinstituted the capital management plan and therefore returned to the historical dividend payout ratio, which is readying the Bank to capitalise on opportunities for growth, albeit that the outlook for expansion in the loan portfolio in the short term remains subdued, particularly while maintaining the focus on growth with appropriate risk and reward.

Increases in the following were the principal drivers in the overall growth in assets: cash on hand and at banks of $191,096,005 (2020: $21,991,124), representing 101.83% (2020: 13.27%), to $378,754,192 (2020: $187,658,187); investment securities of $12,466,994 (2020: $9,578,383), representing 13.41% (2020: 11.49%), to $105,409,865 (2020: $92,942,871); and property, plant and equipment of $981,617 (2020: decrease of $1,431,496), representing 9.59% (2020: 12.27% decrease). A decrease in loans and advances to customers of $16,905,761 (2020: $12,589,190), representing 4.04% (2020: 2.92%), to $401,585,362 (2020: $418,491,123) partially offset the aforementioned increases.

“ Unfortunately, the “post-COVID-19” era did not commence as hoped during 2021 and has not to date, and it is widely recognised that such an era may be elusive for some time to come and the world will simply have to “live” with COVID-19 and the associated risk of volatility in economic performance.

As reported in the 2020 Annual Report, the furloughs and unemployment experienced in The Bahamas during the peak of the global pandemic, particularly in the tourism sector, led to significant increases in the number of loans and advances to customers that fell into delinquency, with the vast majority being consumer loans that yield higher interest margins. As further detailed below, a yeoman's effort led to the rehabilitation of a significant number of such delinquent loans during 2021, but certain such loans remain as of year-end and the availability of quality new credit is limited as the economy of The Bahamas treks through its recovery from the disruptions that were/are Hurricane Dorian and COVID-19. These factors led to contraction in the primary interest earning assets of the Bank, which in turn led to a decrease in net interest income of $1,978,453 (2020: $2,616,755).

Conversely, the re-emergence of economic activity during 2021 and the re-employment of persons that enabled, along with the prudent and conservative decisions taken by the Bank during 2020, resulted in provision for loan losses returning to ratios consistent with recent pre-COVID-19 years, as bolstered by the unwinding of amounts held against delinquent loans as such loans were restored to current status following receipt of consistent payments. This led to the significant decrease in the expense for provision for loan losses of $18,967,061 (2020: increase of $14,762,765), which was the principal contributor to a decrease in the operating expenses of $16,294,853 (2020: increase of $13,895,516). The Bank continued to carefully manage operating expenses during the current year to ensure that these expenditures remained within the target for its key performance metric for operating expenses, the efficiency ratio. However, investments in our people, our products and our communities were increased as part of business expansion efforts the will inure to the benefit of the Bank in future years. The efficiency ratio, which calculates total operating expenses, excluding 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 2021 increased moderately over the prior year at 49.14% (2020: 45.02%), but within planned levels. The return on investments made during the year will be closely monitored in the coming years, and as the proverb goes "the proof of the pudding [will be] in the eating".

"Several factors led to the overall net increase in cash on hand and at banks. Firstly, management of 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 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.

CASH ON HAND AND AT BANKS

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

Several factors led to the overall net increase in cash on hand and at banks. Firstly, management of 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 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. This resulted in a net decrease in loans and advances to customers due to repayments and recoveries, the pace of which was not matched by the writing of new credit facilities, and accordingly contributed to an increase in cash on hand and at banks.

Secondly, deposits from customers continued the growth experienced in recent years, which customers have communicated is due to the witnessing of the Bank growing from strength to strength and its equitable distribution of income earned from activities largely financed by depositors, namely in the form of interest paid on deposits from customers. The growth in deposits from customers was however not solely from the traditional depositors, and included net increases in deposits from licensed and regulated financial institutions and capital markets participants, with deposits from banks increasing by $42,461,955 (2020: decreasing by $12,198,133) over the prior year, and capital markets participants increasing by in excess of $100,000,000, the majority of which is denominated in United States dollars (US$). Overall, this growth contributed to an increase in cash on hand and at bank.

Thirdly, the financial performance of the Bank during the year was in the main realised in cash balances, with 69.46% (2020: 98.62%) of the financial performance paid out to ordinary shareholders following the reversion to the historical and target dividend payout ratio, resulting in the net retained financial performance contributing to an increase in cash on hand and at bank.

Finally, the previously mentioned factors increased the surplus in liquid assets above the regulatory liquidity requirements, which led management to seek out short-term opportunities to deploy excess cash resources. During the year, the Bank increased its investments in debt securities issued by the Government of the Commonwealth of The Bahamas, factoring in credit and liquidity risks, which led to such investments being restricted to debt securities with maturities of one (1) year and staggered to effect maturities every six (6) months. This in effect limits the credit exposure of the Bank, while deploying excess cash resources and maintaining high liquidity for strategic purposes set out below. Accordingly, the increase in investment securities contributed to a decrease in cash on hand and at bank.

As of 31 December 2021, cash on hand and at banks comprised: deposits placed with the Central Bank, representing circa 50.00% (2020: circa 63.00%); short-term interest bearing term deposits, representing circa 14.00% (2020: circa 27.00%); and other cash on hand and current accounts at banks. Over 80.00% (2020: over 65.00%) of cash on hand and at banks are non-interest bearing, which leads to some suppression of net interest income performance. However, certain cash on hand and at banks are directly connected with business expansion efforts, which contribute to financial performance through fees and commissions, as opposed to net interest income. Further, despite not directly contributing to the financial performance of the Bank, surplus cash placed in non-interest bearing current accounts at banks, including the Central Bank: provides a competitive advantage by positioning the Bank to take advantage of economic conditions conducive to growth as and when opportunities present themselves; enables comfortable financing of operations and shareholder distributions, even during depressed operating environments; and facilitates redemption of more costly debt financing, which is planned for 2022.

INVESTMENT SECURITIES

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

During 2020, debt securities issued by the Government of The Bahamas were downgraded by international rating agencies to non-investment grade credit ratings, and subsequently further downgraded during 2021. These macroeconomic events had consequences for the Bank for the year ended 31 December 2021, as an allowance for impairment was recognised in relation to investment securities, vastly as a result of the deterioration in credit ratings of debt securities issued by the Government of The Bahamas. 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 that factors in readily available macroeconomic data such as forecasts for movements in gross domestic product (GDP).

The allowance for impairment does not represent realised losses on investment securities, and can unwind as investment securities mature with full principal being settled. However, it does represent 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. The credit risk associated with investment securities is considered by the Bank when making decisions on securities acquired, including the tenor of such securities, as the longer the tenor the greater the probability of default where indicators of possible default exist. The Bank has taken into consideration the macroeconomic factors that impact the creditworthiness of issuers of investment securities acquired, which is reflected in the net increase in investment securities being represented by debt securities with maturities of one (1) year or less. Further, the undiscounted cash flows demonstrate that consequent adjustment in the overall maturity profile of investment securities, with 45.17% (2020: 27.85%) of undiscounted cash flows to be realised in one (1) year or less. The Bank has the ability to reinvest maturity proceeds in securities with similar credit risk and tenors, but the current maturity profile enables management to reassess the credit risk of issuers of investment securities more frequently and take appropriate actions.

Based on the current economic environment in The Bahamas, the expected stability in the Bahamian dollar Prime rate, and the projected activity in the capital markets of The Bahamas, including activity by the Government of The Bahamas, management of 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.

"Further, it was noted that the Bank elected not to implement any loan payment deferral programmes, but rather took the opportunity to engage with its impacted borrowers to fully understand their specific financial circumstances and agree action plans.

LOANS AND ADVANCES TO CUSTOMERS

The 2020 Annual Report described in detail 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. The loss or reduction in income for most households led to a material increase in the number of borrowers that were unable to consistently meet loan payment obligations, and required forbearance from the Bank. Further, it was noted that the Bank elected not to implement any loan payment deferral programmes, but rather took 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; that is, 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.

This approach also led to loans and advances to customers being accurately aged based on payments received, which in turn facilitated an early recognition of worst case scenarios and the related financial implications, 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.

Despite the circumstances and experiences set out above, the core principles of the Bank served it well, namely quality lending centred on a borrower's ability to pay and providing financial coaching to improve the lives of our customers. The anticipation in the prior year that the quality of the loan portfolio would benefit the Bank and result in a significant number of non-performing loans being 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, was proven reasonable. The gradual restoration of earnings for many households, particularly those more reliant on the tourism sector, began during 2021, 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.

For the year ended 31 December 2021, consumer and other loans decreased by $22,488,496 (2020: increased by $5,171,926), representing 5.64% (2020: increase of 1.31%), which comprised: a net decrease in loans and advances to the Government of The Bahamas of $2,232,175 (2020: net increase of $14,375,000) 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; and a net decrease in regular consumer and other loan types of $20,256,321 (2020: $9,203,074). The decrease in regular consumer and other loan types is the result of 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 continues today albeit to a lesser extent.

The general economic uncertainty and record levels of unemployment associated with COVID-19 further exacerbated the lack of significant activity in the domestic real estate market, and contraction in the numbers of potential borrowers qualifying for new mortgage loans, being experienced by the Bank in recent years. The virtual standstill in mortgage lending in The Bahamas during the peak of the global pandemic in the prior year generally continued in the current year, with the focus of the Bank and other financial institutions being the performance of existing credit facilities and where relevant, the realisation of properties pledged as collateral. Accordingly, loan amortisations were the only significant activities in the mortgage portfolio of the Bank during the current year, complimented by a number of realisations, through sales pursuant to powers of sale, of properties pledged as collateral. Overall, mortgage loans decreased by $3,713,583 (2020: $4,914,630), representing 7.41% (2020: 8.93%). The innovative strategies and media employed to attract interest for distressed properties continued to support the enhanced efforts in realising collateral on non-performing mortgages, and such energies are yielding greater successes in 2022, which is leading to cautious optimism that a significant reduction in non-performing mortgage loans will be achieved in the coming years.

"The general economic uncertainty and record levels of unemployment associated with COVID-19 further exacerbated the lack of significant activity in the domestic real estate market, and contraction in the numbers of potential borrowers qualifying for new mortgage loans, being experienced by the Bank in recent years.

The significant inventory of slow-moving distressed properties represents structural challenges confronting mortgage lending in The Bahamas, along with The Bahamas being geographically located on the hurricane belt and the consequent cost of premiums for insuring properties, held as collateral, for such and similar catastrophes. Therefore, underwriting of any new mortgage loans must be done with caution, and 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.

In the prior year, default rates and loss ratios increased exponentially over recent historical levels in all loan types, but consumer and other loans continued to exhibit higher interest margins and relatively lower default rates and loss ratios, consistent with the cumulative experience over the past decade. Therefore, the focus of the Bank appropriately remained on consumer and other loans with the mix of the loan portfolio as of 31 December 2021 remaining consistent with prior years; consumer and other loans represented 89.01% (2020: 88.83%) of total loans, and mortgage loans represented 10.99% (2020: 11.17%). 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. 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.

Non-performing loans as of 31 December 2021 largely reverted to amounts recognised in pre-COVID-19 years and totalled $19,287,450 (2020: $30,708,878), representing 4.66% (2020: 6.98%) of total loans and advances to customers, excluding accrued interest. Non-performing mortgage loans totalled $13,974,220 (2020: $15,512,581), representing 72.45% (2020: 50.51%) of total non-performing loans and advances to customers. Consequent with the decrease in non-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 significantly decreased. As of 31 December 2021, the provision loan losses totalled $17,553,040 (2020: $26,782,187), which represented 4.24% (2020: 6.09%) of total loans and advances to customers, excluding accrued interest. Specifically, the provision for loan losses applicable to non-performing loans was $9,674,278 (2020: $18,911,392), which represented 50.16% (2020: 61.58%) of total non-performing loans and advances to customers; the decrease being directly correlated to the decrease in non-performing loans.

"In the prior year, the Bank made an assumption 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.

In the prior year, the Bank made an assumption 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. The Bank is happy to report that this assumption was reasonable and did materialise during the current year. The deliberate limitation of the optimism included in judgments and assumptions made during the prior year, 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. The recovery of financial performance was only recognised during the current year 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.

During the current year, the normal processes in pursuing legal recourse through the Courts of The Bahamas in relation to borrowers not currently performing according to the terms of their loan contracts, that were deferred in the prior year as part of the forbearance demonstrated by the Bank, were resumed. This led to the process for write-offs of non-performing loans reverting to its historical efficiency, as the chosen state of the legal processes were achieved during the year.

The drastic change in the needs of existing and potential borrowers, moving from consumption of choice to survival, tested the discipline and mettle of the management and staff of the Bank during the prior and current year. Fortunately to date, the management and staff of the Bank continue to demonstrate the requisite discipline and mettle, particularly when ventilating to society that the Bank has a fiduciary responsibility to ensure that loans and advances to customers not performing according to the terms and conditions of such credit facilities do not unduly impact depositors and shareholders, notwithstanding borrowers are considered the most obvious stakeholders impacted by the economic fallout of the global pandemic. Although not always popular, the approach to forbearance adopted by the Bank prohibited the moral hazard of persons that continued to be capable of meeting loan payment obligations electing for loan payment deferrals, simply because they were available. Combining this prudence with compassion, principally in the form of empathetic communication and financial coaching, has been generally met with acceptance and appreciation.

The protracted existence of COVID-19 and its negative consequences is expected to extend the timelines for most households to return to full normalcy, if ever, and when coupled with the perennial increase in employment uncertainty associated with COVID-19 and possible future similar events, the growth in credit in The Bahamas is expected to be muted for at least the next two (2) to three (3) years. And as credit begins to grow, it is further expected that shorter term credit, that is consumer loans, are likely to be the first types of loans to experience growth. These circumstances require expansion by the Bank, as opposed to solely recovery, and accordingly during the year, the Bank directed efforts and resources to expanding the relationships with existing customers in mutually beneficial ways. Such expansion involved the encouragement of increased digital transacting, and for loan customers this was linked to encouraging increased use of credit, debit and prepaid cards, which is without cost to the customer and increases opportunity for fees and commissions for the Bank as an issuer of cards, and a merchant acquirer.

As economic activity has rebounded, so has employment in the tourism sector, which comprises the vast majority of non-performing consumer and other loans; and the public sector, which comprises the vast majority of performing consumer and other loans, has not experienced any significant decline in employment or earnings from the onset of the global pandemic to date. These conditions indicate that consumption will continue to rebound but at a much slower pace, as borrowers remember all too well having to rely on savings to sustain their households, or adapting to living off lower household income. Therefore, although net interest income will continue to be the primary income source for the Bank for the foreseeable future, expanding the opportunities for income from other sources such as fees and commissions, while offering value added benefits, will move the Bank from recovery to expansion.

"As economic activity has rebounded, so has employment in the tourism sector, which comprises the vast majority of non-performing consumer and other loans; and the public sector, which comprises the vast majority of performing consumer and other loans, has not experienced any significant decline in employment or earnings from the onset of the global pandemic to date.

> "During the current year, the Bank expanded its services to non-traditional customers of the Bank, corporate customers, including: licensed and regulated financial institutions and capital markets participants; and micro, small and medium sized entities.

DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES

For the year ended 31 December 2021, deposits from customers increased by $194,757,557 (2020: $7,389,746), representing 33.87% (2020: 1.30%) over the prior year, to $769,754,950 (2020: $574,997,393), evidencing the growing confidence of existing and new customers. The growth in deposits from customers had several contributing factors, including the settlement of funds received on behalf of a related party of $10,273,855 and included in accrued expenses and other liabilities in the prior year.

Firstly, as interest rates on deposits are significantly lower than interest rates on debt securities issued by the Bank, the Bank continued its strategy of offering higher interest rates to customers than its competitors, specifically on longer term deposits as a reward to customers for such commitment. Persons with meaningful wealth continued the pattern observed in the prior year 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. Regardless of purpose, the strategy of encouraging longer term deposits through appropriate compensation produces symbiotic benefits. For the depositor, it demonstrates recognition that the assets of the Bank are funded in the majority by depositors through the equitable distribution of earnings from those assets to depositors; accordingly, depositors are recognised as being key contributors to the success of the Bank. This results in the building of stronger customer relationships and in turn, customer loyalty. For the Bank, sustained levels of sufficient deposits from customers enables the Bank to lower the cost of funding investments in assets, as debt securities issued by the Bank, known as wholesale funding, and equity securities demand higher compensation, in part due to the higher risk of immovable capital.

Secondly, during the current year, the Bank expanded its services to non-traditional customers of the Bank, corporate customers, including: licensed and regulated financial institutions and capital markets participants; and micro, small and medium sized entities. As described previously, interest earning assets are not expected to grow significantly in the medium term, and accordingly, the Bank must expand its service offerings to facilitate increased fees and commissions, and these corporate customers represent that business expansion. Further, these deposits from customers, which are not expected to be stable funding sources given the significant movements typically associated with active corporate activity, are generally non-interest bearing. Accordingly, the deposit taking activity is net interest income neutral; no significant interest income is earned on the cash at banks correlating with the deposits from customers, and no interest expense is incurred on the deposits. However, the profitability of such relationships is based on the Bank's ability to maximise fee and commission generating service opportunities, through value added service offerings, which the management and staff are excited about delivering.

In addition, the onboarding of such customers also represents a contribution by the Bank to the national development of The Bahamas. The Bahamas promotes itself as open for business for quality investors, albeit domestic or foreign, as it seeks to attract new sectors, industries and participants, with some emphasis on broadening industries in its second significant economic pillar, financial services.

Commercial banks have an integral role to play in this national development through ensuring that necessary banking facilities are available to the new participants, however, such 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 Bank has revised its business strategy, as it 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. Where necessary, certain conditions are applied to the corporate customers, such as limiting the banking facilities to those elements of the business that the Bank is willing, and equipped, to service. 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.

The priorities of the Bank set out above have resulted in a prima facie change in the mix of deposit types which may appear 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 53.05% (2020: 70.61%) of total deposits from customers. However, greater analyses of the mix of deposit types, excluding non-interest bearing deposits from customers that are generally matched by cash at banks, demonstrates that term deposits represent 75.57% (2020: 77.66%) of the total of the remaining deposits from customers, which is consistent with the prior year. More importantly, analyses of the undiscounted cash flows of term deposits demonstrates the success of the implementation 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 continues to increase and as of 31 December 2021 represented 34.91% (2020: 21.28%) of total undiscounted cash flows of term deposits. Therefore, the objectives and priorities of the Bank are in fact, complimentary.

During the year, debt securities of $4,000,000 were redeemed upon their maturity. The redemption of debt securities in the current and prior years were facilitated by the increased sustained level of deposits from customers, 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.

The flexibility to adjust the mix of funding is only afforded by the investment in the strongest possible customer relationships. Accordingly, continuing to emphasise free financial coaching increases 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. It is the responsibility of the Bank to live up to the confidences placed in it by depositors and other stakeholders, and the Bank considers it a great honour to do so.

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

"Accordingly, the deposit taking activity is net interest income neutral; no significant interest income is earned on the cash at banks correlating with the deposits from customers, and no interest expense is incurred on the deposits.

The management of excess liquidity will equally require managing expectations of customers. 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 abandon and consistency. 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 be adhered to and the Bank will continue to ensure that its interest rates offered are competitive and conducive to the continued stability of funding from the most economical source. And 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.

> "The Bank will continue to ensure that its interest rates offered are competitive and conducive to the continued stability of funding from the most economical source.

CAPITAL ADEQUACY

The Central Bank requires the Bank to maintain a ratio of total regulatory capital to risk–weighted assets at or above a minimum of 14.00%. As of 31 December 2021, the Bank had total equity of $104,427,205 (2020: $97,810,975), representing an increase of 6.76% (2020: 0.09%) over the prior year, and a ratio of total regulatory capital to risk-weighted assets of 19.64% (2020: 24.62%).

The return on average ordinary shareholders' equity, disclosed earlier, exceeded 80.00% of the most recent pre-COVID-19 returns, excluding gains on assets held for sale, and demonstrates the success during the current year in restoring 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 $14,722,002 (2020: $6,350,668), representing $0.51 (2020: $0.22) per share and a dividend payout ratio of 69.46% (2020: 98.62%). In the prior year, the historical dividend payout ratio and the resulting accumulation of the targeted level of regulatory capital facilitated the Bank exceptionally increasing its dividend payout ratio to maximise the distributions to shareholders during that year to assist shareholders in navigating the economic fallout from the global pandemic. The exception to the dividend payout ratio was determined after careful deliberations balancing the need to adhere to the principles established for capital management and anticipated needs of its shareholders.

The ratio of total regulatory capital to risk-weighted assets as at the end of the current year is lower than recent historical levels, mainly because the increased cash at banks associated with increased deposits from customers are placed with financial institutions other than the Central Bank, and therefore carry higher risk weightings, which leads to downward pressure on the ratio. The current level is not considered a fundamental decline in capital adequacy, as any decreases in cash at banks will lead to the reversion of the ratio to historical levels. However, the lower ratio is the consequence of business expansion efforts, which simply heightens 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 increased capital requirement is considered an acceptable risk and cost of business expansion efforts.

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 levels that facilitate strategic growth in risk-weighted assets, principally loans and advances to customers, are the principles guiding management of total equity, and in turn regulatory capital. For the year ended 31 December 2021, the Bank maintained a ratio of total regulatory capital to risk–weighted assets that met these principles, and continues to do so in 2022.

OPERATING REVENUES

Net Interest Income

For the year ended 31 December 2021, net interest income decreased by 3.58% (2020: 4.52%) over the prior year to $53,269,005 (2020: $55,247,458), with net interest margin on interest bearing financial assets standing at 6.72% (2020: 8.01%). As disclosed earlier, the challenging macroeconomic times experienced during the prior year continued into the current year, albeit with some recovery towards the latter part of the current year. This led to decreases in loans and advances to customers due to normal loan amortisations, early extinguishments and other credit adjustments during the current year that were not matched by the writing of new loans and advances to customers due to the limited availability of quality new credit. Accordingly, interest income earned on loans and advances to customers continues to decline commensurate with decreases in those balances. However, during the current year the rehabilitation of a significant number of loans that went delinquent during the peak of the economic fallout of the global pandemic in the prior year, resulted in a decrease in non-performing loans and advances to customers, the collection of interest income on which is uncertain at best, offset some of the earlier described decrease in interest income as interest recognition recommenced on the rehabilitated loans and advances to customers.

Further, interest rates observed on cash at banks placed in term deposits decreased during the year, although the balances placed in term deposits increased. The deployment of excess cash resources into investment securities increased the amount of income earning financial assets, and accordingly interest income on investment securities increased during the current year, which partially compensated for the declining interest income on cash at banks and loans and advances to customers.

To improve net interest income, the Bank continued redeeming debt securities which will inure to the benefit of the Bank by the elimination of comparably higher interest expense associated with debt securities, and replacing such funding sources with stable deposits from customers, which are more cost effective sources of funding.

Overall, initiatives of prior years that buttressed interest income of the Bank during the prior year continued to so in the current year. These initiatives continue to be part of the business strategy of the Bank and include: maximising the placement of cash resources on term deposits; focusing efforts on growth in the higher yielding consumer loans; 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. And additional initiatives were implemented in the current year, including: deploying excess cash resources in investment securities, with tenors that minimise credit and liquidity risks; and rehabilitating non-performing loans and advances to customers, thereby restoring earnings on such loans and advances to customers.

“ The deployment of excess cash resources into investment securities increased the amount of income earning financial assets, and accordingly interest income on investment securities increased during the current year, which partially compensated for the declining interest income on cash at banks and loans and advances to customers.

The quality of seeds sown in priors years, and tilled in the prior and current years through exceptional customer relationship management, including financial coaching, and supporting existing loan customers in navigating through the financial difficulties, lays the basis for optimism on the eventual harvest and size thereof, albeit that the full harvesting is still deferred due to the continuing economic challenges brought on by the global pandemic.

Non-Interest Income

For the year ended 31 December 2021, fees and commissions increased by 19.03% (2020: 1.67%) over the prior year to $3,719,527 (2020: $3,124,992).

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. With the continued threats to interest income, the management and staff of the Bank have sought to broaden the access to the wallets of customers of the Bank, but not through increasing traditional banking fees that are continually negative criticised by customers and other stakeholders. Rather the expanded access to wallets of customers is targeted at new or expanded services to customers that add value, or an extension of the demographic of customers pursued by the Bank. As described earlier, the Bank has commenced onboarding non-traditional customers, which has provided 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. As the Bank 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, it expects to exponentially grow the fees and commissions earned with an almost direct correlation growth in profitability, as significant elements of the required infrastructure and resources are already deployed.

Non-interest income to total income was 7.11% (2020: 6.18%) during the year. It is planned that net interest income will remain the overwhelming major contributor to total income, but doubling the contribution of non-interest income to total income is considered achievable through solely focusing on value added services.

“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.

OPERATING EXPENSES

For the year ended 31 December 2021, expenses, excluding provision for loan losses and allowances for impairment, totalled $28,173,818 (2020: $26,501,610), representing an increase of 6.31% (2020: decrease of 3.17%) over the prior year.

In the prior year, expenditure was strategically managed to ensure the following priorities were achieved: provide stability for our team members through job security, as staffing was maintained at full complement; enhance digitisation and automation, along with the strengthening of information and cyber security to appropriately protect the expanded use of digital outlets; and prioritise expenditure based on cost:benefit analyses and the needs of customers and the primary services required. The cost management efforts were deliberately considered to ensure modernisation and advancement of the Bank were not compromised.

> "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.

During the current year, the forward-looking cost management strategies of the prior year benefited the Bank, as it was in a position to aggressively rehabilitate as many non-performing loans as possible and progress the earlier described business expansion efforts. Most importantly, the Bank embarked on cautious expansion of its most valuable resource, human resources. Along with bolstering the team, the Bank carried out regular promotions and salary adjustments during the current year following a suspension of such activities in the prior year. The Bank also introduced the future incentive compensation scheme for its employees, which provides all employees a participation in the profitability of the Bank; the objective being to demonstrate 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 $986,460 (2020: decreased by $987,448) over the prior year, representing an increase of 8.14% (2020: a decrease of 7.54%), which in no way compromised the profitability of the Bank but rather encouraged it among our personnel.

For the year ended 31 December 2021, 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 $475,419 (2020: decreased by $226,719), as a direct result of expanded use of credit cards and associated costs of the loyalty programme, as well as implementation costs of new technology and mandates necessary to remain in front of service offerings given its relevance to business expansion efforts. Office expenses increased by $263,377 (2020: $680,384) 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 $123,110 (2020: decreased by $91,922), which is a positive indicator of greater economic activity, 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. Given the focus on retention of existing customers, and the early stages of business expansion efforts, coupled with greater utilisation of cost effective digital media, public relations expenses continued to be curtailed, and decreased by $174,873 (2020: $382,526); however, going forward this expense is planned to revert to levels in pre-COVID-19 years, but with much greater effectiveness. The other components of general and administrative expenses were principally consistent with, or below, those of the prior year, with the exception of premises related costs, which largely represents classification matters following the adoption of International Financial Reporting Standard (IFRS) 16 *Leases*.

EXPECTED CREDIT LOSSES

Provision for Loan Losses

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. Material changes in macroeconomic factors due to the global pandemic led to significant changes in loss experiences. During the prior year, loss ratios for the Bank, without judgmental adjustments for the anomalous effects of the global pandemic, increased exponentially and the expected credit loss model was required to be modified, as such models are designed to factor in reasonable ranges of macroeconomic variables, and not outliers such as the anomalies in unemployment and GDP experienced during that year. However, 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 tempered decision of the Bank in the prior year not to implement any loan payment deferral programmes led to loans and advances to customers being accurately aged based on payments received, which in turn facilitated an early recognition of worst case scenarios and the related financial implications. Additionally, the Bank was consistent in 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. These decisions also maintained the quality and veracity of the expected credit loss model, which has been proven during the current year – given there was no further deterioration in macroeconomic factors during the current year, but rather recovery in macroeconomic factors, no significant new expense for provision for loan losses should be reasonably expected in the current year; that is, the majority of losses should have been recognised during the prior year. This was indeed the case for the Bank.

For the year ended 31 December 2021, the expense for provision for loan losses totalled $6,000,529 (2020: $24,967,590), representing a decrease of $18,967,061 (2020: increase of $14,762,765) or 75.97% (2020: increase of 144.66%), over the prior year. Further, the efforts to rehabilitate non-performing loans and advances to customers, along with strategies for collections and recoveries, resulted in the recognition of recoveries of amounts previously written off totalling $833,551 (2020: $409,328). The expense for the provision for loan losses recognised during the current year reflects the stabilisation of the loan portfolio during the current year, along with the successes of rehabilitating a noteworthy level of non-performing loans and advances to customers that came about in the prior year. The representations regarding stabilisation and rehabilitation can be easily validated by the change in the amount of non-performing loans and advances to customers recognised as of 31 December 2021 versus 31 December 2020 (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 expected credit loss model utilised in the current year was without the modification employed in the prior year, which was designed to compensate for the outliers in macroeconomic factors during that year by using pre-global pandemic credit loss experience as a proxy for expected future credit loss experience. However, to remain appropriately grounded in the fact that the experience during the prior year did indeed happen, the significantly elevated credit loss experience, particularly in relation to borrowers employed in the tourism sector, during the prior year was given equal weighting to the pre-global pandemic credit loss experience used as a proxy for the future in the modification to the expected credit loss model in the prior year.

The Bank continuously benchmarks its loss experiences against industry and competitor statistics, and in the current and prior years its loan portfolios have exhibited superior performance, which validates the effectiveness of the lending policies and credit management. Further, the recognition of the expense for provision for loan losses, as benchmarked against industry and competitor information, also 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, given the limited volatility outside of significant changes in macroeconomic factors.

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, along with the consistency in lending policies and quality underwriting of prior years, did result in recovery of a significant portion of the additional expense for provision for loan losses recognised during the prior year. Such recoveries are expected to continue over the upcoming financial year, and will only be recognised as realised.

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 and ultimately, the reduced prices being realised on sales of properties due to market conditions in The Bahamas. However, the sales and recovery efforts in the early part of 2022 are very encouraging.

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, as the challenging economic environment appears to be continuing, with the new threats of inflation and recession ever present.

"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 and ultimately, the reduced prices being realised on sales of properties due to market conditions in The Bahamas.

Allowances for Impairment

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

As previously discussed, debt securities issued by the Government of The Bahamas have had credit ratings downgraded by international rating agencies over the past two (2) years. As 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, an expense for allowance for impairment was recognised in relation to investment securities.

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, and Executive Management and those charged with governance will continue to closely monitor the actions of the Government of The Bahamas in relation to debt management, fiscal responsibility and economic growth.

IMPACTS OF THE ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the year ended 31 December 2021, there were no standards, amendments or interpretations to International Financial Reporting Standards (IFRS) that had a material effect on the accounting policies, and in turn financial position and financial performance, of the Bank.

SUMMARY AND LOOKING FORWARD

The year ended 31 December 2021 provided validation and optimism.

The tumult of 2019 (Hurricane Dorian) and 2020 (COVID-19), significantly challenged the behaviours, practices, strategies and decisions of governments, corporates and individuals in The Bahamas, including the Bank, and the commencement of recovery during 2021 provided early indications of the appropriateness of those elements. Specifically for the Bank:

- the core principles of quality lending centred on a borrower's ability to pay and providing financial coaching to improve the lives of our customers contained the level of delinquency during the peak of the global pandemic, and benefited the Bank through the significant number of non-performing loans being restored to performing status, as the tourism sector strengthened.

- not implementing any loan payment deferral programmes, but rather being candid with customers, while: showing compassion and the appropriate forbearance; providing financial coaching, and providing optimism by charting a path to recovery as some form of normalcy in employment and household income resumed, had the following benefits:

    - avoided the moral hazard of persons capable of meeting loan payment obligations electing for loan payment deferrals, simply because they were available.

    - accurately aged loans and advances to customers based on payments received, which in turn facilitated an early recognition of worst case scenarios, including preventing inappropriate recognition of interest income by the Bank and facilitating the determination of expected credit losses based on the most relevant information.

    - fully recognising the expense for provision for loan losses in the financial year to which the significant increase in credit risk occurred, and thereby not having any drag on the financial performance of the Bank during the current year.

- maintaining favourable interest rates to customers, specifically on longer term deposits as a reward to customers for such commitment, which has strengthened customer relationships and loyalty and facilitated continued redemptions of more costly debt securities, while adequately funding the investments in assets.

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

- strategically managing expenditure to ensure modernisation and advancement of the Bank were not compromised by providing job security, enhancing digitisation and automation, strengthening information and cyber security and prioritising expenditure based on cost:benefit analyses and the needs of customers and the primary services required. This ensured that recovery efforts were maximised and not limited by being penny wise and pound foolish.

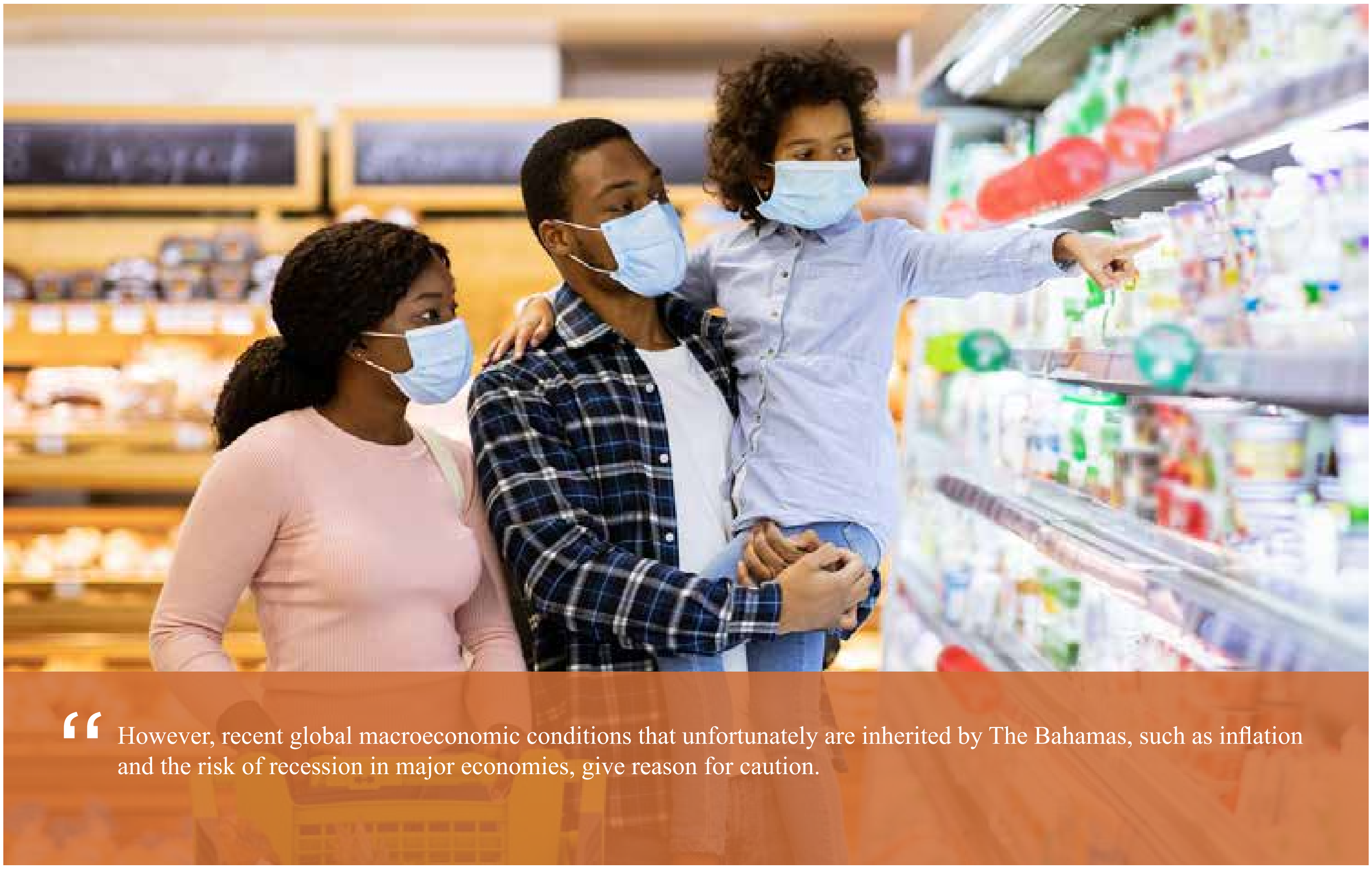
Despite significant pressure on the banking industry domestically and internationally, the Bank demonstrated discipline in honouring its fiduciary responsibilities to depositors, shareholders and other stakeholders by making decisions in relation to borrowers that were balanced and took into consideration the social responsibility of the Bank as a key stakeholder in the economy of The Bahamas.

The financial performance for the year ended 31 December 2021, validated the appropriateness of the behaviours, practices, strategies and decisions of the Bank in the pre-COVID-19 years through to current date, and represented in excess of 85.00% of total comprehensive income, excluding gains on assets held for sale, reported for the year ended 31 December 2019, which represents the most recent pre-COVID-19 financial year.

Further, during the current year, optimism, though cautious it may be, was abound that the Bank was well positioned to take advantage of the economic recovery, however to maximise the financial performance, business expansion efforts were necessary. Accordingly, the Bank:

- deployed more of its excess cash resources in investment securities, with an investment strategy that manages liquidity and credit risks.
- expanded its services to non-traditional customers of the Bank, including licensed and regulated financial institutions and capital markets participants, and micro, small and medium sized entities.
- aggressively pursued penetration in credit, debit and prepaid cards business, including the issuance of cards and the offering of merchant acquiring services.

This optimism is buoyed by the experiences during the current year, including the return to normal levels of loans matriculating into the status of non-performing, the recommencement of loan payments by borrowers in the tourism sector, and growing volumes of realisations of collaterals pledged in support of non-performing mortgage loans. Further, macroeconomic projections continue to forecast moderate growth in GDP on the road to pre-COVID-19 levels, though returning to anaemic levels thereafter, which suggests continued expansion of the tourism sector and by extension, employment therein; and employment and earnings in the public sector, the employer of the majority borrowers of the Bank, remain uninterrupted. However, recent global macroeconomic conditions that unfortunately are inherited by The Bahamas, such as inflation and the risk of recession in major economies, give reason for caution.



“However, recent global macroeconomic conditions that unfortunately are inherited by The Bahamas, such as inflation and the risk of recession in major economies, give reason for caution.

The need continues for the 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. Similarly, the commitment of the Bank to contribute and collaborate also continues to be demonstrated.

The strength of the financial position and financial performance of the Bank, along with the value this brings to stability and peace of mind, continues to be recognised by customers, potential customers, shareholders and potential shareholders. Although not making it easy, this recognition supports the greater acceptance by all stakeholders of the decisions made by the Bank to balance its social responsibility with the fiduciary responsibility to protect the interests of depositors, shareholders and other stakeholders. To that end, the Bank will remain communicative with all stakeholders, even 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 prospects for 2022 and beyond are positive, and the Bank jumpstarted the new year with the launch of its public relations strategy, that all and sundry have recognised by the signature fruit in the campaign, oranges. The investments in personnel are evident in the public relations strategy as the employees represent the faces of Fidelity in all media; with investments in training and information technology equally as important and continuing to place the Bank in the most advantageous position as possible. The business expansion efforts and strategies for growth, including a much demanded expansion in presence in the Family Islands, will remain grounded in the principles of acceptable risks and returns and prudency, including the maintenance of appropriate liquid resources on hand.

The mantra of the Bank, *Fidelity, We're Good For You,* and the public relations strategy of matching the concept of oranges and vitamin C being "good for you" is the evolution of the proud history of dedicated and motivated staff exemplified through exceptional customer relationship management, free financial coaching, innovative products, and laser-focused marketing. With success comes attention, and the Bank recognises that many eyes are set on it, and as shown in the new public relations campaign launched in 2022, the management and staff welcome this spotlight as the foundation has been laid that enables the Bank to not only meet the expectations of stakeholders, but consistently exceed them.

"The mantra of the Bank, *Fidelity, We're Good For You,* and the public relations strategy of matching the concept of oranges and vitamin C being "good for you" is the evolution of the proud history of dedicated and motivated staff exemplified through exceptional customer relationship management, free financial coaching, innovative products, and laser-focused marketing.

Independent Auditors' Report

Independent auditors' report

To the Shareholders of Fidelity Bank (Bahamas) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fidelity Bank (Bahamas) Limited (the Bank) and its subsidiaries (together "the Group") as at 31 December 2021, 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 2021;
- 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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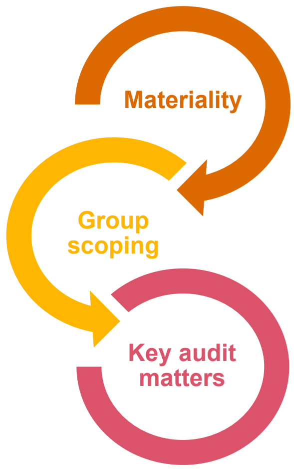
Our audit approach

Overview



- Overall group materiality: $1,158,400, which is approximately 5% of net income.

- We planned and scoped our audit for 2021 reflecting the Group structure including its subsidiaries.

- 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	$1,158,400
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 $57,920, 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 2021, the Bank reported total gross loans and advances to customers of $422.6 million and $17.6 million of expected credit loss provisioning, of which, $7.9 million relates to Stages 1 and 2. We focused on this area because the ECL model requires that management exercises 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. Evaluated the appropriateness of the Group's ECL model methodology, data integrity and model performance.

The inputs and assumptions include:

● Model estimations: Inherently judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), any Significant Increase in Credit Risk ("SICR") and the Loss Given Default ("LGD"). The PD models, which incorporate economic scenarios and any SICR, are the key drivers of the ECLs and also impact the staging of loans and advances to customers. As a result, they are considered the most significant judgmental aspect of the Group's ECL modelling approach.	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, such as the continued impact of the COVID-19 pandemic, 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.
● Economic scenarios: Significant management judgment is applied in determining the forward-looking information such as unemployment rates and Gross Domestic Product (GDP) as well as the probability weightings applied to them. Management's determination of the ECL primarily utilises an outcome of its own macroeconomic forecasting model with three macroeconomic scenarios being the most likely (Baseline), better than Baseline (Upside) and worse than Baseline (Downside). The Baseline scenario utilises a projected unemployment rate or GDP growth rate at year end after assessing the experienced rates over the past thirteen (13) and twenty-nine (29) years for unemployment and GDP, respectively. The upside and downside scenarios utilise the best and worst of the unemployment and GDP rates experienced over the same timeframe.	Tested, on a sample basis, the appropriateness of the model design and formulae used, modifications made to the models as a result of the COVID-19 pandemic, 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: Evaluated the adjustments made to the Group's model following the emergence of the COVID-19 pandemic in the prior year. Specifically assessed the reasonableness of management's assumptions in utilising a macroeconomic forecasting model with three (3) scenarios to calculate a probability weighted ECL that considers a baseline, upside and downside scenario. This included applying a sensitivity analysis to management's weighted average probabilities of forecasted economic scenarios.

This method eliminates the outlier factors experienced in the prior year as a result of the COVID-19 pandemic in the baseline scenario, but continues to incorporate these factors in the downside scenario with the weightings set at 80% for the base case and 14.18% applied for the best and 5.82% for the worst case scenarios.

Compared management's results to a benchmark model, which included assessing whether forecasted unemployment rates and GDP were appropriate selections for forward-looking information.

The results of our procedures indicated that the inputs and assumptions used by management for determining the ECL for Stages 1 and 2 of loans and advances to customers were not unreasonable.

Credit impaired ("Stage 3") mortgage loans

Refer to notes 2(d), 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 $4.2 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 involves significant judgment by management, including:

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

With the assistance of our external real estate expert, 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.

• The estimated costs, forced sale values and time to sell the pledged collateral. • The recoverable amount of accrued interest on MLs specifically identified as potentially impaired, which is recoverable from collateral held.	Tested the reasonableness of the collateral values used by management in their calculation of the provision by analysing the trends in collateral values, evaluating, on a sample basis, the results of recent collateral valuations and recent sales of collateral by the Group against the previous collateral valuations obtained by management. For all actual sales throughout the period, performed lookback procedures to assess the reliability of management's historical estimation process by assessing the provisions previously established against amounts collected from collateral sold during the year. This also entailed consideration of the forced sale value, real estate agency fees, legal fees and other costs incurred to sell the pledged collateral as well as the average number of months to sell the property. On a sample basis, tested the accuracy of management's Stage 3 provision on MLs by reperforming the calculation of the amounts recorded within the consolidated financial statements. Compared the accrued interest amount against the excess of collateral held over the principal amount of such loans in respect of the recoverable amount of accrued interest on MLs classified under Stage 3. The results of our procedures indicated that management's methodologies and assumptions used for determining Lifetime ECLs on credit impaired MLs were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises the Fidelity Bank (Bahamas) Limited Annual Report for 2021 (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 the Fidelity Bank (Bahamas) Limited Annual Report for 2021, 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

2 May 2022

Consolidated Financial Statements

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

Consolidated Statement of Financial Position
As of 31 December 2021
(Expressed in Bahamian dollars)

	2021 $	2020 $
ASSETS		
Cash on hand and at banks (Note 4)	378,754,192	187,658,187
Investment securities (Note 5)	105,409,865	92,942,871
Loans and advances to customers (Note 6)	401,585,362	418,491,123
Other assets	1,937,147	950,320
Investments in joint ventures (Note 7)	195,695	202,955
Property, plant and equipment (Note 8)	11,219,518	10,237,901
Total assets	**899,101,779**	**710,483,357**
LIABILITIES		
Deposits from customers (Note 9)	769,754,950	574,997,393
Accrued expenses and other liabilities	4,851,294	13,665,774
Debt securities (Note 10)	20,068,330	24,009,215
Total liabilities	**794,674,574**	**612,672,382**
EQUITY		
Capital – ordinary shares (Note 11)	20,449,512	20,410,050
Capital – preference shares (Note 11)	15,000,000	15,000,000
Revaluation reserve	1,176,670	971,225
Retained earnings	67,801,023	61,429,700
Total equity	**104,427,205**	**97,810,975**
Total liabilities and equity	**899,101,779**	**710,483,357**

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

Director **Director**

28 April 2022
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 2021
(Expressed in Bahamian dollars)

	2021 $	2020 $
INCOME		
Interest income		
Bank deposits, loans and advances	61,364,667	63,737,504
Investment securities	3,982,687	3,480,030
	65,347,354	67,217,534
Interest expense	(12,078,349)	(11,970,076)
Net interest income	**53,269,005**	**55,247,458**
Fees and commissions	3,719,527	3,124,992
Other income	349,834	493,247
	57,338,366	**58,865,697**
EXPENSES		
General and administrative (Note 13)	13,599,790	12,747,523
Salaries and employee benefits (Note 14)	13,098,308	12,111,848
Provision for loan losses (Note 6)	6,000,529	24,967,590
Depreciation and amortisation (Note 8)	1,475,720	1,642,239
Allowances for impairment (Note 5)	1,000,000	-
	35,174,347	**51,469,200**
Operating profit	**22,164,019**	**7,396,497**
Share of profits of joint ventures (Note 7)	5,713	17,892
Net income and total comprehensive income	**22,169,732**	**7,414,389**
Attributable to:		
Ordinary shareholders		
Net income	21,194,732	6,439,389
	21,194,732	6,439,389
Preference shareholders		
Net income	975,000	975,000
	975,000	975,000
	22,169,732	**7,414,389**
Earnings per share (Note 12)	**0.74**	**0.22**

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 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
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 Changes in Equity
For the Year Ended 31 December 2020
(Expressed in Bahamian dollars)

	Capital – Ordinary Shares $	Capital – Preference Shares $	Revaluation Reserve $	Retained Earnings $	Total $
As of 1 January 2020	20,410,050	15,000,000	1,013,064	61,299,140	97,722,254
Comprehensive income					
Net income	-	-	-	7,414,389	7,414,389
Total comprehensive income	-	-	-	7,414,389	7,414,389
Transfers					
Depreciation transfer	-	-	(41,839)	41,839	-
Total transfers	-	-	(41,839)	41,839	-
Transactions with owners					
Issuance of ordinary shares	-	-	-	-	-
Dividends – preference shares	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	(6,350,668)	(6,350,668)
Total transactions with owners	-	-	-	(7,325,668)	(7,325,668)
As of 31 December 2020	**20,410,050**	**15,000,000**	**971,225**	**61,429,700**	**97,810,975**
Dividends per share	**0.22**	**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 2021
(Expressed in Bahamian dollars)

	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	22,169,732	7,414,389
Adjustments for:		
Interest income	(65,347,354)	(67,217,534)
Interest expense	12,078,349	11,970,076
Salaries and employee benefits	143,500	-
Provision for loan losses	6,000,529	24,967,590
Allowances for impairment	1,000,000	-
Depreciation and amortisation	1,475,720	1,642,239
Share of profits of joint ventures	(5,713)	(17,892)
Interest received	61,659,602	63,097,757
Interest paid	(11,412,258)	(12,793,326)
(Increase)/Decrease in operating assets		
Current accounts at banks – pledged balances	(500,000)	-
Term deposits – contractual maturities greater than three (3) months	(716,019)	(893,403)
Mandatory reserve deposits	(1,687,039)	(1,052,550)
Loans and advances to customers	14,541,594	(8,260,082)
Other assets	(986,827)	(21,388)
Increase/(Decrease) in operating liabilities		
Deposits from customers	194,150,581	8,029,147
Accrued expenses and other liabilities	(10,114,480)	10,273,855
Net cash from operating activities	**222,449,917**	**37,138,878**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	12,973	19,628
Purchases of investment securities	(30,868,303)	(15,214,029)
Proceeds from sales/maturities of investment securities	17,500,400	5,655,600
Purchases of property, plant and equipment	(1,157,337)	(210,743)
Net cash used in investing activities	**(14,512,267)**	**(9,749,544)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemptions of debt securities	(4,000,000)	-
Dividends paid on preference shares	(975,000)	(975,000)
Dividends paid on ordinary shares	(14,722,002)	(6,350,668)
Net cash used in financing activities	**(19,697,002)**	**(7,325,668)**
Net increase in cash and cash equivalents	**188,240,648**	**20,063,666**
Cash and cash equivalents as of the beginning of the year	111,191,476	91,127,810
Cash and cash equivalents as of the end of the year (Note 4)	**299,432,124**	**111,191,476**

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 and joint ventures (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 four (4) 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% (2020: 74.58%) 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 2021 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 joints 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.

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

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.

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 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 2021	% Holding 2020
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

	2021 $	2020 $
Cash on hand	2,769,024	2,392,712
Current accounts at banks	297,163,100	108,798,764
Term deposits	52,187,516	51,471,497
Mandatory reserve deposits	26,480,189	24,793,150
	378,599,829	187,456,123
Accrued interest	154,363	202,064
Total	**378,754,192**	**187,658,187**

Included in current accounts is an amount of $500,000 (2020: $Nil), which has been pledged to support a guarantee provided by another financial institution pursuant to an agreement with a credit card company to issue credit cards. 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 1.25% (2020: 0.00% to 1.60%) per annum.

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

	2021 $	2020 $
Cash on hand	2,769,024	2,392,712
Current accounts at banks	297,163,100	108,798,764
Term deposits	52,187,516	51,471,497
Mandatory reserve deposits	26,480,189	24,793,150
	378,599,829	187,456,123
Current accounts at banks – pledged balances	(500,000)	-
Term deposits – contractual maturities greater than three (3) months	(52,187,516)	(51,471,497)
Mandatory reserve deposits	(26,480,189)	(24,793,150)
Total	**299,432,124**	**111,191,476**

(Expressed in Bahamian dollars)

5. Investment Securities

	2021 $	2020 $
Amortised cost		
Stage 1 – ECL		
Level 2		
Government debt securities	26,148,970	25,930,667
Stage 2 – ECL		
Level 2		
Government debt securities	76,863,100	63,963,500
Level 3		
Corporate debt securities	2,250,000	2,000,000
	79,113,100	65,963,500
Total – all stages	105,262,070	91,894,167
Accrued interest	1,147,795	1,048,704
Allowance for impairment	(1,000,000)	-
Total	**105,409,865**	**92,942,871**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2022 to 2050 (2020: 2021 to 2038) and with either fixed interest rates ranging from 3.00% to 5.69% (2020: 2.78% to 5.40%) per annum or variable interest rates ranging from 0.02% to 0.63% (2020: 0.02% to 0.63%) 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:

	2021 $	2020 $
Balance as of the beginning of the year	-	-
Allowance for impairment	1,000,000	-
Write-offs	-	-
Balance as of the end of the year	**1,000,000**	**-**

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2021
(Continued)
(Expressed in Bahamian dollars)

6. Loans and Advances to Customers

	2021 $	2020 $
Mortgages	46,425,781	50,139,364
Consumer and other loans	376,194,262	398,682,758
	422,620,043	448,822,122
Unamortised loan origination fees	(8,401,894)	(8,999,670)
Accrued interest	4,920,253	5,450,858
Provision for loan losses	(17,553,040)	(26,782,187)
Total	**401,585,362**	**418,491,123**

The effective interest rate earned on loans and advances for the year ended 31 December 2021 was 14.21% (2020: 14.31%).

Movements in provision for loan losses are as follows:

	2021			2020		
	Mortgages $	Consumer and Other $	Total $	Mortgages $	Consumer and Other $	Total $
Balance as of the beginning of the year	3,868,603	22,913,584	26,782,187	2,763,717	10,627,405	13,391,122
Provisions	569,339	5,431,190	6,000,529	1,128,100	23,839,490	24,967,590
Write-offs	(181,085)	(15,048,591)	(15,229,676)	(23,214)	(11,553,311)	(11,576,525)
Balance as of the end of the year	**4,256,857**	**13,296,183**	**17,553,040**	**3,868,603**	**22,913,584**	**26,782,187**

Recoveries of amounts previously written off recognised in provision loan losses in the consolidated statement of comprehensive income totalled $833,551 (2020: $409,328).

The provision for loan losses represents 4.24% (2020: 6.09%) of the total loan portfolio, excluding accrued interest, and 91.01% (2020: 87.21%) of total non-performing loans. As of 31 December 2021, principal balances of non-performing loans totalled $19,287,450 (2020: $30,708,878), representing 4.66% (2020: 6.98%) of the total loan portfolio, excluding accrued interest.

(Expressed in Bahamian dollars)

7. Investments in Joint Ventures

Movements in the investment in joint venture comprise:

	2021 $	2020 $
Balance as of the beginning of the year	202,955	204,691
Share of profits of joint venture	5,713	17,892
Dividends received	(12,973)	(19,628)
Balance as of the end of the year	**195,695**	**202,955**

The financial information of the joint venture is as follows:

	2021 $	2020 $
ASSETS		
Cash on hand and at banks	1,072,407	1,344,372
Other assets	140,235	119,017
Property, plant and equipment	168,804	18,635
Total assets	**1,381,446**	**1,482,024**
LIABILITIES		
Accrued expenses and other liabilities	99,897	58,465
Total liabilities	**99,897**	**58,465**
EQUITY		
Share capital	70,000	70,000
Retained earnings	1,211,549	1,353,559
Total equity	**1,281,549**	**1,423,559**
Total liabilities and equity	**1,381,446**	**1,482,024**
INCOME		
Fees and commissions	802,636	822,435
Interest income	8,526	9,330
Other	-	3,225
	811,162	**834,990**

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2021
(Continued)
(Expressed in Bahamian dollars)

7. Investments in Joint Ventures (Continued)

	2021 $	2020 $
EXPENSES		
Salaries and employee benefits	441,634	368,588
Depreciation and amortisation	16,774	18,319
Other	403,957	334,574
	862,365	**721,481**
Net income/(loss) and total comprehensive income/(loss)	**(51,203)**	**113,509**

8. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Assets & Improvements $	Total $
Year ended 31 December 2021						
Opening net book value	6,784,168	536,678	11,158	773,592	2,132,305	10,237,901
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**
Year ended 31 December 2020						
Opening net book value	7,000,000	661,479	17,802	1,115,776	2,874,340	11,669,397
Additions	-	70,027	-	140,716	-	210,743
Disposals						
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Depreciation	(215,832)	(194,828)	(6,644)	(482,900)	(742,035)	(1,642,239)
Closing net book value	**6,784,168**	**536,678**	**11,158**	**773,592**	**2,132,305**	**10,237,901**
As of 31 December 2020						
Cost or valuation	7,000,000	5,595,647	135,989	11,745,678	9,630,309	34,107,623
Accumulated depreciation	(215,832)	(5,058,969)	(124,831)	(10,972,086)	(7,498,004)	(23,869,722)
Net book value	**6,784,168**	**536,678**	**11,158**	**773,592**	**2,132,305**	**10,237,901**

(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 2019.

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%	$729,000/$28,000
Vacancy rates	+2.00%/-2.00%	$234,000/$523,000
Discount rate	+0.50%/-0.50%	$10,000/$790,000

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

	2021 **$**	**2020** **$**
Cost	8,546,933	8,493,110
Accumulated depreciation	(3,100,711)	(2,680,167)
Net book value	**5,446,222**	**5,812,943**

9. Deposits from Customers

	2021 **$**	**2020** **$**
Term deposits	405,960,439	403,190,260
Demand deposits	237,989,371	59,238,111
Savings deposits	116,809,783	104,341,139
Escrow deposits	4,437,823	4,277,325
	765,197,416	571,046,835
Accrued interest	4,557,534	3,950,558
Total	**769,754,950**	**574,997,393**

(Expressed in Bahamian dollars)

9. Deposits from Customers (Continued)

Included in deposits from customers are deposits from banks totalling $84,953,230 (2020: $42,491,275). Deposits carry fixed interest rates ranging from 0.00% to 5.00% (2020: 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 2021 was 1.60% (2020: 1.89%).

10. Debt Securities

	2021 $	2020 $
Series F redeemable variable rate notes; B$ Prime + 1.25%; 2022	19,969,441	19,910,889
Series B redeemable preference shares; B$ Prime + 1.00%; 2021	-	4,000,000
	19,969,441	23,910,889
Accrued interest	98,889	98,326
Total	**20,068,330**	**24,009,215**

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. As of 31 December 2021, the outstanding notes comprise Series F – $20,000,000 redeemable variable rate notes (B$ Prime + 1.25%) due 30 May 2022. Interest is payable semi-annually on 30 May and 30 November each year.

During the year, Series B variable rate redeemable preference shares were redeemed. Dividends were payable on these shares semi-annually on the last business day in June and December each year at the B$ Prime rate plus 1.00% per annum, subject to the declaration of the Directors and the prior approval of the Central Bank.

11. Capital

	2021 $	2020 $
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**

(Expressed in Bahamian dollars)

11. Capital (Continued)

	2021 $	2020 $
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 (2020: 50,891) ordinary shares held in treasury	(100,489)	(139,951)
Total	**20,449,512**	**20,410,050**
1,500,000 preference shares of $1.00 each	1,500,000	1,500,000
Share premium	13,500,000	13,500,000
Total	**15,000,000**	**15,000,000**

Series A variable rate non-cumulative redeemable preference shares are perpetual, but may be redeemed at the 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 2021, there are 1,500,000 (2020: 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

	2021 $	2020 $
Net income attributable to ordinary shareholders	21,194,732	6,439,389
Weighted average number of ordinary shares outstanding	28,822,954	28,815,779
Earnings per share	**0.74**	**0.22**

(Expressed in Bahamian dollars)

13. General and Administrative Expenses

	2021 $	2020 $
Office expenses	4,296,421	4,033,044
Bank and business licence fees	3,756,108	3,705,727
Card services costs, including loyalty programme	2,579,239	2,103,820
Value added tax	677,287	554,177
Legal and professional fees	566,129	634,984
Public relations expenses	544,254	719,127
Insurance expenses	380,686	328,872
Premises related costs	300,612	43,936
Directors' cost	146,833	146,686
Other	352,221	477,150
Total	**13,599,790**	**12,747,523**

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 2021 totalled $331,939 (2020: $291,143).

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.

(Expressed in Bahamian dollars)

15. Segment Analysis (Continued)

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.

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

	2021 $	2020 $
ASSETS		
Cash at banks		
Other related parties	4,265,690	6,582,761
Loans and advances to customers		
Key management personnel	1,222,222	2,134,210
Other related parties	175,070	217,124
Other assets		
The Parent	646,529	129,668
Other related parties	730,573	-

Cash at banks earn interest at rates ranging from 0.00% to 0.25% (2020: 0.00% to 1.75%) 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% (2020: 0.00% to 6.25%) per annum, with maturities up to twenty (20) years. There is no provision for loan losses in respect of these balances. In the prior year, certain balances due from key management personnel and other related parties were supported by the related parties' shareholdings in the Parent.

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

	2021 $	2020 $
LIABILITIES		
Deposits from customers		
The Parent	1,724,989	1,060,105
Key management personnel	5,572,944	3,072,976
Other related parties	77,560,558	30,329,100
Accrued expenses and other liabilities		
Other related party	-	8,928,823
Debt securities		
Other related parties	9,379,600	9,364,600

(Expressed in Bahamian dollars)

16. Related Party Balances and Transactions (Continued)

Deposits from customers carry interest at fixed rates ranging from 0.00% to 5.00% (2020: 0.00% to 5.00%) per annum, and mature within one (1) year.

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

EQUITY

As of 31 December 2021, key management personnel and other related parties hold 1,475,715 (2020: 1,472,215) outstanding ordinary shares and 520,081 (2020: 520,081) outstanding preference shares.

	2021 $	2020 $
INCOME		
Interest income		
Key management personnel	26,644	28,024
Other related parties	4,321	17,024
Interest expense		
The Parent	20,635	60,172
Key management personnel	89,084	55,020
Other related parties	57,717	84,987
Fees and commissions		
Other related parties	59,026	36,108
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	150,583	129,333
Key management personnel (executive Directors and other)	2,061,393	1,591,309
Costs allocated from related parties		
The Parent	771,750	768,688
Costs allocated to related parties		
Other related parties	(539,369)	(513,684)

The Group receives certain services from the Parent, with the charges for these services expensed in the expense accounts to which the services relate. The Group provides 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 2021, the Group had outstanding loan commitments amounting to $20,242,115 (2020: $12,107,813).

(Expressed in Bahamian dollars)

17. Commitments (Continued)

Lease commitments

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

	2021 $	2020 $
2021	-	491,543
2022	659,061	249,772
2023	646,347	195,244
2024	611,417	151,054
2025	442,270	12,299
2026	261,042	-
Total	**2,620,137**	**1,099,912**

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 2021 and 2020, 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:

  Quantitative criteria

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

  Qualitative criteria

  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 2021 would increase by $17,647,590 (2020: $19,952,439).

The low credit risk exemption has not been used for the years ended 31 December 2021 and 2020.

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 requires 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. GDP) 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 2021, 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% and 14.18% and 5.82% weights are applied to Upside and Downside, respectively, in relation to loans and advances; and 80.00%, 14.88% and 5.12%, respectively in relation to investment securities. The Baseline scenario utilises the projected unemployment rate or GDP growth rate for the year ending 31 December 2022, 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 in the Baseline scenario, but incorporating such outlier factors in the Downside scenario.

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.

During the year, consistent with other countries, The Bahamas continued to be impacted by the global pandemic COVID-19 (commonly referred to as the Coronavirus), which disrupted the economic performance of The Bahamas, and contributes 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, with considerable recovery recognised during the year. Scenario weightings have been changed to take into account the experience to date and the range of possible outcomes.

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

Forward-looking information factored into ECL models (continued)

In the prior year, the performance of certain financial assets of the Group experienced significant deterioration, and the ECL model was assessed and deemed inappropriate, as the ECL model is designed to factor in reasonable ranges of macroeconomic variables, and not outliers such as the anomalies in unemployment and GDP experienced during that year. Accordingly, the ECL model was modified to take into account the credit loss experience of the year ended 31 December 2019, which was pre-global pandemic, and the year ended 31 December 2020, which was considered the peak of the global pandemic impact. The modification was designed to factor in the anomalous financial performance of the year ended 31 December 2020, while giving appropriate recognition to ordinary financial performance, as a proxy for the expected future financial performance and therefore the best estimate of ECL as of 31 December 2020. Specifically, the modification to the ECL model factored in the actual credit loss experience based on the ECL model in 2019 and 2020, applying a 50.00% weighting to each year's credit loss experience as a proxy for an ECL model that factors in forward-looking information.

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 Group calculates provision for loan losses based on Stages, as determined by the days past due metric. In the prior year, the Group did not employ any forebearance arrangements that altered the days past due metric, and accordingly, the provision for loan losses on Stage 3 as of 31 December 2020 was determined based on the normal policy; however, the Group performed an assessment of the overall provision for loan losses as of that date and concluded that it addressed all reasonable expectations of possible credit losses. For the purposes of the assessment in the prior year, provision for loan losses on Stage 3 was restaged to Stages 1 and 2, as disclosed in Note 21, to conclude on overall reasonableness, as the provision for loan losses on Stage 3 was determined to have an excess, whereas the provision for loan losses on Stages 1 and 2 was determined to have a shortfall.

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

<u>Sensitivity analyses</u>

Except in financial periods with outliers such as the anomalies in unemployment and GDP experienced during the prior year, 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; gross domestic product (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.

(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)

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 2021 and 2020 would result in an increase/decrease in provision for loan losses of $1,755,304 (2020: $2,678,219) as of 31 December 2021.

Additionally, 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

The following changes in scenario inputs and weightings in the modified ECL model would result in the respective changes in provision for loan losses as of 31 December 2020.

Scenario Weightings		
2019 Experience %	**2020 Experience %**	**Increase/(Decrease) in Provision $**
75.00	25.00	(3,352,049)
40.00	60.00	1,182,388

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 2021 and 2020, the Group complied with all of the externally imposed capital requirements to which it is subject.

21. Financial Risk Management

Strategy in using financial instruments

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

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

Concentration of risks

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

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

21. Financial Risk Management (Continued)

Credit risk

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

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

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

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

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed. Investment securities with credit risk principally comprise debt securities issued by the Government of The Bahamas, which were downgraded to non-investment grade credit ratings during 2020 and further downgraded during the year, resulting in all securities acquired prior to the downgrades 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.

	2021		2020	
	$	%	$	%
Consumer	350,430,495	82.92	371,181,271	82.70
Family residential property	37,156,834	8.79	41,068,899	9.15
Undeveloped land	9,268,947	2.19	9,070,465	2.02
Cash secured	5,810,488	1.38	5,902,103	1.32
Commercial property	3,070,656	0.73	2,375,558	0.53
Overdrafts	2,239,798	0.53	2,348,826	0.52
Other	14,642,825	3.46	16,875,000	3.76
	422,620,043	**100.00**	**448,822,122**	**100.00**

The average mortgage loan balance is $78,000 (2020: $80,000) and the average consumer loan balance is $38,000 (2020: $40,000) with the largest exposure to a single customer totalling approximately $14,642,825 (2020: $16,875,000). 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.

	2021		2020	
	$	%	$	%
Not impaired				
– Neither past due nor impaired	399,433,398	94.51	412,779,695	91.97
– Past due but not impaired	7,896,011	1.87	10,672,048	2.38
Impaired				
– Past due up to 3 months	988,703	0.24	1,154,069	0.26
– Past due 3 – 6 months	1,651,414	0.39	3,582,735	0.80
– Past due 6 – 12 months	1,308,361	0.31	10,785,556	2.40
– Past due over 12 months	11,342,156	2.68	9,848,019	2.19
	422,620,043	**100.00**	**448,822,122**	**100.00**
Provision for loan losses				
– Individually impaired	9,674,278	55.11	18,911,392	70.61
– Portfolio allowance	7,878,762	44.89	7,870,795	29.39
	17,553,040	**100.00**	**26,782,187**	**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 2021	**Mortgages** **$**	**Consumer and Other** **$**	**Total** **$**
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**
31 December 2020			
Past due up to 3 months	1,979,894	2,199,586	4,179,480
Past due 3 – 6 months	1,048,670	332,503	1,381,173
Past due 6 – 12 months	1,092,826	369,576	1,462,402
Past due over 12 months	3,634,164	14,829	3,648,993
Total past due but not impaired	**7,755,554**	**2,916,494**	**10,672,048**

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 2021	**Mortgages** **$**	**Consumer and Other** **$**	**Total** **$**
Carrying amount	9,214,947	6,075,687	15,290,634
Provision for loan losses	4,152,411	5,521,867	9,674,278
31 December 2020			
Carrying amount	9,736,920	15,633,459	25,370,379
Provision for loan losses	3,764,156	15,147,236	18,911,392

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 2021, a decrease of 10.00% in the fair value of collateral would result in a decrease of $354,775 (2020: $818,840) 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 $532,064 (2020: $649,932).

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.

- Restaging of provision for loan losses, for the purposes of the assessment described in Note 19, in relation to the gross carrying amounts of loans and advances to customers that are past due in excess of three (3) months and in Stage 3, which are expected to transfer to Stages 1 and 2 following a reasonable economic recovery.

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 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**
Restaging	-	-	-	-
Balance for purposes of assessment (Note 19)	**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**
Restaging	-	-	-	-
Balance for purposes of assessment (Note 19)	**6,324,167**	**1,450,149**	**5,521,867**	**13,296,183**

Fidelity Bank (Bahamas) Limited

Notes to the Consolidated Financial Statements
31 December 2021
(Continued)
(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**
Restaging	-	-	-	-
Balance for purposes of assessment (Note 19)	**6,404,995**	**1,473,767**	**9,674,278**	**17,553,040**

(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 2020.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2020	65,072	39,374	2,659,271	2,763,717
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(2,489)	32,885	-	30,396
Transfer from Stage 1 to Stage 3	(3,495)	-	107,575	104,080
Transfer from Stage 2 to Stage 1	6,404	(11,799)	-	(5,395)
Transfer from Stage 2 to Stage 3	-	(17,617)	169,298	151,681
Transfer from Stage 3 to Stage 2	-	3,620	-	3,620
Loans and advances written	7,864	-	-	7,864
Changes to models and assumptions	(6,228)	(7,028)	885,831	872,575
Loans and advances derecognised	(2,056)	(60)	(34,605)	(36,721)
Provision for loan losses	-	1	1,128,099	1,128,100
Write-offs	-	-	(23,214)	(23,214)
Other movements	-	-	(23,214)	(23,214)
Balance as of 31 December 2020	**65,072**	**39,375**	**3,764,156**	**3,868,603**
Restaging	184,337	11,309	(195,646)	-
Balance for purposes of assessment (Note 19)	**249,409**	**50,684**	**3,568,510**	**3,868,603**

(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 2020	6,148,477	1,604,321	2,874,607	10,627,405
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(91,170)	1,542,499	-	1,451,329
Transfer from Stage 1 to Stage 3	(407,533)	-	11,618,341	11,210,808
Transfer from Stage 2 to Stage 1	39,167	(175,855)	-	(136,688)
Transfer from Stage 2 to Stage 3	-	(230,185)	473,131	242,946
Transfer from Stage 3 to Stage 2	-	1,628	(52,492)	(50,864)
Loans and advances written	4,637,536	-	-	4,637,536
Changes to models and assumptions	(3,031,861)	(1,105,826)	12,005,863	7,868,176
Loans and advances derecognised	(1,132,588)	(32,262)	(218,903)	(1,383,753)
Provision for loan losses	13,551	(1)	23,825,940	23,839,490
Write-offs	-	-	(11,553,311)	(11,553,311)
Other movements	-	-	(11,553,311)	(11,553,311)
Balance as of 31 December 2020	**6,162,028**	**1,604,320**	**15,147,236**	**22,913,584**
Restaging	2,562,227	206,969	(2,769,196)	-
Balance for purposes of assessment (Note 19)	**8,724,255**	**1,811,289**	**12,378,040**	**22,913,584**

(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 2020	6,213,549	1,643,695	5,533,878	13,391,122
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(93,659)	1,575,384	-	1,481,725
Transfer from Stage 1 to Stage 3	(411,028)	-	11,725,916	11,314,888
Transfer from Stage 2 to Stage 1	45,571	(187,654)	-	(142,083)
Transfer from Stage 2 to Stage 3	-	(247,802)	642,429	394,627
Transfer from Stage 3 to Stage 2	-	5,248	(52,492)	(47,244)
Loans and advances written	4,645,400	-	-	4,645,400
Changes to models and assumptions	(3,038,089)	(1,112,854)	12,891,694	8,740,751
Loans and advances derecognised	(1,134,644)	(32,322)	(253,508)	(1,420,474)
Provision for loan losses	13,551	-	24,954,039	24,967,590
Write-offs	-	-	(11,576,525)	(11,576,525)
Other movements	-	-	(11,576,525)	(11,576,525)
Balance as of 31 December 2020	**6,227,100**	**1,643,695**	**18,911,392**	**26,782,187**
Restaging	2,746,564	218,278	(2,964,842)	-
Balance for purposes of assessment (Note 19)	**8,973,664**	**1,861,973**	**15,946,550**	**26,782,187**

(Expressed in Bahamian dollars)

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 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**

Consumer and other loans				
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**

(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	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**

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2020, which elucidate the significance of such changes to the changes in provision for loan losses, excluding restaging in relation to the assessment of the gross carrying amounts of loans and advances to customers that are past due in excess of three (3) months and in Stage 3, which were expected to transfer to Stages 1 and 2 following a reasonable economic recovery, due to the identification of the respective specific loans and advances to customers being impractical.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2020	38,295,268	2,980,662	15,577,745	56,853,675
Transfers				
Transfer from Stage 1 to Stage 2	(1,384,850)	1,384,850	-	-
Transfer from Stage 1 to Stage 3	(1,955,205)	-	1,955,205	-
Transfer from Stage 2 to Stage 1	840,516	(840,516)	-	-
Transfer from Stage 2 to Stage 3	-	(1,265,445)	1,265,445	-
Transfer from Stage 3 to Stage 2	-	331,123	(331,123)	-
Loans and advances written	1,019,873	-	-	1,019,873
Changes to exposure other than full derecognition	(3,031,409)	(451,870)	(1,542,640)	(5,025,919)
Loans and advances derecognised	(1,211,343)	(4,554)	(184,875)	(1,400,772)
Write-offs	-	-	(23,214)	(23,214)
Balance as of 31 December 2020	**32,572,850**	**2,134,250**	**16,716,543**	**51,423,643**

(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 2020	381,101,099	3,177,181	3,339,480	387,617,760
Transfers				
Transfer from Stage 1 to Stage 2	(2,946,460)	2,946,460	-	-
Transfer from Stage 1 to Stage 3	(11,618,341)	-	11,618,341	-
Transfer from Stage 2 to Stage 1	466,865	(466,865)	-	-
Transfer from Stage 2 to Stage 3	-	(473,131)	473,131	-
Transfer from Stage 3 to Stage 2	-	33,973	(33,973)	-
Loans and advances written	114,362,706	-	-	114,362,706
Changes to exposure other than full derecognition	(27,634,267)	(564,718)	11,753,443	(16,445,542)
Loans and advances derecognised	(79,765,164)	(147,879)	(218,903)	(80,131,946)
Write-offs	-	-	(11,553,311)	(11,553,311)
Balance as of 31 December 2020	**373,966,438**	**4,505,021**	**15,378,208**	**393,849,667**
Total				
Balance as of 1 January 2020	419,396,367	6,157,843	18,917,225	444,471,435
Transfers				
Transfer from Stage 1 to Stage 2	(4,331,310)	4,331,310	-	-
Transfer from Stage 1 to Stage 3	(13,573,546)	-	13,573,546	-
Transfer from Stage 2 to Stage 1	1,307,381	(1,307,381)	-	-
Transfer from Stage 2 to Stage 3	-	(1,738,576)	1,738,576	-
Transfer from Stage 3 to Stage 2	-	365,096	(365,096)	-
Loans and advances written	115,382,579	-	-	115,382,579
Changes to exposure other than full derecognition	(30,665,676)	(1,016,588)	10,210,803	(21,471,461)
Loans and advances derecognised	(80,976,507)	(152,433)	(403,778)	(81,532,718)
Write-offs	-	-	(11,576,525)	(11,576,525)
Balance as of 31 December 2020	**406,539,288**	**6,639,271**	**32,094,751**	**445,273,310**

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 $13,184,766 (2020: $14,141,005) as of 31 December 2021.

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 2021, the Group is exposed to fair value interest rate risk on $73,117,897 (2020: $58,735,361) of its investments in debt securities, which are at fixed interest rates with maturity dates ranging from 2022 to 2050 (2020: 2021 to 2038). The remainder of debt securities in the Group's investment portfolio are at variable rates linked to the B$ 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 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	4,765,689	31,549,279	20,792,600	-	-	321,646,624	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	**89,997,443**	**66,338,659**	**39,405,461**	**67,568,412**	**300,132,510**	**324,244,081**	**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	**(51,336,134)**	**(13,570,692)**	**(152,150,345)**	**(73,319,465)**	**300,132,510**	**83,256,118**	

31 December 2020	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	6,582,762	31,155,608	20,517,953	-	-	129,401,864	187,658,187
Investment securities	34,207,510	10,930,667	16,436,337	11,251,947	20,116,410	-	92,942,871
Loans and advances to customers	49,224,999	585,278	2,306,813	66,854,471	298,532,442	987,120	418,491,123
Other assets	-	-		-	-	950,320	950,320
Total financial assets	**90,015,271**	**42,671,553**	**39,261,103**	**78,106,418**	**318,648,852**	**131,339,304**	**700,042,501**
LIABILITIES							
Deposits from customers	116,009,538	115,778,739	209,379,894	81,962,135	-	51,867,087	574,997,393
Accrued expenses and other liabilities	-	7,730	216,556	725,178	-	12,716,310	13,665,774
Debt securities	24,009,215	-	-	-	-	-	24,009,215
Total financial liabilities	**140,018,753**	**115,786,469**	**209,596,450**	**82,687,313**	**-**	**64,583,397**	**612,672,382**
Interest repricing gap	**(50,003,482)**	**(73,114,916)**	**(170,335,347)**	**(4,580,895)**	**318,648,852**	**66,755,907**	

As of 31 December 2021, an increase/decrease in market interest rates by 0.50% (2020: 0.50%), being the assumption of reasonable potential changes interest rates as of the respective date, with all other variables remaining constant, would increase/decrease net income by $75,925 (2020: $160,079).

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

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 investments in debt 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.

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 liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public 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 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**					

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Liquidity risk (continued)

31 December 2020	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	135,984,626	31,218,115	20,646,137	-	-	187,848,878
Investment securities	-	12,137,196	19,783,064	29,908,210	52,769,157	114,597,627
Loans and advances to customers	2,348,826	36,838,278	67,276,943	328,125,986	300,259,675	734,849,708
Other assets	-	950,320	-	-	-	950,320
Total financial assets	**138,333,452**	**81,143,909**	**107,706,144**	**358,034,196**	**353,028,832**	**1,038,246,533**
LIABILITIES						
Deposits from customers	167,856,575	119,100,960	210,240,429	89,025,299	-	586,223,263
Accrued expenses and other liabilities	-	12,716,310	491,543	608,369	-	13,816,222
Debt securities	-	-	5,310,000	21,100,000	-	26,410,000
Total financial liabilities	**167,856,575**	**131,817,270**	**216,041,972**	**110,733,668**	**-**	**626,449,485**
Net liquidity gap	**(29,523,123)**	**(50,673,361)**	**(108,335,828)**	**247,300,528**	**353,028,832**	
Loan commitments	**12,107,813**					

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 2021 and 2020.

As of 31 December 2021, principal and interest balances of the deposits of the ten (10) largest customers totalled $293,516,992 (2020: $145,216,624) representing 38.13% (2020: 25.26%) 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$. The remaining financial instruments and financial activity are denominated in the United States dollar, and currency risk is mitigated because the B$: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 value of the financial assets and liabilities disclosed under that category have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the B$ Prime rate. 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.

"Sadly, in early 2022, we also said an earthly goodbye to Anwer J. Sunderji, a former Chief Executive Officer and Director of the Bank, and significant shareholder. Anwer may no longer be with us physically, but he will forever remain a giant in the hearts and minds of his colleagues in, and out of, the Bank and wider Fidelity Group, and he will continue to serve as an inspiration to the Fidelity Group family to live up to its mantra for its stakeholders and the wider Bahamas, *We're Good For You*.

FIDELITY

We're good for you!