REBIRTH 2020

ANNUAL REPORT

FIDELITY

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Financial Highlights

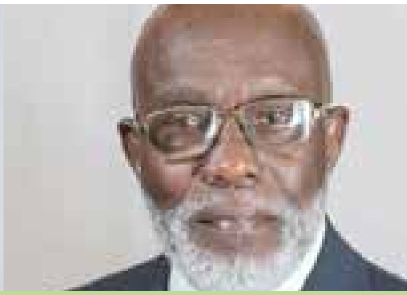
For the years ended 31 December (B$000)	2020	2019	% Change	2018	2017	2016
STATEMENT OF COMPREHENSIVE INCOME DATA:						
Interest Income	67,217	70,502	-4.66%	66,892	61,287	59,384
Interest Expense	(11,970)	(12,638)	-5.29%	(12,675)	(14,831)	(14,640)
Net Interest Income	55,247	57,864	-4.52%	54,217	46,456	44,744
Provision for Loan Losses	(24,968)	(10,205)	144.66%	(12,738)	(8,961)	(7,987)
Net Interest Income after Provision for Loan Losses	30,280	47,659	-36.47%	41,480	37,495	36,757
Non-Interest Income	3,618	3,358	7.74%	3,289	3,215	3,099
Non-Interest Expenses	(26,502)	(27,369)	-3.17%	(24,571)	(22,005)	(20,272)
Share of Profits of Joint Ventures	18	1,613	-98.88%	2,166	2,348	2,105
Net Income	7,414	32,823	-77.41%	22,364	21,054	21,688
Total Comprehensive Income	7,414	33,548	-77.90%	22,364	21,054	21,231
Net Income Attributable to Ordinary Shareholders	6,439	31,848	-79.78%	21,389	20,078	20,635
PER SHARE DATA:						
Book Value per Ordinary Share	$2.87	$2.87	0.11%	$2.60	$2.58	$2.38
Dividends per Ordinary Share	$0.22	$0.86	-74.42%	$0.52	$0.50	$0.40
Year End Share Price	$13.75	$15.05	-8.64%	$12.85	$10.45	$9.30
Weighted Average Ordinary Shares	28,815,779	28,813,110	0.01%	28,803,525	28,795,142	28,776,198
STATEMENT OF FINANCIAL POSITION DATA:						
Investment Securities	92,943	83,364	11.49%	83,058	88,497	77,129
Loans and Advances to Customers	418,491	431,080	-2.92%	439,700	408,644	386,804
Total Assets	710,483	692,915	2.54%	657,901	627,770	564,209
Write-offs of Loans and Advances to Customers	11,577	12,364	-6.37%	13,441	9,048	8,369
Deposits from Customers	574,997	567,608	1.30%	532,735	493,517	430,883
Total Equity	97,811	97,722	0.09%	89,868	89,317	83,562
Total Equity - Ordinary Shares	82,811	82,722	0.11%	74,868	74,317	68,562
Growth in Loans and Advances to Customers	-2.92%	-1.96%		7.60%	5.65%	7.29%
Growth in Total Assets	2.54%	5.32%		4.80%	11.27%	8.15%
PERFORMANCE RATIOS:						
Earnings Per Share	$0.22	$1.11	-79.78%	$0.74	$0.70	$0.72
Price/Earnings	61.53 x	13.62 x	351.90%	17.30 x	14.99 x	12.97 x
Price/Book Value	4.78 x	5.24 x	-8.74%	4.94 x	4.05 x	3.90 x
Dividend Yield	1.60%	5.71%	-72.00%	4.05%	4.78%	4.30%
Return on Average Assets	1.06%	4.97%	-78.73%	3.48%	3.53%	3.91%
Return on Average Ordinary Shareholders' Equity	7.78%	41.34%	-81.18%	28.68%	28.11%	31.45%
Ordinary Dividend Payout Ratio	98.62%	76.21%	29.40%	70.18%	71.89%	57.22%
Efficiency Ratio	45.02%	44.70%	0.71%	42.73%	44.30%	42.37%
Net Interest Margin	8.01%	8.84%	-9.36%	8.81%	8.15%	8.66%
ASSET QUALITY RATIOS:						
Non-Performing Loans to Total Loans	6.76%	3.81%	77.43%	4.84%	6.25%	6.30%
Non-Performing Loans to Total Assets	4.32%	2.50%	73.12%	3.42%	4.26%	4.52%
Net Write-offs to Average Loans	2.55%	2.69%	-5.28%	3.01%	2.17%	2.14%
Provision for Loan Losses to Total Loans, Including Accrued Interest	5.90%	2.95%	99.91%	3.35%	2.42%	2.58%
Provision for Loan Losses to Non-Performing Loans	87.21%	77.41%	12.67%	69.12%	38.76%	40.94%

Board of Directors

Scott F. Elphinstone
Chairman

Jaffer Sunderji

Michael A. Anderson



Alfred H. Stewart

Gowon N. G. Bowe
Chief Executive Officer

Jennifer P. Dilbert
Compensation Committee Chairperson

Stuart M. Bowe

J. Nicholas Freeland
Audit Committee Chairman

Chairman's Report

2020 will be remembered for the health and financial crises created by COVID-19. Many families both here and abroad tragically lost loved ones. On behalf of the Board of Directors, I wish to express our deepest sympathies to anyone in the family of Fidelity Bank (Bahamas) Limited (the Bank) that lost a loved one to this terrible illness.

By the end of March 2020, governments shut down the entire global economy. The impact was immediately felt in the Commonwealth of The Bahamas (The Bahamas), as aeroplanes that normally carry tourists, that are essential to the health of the economy, were grounded. While the virus is persistent, the good news is that the vaccines are very effective and are now getting distributed at scale. I am optimistic that the Winter season 2021/22 will be back to near normal as short trip vacations will be the first step tourists take to rebuild their confidence in travelling.

I would like to thank the staff of the Bank for their courage and persistent focus on our customers that allowed the Bank to operate successfully without interruption during the darkest times.

As one would expect, the crises had a significant impact on the financial results of the Bank. Net income fell to $7.4 million, as the provision for loan losses grew by almost 2.5 times. The Board of Directors supports management's conservative posture to loan loss provisioning; any loans and advances to customers where the Bank granted payment forbearance were counted as non-performing loans and advances to customers and treated accordingly for accounting purposes. As people return to work and these loans and advances to customers return to performing status, the level of provision for loan losses will be no longer necessary and future profits will be enhanced. Loans and advances to customers declined for the first year in many, as demand declined with customers sheltering at home. Deposits from customers continue their growth trend of many years. The Bank's equity position remains strong and in excess of what is required by the Central Bank of The Bahamas.

The outlook for the global economy is encouraging. The Organisation for Economic Cooperation and Development projects global growth at 4.20% for 2021, with the United States Federal Reserve expecting the economy of the United States of America to grow by 5.00%. As the globe reopens, much of this growth will be in the travel and leisure industry, which bodes well for the economy of The Bahamas. However, the financial stability of the Government of The Bahamas is an area requiring increased attention, as like all governments, it supported the shuttered economy of The Bahamas but it entered the crises in a financial position that had very little headroom. The Board of Directors is closely monitoring developments, in particular in relation to the sensitivity of the Bank's financial position and financial performance to actions that may be taken by the Government of The Bahamas to stabilise public finances and financial position.

I would like to thank our Chief Executive Officer Gowon N.G. Bowe and his management team who provided outstanding leadership during the year. Gowon's calm and professional manner, in the face of difficulty, established the tone that led to a successful year. I would also like to thank you the shareholders for your continued confidence and support.

Scott F. Elphinstone
Chairman

Communication from the Chief Executive Officer

As we close the chapter on 2020, and come to the realisation that the storyline of that chapter unfortunately continues in to 2021, we reflect on the words of Ecclesiastes 3:1 "For everything there is a season, a time for every activity under heaven", that should be used to shape our perspectives about the past and the future, and the levels of optimism we carry into the latter. This reflection is not necessarily without sobering truths, but it is not about from where we have come, but rather about where we are going and how we get there.

Assuming the reigns of the Fidelity Group, comprising Fidelity Bank (Bahamas) Limited (the Bank), a financial institution, as Chief Executive Officer in the midst of a crisis without precedent in the past 100 years comprising health, social and economic aspects, can easily be described as a baptism by fire, but as so eloquently set out by Martin Luther King Jr. "The ultimate measure of a man [woman] is not where he stands in moments of comfort and convenience, but where he stands in times of challenge and controversy". The team at the Bank starting from the Board of Directors, and through the Executive Management, managers and wider team members however have provided me with the support, counsel and effective execution that are hallmarks of a great team destined for success. And the ability to leverage the experience and wisdom of the likes of Anwer Sunderji, Thomas (Tom) Hackett and Alfred Stewart, former leaders of the Bank, when necessary, shows the rich legacy of the Bank with family members that even if not under the same roof, remain loyal to the success of the household.

The financial position and financial performance are set out in the Management Discussion & Analysis. However, it is incumbent upon me to recognise the efforts of the team at the Bank during the challenging times at the height of the global pandemic.

In spite of: family life being in disarray with the closing of schools and similar institutions; the uncertainties with changing Emergency Powers (COVID-19) Orders and the ambiguity at times on what financial institutions were permitted, or expected, to do; the change in behaviours requiring social distancing and daily temperature tests; the monitoring of wellness of colleagues; and the responsibility not only to family at home but the work family to do all to protect against exposure to COVID-19, the team at the Bank remained committed to serving its customers and the wider community and providing constant access to banking services, including physical access albeit with established health safety protocols. In addition, all team members were flexible as Executive Management adjusted working hours, remote and onsite decisions, and physical infrastructure. For this all, I say on behalf of the Board of Directors thank you to Executive Management and all team members for your diligence and commitment and look forward to continuation of the same, and the Bank remains committed to providing a safe, enjoyable and rewarding environment to each and every team member.

During the year, the Bank said bon voyage to several retiring team members, and we wish them health and strength in retirement, and many years of enjoying the fruits of their labours with the Bank.

As I begun, the global pandemic draws attention to the seasons of life.

- Autumn represents the season for the planting of seeds, and accumulation of rations, along with the shedding of leaves in anticipation of the next season. This can be correlated with pre-global pandemic times, and highlights in hindsight that The Bahamas and citizens may not have made the most of seasons of Autumn to prepare for the turn in weather.

- Winter represents the season of hibernation, and limited activity. This can be correlated with the global pandemic, in particular the peak(s) of the global pandemic. Unfortunately, this season has lasted much longer than expected or desired, and highlighted the need for accumulation of greater rations to sustain oneself during potentially longer than anticipated Winter seasons.

- Spring represents the season of renewed life, with seeds planted earlier now starting to bear fruit and trees blooming new leaves and flowers, as a sign of the emergence from the previous season. This can be correlated with the post global pandemic era, or rather life after the peak of the global pandemic, as economies and gross domestic product (GDP) grow, employment expands and prosperity returns. It is not simply to return to previous levels of activity, but to expand productivity and maximise the harvest.

- Summer represents the season of continued harvesting. The period that this correlates with is not yet identifiable, including in the Commonwealth of The Bahamas, but if we believe that Spring is now upon us albeit in early days, we can look forward to continued prosperity of the Summer.

The global pandemic has forced some lessons for countries, businesses, families and individuals; it is the responsibility of each and every entity to digest those lessons and adjust their plans accordingly. It some cases, this may even mean the initial developing of plans, an integral part of the free financial coaching offered by the Bank to customers and society at large.

The Bank also has learnt much during the global pandemic, from the importance of communications to the need to institute simulated remote working in readiness for when it may be required, and the Executive Management team continues to modify its plans and strategies to inculcate the lessons learnt and make necessary changes in behaviours that will benefit the Bank for many seasons to come. The Bank has weathered the storms to date, but is not over confident and will continue to practice preparedness and agility.

To our shareholders, depositors, other customers, team members and the Bahamian society, rest assured that the legacy of the Bank is one that is cherished, and the Executive Management team looks forward to serving each and every one of you, and we welcome you to make the continuing journey towards prosperity.

Gowon N.G. Bowe
Chief Executive Officer

Our Executive Team

Gowon N. G. Bowe
Chief Executive Officer

H. Gregory Bethel
President

Malvern Bain
Vice President, Asset Recovery

Crestwell Gardiner
Vice President, Credit & Lending

Spencer Dean-Smith
Head of Compliance

Alan Loane
Group Chief Information Officer

Heatherdawn E. Blake-Brown
Director, Card Services

Janice Rolle
Vice President, Retail Banking

Message from the President

Our thoughts and prayers are with the many citizens, residents, families and organisations in the Commonwealth of The Bahamas (The Bahamas) negatively impacted by the global pandemic. The loss of loved ones, colleagues, health, financial stability and hope should not be overlooked or minimised.

Our gratitude is extended to our executives, managers and staff who allowed, and continue to allow, our banking services to be available throughout the global pandemic – without interruption and in a safe atmosphere, whilst at the same time, managing the challenges in their personal lives.

The performance of Fidelity Bank (Bahamas) Limited (the Bank) for the year ended 31 December 2020 is commendable – notwithstanding the unusual result, which was negatively impacted by the inability of some loan customers to make loan payments, as they were furloughed by their employer. Yet, we remained profitable, paid dividends to shareholders, paid interest to depositors and rewarded employees.

Message from the President Continued

The Bank will now 'reset' after ten (10) consecutive years of significant annual growth. We will seek to:

- Further support and develop our human resources;
- Build or strengthen relationships with our customers;
- Enhance our Financial Coaching Programme;
- Retain and solicit high-quality credit customers;
- Grow responsibly in a 'high risk' economic environment and offer additional products and services, supported by a revised marketing strategy;
- Manage operating risks in an environment with elevated financial and economic risks;
- Generate a reasonable and above-average return on average ordinary shareholders' equity until the recovery of the economy of The Bahamas in the second half of 2022, when we can return to "growth mode";
- Double the net income of 2020, with a target of $15 million;
- Recover at least one third of the provision for loan losses recognised in 2020; and
- Fulfill the public pronouncements made by our Chief Executive Officer regarding the aforementioned profitability and recovery of provision for loan losses.

Our overall results will continue to reflect the success of our aggressive and multi-pronged business development initiatives in the years prior to Dorian and COVID-19. There will be no 'downsizing' or 'withdrawal' from the market.

Our forecasts are always subject to the ability of the Government of The Bahamas to safeguard public health and stabilise its finances (reduce deficits and the level of borrowings), which are both linked.

In order to reduce deficits and borrowings, it has three (3) options:

1) Grow the economy and confidence in the economy.
2) Increase revenue and expand the tax base.
3) Reduce spending.

We are hopeful the Government of The Bahamas can avoid the latter.

Nevertheless, we will continue to fully support our customers and colleagues, as we provide additional assistance to the communities in which we live, work and worship.

H. Gregory Bethel
President

Our Management Team

Dominic Ferguson,
Senior Financial Centre Manager

Stacia Bowe
Group Human Resources Director

Leslie Fox
Manager, Loan Administration

Khrystle Rutherford-Ferguson
Corporate Secretary & Legal Counsel

Bridget Forbes
Financial Centre Manager

Odia Gaskin
Financial Centre Manager

Carmel Parker-Dean
Financial Centre Manager

Victoria Albury
Financial Centre Manager

Tennessee Bowe
Financial Centre Manager

Tameka Pratt
Financial Centre Manager

Devia Knowles
Senior Customer Service Representative

Sansha Bain
Senior Customer Service Representative

Shervone Knowles
Senior Customer Service Representative

Lemunique Boyd
Manager, Cards - Settlement

Eunice Johnson
Manager, Cards - Fraud & Risk,

Lakerria Munnings
Manager, Cards - Customer Service

Our Management Team

Domicia Hepburn
Manager, Credit & Lending

Rodger Pinder
Manager, Asset Recovery

Vannessa Clarke
Manager, Internal Audit

Katherine Lockhart
Manager, Central Services

Thallise Maycock
Manager, Premises

Antonio Saunders
Manager, Marketing

Samantha Carey-Davis
Manager, Accounts

Demetries Rolle
Senior Manager, Information Technology

Brandon Hill
Manager, IT Help Desk

Anatole Major
Manager, Human Resources

Nevine Rolle
Manager, Compensation & Benefits

Javaugh Strachan
Manager, Technical Training

Denay Thompson
Deputy Head of Compliance & MLRO

Tineka Mackey
Manager, Group Branch Operations

Management Discussion & Analysis

FINANCIAL POSITION AND FINANCIAL PERFORMANCE

During 2020, economies globally, including that of the Commonwealth of The Bahamas (The Bahamas), were severely shocked by the global pandemic, COVID-19 (commonly referred to as Coronavirus). The level of uncertainty brought about by COVID-19 has been, and continues to be during 2021, without precedent in the past century and no country, sector, industry, business or individual was unaffected; some more negatively than others. The impact of the global pandemic is so recognisable that persons now refer to most timelines in terms of "pre-COVID-19" and "post-COVID-19", although the latter has yet to be realised.

Fidelity Bank (Bahamas) Limited (the Bank) was certainly affected by the global pandemic in relation to both financial and non-financial performance. The impact of the global pandemic on the financial positon and financial performance of the Bank as of and for the year ended 31 December 2020 was pronounced, however business and risk management decisions in prior years provided the foundation for the Bank to weather the strong headwinds that resulted from the economic fallout of COVID-19 in The Bahamas.

As reported in the 2019 Annual Report, gross domestic product (GDP) growth and employment in The Bahamas were stubbornly anaemic during 2019 and the preceding decade, with the economy being saddled with the additional financial and social costs of recovering from the natural disaster, Hurricane Dorian, which ravaged the second and third largest island contributors to GDP in The Bahamas, Grand Bahama and Abaco, in September 2019. Unfortunately, the onset of the global pandemic commenced approximately six (6) months following Hurricane Dorian, however its impact was not concentrated and has been far more damaging to the economy of The Bahamas.

Notwithstanding the macroeconomic turmoil confronting the Bank during the year, the Bank grew total assets by $17,568,473 (2019: $35,013,996), representing 2.54% (2019: 5.32%) over the corresponding year, to $710,483,357 (2019: $692,914,884). However, the growth in total assets was accompanied by an increase in non-performing financial assets that negatively impacted the financial performance, which led to: net income of $7,414,389 (2019: $32,822,573), representing a decrease of 77.41% (2019: increase of 46.76%); and total comprehensive income of $7,414,389 (2019: $33,547,922), representing a decrease of 77.90% (2019: increase of 50.01%). The resulting earnings per ordinary share was $0.22 (2019: $1.11), which solely comprised earnings from continuing operations per ordinary share, compared with $0.79 for the corresponding year, the overall financial performance for which included the gain recognised on the Bank's shareholding in its former joint venture.

The return on average assets of 1.06% (2019: 4.97%) and return on average ordinary shareholders' equity of 7.78% (2019: 41.34%), while representing significant declines over the corresponding year are positive taking into consideration the environment in which the Bank operated during the year, and are the direct result of the Bank's stewardship through focused growth with appropriate risk and reward in prior years that continued ever more refined during the current year. In the corresponding year, return, excluding the gain on assets held for sale, on average assets and average ordinary shareholders' equity was 3.85% and 31.74%, respectively.

The Bank quickly recognised that shareholders, being individuals that would be grappling with the challenges presented by the global pandemic, would benefit from cash distributions. In prior years, the Bank embarked on a plan for capital management that would facilitate growth and sustain the Bank through reasonably expected economic shocks, and accordingly leading into the year ended 31 December 2020, 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. The Bank declared and paid dividends totalling $6,350,668 (2019: $24,825,336), representing $0.22 (2019: $0.86) per share. To maximise the support provided to shareholders during the year, the historical dividend payout ratio was exceptionally increased to 98.62% (2019: 76.21%, which included 100.00% of the gain on sale of assets held for sale); the subdued outlook for growth in the short term, particularly while maintaining the focus on growth with appropriate risk and reward, did not require the Bank to retain additional earnings and accordingly, the Bank distributed virtually all of its earnings during the year.

The growth in assets was principally the result of increases in: cash on hand and at banks of $21,991,124 (2019: $59,168,958), representing 13.27% (2019: 55.56%), to $187,658,187 (2019: $165,667,063); and investment securities of $9,578,383 (2019: $306,953), representing 11.49% (2019: 0.37%), to $92,942,871 (2019: $83,364,488), which were partially offset by a decrease in loans and advances to customers of $12,589,190 (2019: $8,619,517), representing 2.92% (2019: 1.96%), to $418,491,123 (2019: $431,080,313).

While consumer loans, which yield higher interest margins, experienced growth in several prior years, with many of such loans being retained during the current year, the furloughs and unemployment that were experienced during the global pandemic, particularly in the tourism sector, led to significant increases in the number of loans that fell into delinquency. This in turn led to a decrease in net interest income of $2,616,755 (2019: increase of $3,646,897), which was exacerbated by an increase in the operating expenses of $13,895,516 (2019: $265,110), principally due to the significant increase in the expense for provision for loan losses of $14,762,765 (2019: decrease of $2,532,804). Overall, during the year the Bank carefully managed operating expenses to ensure that these expenditures remained within the target for the efficiency ratio, the Bank's key performance metric for operating expenses. Despite the decline in operating income, the efficiency ratio, which represents operating expenses, excluding provision for loan losses, as a percentage of total operating income, for the year ended 31 December 2020 remained consistent with the corresponding year at 45.02% (2019: 44.70%). This expenditure management was achieved without compromising ongoing investments in our people, our products and our communities.

CASH ON HAND AND AT BANKS

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

The continued growth in deposits from customers, along with an increase in accrued expenses and other liabilities, which included funds received on behalf of a related party, of $10,273,855 (2019: $2,057,938), representing 302.89% (2019: 154.27%), and a net decrease in loans and advances due to repayments, ultimately contributed to growth in cash balances during the year, which are considerably at surplus levels. Further, the volatility in the credit risk associated with loans and advances to customers as a result of the global pandemic led to management of the Bank focusing on stabilising the performance of the existing loan portfolio, as opposed to any aggressive growth, which did not require any significant utilisation of cash balances. Cash balances resulting from the financial performance of the Bank during the year were fully utilised to fund dividends declared, as evidenced by the dividend payout ratio.

A practice which began in prior years, the Bank continued to place a significant portion of its surplus cash in short-term interest bearing term deposits that positively contribute to net interest income. However, the majority of cash balances are principally placed in deposits with the Central Bank, which are non-interest bearing and accordingly suppress net interest income performance.

While surplus cash placed with the Central Bank does not contribute to the financial performance of the Bank, and the interest margins on short-term interest bearing term deposits are considerably less than that earned on loans and advances to customers, appropriate levels of elevated cash on hand and at banks position the Bank to: speedily take advantage of economic conditions conducive to growth, thereby providing a competitive advantage; and comfortably finance operations and shareholder distributions during depressed operating environments that may not produce normal cash generating levels, such as that experienced during the year.

LOANS AND ADVANCES TO CUSTOMERS

The discipline and mettle of the management and staff of the Bank were significantly tested during the year, as the needs of existing and potential borrowers drastically changed in most cases, moving from consumption of choice to survival. Most households in The Bahamas comprise at least one (1) person employed in the tourism sector which, as described above, experienced unprecedented levels of furloughs and unemployment. Unfortunately, the length of time of little to no earnings for such persons was far more protracted than initially projected, and more importantly hoped for, by economists, policymakers and society at large. Further, the resulting impact on the economy of The Bahamas and its households was more severe than could ever be predicted.

With the loss of income for persons employed in the tourism sector, and the resulting decline in macroeconomic activity and related income of persons employed in other private sectors, borrowers had to rely on savings to sustain their households, as well as adapt to living off of the income of other household members that were employed in: the public sector, which did not experience any significant decline in employment or earnings; or the private sector industries that continued to operate during the global pandemic. This reduced household income 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.

It was during these difficult times that the Bank's core principles of quality lending centred on a borrower's ability to pay, and providing financial coaching to improve the lives of our customers, served it well. Unlike many financial institutions in The Bahamas and internationally, the Bank elected not to implement any loan payment deferral programmes, which were often mistaken for loan payment forgiveness programmes, at least in the minds of borrowers. The Bank 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. In simple terms, the Bank was candid with its customers about missed payments resulting in loans and advances being classified as non-performing, but was compassionate to show the appropriate forbearance and provide the necessary financial coaching to relieve the stress of not meeting payment obligations when they became due 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; a loan payment deferral programme would have had the effect of delaying the ability of the Bank to separate those loans and advances to customers that were truly in default and those that were in a temporary state of being non-performing, until the expiration of the loan payment deferral period. Additionally, with the accurate ageing of loans and advances to customers, the timely designation of such loans and advances to customers as non-performing by the Bank prevented the inappropriate recognition of interest income by the Bank, the collection of which is uncertain at best, and facilitated the determination of expected credit losses based on the most relevant information.

Important socially, the approach of 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, as the Bank considered it important to fully ventilate to society that while borrowers were often the most obvious stakeholders impacted by the economic fallout of the global pandemic, the Bank had a fiduciary responsibility to ensure that depositors and shareholders were not unduly impacted by loans and advances to customers not performing according to the terms and conditions of such credit facilities.

For the year ended 31 December 2020, consumer and other loans increased by $5,171,926 (2019: decreased by $2,476,412), representing 1.31% (2019: decrease of 0.63%), which comprised a net increase in loans and advances to Government of The Bahamas 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; offset by a decrease in the regular consumer and other loan types of $9,203,074, the expected effect of normal loan amortisations, repayments and other credit adjustments during the year that were not able to be counterbalanced by new consumer and other loan types due to the depressed lending environment brought on by the economic fallout of the global pandemic.

The experiences of the Bank with its mortgage portfolio in prior years due to the lack of significant activity in the domestic real estate market, along with slow increases in employment resulting in limited numbers of potential borrowers qualifying for new mortgage loans, were exacerbated during the current year. With record levels of unemployment and the general economic uncertainty associated with COVID-19, mortgage lending in The Bahamas came to a virtual standstill as financial institutions, including the Bank, focused more on the performance of existing credit facilities and the properties pledged as collateral. With increased employment uncertainty being experienced across most sectors of the economy of The Bahamas, the numbers of potential borrowers qualifying for new mortgage loans were even further contracted during the year and are likely to remain as such for the next two (2) to three (3) years, subject to the pace of the recovery of the economy of The Bahamas. Accordingly, the only significant activities in the mortgage portfolio of the Bank during the year were loan amortisations, however there was some realisation, through sales pursuant to powers of sale, of properties pledged as collateral, which combined resulted in a decrease in mortgage loans of $4,914,630 (2019: $8,419,548), representing 8.93% (2019: 13.26%). The enhanced efforts initiated in prior years in relation to realising collateral on non-performing mortgage loans, which are complemented by innovative strategies and media in attracting interest for distressed properties, continued with mild success during the year and ultimately contributed to some declines in persistent non-performing loans. Such successes were encouraging in the depressed economic environment, and the Bank looks forward to greater successes in the future.

Management continues to direct resources to best manage the existing mortgage portfolio, in particular non-performing mortgage loans, with cautious underwriting of any new mortgage loans. Mortgage loans in The Bahamas face structural challenges due to the significant inventory of slow-moving distressed properties. Additionally, with The Bahamas geographically located on the hurricane belt, the Bank diligently continues to enforce its credit risk management practices of ensuring that properties pledged to the Bank are appropriately insured, regardless of the status of the payments by the borrowers.

During the year, default rates and loss ratios increased exponentially over prior years in consumer and other loans and mortgage loans, however the higher interest margins and relatively lower default rates and loss ratios on a cumulative basis over the past decade in consumer and other loans continued to reinforce the continued focus on this portfolio. The impact of this focus is demonstrable in the unchanged loan mix, and as of 31 December 2020, consumer and other loans represented 88.83% (2019: 87.73%) of total loans with mortgage loans representing 11.17% (2019: 12.27%). The key influencers of the growth strategy of the Bank will continue to be the performance and fundamentals of the various types of loans, with the mix of the loan portfolio being monitored by executive management of the Bank and those charged with governance on a continuous basis. Economic indicators, market conditions, legislative and other initiatives implemented and/or discussed by domestic policymakers and financial regulators, and concentration risks are all factors in the deliberations, and ultimate decisions, on the appropriate loan mix for the Bank that will incorporate measured diversification.

The negative impact of COVID-19 on employment, and related earnings used to service loan payment obligations, reversed the trend of decreases in non-performing loans in recent years, with non-performing loans as of 31 December 2020 totalling $30,708,878 (2019: $17,299,425), representing 6.98% (2019: 3.94%) of total loans and advances to customers, excluding accrued interest. Non-performing mortgage loans totalled $15,512,581 (2019: $13,720,112), representing 50.51% (2019: 79.31%) of total non-performing loans and advances to customers.

The increase in non-performing loans was most pronounced in consumer and other loans, specifically those loans issued to borrowers employed in the private sector, and predominantly in the tourism sector. As discussed above, the approach of the Bank led to the designation of the status of non-performing solely on the basis of the timelines of payments missed without any delay that would be caused by a loan payment deferral programme. It is anticipated that a significant number of non-performing loans will be restored to the status of performing, as the primary economic pillar of The Bahamas, the tourism sector, strengthens to pre-global pandemic levels of activity, and furloughs and unemployment decrease. The quality of the loan portfolio is expected to benefit the Bank, and such has been evidenced by the pace of loans and advances to customers becoming non-performing significantly reducing in the three (3) months ended 31 December 2020, with that trend continually improving in 2021. Further, borrowers employed in the tourism sector, which comprise the vast majority of non-performing consumer and other loans, have demonstrated some positive signs with loan payments recommencing in 2021, albeit at reduced levels initially in some instances. Following six (6) months of consecutive loan payments, the Bank works with the respective borrowers to restructure the terms of the related loans to facilitate restoration to the status of performing.

Factoring in the significant increase in loans with the status of non-performing and the economic uncertainty that persists which directly impacts the ability of borrowers to meet loan payment obligations, expected credit losses also significantly increased. As of 31 December 2020, the provision loan losses totalled $26,782,187 (2019: $13,391,122), which represented 6.09% (2019: 3.05%) of total loans and advances to customers, excluding accrued interest, and 87.21% (2019: 77.41%) of total non-performing loans and advances to customers. The allocation of the provision for loan losses is detailed in Note 21 of the consolidated financial statements, which discloses that the provision for loan losses applicable to non-performing loans was $18,911,392 (2019: $7,870,795); the increase being directly correlated to the increase in non-performing loans. Note 21 also discloses that there is an expectation that certain loans and advances to customers with the status of non-performing (Stage 3) will transfer to the status of performing (Stages 1 and 2) following a reasonable economic recovery. In layman's terms, there is a reasonable 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 will be reengaged with gainful employment and subsequently restore the contractual loan payments. The determination of expected credit losses, and related provision for loan losses, requires significant judgments and assumptions even during normal times, and therefore the significance of such judgments and assumptions are magnified during abnormal times, such as the period during the global pandemic. However, the Bank has been very deliberate to limit the optimism included in those judgments and assumptions, thereby recognising and managing the worst case scenarios while looking forward to a buoyant recovery of financial performance, but only when there is greater clarity and consistency in positive macroeconomic performance and observed improvements in default rates and loss ratios. Greater details are provided below in relation to the calculation of the expense for provision for losses during the year.

Some of the increase in the provision for loan losses as of 31 December 2020 over the corresponding year is the result of the forbearance demonstrated by the Bank in pursuing legal recourse through the Courts of The Bahamas in relation to borrowers that were not currently performing according to the terms of their loan contracts. Accordingly, there exists some deferral of write-offs of non-performing loans, as the legal processes have not yet been completed. However, following the achievement of the chosen state of the legal processes, the Bank remains committed to an efficient process for write-off of non-performing loans.

DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES

The confidence of existing and new customers garnered by the Bank in recent years continued to manifest itself for the year ended 31 December 2020 through an increase in deposits from customers of $7,389,746 (2019: $34,873,116), representing 1.30% (2019: 6.55%) over the corresponding year, to $574,997,393 (2019: $567,607,647). The loss of earnings experienced generally by businesses and individuals during the global pandemic was expected to lead to a decrease in savings deposits, however the opposite occurred, as those depositors with meaningful savings deposits adjusted their consumption patterns and concentrated more of their wealth into liquid resources such as savings deposits, as a safe harbour.

Although interest income of the Bank did decrease, and the interest rate environment in The Bahamas did observe general declines, the Bank continued its strategy of rewarding customers for longer term deposit commitments by offering higher interest rates to those customers. The Bank recognised immediately that in the face of such uncertainty brought on by the global pandemic, customers needed some sense of stability and therefore stayed the course on competitive interest rates offered pre-COVID-19, which continued the building of stronger customer relationships and customer loyalty initiated in prior years. This strategy provides symbiotic benefits, as interest rates on deposits are significantly lower than interest rates on debt securities thereby lowering the cost of funds to the Bank.

The sustained level of deposits from customers facilitated the redemption of debt securities of $10,000,000 in the prior year, and facilitates the redemptions of the remaining debt securities, whether early or not, that in turn will increase the capacity of the Bank to access such funding in future periods. The Bank continuously assesses the appropriate mix of funding stability and cost, and manages its deposits from customers and debt securities accordingly.

As discussed throughout, lending in The Bahamas was constrained prior to the global pandemic and became further constrained during the global pandemic, which has led to excess liquidity in the banking system. However, with the possibility of a continued challenging macroeconomic environment for the short to medium term, having liquidity in excess of normal levels can work in the favour of the Bank, if managed appropriately, as it will enable agility in responding to unforeseen circumstances, as well as taking advantage of opportunities to grow and/or maximise profitability.

The Bank considers its offering of higher interest rates to customers that commit to extended term deposits as an investment in the future stability of funding through the strongest possible customer relationships. The return on this investment presents itself in the consistency of the mix of deposit types, with the customers of the Bank electing to place 70.61% (2019: over 70.21%) of their deposits in term deposits, with ever extending original contractual maturities. The return on this investment is further evidenced by the decrease in interest expense, despite the increase in deposits from customers, principally due to the redemption of debt securities in prior years.

With the Bank increasing its emphasis on free financial coaching during the turbulent times experienced by certain borrowers, there was increased dialogue with potential customers that were referred from existing customers, resulting in the continued increasing of numbers of depositors that has been observed in recent years, as word of mouth persistently circulates about the advantages of banking with Fidelity. The Bank considers it a great honour and responsibility to live up to the confidences placed in it by depositors and other stakeholders.

CAPITAL ADEQUACY

As of 31 December 2020, the Bank had total equity of $97,810,975 (2019: $97,722,254), representing an increase of 0.09% (2019: 8.74%) over the corresponding year, and total regulatory capital to risk-weighted assets of 24.62% (2019: 23.96%), which compares against the ratio of total regulatory capital to risk–weighted assets at or above a minimum of 14.00% required by the Central Bank. The principles that guide the Bank's management of total equity, and in turn regulatory capital, are: the development of sustainability to withstand reasonably possible negative economic events in The Bahamas that could adversely affect risk-weighted assets of the Bank; and the maintenance of a ratio of total regulatory capital to risk–weighted assets at a level that facilitates strategic growth in risk-weighted assets, principally loans and advances to customers. Adhering to these principles ensured that the Bank maintained a ratio of total regulatory capital to risk-weighted assets that exceeded all regulatory requirements throughout the year and throughout 2021 to date.

The effectiveness of the management of total equity was able to be thoroughly assessed during the year, as the Bank was able to withstand a negative economic event well beyond what would have been considered reasonably possible, in the form of COVID-19. Despite this severe negative economic event, the Bank was able to achieve a positive return on average ordinary shareholders' equity, as disclosed earlier, after accounting for unprecedented levels of the provision for loan losses, maintaining staffing at full complement and recognising reduced interest income due to increased levels of non-performing loans and advances to customers.

The recent history, prior to the current year, of acceptable returns for shareholders of the Bank facilitated the accumulation of the targeted level of regulatory capital and accordingly, during the anomalous year of 2020, the Bank utilised its strong financial position to support continued distributions to its shareholders; the Bank declared and paid ordinary dividends of $6,350,668 (2019: $17,264,837), representing $0.22 (2019: $0.60) per share and a dividend payout ratio of 98.62% (2019: 69.03%) of earnings, excluding the gain on sale of assets held for sale. In the prior year, the Bank returned 100.00% of the gain on sale of assets held for sale as an extraordinary dividend of $7,560,499, representing $0.26 per share. Although the Bank distributed all earnings to shareholders during the year, it did so only after careful deliberations balancing the anticipated needs of its shareholders and ensuring adherence throughout the year to the principles established for capital management.

In 2021, the return on average ordinary shareholders' equity is on a trajectory that would be in excess of 75.00% of pre-COVID-19 levels and indications are positive that financial performance that has come to be defined as normal for the Bank is being restored. Therefore, the Bank will remain steadfast in maintaining the targeted level of regulatory capital and appropriately deploying the equity of the Bank in assets and activities that provide returns with acceptable risk.

OPERATING REVENUES

Net Interest Income

The initiatives of prior years to: drive growth in the higher yielding consumer loans; reward customers for longer term deposit and savings commitments; utilise growth in deposits from customers to fund redemptions of higher interest rate debt securities; and place cash resources on term deposits to maximise interest earning on such resources, buttressed the Bank during the year ended 31 December 2020.

The challenging macroeconomic times experienced during the year had several consequences for the Bank's financial performance, with a significant consequence being the decrease in net interest income of 4.52% (2019: increase of 6.73%) over the corresponding year to $55,247,458 (2019: $57,864,213), and net interest margin on interest bearing financial assets standing at 8.01% (2019: 8.84%). As disclosed earlier, there were declines in loans and advances to customers, excluding the net increase in loans and advances to Government of The Bahamas, due to normal loan amortisations, repayments and other credit adjustments that were not counterbalanced by new consumer and other loans. Accordingly, interest income was earned on declining balances in loans and advances to customers. Additionally, with the increase in non-performing loans and advances to customers, the collection of interest income on which is uncertain at best, led to a decrease in interest income recognised on these loans and advances to customers.

The Bank is confident that the net interest income recognised is being realised through payments, and with the projected recovery in the economy of The Bahamas, a significant number of non-performing loans and advances to customers will become fully performing and interest income on such loans and advances to customers will be recognised in future periods, when collection is reasonably certain.

In relation to interest expense, the Bank realised the value of the redemption of debt securities, which incur higher interest rates than deposits from customers. Despite the early recognition that interest income would be negatively impacted by the effects of the global pandemic on the earnings of borrowers, the Bank made the conscious decision not to immediately impact its depositors; accordingly, interest rates offered pre-global pandemic were offered during the global pandemic. As disclosed earlier, this was considered an investment in stronger customer relationships and therefore future stability of funding.

At the commencement of the current year, the Bank was in the process of shifting its focus to maintaining its levels of consumer loans through exceptional customer relationship management and supporting existing loan customers in navigating through the financial difficulties, and hence at the onset of the global pandemic the foundation had already been laid for the type of service needed by customers of the Bank. While the harvesting of the seeds that have been sown by the Bank in prior years is being delayed, the quality of seeds sown will undoubtedly lead to bountiful harvests in the future; the Bank will continue tilling in the meantime.

Non-Interest Income

The principal sources of non-interest income for the Bank are fees and commissions. For the year ended 31 December 2020, fees and commissions increased by 1.67% (2019: 6.45%) over the corresponding year to $3,124,992 (2019: $3,073,585).

In prior years, the Bank had a shareholding in RF Bank & Trust (Bahamas) Limited (RF), formerly Royal Fidelity Merchant Bank & Trust Limited, which was disposed of by way of sale. For the year ended 31 December 2019, the Bank recognised its share of the financial performance of RF totalling $1,591,078, and a gain on the sale of the shareholding of $7,560,499, which represented the realisation of the future share of profits of the former joint venture.

Non-interest income from continuing operations to total income from continuing operations was 6.18% (2019: 5.52%) during the year, and best represents the future contributions of non-interest income to total income, as the financial performance in relation to the former shareholding in RF is not recurring.

OPERATING EXPENSES

Management of the Bank acknowledged relatively early that financial performance for the year ended 31 December 2020 would be significantly below that of prior years due to the impact of the global pandemic on the economy of The Bahamas, and set out some core objectives to best buffer the ultimate decline in financial performance, principally including but not limited to: providing stability for our team members through job security; prioritising expenditure based on the needs of customers and the services required; increasing digitisation and automation, along with expanding information and cyber security to appropriately protect the expanded use of digital outlets; and scheduling future expenditure based on cost:benefit analyses. The modernisation and advancement of the Bank was not compromised as a result of efforts to manage costs; the decision making was simply funnelled to more deliberately justify expenditure based on the acceptable benefits to be derived, albeit financial or non-financial.

As a result of the strategic expenditure management, expenses, excluding provision for loan losses, for the year totalled $26,501,610 (2019: $27,368,859), representing a decrease of 3.17% (2019: increase of 11.39%) over the corresponding year.

The Bank maintained its staffing levels throughout the year, and compensation was held constant but not reduced. Additionally, team members were rewarded financially for their commitment during the trying times with changes to family lives thrust upon them. However, the Bank was judicious in replacing staff following natural attrition during the year, as opposed to automatic replacement. Accordingly, salaries and employee benefits decreased by $987,448 (2019: increased by $1,706,123) over the corresponding year, representing a decrease of 7.54% (2019: an increase of 14.97%). As opportunities present themselves for profitable growth in the future, the investment in personnel will be commensurate.

In relation to general and administrative expenses, certain elements, aligned with the core objectives set out above, increased in the current year, including: office expenses of $680,384 due in part to the enhancement of the Bank's information technology infrastructure and related information and cyber security; and bank and business licence fees of $618,174. These increases were offset by decreases in: card services costs, including loyalty programme, of $226,719 due to the absence of implementation costs incurred with certain expansions in the prior year; and public relations expenses as a result of more strategic spend, including greater utilisation of cost effective digital media.

Several initiatives are underway, which will benefit the Bank in 2021 and beyond, with the expenditure coinciding with the improved financial performance from net interest income and non-interest income; all stakeholders are encouraged to stay tuned.

PROVISION FOR LOAN LOSSES

The most significant consequence to the financial performance of the Bank of the impact of COVID-19 on the economy of The Bahamas, was an exponential increase in the provision for loan losses as a result of the significant increase in the number of loans and advances to customers that experienced missed payments, and accordingly had a change in status to non-performing, due to furloughs and unemployment. The impact of such delinquent loans and advances to customers is twofold: an increase in the specific provision for loan losses on individually impaired loans due to those that have principal or interest payments overdue in excess of ninety (90) days; and an increase in the portfolio provision for loan losses, which is determined based on an expected credit loss model that, in normal times, utilises historical loss experience and forward looking information to estimate expected credit losses on all loans and advances to customers not individually impaired.

For the year ended 31 December 2020, the expense for provision for loan losses increased by $14,762,765 (2019: decreased by $2,532,804), representing an increase of 144.66% (2019: decrease of 19.88%) over the corresponding year, which directly correlated with the increase in non-performing loans and advances to customers. Further, the Bank continued to reap the benefits of strategies surrounding collections and rehabilitation of non-performing loans and advances to customers implemented during prior years through recoveries of amounts previously written off, albeit to a lesser extent than the prior year, with such amounts recognised totalling $409,328 (2019: $927,954).

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 an expected credit loss model. 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. Bifurcation of these financial assets based on terms to maturity and applicable interest rates, which are based on the determined risk of challenges with collection (that is, the higher the risk, the higher the interest rate and vice versa) is integral in the process for determination of the expected credit losses in relation to loans and advances to customers.

The significant estimates, assumptions and judgments involved in the development of the expected credit loss model are described in detail in Note 19 of the consolidated financial statements. The expected credit loss model results in a consistent expense for provision for loan losses subject to no significant growth or contraction in the respective loan portfolio, except when there are material changes in macroeconomic factors, or entity specific portfolio characteristics, that lead to significant changes in loss experiences. The global pandemic certainly led to material changes in macroeconomic factors that in turn led to significant changes in loss experiences. During the 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 the year.

The modification in the expected credit loss model was designed to compensate for the outliers in macroeconomic factors during the 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 year did indeed happen, the significantly elevated credit loss experience, particularly in relation to borrowers employed in the tourism sector, during the year was given equal weighting to the pre-global pandemic credit loss experience used as a proxy for the future.

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.

Overall, the provision for loan losses addressed all reasonable expectations of possible credit losses. The Bank recognises that significant effort will be required in rehabilitating non-performing loans and advances to customers, but it is confident that the consistency in lending policies and quality underwriting of prior years position the Bank to recover at least two-thirds of the additional expense for provision for loan losses recognised during the year. However, it is expected that such recoveries will extend over multiple financial years, and will only be recognised as realised.

The recoveries in mortgage loans will be more difficult than recoveries in consumer and other loans, as this portfolio suffers from national structural challenges that existed prior to the global pandemic, including long periods to realise collateral supporting the mortgage loans and ultimately, reduced prices being realised on sales of properties due to market conditions in The Bahamas. Therefore, increases in the specific provision for loan losses on mortgage loans are expected, albeit at a more moderate pace.

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.

IMPACTS OF THE ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the year ended 31 December 2020, 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 2020 was tumultuous for governments, corporates and individuals domestically and internationally, as the world grappled with not only the medical calamity caused by COVID-19, but also the social and economic consequences of strategies deployed by the governments of The Bahamas and other countries, employers and other stakeholders to address the health issues. The significant contractions in GDP and resulting furloughs and increases in unemployment have persisted from the declaration of the global pandemic in the first quarter of 2020 through the remainder of the year and into 2021.

The economy of The Bahamas is significantly concentrated in the tourism sector, which was virtually non-existent immediately following the onset of COVID-19, and accordingly the economic fallout was among the most extensive globally. Although official statistics were not available throughout the year, it has been reported that in excess of 40.00% of the working population was disengaged at the height of global pandemic, and such levels remained for the majority of 2020, as efforts to re-establish tourism activity in The Bahamas had mixed results, with some consistency only returning in the lead up to the Christmas holiday season.

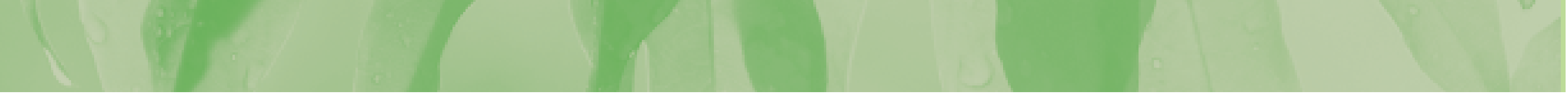
These events contributed to significant pressure on the banking industry domestically and internationally, as borrowers that had earnings interrupted experienced difficulties in meeting their loan payment obligations. The Bank entered 2020 with a strong financial position, comprising significant cash resources and substantial equity, which augured well for the turmoil that would befall its operations. The exposure of the Bank to borrowers employed in the tourism sector was moderate and led to significant increases in loans and advances to customers that were classified as non-performing during the year, which in turn reduced interest income and increased the expense for provision for loan losses. For borrowers employed in the public sector, employment and earnings remained uninterrupted, which benefited the Bank as the majority of its loan portfolio is exposed to such borrowers.

The fiduciary responsibilities to depositors, shareholders and other stakeholders that serve as guiding lights for the Bank provided the discipline to ensure that the decisions made in relation to borrowers were balanced, taking into consideration the social responsibility of the Bank as a key stakeholder in the economy of The Bahamas. This focus and discipline directed the Bank to a respectable financial performance given the macroeconomic circumstances. Most notably, the Bank recognised the worst case scenario presently projected, which readies the Bank for handsome returns as the economy of The Bahamas recovers, regardless of the length of time that this may encapsulate.

The road ahead in 2021 and 2022 are expected to remain bumpy, as COVID-19 is ever present with its mutations and varying strains. The Bank has observed positive trends in its loan portfolios, with the most significant being a return to normal levels of loans matriculating into the status of non-performing, along with the recommencement of loan payments by borrowers in the tourism sector that were non-performing as of the end of the year. Collectively, these trends have contributed to financial performance for the three (3) months ended 31 March 2021 more comparable to pre-global pandemic levels and projections for the year ended 31 December 2021 of circa 75.00% of pre-global pandemic returns from continuing operations, subject to no significant recurrences of the implementation of strategies necessary to curb the spread of health issues that led to the initial sharp contraction of GDP, and furloughs and increases in unemployment, or other unforeseen negative events.

It is widely acknowledged that there are structural challenges facing the economy of The Bahamas that will require 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 such deficiencies. The Bank and its management team will continue to demonstrate the commitment to contribute and collaborate, which has been demonstrated well in advance of the seismic events of the past two (2) years.

On its home turf, customers, potential customers, shareholders and potential shareholders continue to recognise the strength of the financial position and financial performance of the Bank, and the value this brings to stability and peace of mind. The prudent decisions of the past provided the foundation necessary for the Bank to withstand the turbulence of 2020, and the continued application of that prudence enabled the continuing strength of its financial position going into the still uncertain 2021.



Being communicative with all stakeholders, and 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 will continue to be the approach of the Bank. There is reasonable optimism for meaningful economic recovery in the years ahead, and the Bank will continue its investments in personnel, training and information technology to enable the Bank to navigate through the pockets of turbulence now being experienced and emerge in the most advantageous position as possible.

Balancing the social responsibility of the Bank with the fiduciary responsibility to protect the interests of depositors, shareholders and other stakeholders will not make the decisions ahead for the Bank any easier, and significant effort will be required to assist borrowers experiencing challenges, primarily brought on by the global pandemic, with restabilising their finances. Strategies for growth must remain grounded in the principles of acceptable risks and returns and prudency, with treasury management that is complementary; that is, keeping the right amount of liquid resources on hand.

The proud history of dedicated and motivated staff exemplified through exceptional customer relationship management, free financial coaching, innovative products, and laser-focused marketing and public relations campaigns will all continue to evolve and, collectively, bear out the vision of the Bank best articulated in its mantra, *Fidelity, We're Good For You*.

Consolidated Financial Statements

pwc

Independent auditors' report

To the Shareholders of Fidelity Bank (Bahamas) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fidelity Bank (Bahamas) Limited (the Bank) and its subsidiaries (together 'the Group') as at 31 December 2020, 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 2020;
- 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 a summary of 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: $1,060,000 which approximates 5% of average net income for the past three years.

- We planned and scoped our audit for 2020 reflecting the Group structure including its subsidiaries.

- Expected credit loss ("ECL") allowances for Stage 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 judgements; 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 judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	$1,060,000
How we determined it	Approximately 5% of average net income for the past three years.
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 and used average net income for the past three years due to the exceptional impact of the Covid-19 pandemic on current year net income.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $53,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit loss ("ECL") allowances for Stage 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 2020, the Bank reported total gross loans and advances to customers of $448.8 million and $26.8 million of expected loss provisioning, of which, $7.8 million relates to Stage 1 and 2.	Our approach, with the assistance of our internal experts, involved the following procedures, amongst others:

The ECL model requires that management exercises judgement, 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. The inputs and assumptions include:

- Model estimations: Inherently judgemental 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 judgemental aspect of the Group's ECL modelling approach.

- Economic scenarios: Significant management judgement 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 was significantly impacted due to the effect the Covid-19 global pandemic had on the Group's customers' ability to service their loans. As a result, management made modifications to the assumptions used, including in relation to future economic scenarios, resulting in the expected credit loss having a higher than usual degree of subjectivity and estimation uncertainty, which may materially impact the estimate of the Stage 1 and Stage 2 ECL.

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.

Evaluated the referenced inputs and assumptions as follows:

- Model estimations: Recalculated the days past due for the assets in Stage 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 by evaluating a sample of loans and advances to customers classified as Stage 1 to determine if there was a SICR, factoring in qualitative factors such as the Covid-19 pandemic, to assess whether they should have been classified as Stage 2 loans. We further assessed those loans in Stage 2 to determine whether there has been a default event which would warrant a loan moving to Stage 3.

  Tested, on a sample basis, the appropriateness of the model design and formulae used, modifications made to the models as a result of the Covid-19 pandemic, and recalculated the PD and LGD.

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

- Economic scenarios: Evaluated the adjustments made to the Group's model as a result of the Covid-19 pandemic.

We focused on this area as a result of the complexity and estimation uncertainty which form part of management's judgement and which significantly impact the result of the ECL model.

Specifically assessed the reasonableness of the adjustments made by management to the macroeconomic factors for the unemployment rate and GDP growth rates of The Bahamas which were severely impacted by Covid-19 and assessed management's use of an average credit loss experience for 2019 and 2020.

The results of our procedures indicated that the inputs and assumptions used by management for determining the ECL for Stage 1 and Stage 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, judgements and estimates.

The Lifetime ECL on credit impaired mortgage loans (MLs) for Stage 3 totalled $3.76 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 judgement 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 judgement and specialised skills. Management engaged a number of independent valuation experts to assist in determining the valuation of real estate property pledged as collateral.

Our approach involved the following procedures, amongst others:

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

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

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

Tested the reasonableness of the collateral values used by management in their calculation of the provision by analysing the trends in collateral values, evaluating, on a sample basis, the results of

• 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.	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 2020 (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 2020, 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

30 April 2021

FIDELITY BANK (BAHAMAS) LIMITED
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Statement of Financial Position
As of 31 December 2020
(Expressed in Bahamian dollars)

	2020 $	2019 $
ASSETS		
Cash on hand and at banks (Note 4)	187,658,187	165,667,063
Investment securities (Note 5)	92,942,871	83,364,488
Loans and advances to customers (Note 6)	418,491,123	431,080,313
Other assets	950,320	928,932
Investments in joint ventures (Note 7)	202,955	204,691
Property, plant and equipment (Note 8)	10,237,901	11,669,397
Total assets	**710,483,357**	**692,914,884**
LIABILITIES		
Deposits from customers (Note 9)	574,997,393	567,607,647
Accrued expenses and other liabilities	13,665,774	3,391,919
Debt securities (Note 10)	24,009,215	24,193,064
Total liabilities	**612,672,382**	**595,192,630**
EQUITY		
Capital – ordinary shares (Note 11)	20,410,050	20,410,050
Capital – preference shares (Note 11)	15,000,000	15,000,000
Revaluation reserve	971,225	1,013,064
Retained earnings	61,429,700	61,299,140
Total equity	**97,810,975**	**97,722,254**
Total liabilities and equity	**710,483,357**	**692,914,884**

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

Director

Director

29 April 2021
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 2020
(Expressed in Bahamian dollars)

	2020 $	2019 $
INCOME		
Interest income		
Bank deposits, loans and advances	63,737,504	66,988,405
Investment securities	3,480,030	3,513,874
	67,217,534	70,502,279
Interest expense	(11,970,076)	(12,638,066)
Net interest income	**55,247,458**	**57,864,213**
Fees and commissions	3,124,992	3,073,585
Rental income	-	20,156
Other income	493,247	264,350
	58,865,697	**61,222,304**
EXPENSES		
Provision for loan losses (Note 6)	24,967,590	10,204,825
General and administrative (Note 13)	12,747,523	12,860,733
Salaries and employee benefits (Note 14)	12,111,848	13,099,296
Depreciation and amortisation (Note 8)	1,642,239	1,408,830
	51,469,200	**37,573,684**
Operating profit	**7,396,497**	**23,648,620**
Share of profits of joint ventures (Note 7)	17,892	22,376
Net income from continuing operations	**7,414,389**	**23,670,996**
Profits of assets held for sale (Note 7)	-	1,591,078
Gain on sale of assets held for sale (Note 7)	-	7,560,499
Net income	**7,414,389**	**32,822,573**
OTHER COMPREHENSIVE INCOME		
Items not reclassified to net income		
Property, plant and equipment revaluation (Note 8)	-	725,349
Total comprehensive income	**7,414,389**	**33,547,922**

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 2020 (Continued)
(Expressed in Bahamian dollars)

	2020 $	2019 $
Attributable to:		
Ordinary shareholders		
Net income	6,439,389	31,847,573
Other comprehensive income	-	725,349
	6,439,389	32,572,922
Preference shareholders		
Net income	975,000	975,000
Other comprehensive income	-	-
	975,000	975,000
	7,414,389	**33,547,922**
Earnings per share (Note 12)	**0.22**	**1.11**

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
Other comprehensive income					
Property, plant and equipment revaluation	-	-	-	-	-
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**			
As of 1 January 2019	20,380,694	15,000,000	330,695	54,156,529	89,867,918
Comprehensive income					
Net income	-	-	-	32,822,573	32,822,573
Other comprehensive income					
Property, plant and equipment revaluation	-	-	725,349	-	725,349
Total comprehensive income	-	-	725,349	32,822,573	33,547,922
Transfers					
Depreciation transfer	-	-	(42,980)	42,980	-
Total transfers	-	-	(42,980)	42,980	-
Transactions with owners					
Issuance of ordinary shares	29,356	-	-	77,394	106,750
Dividends – preference shares	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	(24,825,336)	(24,825,336)
Total transactions with owners	29,356	-	-	(25,722,942)	(25,693,586)
As of 31 December 2019	**20,410,050**	**15,000,000**	**1,013,064**	**61,299,140**	**97,722,254**
Dividends per share	**0.86**	**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 2020
(Expressed in Bahamian dollars)

	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	7,414,389	23,670,996
Adjustments for:		
Interest income	(67,217,534)	(70,502,279)
Interest expense	11,970,076	12,638,066
Loss on disposal of property, plant and equipment	-	30,038
Provision for loan losses	24,967,590	10,204,825
Salaries and employee benefits	-	106,750
Depreciation and amortisation	1,642,239	1,408,830
Share of profits of joint ventures	(17,892)	(22,376)
Interest received	63,097,757	65,093,878
Interest paid	(12,793,326)	(11,458,725)
(Increase)/Decrease in operating assets		
Term deposits – contractual maturities greater than three (3) months	(893,403)	(20,578,094)
Mandatory reserve deposits	(1,052,550)	(623,475)
Loans and advances to customers	(8,260,082)	3,584,119
Other assets	(21,388)	3,739,614
Increase/(Decrease) in operating liabilities		
Deposits from customers	8,029,147	33,922,381
Accrued expenses and other liabilities	10,273,855	657,938
Net cash from operating activities	**37,138,878**	**51,872,486**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash from assets held for sale	-	6,021,978
Proceeds from sale of assets held for sale	-	16,449,000
Dividends received	19,628	33,642
Purchases of investment securities	(15,214,029)	(3,646,338)
Proceeds from sales/maturities of investment securities	5,655,600	3,357,800
Purchases of property, plant and equipment	(210,743)	(541,402)
Net cash from/(used in) investing activities	**(9,749,544)**	**21,674,680**
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemptions of debt securities	-	(10,000,000)
Dividends paid on preference shares	(975,000)	(975,000)
Dividends paid on ordinary shares	(6,350,668)	(24,825,336)
Net cash used in financing activities	**(7,325,668)**	**(35,800,336)**

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 2020 (Continued)
(Expressed in Bahamian dollars)

	2020 $	2019 $
Net increase in cash and cash equivalents	**20,063,666**	**37,746,830**
Cash and cash equivalents as of the beginning of the year	91,127,810	53,380,980
Cash and cash equivalents as of the end of the year (Note 4)	**111,191,476**	**91,127,810**

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 74.58% (2019: 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 2020 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 ninety (90) days are classified by management as non-performing and are considered credit-impaired financial assets for the purposes of assessing ECL.

(f) Impairment of financial assets at amortised cost

The Group assesses, taking into consideration forward looking factors, the ECL for financial assets at amortised costs 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 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 or when they expire after the initial transaction. 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) Assets held for sale

Financial performance and cash flows related to assets or disposal groups held for sale, if applicable, are disclosed separately from continuing operations with corresponding figures being represented.

(r) 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.

2. Summary of Significant Accounting Policies (Continued)

(s) 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.

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.

(t) 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.

(u) 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**	
		2020	**2019**
Bahamas Automated Clearing House Limited	Bahamas	14.29%	14.29%
Freedom Points Limited	Bahamas	-	100.00%
Pinnacle Cars Limited	Bahamas	100.00%	100.00%
West Bay Development Company Limited	Bahamas	100.00%	100.00%

Subsidiaries

Freedom Points Limited was dissolved during the year. 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.

(Expressed in Bahamian dollars)

3. Subsidiaries and Joint Ventures (Continued)

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, of which the Bank is a member. 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.

4. Cash on Hand and at Banks

	2020 **$**	**2019** **$**
Cash on hand	2,392,712	2,997,092
Current accounts at banks	108,798,764	88,130,718
Term deposits	51,471,497	50,578,094
Mandatory reserve deposits	24,793,150	23,740,600
	187,456,123	165,446,504
Accrued interest	202,064	220,559
Total	**187,658,187**	**165,667,063**

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 1.60% (2019: 0.00% to 2.00%) per annum.

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

	2020 **$**	**2019** **$**
Cash on hand	2,392,712	2,997,092
Current accounts at banks	108,798,764	88,130,718
Term deposits	51,471,497	50,578,094
Mandatory reserve deposits	24,793,150	23,740,600
	187,456,123	165,446,504
Term deposits – contractual maturities greater than three (3) months	(51,471,497)	(50,578,094)
Mandatory reserve deposits	(24,793,150)	(23,740,600)
Total	**111,191,476**	**91,127,810**

(Expressed in Bahamian dollars)

5. Investment Securities

	2020 $	2019 $
Amortised cost		
Stage 1 – ECL		
Level 2		
Government debt securities	63,963,500	80,335,738
Stage 2 – ECL		
Level 2		
Government debt securities	25,930,667	-
Level 3		
Corporate debt securities	2,000,000	2,000,000
	27,930,667	2,000,000
Total – all stages	91,894,167	82,335,738
Accrued interest	1,048,704	1,028,750
Total	**92,942,871**	**83,364,488**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2021 to 2038 (2019: 2020 to 2038) and with either fixed interest rates ranging from 2.78% to 5.40% (2019: 3.01% to 5.40%) per annum or variable interest rates ranging from 0.02% to 0.63% (2019: 0.01% to 0.63%) above the B$ Prime rate of 4.25% per annum.

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

6. Loans and Advances to Customers

	2020 $	2019 $
Mortgages	50,139,364	55,053,994
Consumer and other loans	398,682,758	393,510,832
	448,822,122	448,564,826
Unamortised loan origination fees	(8,999,670)	(9,592,898)
Accrued interest	5,450,858	5,499,507
Provision for loan losses	(26,782,187)	(13,391,122)
Total	**418,491,123**	**431,080,313**

The effective interest rate earned on loans and advances for the year ended 31 December 2020 was 14.31% (2019: 14.89%).

(Expressed in Bahamian dollars)

6. Loans and Advances to Customers (Continued)

Movements in provision for loan losses are as follows:

	2020			2019		
	Mortgages $	Consumer and Other $	Total $	Mortgages $	Consumer and Other $	Total $
Balance as of the beginning of the year	2,763,717	10,627,405	13,391,122	4,156,278	11,394,418	15,550,696
Provisions	1,128,100	23,839,490	24,967,590	(762,448)	10,967,273	10,204,825
Write-offs	(23,214)	(11,553,311)	(11,576,525)	(630,113)	(11,734,286)	(12,364,399)
Balance as of the end of the year	**3,868,603**	**22,913,584**	**26,782,187**	**2,763,717**	**10,627,405**	**13,391,122**

Recoveries of amounts previously written off recognised in provision loan losses in the consolidated statement of comprehensive income totalled $409,328 (2019: $927,954).

The provision for loan losses represents 6.09% (2019: 3.05%) of the total loan portfolio, excluding accrued interest, and 87.21% (2019: 77.41%) of total non-performing loans. As of 31 December 2020, principal balances of non-performing loans totalled $30,708,878 (2019: $17,299,425), representing 6.98% (2019: 3.94%) of the total loan portfolio, excluding accrued interest.

7. Investments in Joint Ventures

	2020 $	2019 $
BACH	202,955	204,691
RFMBT	-	-
Total	**202,955**	**204,691**

BACH

Movements in the investment in joint venture comprise:

	2020 $	2019 $
Balance as of the beginning of the year	204,691	215,957
Share of profits of joint venture	17,892	22,376
Dividends received	(19,628)	(33,642)
Balance as of the end of the year	**202,955**	**204,691**

(Expressed in Bahamian dollars)

7. Investments in Joint Ventures (Continued)

BACH (continued)

The unaudited financial information of the joint venture is as follows:

	2020 $	2019 $
ASSETS		
Cash on hand and at banks	1,344,372	1,320,736
Other assets	119,017	175,099
Property, plant and equipment	18,635	32,413
Total assets	**1,482,024**	**1,528,248**
LIABILITIES		
Accrued expenses and other liabilities	58,465	95,411
Total liabilities	**58,465**	**95,411**
EQUITY		
Share capital	70,000	70,000
Retained earnings	1,353,559	1,362,837
Total equity	**1,423,559**	**1,432,837**
Total liabilities and equity	**1,482,024**	**1,528,248**
INCOME		
Fees and commissions	822,435	1,004,119
Interest income	9,330	9,778
Other	3,225	15,510
	834,990	**1,029,407**
EXPENSES		
Salaries and employee benefits	368,588	424,193
Depreciation and amortisation	18,319	20,739
Other	334,574	427,862
	721,481	**872,794**
Net income and total comprehensive income	**113,509**	**156,613**

RFMBT

In the prior year, the Group disposed of, by way of sale, its investment in the joint venture, Royal Fidelity Merchant Bank & Trust Limited (RFMBT), a company incorporated in The Bahamas and licensed under the Banks and Trust Companies Regulation Act, 2020 to carry on trust and banking business in The Bahamas, and under the Securities Industry Act, 2011 to deal, arrange, manage and advise on securities in The Bahamas.

(Expressed in Bahamian dollars)

7. Investments in Joint Ventures (Continued)

RFMBT (continued)

Pursuant to a joint venture agreement among RFMBT, the Bank and RBC Holdings (Bahamas) Limited (RBC), a company incorporated in The Bahamas and ultimately owned by Royal Bank of Canada, RFMBT operated as a joint venture with rights to conduct the business of merchant banking in The Bahamas and Barbados. Several nominee companies were utilised in the operations of RFMBT, which offered private banking, trustee, investment management, corporate finance, share registrar and transfer agency, pension, administration, brokerage and investment advisory services. RFMBT had subsidiaries incorporated in Barbados and licensed under the Financial Institutions Act, 1996 to carry on trust, banking and securities business in Barbados.

Movements in the investment in joint venture comprise:

	2020 $	2019 $
Balance as of the beginning of the year	-	13,319,401
Profits of assets held for sale	-	1,591,078
Dividends received	-	(6,021,978)
Gain on sale of assets held for sale	-	7,560,499
Proceeds from sale of assets held for sale	-	(16,449,000)
Balance as of the end of the year	**-**	**-**

8. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Assets & Improvements $	Total $
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
Revaluation	-	-	-	-	-	-
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)

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Assets & Improvements $	Total $
Year ended 31 December 2019						
Opening net book value	6,490,006	834,867	30,197	1,326,154	1,760,290	10,441,514
Effects of changes in accounting policies	-	-	-	-	1,400,000	1,400,000
Revaluation	725,349	-	-	-	-	725,349
Additions	-	73,159	-	468,243	-	541,402
Disposals						
Cost	-	(40,202)	-	(32,775)	(15,903)	(88,880)
Accumulated depreciation	-	7,206	-	20,070	31,566	58,842
Depreciation	(215,355)	(213,551)	(12,395)	(665,916)	(301,613)	(1,408,830)
Closing net book value	**7,000,000**	**661,479**	**17,802**	**1,115,776**	**2,874,340**	**11,669,397**
As of 31 December 2019						
Cost or valuation	7,000,000	5,525,620	135,989	11,604,962	9,630,309	33,896,880
Accumulated depreciation	-	(4,864,141)	(118,187)	(10,489,186)	(6,755,969)	(22,227,483)
Net book value	**7,000,000**	**661,479**	**17,802**	**1,115,776**	**2,874,340**	**11,669,397**

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%	$567,000/($133,000)
Vacancy rates	+2.00%/-2.00%	$73,000/$362,000
Discount rate	+0.50%/-0.50%	($151,000)/$629,000

(Expressed in Bahamian dollars)

8. Property, Plant and Equipment (Continued)

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

	2020 $	2019 $
Cost	8,493,110	8,493,110
Accumulated depreciation	(2,680,167)	(2,506,174)
Net book value	**5,812,943**	**5,986,936**

9. Deposits from Customers

	2020 $	2019 $
Term deposits	403,190,260	395,282,109
Savings deposits	104,341,139	97,230,386
Demand deposits	59,238,111	66,216,301
Escrow deposits	4,277,325	4,288,892
	571,046,835	563,017,688
Accrued interest	3,950,558	4,589,959
Total	**574,997,393**	**567,607,647**

Included in deposits from customers are deposits from banks totalling $42,491,275 (2019: $54,689,408). Deposits carry fixed interest rates ranging from 0.00% to 5.00% (2019: 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 2020 was 1.89% (2019: 1.92%).

10. Debt Securities

	2020 $	2019 $
Series F redeemable variable rate notes; B$ Prime + 1.25%; 2022	19,910,889	19,962,937
Series B redeemable preference shares; B$ Prime + 1.00%; 2021	4,000,000	4,000,000
	23,910,889	23,962,937
Accrued interest	98,326	230,127
Total	**24,009,215**	**24,193,064**

(Expressed in Bahamian dollars)

10. Debt Securities

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 2020, 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.

Series B variable rate redeemable preference shares mature on 12 December 2021. Dividends are payable on these shares 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. Dividends are payable semi-annually on the last business day in June and December each year.

11. Capital

	2020 $	2019 $
Authorised		
35,000,000 ordinary shares of $0.30 each	**10,500,000**	**10,500,000**
10,000,000 preference shares of $1.00 each	**10,000,000**	**10,000,000**
Issued and Fully Paid		
28,866,670 ordinary shares of $0.30 each	8,660,001	8,660,001
Share premium	11,890,000	11,890,000
	20,550,001	20,550,001
50,891 (2019: 50,891) ordinary shares held in treasury	(139,951)	(139,951)
Total	**20,410,050**	**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 2020, there are 1,500,000 (2019: 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.

(Expressed in Bahamian dollars)

11. Capital (Continued)

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 2019, share based compensation to employees resulted in 10,675 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

	2020 $	2019 $
Net income attributable to ordinary shareholders	6,439,389	31,847,573
Weighted average number of ordinary shares outstanding	28,815,779	28,813,110
Earnings per share	**0.22**	**1.11**

13. General and Administrative Expenses

	2020 $	2019 $
Office expenses	4,033,044	3,352,660
Bank and business licence fees	3,705,727	3,087,553
Card services costs, including loyalty programme	2,103,820	2,330,549
Public relations expenses	719,127	1,101,653
Legal and professional fees	634,984	617,361
Value added tax	554,177	646,099
Insurance expenses	328,872	223,452
Directors' cost	146,686	148,141
Premises related costs	43,936	703,273
Other	477,150	649,992
Total	**12,747,523**	**12,860,733**

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, formerly RFMBT.

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 2020 totalled $291,143 (2019: $378,423).

(Expressed in Bahamian dollars)

15. Segment Analysis

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

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

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

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

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

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

Fees and commissions

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

16. Related Party Balances and Transactions

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

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

	2020 $	2019 $
ASSETS		
Cash at banks		
Other related parties	6,582,761	7,805,955
Loans and advances to customers		
Key management personnel	2,134,210	1,525,425
Other related parties	217,124	2,144,016
Other assets		
The Parent	129,668	18,933
Other related parties	-	95,863

(Expressed in Bahamian dollars)

16. Related Party Balances and Transactions (Continued)

Cash at banks earn interest at rates ranging from 0.00% to 0.25% (2019: 0.00% to 1.75%) per annum, and mature within one (1) year.

Loans and advances to customers earn interest at rates ranging from 0.00% to 6.25% (2019: 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. Certain balances due from key management personnel and other related parties are 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.

	2020	**2019**
	$	**$**
LIABILITIES		
Deposits from customers		
The Parent	1,060,105	6,835,334
Key management personnel	3,072,976	4,597,688
Other related parties	30,329,100	30,448,022
Accrued expenses and other liabilities		
Other related party	8,928,823	-
Debt securities		
Key management personnel	-	35,000
Other related parties	9,364,600	9,207,100

Deposits from customers carry interest rates ranging from 0.00% to 5.00% (2019: 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 2020, key management personnel and other related parties hold 1,523,106 (2019: 1,472,201) outstanding ordinary shares and 520,081 (2019: 520,081) outstanding preference shares.

	2020	**2019**
	$	**$**
INCOME		
Interest income		
Key management personnel	28,024	36,260
Other related parties	17,024	35,593
Interest expense		
The Parent	60,172	46,952
Key management personnel	55,020	90,691
Other related parties	84,987	90,427
Fees and commissions		
Other related parties	36,108	55,494

(Expressed in Bahamian dollars)

16. Related Party Balances and Transactions (Continued)

	2020 $	2019 $
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	129,333	129,333
Key management personnel (executive Directors and other)	1,591,309	1,675,256
Costs allocated from related parties		
The Parent	768,688	732,083
Costs allocated to related parties		
Other related parties	(513,684)	(1,859,524)

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 2020, the Group had outstanding loan commitments amounting to $12,107,813 (2019: $12,287,601).

Lease commitments

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

	2020 $	2019 $
2020	-	638,238
2021	491,543	491,543
2022	249,772	249,772
2023	195,244	195,244
2024	151,054	151,054
2025	12,299	12,299
Total	**1,099,912**	**1,738,150**

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 2020 and 2019, there were no changes in the Group's business model for each of its financial assets and financial liabilities, and accordingly, there were no reclassifications of financial assets and financial liabilities.

Inputs, assumptions and estimation techniques factored into measuring ECL

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

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

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

  <u>Quantitative criteria</u>

  - Contractual payments from the borrower are past due in excess of ninety (90) days.

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

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

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

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

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

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

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

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

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:

Investment securities

- Contractual payments from the issuer are past due in excess of thirty (30) days.
- Change from investment grade credit rating to non-investment grade credit rating.
- Two (2) notch downgrade within investment grade credit rating bands.

Loans and advances to customers

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

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

Investment securities

- There are no contractual payments past due.
- Credit rating reverts to level immediately prior to being deemed to have SICR.

Loans and advances to customers

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

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

The assessment of SICR incorporates forward-looking information, as described below, and is performed on a quarterly basis at a portfolio level for all loans and advances to customers. For investment securities, the assessment is performed on a quarterly basis at a counterparty level.

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

Significant increase in credit risk (continued)

Loans and advances to customers (continued)

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 2020 would increase by $19,952,439 (2019: $23,433,720).

The low credit risk exemption has not been used for the years ended 31 December 2020 and 2019.

Forward-looking information factored into ECL models

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

These macroeconomic variables and their associated impact on the PD, EAD and LGD vary by type of financial asset, and 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 view 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 2019, 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).

During the year, consistent with other countries, The Bahamas was 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.

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

Forward-looking information factored into ECL models (continued)

The performance of certain financial assets of the Group experienced significant deterioration during the year, 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 the year. Accordingly, the ECL model was modified to take into account the credit loss experience of the prior year, which was pre-global pandemic, and the current year, which is considered the peak of the global pandemic impact to date. The modification is designed to factor in the anomalous financial performance of the current year, 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.

In the prior year, the ECL model was unmodified and for credit exposure in The Bahamas, the weight for the Baseline was set to 80.00%, and 8.85% and 11.15% weights were applied to Upside and Downside, respectively.

For credit exposure internationally, the weight for the Baseline is set to 80% and 10% weights are applied to Upside and Downside, respectively.

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 continues to calculate provision for loan losses based on Stages, as determined by the days past due metric. Further, 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 was determined based on the normal policy; however, the Group performed an assessment of the overall provision for loan losses and concluded that it addresses all reasonable expectations of possible credit losses. For the purposes of the assessment, 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.

Sensitivity analyses

Except in financial periods with outliers such as the anomalies in unemployment and GDP experienced during the 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.

(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)

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

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

For loans and advances to customers, a 10.00% increase/decrease in credit loss experience based on the ECL model used for the years ended 31 December 2020 and 2019 would result in an increase/decrease in provision for loan losses of $2,678,219 (2019: $1,339,112) as of 31 December 2020.

Additionally, 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.

20. Capital Management (Continued)

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 2020 and 2019, the Group complied with all of the externally imposed capital requirements to which it is subject.

21. Financial Risk Management

Strategy in using financial instruments

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

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

Concentration of risks

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

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

Credit risk

Credit risk is the risk of suffering financial losses should any of the Group's customers or other counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to customers, including loan commitments arising from such lending activities, 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.

21. Financial Risk Management (Continued)

Credit risk (continued)

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

The Group's Directors and ExCom are responsible for approving and monitoring the Group's credit exposure, which is done through review and approval of the Group's lending policies, and limits on credit exposure to individual borrowers and sectors. Prior to advancing funds, an assessment is made of the credit quality of each borrower. The Group does not use an automated credit scoring system; exposure to credit risk is managed through regular analyses of the ability of borrowers to meet contractual obligations, performed by 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 Commonwealth of The Bahamas, which were downgraded to non-investment grade credit ratings during the year, resulting in all securities acquired prior to the downgrade being classified to Stage 2 for purposes of assessing ECL.

The Group has assessed ECL for deposits with banks, investment securities 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.

	2020		2019	
	$	%	$	%
Consumer	371,181,271	82.70	381,671,532	85.09
Family residential property	41,068,899	9.15	45,724,409	10.19
Undeveloped land	9,070,465	2.02	9,329,585	2.08
Cash secured	5,902,103	1.32	5,444,725	1.21
Commercial property	2,375,558	0.53	1,517,519	0.34
Overdrafts	2,348,826	0.52	2,377,056	0.53
Other	16,875,000	3.76	2,500,000	0.56
	448,822,122	**100.00**	**448,564,826**	**100.00**

The average mortgage loan balance is $80,000 (2019: $81,000) and the average consumer loan balance is $40,000 (2019: $40,000) with the largest exposure to a single customer totalling approximately $16,875,000 (2019: $2,500,000). 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.

	2020		2019	
	$	%	$	%
Not impaired				
– Neither past due nor impaired	412,779,695	91.97	425,624,355	94.89
– Past due but not impaired	10,672,048	2.38	10,218,956	2.28
Impaired				
– Past due up to 3 months	1,154,069	0.26	910,382	0.20
– Past due 3 – 6 months	3,582,735	0.80	2,031,909	0.45
– Past due 6 – 12 months	10,785,556	2.40	1,228,731	0.27
– Past due over 12 months	9,848,019	2.19	8,550,493	1.91
	448,822,122	**100.00**	**448,564,826**	**100.00**
Provision for loan losses				
– Individually impaired	18,911,392	70.61	5,533,878	41.32
– Portfolio allowance	7,870,795	29.39	7,857,244	58.68
	26,782,187	**100.00**	**13,391,122**	**100.00**

The days past due metric is used by the Group to determine loans and advances to customers in the Stages for the ECL calculations. Loans and advances not past due, except for those specifically assessed as having other conditions of default, and up to thirty (30) days past due are Stage 1; past due in excess of thirty (30) days but less than three (3) months 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 2020	**Mortgages** **$**	**Consumer and Other** **$**	**Total** **$**
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**
31 December 2019			
Past due up to 3 months	2,651,870	2,078,794	4,730,664
Past due 3 – 6 months	59,707	303,919	363,626
Past due 6 – 12 months	201,831	195,450	397,281
Past due over 12 months	4,727,351	34	4,727,385
Total past due but not impaired	**7,640,759**	**2,578,197**	**10,218,956**

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 decrease in fair value and/or when the customer initially goes into default.

Individually impaired loans can be analysed as follows:

31 December 2020	**Mortgages** **$**	**Consumer and Other** **$**	**Total** **$**
Carrying amount	9,736,920	15,633,459	25,370,379
Provision for loan losses	3,764,156	15,147,236	18,911,392
31 December 2019			
Carrying amount	8,731,223	3,990,292	12,721,515
Provision for loan losses	2,659,271	2,874,607	5,533,878

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 2020, a decrease of 10.00% in the fair value of collateral would result in a decrease of $818,840 (2019: $1,609,662) 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 $649,932 (2019: $479,358).

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial assets experiencing significant increases (or decreases) of 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.

(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 provision for loan losses due to the factors set out above for the year ended 31 December 2019.

Mortgages	**Stage 1 12-month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Balance as of 1 January 2019	64,469	52,000	4,039,809	4,156,278
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(1,627)	12,814	-	11,187
Transfer from Stage 1 to Stage 3	(589)	-	80,261	79,672
Transfer from Stage 2 to Stage 1	1,641	(16,453)	-	(14,812)
Transfer from Stage 2 to Stage 3	-	(3,339)	12,918	9,579
Transfer from Stage 3 to Stage 2	-	7,459	(235,538)	(228,079)
Loans and advances written	3,795	-	-	3,795
Changes to models and assumptions	2,394	(8,364)	(365,598)	(371,568)
Loans and advances derecognised	(5,011)	(4,743)	(242,468)	(252,222)
Provision for loan losses	603	(12,626)	(750,425)	(762,448)
Write-offs	-	-	(630,113)	(630,113)
Other movements	-	-	(630,113)	(630,113)
Balance as of 31 December 2019	**65,072**	**39,374**	**2,659,271**	**2,763,717**

Consumer and other loans				
Balance as of 1 January 2019	5,076,671	2,057,310	4,260,437	11,394,418
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(51,336)	1,218,959	-	1,167,623
Transfer from Stage 1 to Stage 3	(50,027)	-	2,266,181	2,216,154
Transfer from Stage 2 to Stage 1	17,379	(190,661)	-	(173,282)
Transfer from Stage 2 to Stage 3	-	(41,641)	548,801	507,160
Transfer from Stage 3 to Stage 2	-	23,445	(210,955)	(187,510)
Loans and advances written	1,913,989	274,063	256,925	2,444,977
Changes to models and assumptions	482,381	(1,639,694)	7,786,354	6,629,041
Loans and advances derecognised	(1,240,580)	(97,460)	(298,850)	(1,636,890)
Provision for loan losses	1,071,806	(452,989)	10,348,456	10,967,273

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Credit risk (continued)

Consumer and other loans (continued)	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Write-offs	-	-	(11,734,286)	(11,734,286)
Other movements	-	-	(11,734,286)	(11,734,286)
Balance as of 31 December 2019	**6,148,477**	**1,604,321**	**2,874,607**	**10,627,405**
Total				
Balance as of 1 January 2019	5,141,140	2,109,310	8,300,246	15,550,696
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(52,963)	1,231,773	-	1,178,810
Transfer from Stage 1 to Stage 3	(50,616)	-	2,346,442	2,295,826
Transfer from Stage 2 to Stage 1	19,020	(207,114)	-	(188,094)
Transfer from Stage 2 to Stage 3	-	(44,980)	561,719	516,739
Transfer from Stage 3 to Stage 2	-	30,904	(446,493)	(415,589)
Loans and advances written	1,917,784	274,063	256,925	2,448,772
Changes to models and assumptions	484,775	(1,648,058)	7,420,756	6,257,473
Loans and advances derecognised	(1,245,591)	(102,203)	(541,318)	(1,889,112)
Provision for loan losses	1,072,409	(465,615)	9,598,031	10,204,825
Write-offs	-	-	(12,364,399)	(12,364,399)
Other movements	-	-	(12,364,399)	(12,364,399)
Balance as of 31 December 2019	**6,213,549**	**1,643,695**	**5,533,878**	**13,391,122**

(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 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 are 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**
Consumer and other loans				
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**

(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	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**

The tables below disclose movements in gross carrying amounts of loans and advances to customers for the year ended 31 December 2019, 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 2019	42,639,058	3,310,041	19,397,938	65,347,037
Transfers				
Transfer from Stage 1 to Stage 2	(974,492)	974,492	-	-
Transfer from Stage 1 to Stage 3	(375,165)	-	375,165	-
Transfer from Stage 2 to Stage 1	968,836	(968,836)	-	-
Transfer from Stage 2 to Stage 3	-	(185,803)	185,803	-
Transfer from Stage 3 to Stage 2	-	1,315,456	(1,315,456)	-
Loans and advances written	2,216,643	-	-	2,216,643
Changes to exposure other than full derecognition	(2,864,973)	(1,161,912)	(1,242,180)	(5,269,065)
Loans and advances derecognised	(3,314,639)	(302,776)	(1,193,412)	(4,810,827)
Write-offs	-	-	(630,113)	(630,113)
Balance as of 31 December 2019	**38,295,268**	**2,980,662**	**15,577,745**	**56,853,675**

(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 2019	379,837,254	4,903,456	5,162,779	389,903,489
Transfers				
Transfer from Stage 1 to Stage 2	(2,366,197)	2,366,197	-	-
Transfer from Stage 1 to Stage 3	(2,266,181)	-	2,266,181	-
Transfer from Stage 2 to Stage 1	429,775	(429,775)	-	-
Transfer from Stage 2 to Stage 3	-	(548,801)	548,801	-
Transfer from Stage 3 to Stage 2	-	119,756	(119,756)	-
Loans and advances written	123,858,583	406,029	256,925	124,521,537
Changes to exposure other than full derecognition	(32,193,143)	(2,301,251)	7,257,686	(27,236,708)
Loans and advances derecognised	(86,198,992)	(1,338,430)	(298,850)	(87,836,272)
Write-offs	-	-	(11,734,286)	(11,734,286)
Balance as of 31 December 2019	**381,101,099**	**3,177,181**	**3,339,480**	**387,617,760**
Total				
Balance as of 1 January 2019	422,476,312	8,213,497	24,560,717	455,250,526
Transfers				
Transfer from Stage 1 to Stage 2	(3,340,689)	3,340,689	-	-
Transfer from Stage 1 to Stage 3	(2,641,346)	-	2,641,346	-
Transfer from Stage 2 to Stage 1	1,398,611	(1,398,611)	-	-
Transfer from Stage 2 to Stage 3	-	(734,604)	734,604	-
Transfer from Stage 3 to Stage 2	-	1,435,212	(1,435,212)	-
Loans and advances written	126,075,226	406,029	256,925	126,738,180
Changes to exposure other than full derecognition	(35,058,116)	(3,463,163)	6,015,506	(32,505,773)
Loans and advances derecognised	(89,513,631)	(1,641,206)	(1,492,262)	(92,647,099)
Write-offs	-	-	(12,364,399)	(12,364,399)
Balance as of 31 December 2019	**419,396,367**	**6,157,843**	**18,917,225**	**444,471,435**

<u>Renegotiated loans and advances to customers</u>

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 $14,141,005 (2019: $13,533,000) as of 31 December 2020.

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

The Group does not attempt to hedge specifically against the impact of changes in market interest rates on cash flow and interest margins and relies on the fact that the loan portfolio generally is based on variable interest rates linked to the B$ Prime rate 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 2020, the Group is exposed to fair value interest rate risk on $58,735,360 (2019: $43,724,838) of its investments in debt securities, which are at fixed interest rates with maturity dates ranging from 2021 to 2038 (2019: 2020 to 2038). The remainder of debt securities in the Group's investment portfolio are at variable rates linked to the B$ 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 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**	

31 December 2019	Immediate Repricing $	Up to 3 months $	3 to 12 months $	12 months to 5 years $	More than 5 years $	Non-interest bearing $	Total $
ASSETS							
Cash on hand and at banks	7,805,956	30,615,026	20,183,628	-	-	107,062,453	165,667,063
Investment securities	39,125,776	10,762,445	1,331,383	12,028,476	20,116,408	-	83,364,488
Loans and advances to customers	72,346,649	412,929	3,308,822	64,699,906	289,488,682	823,325	431,080,313
Other assets	-	-	-	-	-	928,932	928,932
Total financial assets	**119,278,381**	**41,790,400**	**24,823,833**	**76,728,382**	**309,605,090**	**108,814,710**	**681,040,796**
LIABILITIES							
Deposits from customers	103,358,600	102,793,866	241,335,789	55,727,577	-	64,391,815	567,607,647
Accrued expenses and other liabilities	-	-	40,000	1,352,000	8,000	1,991,919	3,391,919
Debt securities	24,193,064	-	-	-	-	-	24,193,064
Total financial liabilities	**127,551,664**	**102,793,866**	**241,375,789**	**57,079,577**	**8,000**	**66,383,734**	**595,192,630**
Interest repricing gap	**(8,273,283)**	**(61,003,466)**	**(216,551,956)**	**19,648,805**	**309,597,090**	**42,430,976**	

As of 31 December 2020, an increase/decrease in market interest rates by 0.50%% (2019: 0.50%), being the assumption of reasonable potential changes in interest rates as of the respective date, with all other variables remaining constant, would increase/decrease net income by $160,079 (2019: $221,282).

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.

(Expressed in Bahamian dollars)

21. Financial Risk Management (Continued)

Liquidity risk

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

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

31 December 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**					
31 December 2019						
ASSETS						
Cash on hand and at banks	114,868,410	30,711,173	20,341,914	-	-	165,921,497
Investment securities	-	12,004,577	7,661,534	31,948,805	56,268,543	107,883,459
Loans and advances to customers	2,377,056	38,840,706	67,144,725	323,084,399	321,750,340	753,197,226
Other assets	-	928,932	-	-	-	928,932
Total financial assets	**117,245,466**	**82,485,388**	**95,148,173**	**355,033,204**	**378,018,883**	**1,027,931,114**
LIABILITIES						
Deposits from customers	167,735,579	103,813,816	245,718,349	60,069,828	-	577,337,572
Accrued expenses and other liabilities	-	1,991,919	638,200	1,087,650	12,300	3,730,069
Debt securities	-	-	1,310,000	25,860,000	-	27,170,000
Total financial liabilities	**167,735,579**	**105,805,735**	**247,666,549**	**87,017,478**	**12,300**	**608,237,641**
Net liquidity gap	**(50,490,113)**	**(23,320,347)**	**(152,518,376)**	**268,015,726**	**378,006,583**	
Loan commitments	**12,287,601**					

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 2020 and 2019.

As of 31 December 2020, principal and interest balances of the deposits of the ten (10) largest customers totalled $145,216,624 (2019: $158,980,767) representing 25.26% (2019: 28.01%) 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.

24. Subsequent Events

Subsequent to 31 December 2020, the Directors approved a dividend on Series A variable rate redeemable preference shares at the rate stated in Note 11. The dividends are subject to approval by the Central Bank.

Fidelity, We're Good For You.

REBIRTH 2020

ANNUAL REPORT

FIDELITY