

**FIDELITY BANK (BAHAMAS) LIMITED**

**Consolidated Financial Statements  
31 December 2017**



## *Independent auditors' report*

To the Shareholders of Fidelity Bank (Bahamas) Limited

### *Report on the audit of the consolidated financial statements*

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#### *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 2017, 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**

Fidelity Bank (Bahamas) Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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.

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

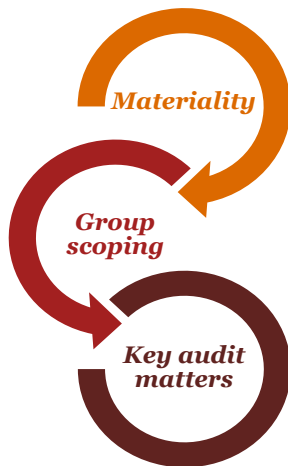


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## *Our audit approach*

### **Overview**

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Overall group materiality: \$1,075,000, which represents approximately 5% of profit from continuing operations.

We planned and scoped our audit for 2017 reflecting the Group structure. As a result we defined Royal Fidelity Merchant Bank and Trust Limited as a significant component, subject to an audit of its complete financial information.

The key audit matter for our audit to which we allocated the greatest amount of our resources and effort was:

- Impairment of loans and advances to customers.

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### **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.

We conducted audit work for Fidelity Bank (Bahamas) Limited and one component, Royal Fidelity Merchant Bank and Trust Limited. A full scope audit was performed for the component as it is individually financially significant to the Group. The Group engagement partner was also the engagement partner for the component audit.

### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements as a whole.

<b>Overall group materiality</b>	\$1,075,000
<b>How we determined it</b>	Approximately 5% of profit from continuing operations
<b>Rationale for the materiality benchmark applied</b>	We chose profit from continuing operations 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 thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$53,750 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 judgement, 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
<p><i>Impairment of loans and advances to customers</i></p> <p><i>See notes 2 (e), 2 (f), 6, 20, 21 and 22 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.</i></p>	<p>We evaluated the design and tested the operating effectiveness of relevant controls over the identification of loans and advances to customers past due for more than 90 days, or those otherwise deemed to be impaired, and the associated change in status to ‘non-performing’.</p> <p>We tested the calculation of the ageing of loans and advances to customers within the credit monitoring system by testing a sample of loans and advances to customers and re-calculating the delinquency days based on the repayment history and testing the report used by</p>



losses, including the amount and timing of future cash flows are complex and involve significant judgement by management, including:

- classification of loans and advances to customers as impaired, specifically the completeness of the population of loans and advances to customers included in the impairment calculation.

#### *Mortgage loans*

- valuation of real estate property pledged as collateral for mortgage loans. 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.

- the estimated costs and time to sell the pledged collateral.
- the recoverable amount of accrued interest on mortgage loans specifically identified as potentially impaired, which is recoverable from collateral held.

#### *Consumer loans*

- the level of provision required for consumer loans past due at the statement of financial position date, including consideration of the loss emergence subsequent to the year end.

management to extract the ageing information for financial reporting purposes.

We challenged management's process by examining a sample of loans and advances to customers which had not been identified by management as potentially impaired and formed our own independent conclusion as to whether there were indications of impairment.

#### *Mortgage loans*

We assessed the competence and objectivity of the management appointed real estate appraisers, confirming that they are qualified real estate appraisers and that there was no affiliation to the Group. For a sample of valuation reports, we compared the key assumption used by the real estate appraisers of recent sales to comparable actual sales data and recent sales of collateral by the Group.

We tested management's listing of potentially impaired mortgages and related collateral values by comparing the collateral values recorded by management to valuation appraisal reports.

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

We assessed the reasonableness of management's assumptions used in determining the provisions which included assessing the provisions previously established against amounts collected from collateral sold during the year. Specifically, this entailed consideration of 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.

We further tested the accuracy, or otherwise, of management's calculation of the specific provisions on mortgages by performing, on a sample basis, an independent re-calculation of such amounts.



We assessed the reasonableness of the amount recorded by management in respect of the recoverable amount of accrued interest on mortgage loans specifically identified as potentially impaired by comparing the amount of such accrued interest against the excess of collateral held over the principal amount of such loans.

#### *Consumer loans*

For consumer loans, we compared the results of management's provisioning policy to the provisions indicated as being required by the loss emergence trends during the year, as well as the loss emergence subsequent to the year end.

No material misstatement in the carrying amount of loans and advances to customers recorded in the consolidated Statement of Financial Position at 31 December 2017 was identified by our testing.

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### *Other information*

Management is responsible for the other information. The other information comprises the information presented in the Fidelity Bank (Bahamas) Limited Annual Report for 2017 (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 2017, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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### *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.

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### *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 judgement 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, related safeguards.

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

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The engagement partner on the audit resulting in this independent auditors' report is Prince A. Rahming.

  
Chartered Accountants  
Nassau, Bahamas

30 April 2018



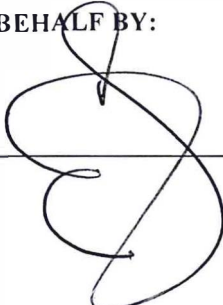
**Fidelity Bank (Bahamas) Limited**  
(Incorporated under the laws of the Commonwealth of The Bahamas)

**Consolidated Statement of Financial Position**  
**As of 31 December 2017**  
(Expressed in Bahamian dollars)

	2017 \$	2016 \$
<b>ASSETS</b>		
Cash on hand and at banks (Note 4)	103,858,986	75,219,924
Investment securities (Note 5)	88,496,767	77,129,401
Loans and advances to customers (Note 6)	408,644,237	386,803,562
Other assets	2,599,954	3,161,364
Investments in joint ventures (Note 7)	13,247,977	10,937,162
Property, plant and equipment (Note 8)	10,922,222	10,957,537
<b>Total assets</b>	<b>627,770,143</b>	<b>564,208,950</b>
<b>LIABILITIES</b>		
Deposits from customers (Note 9)	493,516,569	430,883,092
Accrued expenses and other liabilities	1,004,008	870,908
Debt securities (Note 10)	43,932,963	48,892,530
<b>Total liabilities</b>	<b>538,453,540</b>	<b>480,646,530</b>
<b>EQUITY</b>		
Capital – ordinary shares (Note 11)	20,363,328	20,333,243
Capital – preference shares (Note 11)	15,000,000	15,000,000
Revaluation reserve	373,659	392,251
Reserve for credit losses (Note 19)	4,090,372	3,855,116
Retained earnings	49,489,244	43,981,810
<b>Total equity</b>	<b>89,316,603</b>	<b>83,562,420</b>
<b>Total liabilities and equity</b>	<b>627,770,143</b>	<b>564,208,950</b>

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

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

5 April 2018  
\_\_\_\_\_  
Date

## Fidelity Bank (Bahamas) Limited

### Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2017 (Expressed in Bahamian dollars)

	2017 \$	2016 \$
<b>INCOME</b>		
Interest income		
Bank deposits, loans and advances	58,057,752	56,237,192
Investment securities	<u>3,229,483</u>	<u>3,147,017</u>
	61,287,235	59,384,209
Interest expense	<u>(14,830,790)</u>	<u>(14,640,553)</u>
<b>Net interest income</b>	<b>46,456,445</b>	<b>44,743,656</b>
Fees and commissions	2,821,528	2,676,115
Rental income	80,625	80,625
Other income	<u>313,230</u>	<u>342,121</u>
	<u><b>49,671,828</b></u>	<u><b>47,842,517</b></u>
<b>EXPENSES</b>		
General and administrative (Note 13)	10,314,128	8,802,541
Salaries and employee benefits (Note 14)	10,258,702	9,885,776
Provision for loan losses (Note 6)	8,960,594	7,987,132
Depreciation and amortisation (Note 8)	<u>1,432,541</u>	<u>1,584,052</u>
	<u><b>30,965,965</b></u>	<u><b>28,259,501</b></u>
<b>Operating profit</b>	<b>18,705,863</b>	<b>19,583,016</b>
Share of profits of joint ventures (Note 7)	<u>2,347,665</u>	<u>2,104,949</u>
<b>Net income</b>	<b>21,053,528</b>	<b>21,687,965</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Items not reclassified to net income</i>		
Property, plant and equipment revaluation (Note 8)	<u>-</u>	<u>(456,645)</u>
<b>Total comprehensive income</b>	<u><b>21,053,528</b></u>	<u><b>21,231,320</b></u>

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 2017 (Continued) (Expressed in Bahamian dollars)

	2017 \$	2016 \$
<b>Attributable to:</b>		
Ordinary shareholders		
Net income	20,078,118	20,635,088
Other comprehensive income	<u>-</u>	<u>(456,645)</u>
	<u>20,078,118</u>	<u>20,178,443</u>
Preference shareholders		
Net income	975,410	1,052,877
Other comprehensive income	<u>-</u>	<u>-</u>
	<u>975,410</u>	<u>1,052,877</u>
	<u><b>21,053,528</b></u>	<u><b>21,231,320</b></u>
<b>Earnings per share (Note 12)</b>	<b>0.70</b>	<b>0.72</b>

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 2017 (Expressed in Bahamian dollars)

	Capital – Ordinary Shares \$	Capital – Preference Shares \$	Revaluation Reserve \$	Reserve for Credit Losses \$	Retained Earnings \$	Total \$
As of 1 January 2017	<u>20,333,243</u>	<u>15,000,000</u>	<u>392,251</u>	<u>3,855,116</u>	<u>43,981,810</u>	<u>83,562,420</u>
<b>Comprehensive income</b>						
Net income	-	-	-	-	21,053,528	21,053,528
<i>Other comprehensive income</i>						
Property, plant and equipment revaluation	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	<u>21,053,528</u>	<u>21,053,528</u>
<b>Transfers</b>						
Depreciation transfer	-	-	(18,592)	-	18,592	-
Appropriation for credit losses	-	-	-	<u>235,256</u>	<u>(235,256)</u>	-
Total transfers	-	-	<u>(18,592)</u>	<u>235,256</u>	<u>(216,664)</u>	-
<b>Transactions with owners</b>						
Issuance of ordinary shares	30,085	-	-	-	79,315	109,400
Dividends – preference shares	-	-	-	-	(975,410)	(975,410)
Dividends – ordinary shares	-	-	-	-	<u>(14,433,335)</u>	<u>(14,433,335)</u>
Total transactions with owners	<u>30,085</u>	-	-	-	<u>(15,329,430)</u>	<u>(15,299,345)</u>
<b>As of 31 December 2017</b>	<b><u>20,363,328</u></b>	<b><u>15,000,000</u></b>	<b><u>373,659</u></b>	<b><u>4,090,372</u></b>	<b><u>49,489,244</u></b>	<b><u>89,316,603</u></b>
<b>Dividends per share</b>	<b><u>0.50</u></b>	<b><u>0.65</u></b>				

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 2016 (Expressed in Bahamian dollars)

	Capital – Ordinary Shares \$	Capital – Preference Shares \$	Revaluation Reserve \$	Reserve for Credit Losses \$	Retained Earnings \$	Total \$
As of 1 January 2016	<u>20,241,119</u>	<u>15,000,000</u>	<u>875,780</u>	<u>3,647,593</u>	<u>34,998,204</u>	<u>74,762,696</u>
<b>Comprehensive income</b>						
Net income	-	-	-	-	21,687,965	21,687,965
<i>Other comprehensive income</i>						
Property, plant and equipment revaluation	-	-	(456,645)	-	-	(456,645)
Total comprehensive income	-	-	(456,645)	-	21,687,965	21,231,320
<b>Transfers</b>						
Depreciation transfer	-	-	(26,884)	-	26,884	-
Appropriation for credit losses	-	-	-	207,523	(207,523)	-
Total transfers	-	-	(26,884)	207,523	(180,639)	-
<b>Transactions with owners</b>						
Issuance of ordinary shares	92,124	-	-	-	75,826	167,950
Dividends – preference shares	-	-	-	-	(1,052,877)	(1,052,877)
Dividends – ordinary shares	-	-	-	-	(11,546,669)	(11,546,669)
Total transactions with owners	<u>92,124</u>	-	-	-	<u>(12,523,720)</u>	<u>(12,431,596)</u>
<b>As of 31 December 2016</b>	<b><u>20,333,243</u></b>	<b><u>15,000,000</u></b>	<b><u>392,251</u></b>	<b><u>3,855,116</u></b>	<b><u>43,981,810</u></b>	<b><u>83,562,420</u></b>
<b>Dividends per share</b>	<b><u>0.40</u></b>	<b><u>0.70</u></b>				

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 2017 (Expressed in Bahamian dollars)

	2017 \$	2016 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	21,053,528	21,687,965
Adjustments for:		
Interest income	(61,287,235)	(59,384,209)
Interest expense	14,830,790	14,640,553
Loss on disposal of property, plant and equipment	-	(2,250)
Salaries and employee benefits	109,400	167,950
Provision for loan losses	8,960,594	7,987,132
Depreciation and amortisation	1,432,541	1,584,052
Share of profits of joint ventures	(2,347,665)	(2,104,949)
Interest received	55,191,221	53,608,088
Interest paid	(14,199,272)	(14,021,572)
<b>(Increase)/Decrease in operating assets</b>		
Mandatory reserve deposits	(2,355,950)	(3,818,460)
Loans and advances to customers	(24,701,620)	(28,560,087)
Other assets	561,410	(1,572,788)
<b>Increase/(Decrease) in operating liabilities</b>		
Deposits from customers	62,042,392	33,247,054
Accrued expenses and other liabilities	133,100	(145,263)
<b>Net cash from operating activities</b>	<b><u>59,423,234</u></b>	<b><u>23,313,216</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividends received	36,850	5,722,293
Purchases of investment securities	(11,373,301)	(15,602,570)
Proceeds from sales/maturities of investment securities	2,300	574,000
Purchases of property, plant and equipment	(1,397,226)	(1,200,856)
Proceeds from disposals of property, plant and equipment	-	2,250
<b>Net cash used in investing activities</b>	<b><u>(12,731,377)</u></b>	<b><u>(10,504,883)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Redemptions of debt securities	(5,000,000)	-
Dividends paid on preference shares	(975,410)	(1,052,877)
Dividends paid on ordinary shares	(14,433,335)	(11,546,669)
<b>Net cash used in financing activities</b>	<b><u>(20,408,745)</u></b>	<b><u>(12,599,546)</u></b>
<b>Net increase in cash and cash equivalents</b>	<b>26,283,112</b>	<b>208,787</b>
Cash and cash equivalents as of the beginning of the year	57,168,174	56,959,387
<b>Cash and cash equivalents as of the end of the year (Note 4)</b>	<b><u><u>83,451,286</u></u></b>	<b><u><u>57,168,174</u></u></b>

See Note 11 for significant non-cash transactions.

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

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Expressed in Bahamian dollars)

#### 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, 2000 to carry on banking business in The Bahamas. Further, the Bank's joint venture Royal Fidelity Merchant Bank & Trust Limited (RFMBT), a company incorporated in The Bahamas, is licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on trust and banking business in The Bahamas, and under the Securities Industry Act, 2011 to deal, arrange, manage and advise on securities in The Bahamas. RFMBT has subsidiaries incorporated in Barbados and licensed under the Financial Institutions Act, 1996 to carry on trust, banking and securities business in Barbados.

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; and private banking, trustee, investment management, corporate finance, share registrar and transfer agency, pension, administration, brokerage and investment advisory services.

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 74.62% (2016: 74.65%) of the outstanding ordinary shares of the Bank.

The registered office of the Bank is situated at #51 Frederick 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 20.

##### *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 2017 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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (a) Basis of preparation (continued)

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

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), and IFRS 16 *Leases* (IFRS 16), 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.

IFRS 9, which is effective for financial reporting periods beginning on or after 1 January 2018, addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three (3) primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Group's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset.

Loans and advances, debt securities and other financial assets held to collect solely payments of principal and interest (SPPI) may be classified and measured as amortised cost, with an option to classify such financial assets as fair value through other comprehensive income in cases where such financial assets are also sold with regularity. Financial assets that do not contain cash flows that represent solely payments of principal and interest must be classified as fair value through profit or loss, except that equity securities can irrevocably be designated as fair value through other comprehensive income provided the equity securities are not held for trading.

In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. At initial recognition of relevant financial assets, a provision for impairment of financial assets is required to be recognised based on expected losses due to credit default events that are possible within one (1) year. Financial assets are categorised into three (3) stages based on credit default factors and experiences, and provisions for impairment are recognised based on total expected losses in the event of a significant increase in credit risk or an actual credit default. The assessment of whether credit risk has increased significantly since initial recognition is performed on an ongoing basis by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in provision for expected losses. The assessment of credit risk and the estimation of expected losses are required to be unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forward looking information specific to the counterparty, as well as forecasts of economic conditions as of the financial reporting date. The estimation of expected losses takes into account the time value of money, which will result in the measurement of impairment being more forward-looking than under IAS 39. Accordingly, it is expected that the allowance for impairment will increase as all financial assets will be assessed for expected losses within at least one (1) year and the population of financial assets to which total expected losses will apply is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.



## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (a) Basis of preparation (continued)

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

For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Group does not have financial liabilities designated at fair value through profit or loss, and accordingly this change will not impact the measurement of financial liabilities.

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of disclosures about financial instruments.

The Group is in the process of assessing how its business model will impact the classification and measurement of financial instruments, and has a steering committee overseeing the implementation project. The project involves:

- Key decisions – this comprises identifying key decisions, including deciding on the measurement and classification for all products; determining stage migration of financial assets based on credit default factors and experiences; and assessing other relevant factors impacting measurement.
- Data mining – this comprises assessing availability of data; defining and determining detailed modelling methodology to be employed based on available data, resources and infrastructure; defining and developing methodology to estimate unadjusted expected losses; and defining methodology to incorporate forward looking information.
- Implementation – this comprises finalising forward-looking scenarios and incorporating forward-looking information in estimating expected losses.

Currently, the identification and making of key decisions regarding classification and measurement of financial instruments has been completed and being subjected to validation and challenge, and the process of data mining and developing the model for calculating expected losses is in progress, with data gaps being addressed. The process of implementation has commenced and expected to be completed at the time of financial reporting for regulatory purposes for the first quarter of 2018.

IFRS 15, which is effective for financial reporting periods beginning on or after 1 January 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations, and establishes a more systematic approach for revenue measurement and recognition through a five (5) step model. The model comprises identifying contracts with customers and performance obligations, contained therein; determining consideration in the contract and appropriate allocation to each identified performance obligation; and recognising revenue as each performance obligation is satisfied.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (a) Basis of preparation (continued)

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

The impact of IFRS 15 is being assessed through: the evaluation of the inventory of impacted transactions and current revenue recognition; the determination of whether there are multiple performance obligations; and the determination of period over which performance obligations are performed. The preliminary assessment indicates that the impact of IFRS 15 will not be significant on the consolidated financial statements, other than enhanced disclosures.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases* (IAS 17). Lessees will recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group has not yet assessed the full impact of adopting IFRS 16, which is effective for financial periods beginning on or after 1 January 2019.

##### (b) Principles of consolidation

*Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power 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 investment in joint venture.

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

## **Fidelity Bank (Bahamas) Limited**

### **Notes to the Consolidated Financial Statements**

**31 December 2017**

**(Continued)**

**(Expressed in Bahamian dollars)**

#### **2. Summary of Significant Accounting Policies (Continued)**

##### **(b) Principles of consolidation (continued)**

###### *Joint ventures (continued)*

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.

###### *Transactions and balances*

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

##### **(d) Financial assets**

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (d) Financial assets (continued)

###### *i) Financial assets at fair value through profit or loss*

This category has two (2) sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Group's Executive Committee.

All of the Group's investment securities classified as at fair value through profit or loss have been so designated by management.

###### *ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. They arise when the Group provides money, goods or services to a debtor with no intention of trading the receivable.

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred. Financial assets are derecognised when the 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.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value of financial assets traded in active markets (e.g. international securities exchange) is based on quoted prices as of the last business day of the financial reporting period. The fair value of restricted securities and other securities that are not traded in active markets is determined using valuation techniques, including comparable recent arm's length transactions, discounted cash flow analyses and other techniques commonly used by market participants.

Loans and receivables are subsequently carried at amortised cost less provisions for impairment.

Gains or losses arising from sales and changes in fair value of financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as a part of net income in the financial period in which they arise.

## **Fidelity Bank (Bahamas) Limited**

### **Notes to the Consolidated Financial Statements**

**31 December 2017**

**(Continued)**

**(Expressed in Bahamian dollars)**

#### **2. Summary of Significant Accounting Policies (Continued)**

##### **(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 monitored closely for impairment.

##### **(f) Impairment of financial assets at amortised cost**

The Group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows 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 asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income as a part of net income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income as a part of net income. When a financial asset is uncollectible, it is written off against the related allowance account. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of accounts previously written off are recognised directly in the consolidated statement of comprehensive income as a part of net income.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 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:

	<b>Estimated Useful Life</b>
Buildings	30 – 50 years
Furniture and fixtures	3 – 10 years
Motor vehicles	3 – 5 years
Computer software and office equipment	3 – 10 years
Leasehold 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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 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 net carrying amount of the financial asset or 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) but does not consider future credit losses. 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 are generally recognised on the accrual basis when the service has been provided. Fee and commission income arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction, which is generally at the time the customer's account is charged. Portfolio, advisory, asset management and 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. Performance linked fees are recognised when the performance criteria are fulfilled.

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).

Other income and expenses are recognised on the accrual basis.

##### (n) Leases

*The Group is the lessee*

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

*The Group is the lessor*

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



## **Fidelity Bank (Bahamas) Limited**

### **Notes to the Consolidated Financial Statements**

**31 December 2017**

**(Continued)**

**(Expressed in Bahamian dollars)**

#### **2. Summary of Significant Accounting Policies (Continued)**

##### **(o) Employee benefits**

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

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

##### **(p) Taxation**

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

##### **(q) Cash and cash equivalents**

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

##### **(r) Segment reporting**

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

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

##### **(s) Fiduciary activities**

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

##### **(t) Corresponding figures**

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

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

### 3. Subsidiaries and Joint Ventures

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

	Country of Incorporation	% Holding
Bahamas Automated Clearing House Limited	Bahamas	14.29%
Freedom Points Limited	Bahamas	100.00%
Pinnacle Cars Limited	Bahamas	100.00%
Royal Fidelity Merchant Bank & Trust Limited	Bahamas	50.00%
Bahamas Central Securities Depository Limited	Bahamas	16.67%
BF Company Limited	Bahamas	50.00%
HNW Company Limited	Bahamas	50.00%
R.F.C. Markets Limited	Bahamas	50.00%
RF Executors Ltd.	Bahamas	50.00%
Royal Fidelity Merchant Bank & Trust Holdings Limited	St. Lucia	50.00%
Royal Fidelity Merchant Bank & Trust (Barbados) Limited	Barbados	50.00%
Royal Fidelity Capital Markets (Barbados) Limited	Barbados	50.00%
Royal Fidelity Pension & Investment Services Limited	Bahamas	50.00%
Royal Fidelity Share Registrars & Transfer Agents Limited	Bahamas	50.00%
TG Company Limited	Bahamas	50.00%
West Bay Development Company Limited	Bahamas	100.00%

#### *Subsidiaries*

Freedom Points Limited is a dormant company. The Group's two (2) remaining subsidiaries, Pinnacle Cars Limited and West Bay Development Company Limited, are holding companies for vehicles and land and buildings, respectively, owned by the Group.

#### *Joint ventures*

The Group's joint ventures carry out various activities, certain of which are disclosed in Note 1. 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 operates as a joint venture with rights to conduct the business of merchant banking in The Bahamas and Barbados. BF Company Limited, HNW Company Limited, RF Executors Ltd. and TG Company Limited are nominee companies utilised in the operations of RFMBT.

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

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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 4. Cash on Hand and at Banks

	2017	2016
	\$	\$
Cash on hand	2,368,458	2,139,242
Current accounts at banks	81,082,828	55,028,932
Mandatory reserve deposits	<u>20,407,700</u>	<u>18,051,750</u>
<b>Total</b>	<b><u>103,858,986</u></b>	<b><u>75,219,924</u></b>

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 1.50% (2016: 0.00% to 0.75%) per annum.

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

	2017	2016
	\$	\$
Cash on hand	2,368,458	2,139,242
Current accounts at banks	<u>81,082,828</u>	<u>55,028,932</u>
<b>Total</b>	<b><u>83,451,286</u></b>	<b><u>57,168,174</u></b>

#### 5. Investment Securities

##### *Financial assets at fair value through profit or loss*

The Group ranks its investment securities 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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 5. Investment Securities (Continued)

##### *Financial assets at fair value through profit or loss (continued)*

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

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

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

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

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

	2017	2016
	\$	\$
<i>Level 2</i>		
Government debt securities	<u>87,477,171</u>	<u>76,106,170</u>
Accrued interest	<u>1,019,596</u>	<u>1,023,231</u>
<b>Total</b>	<b><u>88,496,767</u></b>	<b><u>77,129,401</u></b>

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2018 to 2037 (2016: 2017 to 2037) and with either fixed interest rates ranging from 3.01% to 5.40% (2016: 4.00% to 5.40%) per annum or variable interest rates ranging from 0.01% to 0.63% (2016: 0.18% to 1.25%) above the B\$ Prime rate of 4.25% per annum.

As of 31 December 2017, the cost of investment securities totalled \$87,477,171 (2016: \$76,106,170).

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements 31 December 2017 (Continued) (Expressed in Bahamian dollars)

#### 6. Loans and Advances to Customers

	2017 \$	2016 \$
Mortgages	70,661,192	77,938,555
Consumer and other loans	<u>351,663,334</u>	<u>322,589,710</u>
	422,324,526	400,528,265
Unamortised loan origination fees	(8,559,450)	(7,818,556)
Accrued interest	5,240,282	4,542,363
Provision for loan losses	<u>(10,361,121)</u>	<u>(10,448,510)</u>
<b>Total</b>	<b><u>408,644,237</u></b>	<b><u>386,803,562</u></b>

The effective interest rate earned on loans and advances for the year ended 31 December 2017 was 14.28% (2016: 14.80%).

Movements in provision for loan losses are as follows:

	2017			2016		
	Mortgages \$	Consumer and Other \$	Total \$	Mortgages \$	Consumer and Other \$	Total \$
Balance as of the beginning of the year	3,979,581	6,468,929	10,448,510	4,506,440	6,323,449	10,829,889
Provisions	(534,096)	9,494,690	8,960,594	210,903	7,776,229	7,987,132
Write-offs	<u>(121,757)</u>	<u>(8,926,226)</u>	<u>(9,047,983)</u>	<u>(737,762)</u>	<u>(7,630,749)</u>	<u>(8,368,511)</u>
<b>Balance as of the end of the year</b>	<b><u>3,323,728</u></b>	<b><u>7,037,393</u></b>	<b><u>10,361,121</u></b>	<b><u>3,979,581</u></b>	<b><u>6,468,929</u></b>	<b><u>10,448,510</u></b>

Recoveries of amounts previously written off recognised in provision loan losses in the consolidated statement of comprehensive income totalled \$642,614 (2016: \$362,954).

The provision for loan losses represents 2.50% (2016: 2.66%) of the total loan portfolio, excluding accrued interest, and 38.76% (2016: 40.94%) of total non-performing loans. As of 31 December 2017, principal and interest balances of non-performing loans totalled \$26,728,528 (2016: \$25,519,127), representing 6.46% (2016: 6.50%) of the total loan portfolio.

#### 7. Investments in Joint Ventures

	2017 \$	2016 \$
RFMBT	13,041,349	10,734,697
BACH	<u>206,628</u>	<u>202,465</u>
<b>Total</b>	<b><u>13,247,977</u></b>	<b><u>10,937,162</u></b>

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements 31 December 2017 (Continued) (Expressed in Bahamian dollars)

#### 7. Investments in Joint Ventures (Continued)

##### *RFMBT*

As of the date of the transaction of the Bank acquiring 50.00% of the outstanding shares of RFMBT from the Parent, the purchase price was \$8,900,000, based on a valuation performed by an independent accounting firm. The fair value of net assets acquired totalled \$5,511,500.

A condition of approval of the transaction by the Central Bank, required the Parent to guarantee the Bank against operating losses of RFMBT and any capital contributions necessary for RFMBT to comply with capital adequacy regulations.

Movements in investment in joint venture comprise:

	2017 \$	2016 \$
Balance as of the beginning of the year	10,734,697	14,343,846
Share of profits of joint venture	2,306,652	2,058,888
Dividends received	-	(5,668,037)
	<u>13,041,349</u>	<u>10,734,697</u>

The unaudited consolidated financial information of the joint venture as of 31 December 2017, and for the year then ended, is as follows:

	2017 \$	2016 \$
<b>ASSETS</b>		
Cash on hand and at banks	81,515,539	64,365,293
Investment securities	19,384,732	24,561,259
Loans and advances to customers	11,218,489	8,527,458
Other assets	3,362,658	1,685,295
Investments in joint ventures	943,310	1,012,018
Intangible asset	260,695	391,043
Property, plant and equipment	300,672	297,380
<b>Total assets</b>	<u><b>116,986,095</b></u>	<u><b>100,839,746</b></u>
<b>LIABILITIES</b>		
Deposit from customers	92,765,932	83,849,355
Accrued expenses and other liabilities	4,914,466	2,298,000
<b>Total liabilities</b>	<u><b>97,680,398</b></u>	<u><b>86,147,355</b></u>
<b>EQUITY</b>		
Capital	11,000,000	11,000,000
Retained earnings	8,305,697	3,692,391
<b>Total equity</b>	<u><b>19,305,697</b></u>	<u><b>14,692,391</b></u>
<b>Total liabilities and equity</b>	<u><b>116,986,095</b></u>	<u><b>100,839,746</b></u>

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements 31 December 2017 (Continued) (Expressed in Bahamian dollars)

#### 7. Investments in Joint Ventures (Continued)

##### *RFMBT (continued)*

	2017	2016
	\$	\$
<b>INCOME</b>		
Interest income	1,847,702	1,777,175
Interest expense	(232,678)	(418,364)
Fees and commissions	9,993,188	8,329,875
Other	57,616	1,006,414
	<u>11,665,828</u>	<u>10,695,100</u>
<b>EXPENSES</b>		
Salaries and employee benefits	3,649,297	3,234,095
General and administrative	3,307,209	3,111,265
Depreciation and amortisation	221,723	221,145
Provision for loan losses	57,645	66,144
	<u>7,235,874</u>	<u>6,632,649</u>
<b>Operating profit</b>	<b>4,429,954</b>	<b>4,062,451</b>
Share of profits of joint ventures	209,101	77,881
<b>Net income before tax</b>	<b>4,639,055</b>	<b>4,140,332</b>
Taxation	(25,749)	(22,557)
<b>Net income and total comprehensive income</b>	<b><u>4,613,306</u></b>	<b><u>4,117,775</u></b>

##### *BACH*

Movements in investment in joint venture comprise:

	2017	2016
	\$	\$
Balance as of the beginning of the year	202,465	210,660
Share of profits of joint venture	41,013	46,061
Dividends received	(36,850)	(54,256)
<b>Balance as of the end of the year</b>	<b><u>206,628</u></b>	<b><u>202,465</u></b>

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements 31 December 2017 (Continued) (Expressed in Bahamian dollars)

#### 7. Investments in Joint Ventures (Continued)

*BACH (continued)*

The unaudited financial information of the joint venture as of 31 December 2017, and for the year then ended, is as follows:

	2017 \$	2016 \$
<b>ASSETS</b>		
Cash on hand and at banks	1,247,520	1,235,869
Other assets	159,316	131,152
Property, plant and equipment	75,484	93,072
<b>Total assets</b>	<b><u>1,482,320</u></b>	<b><u>1,460,093</u></b>
<b>LIABILITIES</b>		
Accrued expenses and other liabilities	35,937	42,834
<b>Total liabilities</b>	<b><u>35,937</u></b>	<b><u>42,834</u></b>
<b>EQUITY</b>		
Share capital	70,000	70,000
Retained earnings	1,376,383	1,347,259
<b>Total equity</b>	<b><u>1,446,383</u></b>	<b><u>1,417,259</u></b>
<b>Total liabilities and equity</b>	<b><u>1,482,320</u></b>	<b><u>1,460,093</u></b>
<b>INCOME</b>		
Fees and commissions	1,041,810	1,042,145
Interest income	12,357	12,767
Other	16,425	25,449
	<b><u>1,070,592</u></b>	<b><u>1,080,361</u></b>
<b>EXPENSES</b>		
Salaries and employee benefits	352,483	314,978
Depreciation and amortisation	39,518	40,532
Other	391,519	402,421
	<b><u>783,520</u></b>	<b><u>757,931</u></b>
<b>Net income and total comprehensive income</b>	<b><u>287,072</u></b>	<b><u>322,430</u></b>



## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 8. Property, Plant and Equipment

	Land & Buildings \$	Furniture & Fixtures \$	Motor Vehicles \$	Computer Software & Office Equipment \$	Leasehold Improvements \$	Total \$
<b>Year ended</b>						
<b>31 December 2017</b>						
Opening net book value	6,300,000	785,284	44,761	1,910,239	1,917,253	10,957,537
Revaluation	-	-	-	-	-	-
Additions	446,524	103,606	-	535,931	311,165	1,397,226
Disposals						
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Depreciation	(181,281)	(240,892)	(16,511)	(673,002)	(320,855)	(1,432,541)
<b>Closing net book value</b>	<b>6,565,243</b>	<b>647,998</b>	<b>28,250</b>	<b>1,773,168</b>	<b>1,907,563</b>	<b>10,922,222</b>
<b>As of 31 December 2017</b>						
Cost or valuation	6,746,524	5,068,764	121,489	10,922,035	8,107,430	30,966,242
Accumulated depreciation	(181,281)	(4,420,766)	(93,239)	(9,148,867)	(6,199,867)	(20,044,020)
<b>Net book value</b>	<b>6,565,243</b>	<b>647,998</b>	<b>28,250</b>	<b>1,773,168</b>	<b>1,907,563</b>	<b>10,922,222</b>
<b>Year ended</b>						
<b>31 December 2016</b>						
Opening net book value	6,567,713	880,358	61,272	2,061,924	2,226,111	11,797,378
Revaluation	(456,645)	-	-	-	-	(456,645)
Additions	403,384	196,375	-	456,239	144,858	1,200,856
Disposals						
Cost	-	-	(14,995)	-	-	(14,995)
Accumulated depreciation	-	-	14,995	-	-	14,995
Depreciation	(214,452)	(291,449)	(16,511)	(607,924)	(453,716)	(1,584,052)
<b>Closing net book value</b>	<b>6,300,000</b>	<b>785,284</b>	<b>44,761</b>	<b>1,910,239</b>	<b>1,917,253</b>	<b>10,957,537</b>
<b>As of 31 December 2016</b>						
Cost or valuation	6,300,000	4,965,158	121,489	10,386,104	7,796,265	29,569,016
Accumulated depreciation	-	(4,179,874)	(76,728)	(8,475,865)	(5,879,012)	(18,611,479)
<b>Net book value</b>	<b>6,300,000</b>	<b>785,284</b>	<b>44,761</b>	<b>1,910,239</b>	<b>1,917,253</b>	<b>10,957,537</b>

The fair value hierarchy for non-financial assets is consistent with the hierarchy for financial assets disclosed in Note 5. 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.

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. Land and buildings were revalued by independent appraisers as of 31 December 2016.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 8. Property, Plant and Equipment (Continued)

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%	\$58,000/(\$573,000)
Vacancy rates	+3.00%/-3.00%	(\$465,000)/(\$49,000)
Discount rate	+0.50%/-0.50%	(\$589,000)/\$114,000

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

	2017 \$	2016 \$
Cost	8,355,222	7,908,698
Accumulated depreciation	<u>(2,163,638)</u>	<u>(2,000,949)</u>
<b>Net book value</b>	<b><u>6,191,584</u></b>	<b><u>5,907,749</u></b>

#### 9. Deposits from Customers

	2017 \$	2016 \$
Term deposits	363,342,122	324,931,205
Savings deposits	68,997,673	63,959,513
Demand deposits	52,797,272	34,553,667
Escrow deposits	<u>3,524,679</u>	<u>3,174,969</u>
	488,661,746	426,619,354
Accrued interest	<u>4,854,823</u>	<u>4,263,738</u>
<b>Total</b>	<b><u>493,516,569</u></b>	<b><u>430,883,092</u></b>

Included in deposits from customers are deposits from banks totalling \$43,401,744 (2016: \$31,805,440). Deposits carry fixed interest rates ranging from 0.00% to 5.75% (2016: 0.00% to 5.50%) 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 2017 was 2.60% (2016: 2.78%).

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 10. Debt Securities

	2017	2016
	\$	\$
Series A redeemable fixed rate notes; 7.00%; 2017	-	4,986,864
Series B redeemable variable rate notes; B\$ Prime + 1.75%; 2022	9,918,234	9,897,594
Series E redeemable fixed rate notes; 6.00%; 2018	9,977,593	9,934,862
Series F redeemable variable rate notes; B\$ Prime + 1.25%; 2022	19,753,541	19,707,528
Series B redeemable preference shares; B\$ Prime + 1.00%; 2021	<u>4,000,000</u>	<u>4,000,000</u>
	43,649,368	48,526,848
Accrued interest	<u>283,595</u>	<u>365,682</u>
<b>Total</b>	<b><u>43,932,963</u></b>	<b><u>48,892,530</u></b>

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 consisting of Series A – \$5,000,000 redeemable 7.00% fixed rate notes due 19 October 2017; Series B – \$10,000,000 redeemable variable rate notes (B\$ Prime rate plus 1.75%) due 19 October 2022; Series C – \$3,000,000 redeemable 7.00% fixed rate notes due 30 May 2013; Series D – \$7,000,000 redeemable variable rate notes (B\$ Prime rate plus 1.75%) due 30 May 2015; Series E – \$10,000,000 redeemable 6.00% fixed rate notes due 30 May 2018; and Series F – \$20,000,000 redeemable variable rate note (B\$ Prime + 1.25%) due 30 May 2022. Interest is payable semi-annually on 19 April and 19 October each year for Series B; and 30 May and 30 November each year for Series E and F.

On 19 October 2017, the Series A fixed rate notes were redeemed.

Series B variable rate redeemable preference shares mature on 12 December 2021. Dividends are payable on these shares at the rate of 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

	2017	2016
	\$	\$
<i>Authorised</i>		
35,000,000 ordinary shares of \$0.30 each	<u>10,500,000</u>	<u>10,500,000</u>
10,000,000 preference shares of \$1.00 each	<u>10,000,000</u>	<u>10,000,000</u>

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements 31 December 2017 (Continued) (Expressed in Bahamian dollars)

#### 11. Capital (Continued)

	2017 \$	2016 \$
<i>Issued and Fully Paid</i>		
28,866,670 ordinary shares of \$0.30 each	8,660,001	8,660,001
Share premium	<u>11,890,000</u>	<u>11,890,000</u>
	20,550,001	20,550,001
67,881 (2016: 78,821) ordinary shares held in treasury	<u>(186,673)</u>	<u>(216,758)</u>
<b>Total</b>	<b><u>20,363,328</u></b>	<b><u>20,333,243</u></b>
1,500,000 preference shares of \$1.00 each	1,500,000	1,500,000
Share premium	<u>13,500,000</u>	<u>13,500,000</u>
<b>Total</b>	<b><u>15,000,000</u></b>	<b><u>15,000,000</u></b>

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 2017, 1,500,000 preference shares are eligible for redemption by the Bank. Preference shareholders rank in priority to ordinary shareholders.

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

The Bank has an employee share ownership trust, which was established through the issuance of 200,000 ordinary shares at \$2.75 per share, representing the fair value of ordinary shares based on BISX prices at the date of establishment. For the year ended 31 December 2017, share based compensation to employees resulted in 10,940 (2016: 29,000) ordinary shares being issued by the trust, with the remaining shares treated as treasury shares. The ordinary shares issued to employees were valued at \$10.00 (2016: \$6.79) per share with an equivalent expense recognised in salaries and employee benefits.

#### 12. Earnings per Share

	2017 \$	2016 \$
Net income attributable to ordinary shareholders	<u>20,078,118</u>	<u>20,635,088</u>
Weighted average number of ordinary shares outstanding	<u>28,795,142</u>	<u>28,776,198</u>
<b>Earnings per share</b>	<b><u>0.70</u></b>	<b><u>0.72</u></b>

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 13. General and Administrative Expenses

	2017	2016
	\$	\$
Office expenses	3,862,295	3,504,592
Bank and business licence fees	2,869,982	2,305,253
Public relations expenses	801,284	970,646
Premises related costs	589,971	601,045
Legal and professional fees	578,394	432,799
Directors' cost	148,183	112,981
Other	1,464,019	875,225
	<u>10,314,128</u>	<u>8,802,541</u>
<b>Total</b>	<b><u>10,314,128</u></b>	<b><u>8,802,541</u></b>

#### 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 Royal Fidelity Pension & Investment Services Limited.

Employees in the Plan contribute a percentage of gross salary, and the Group matches employee contributions. The Group's contributions vest 20% 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 2017 totalled \$279,593 (2016: \$295,321).

#### 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 business 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; there are no material items of income and expense between business segments.

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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 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:

	2017	2016
	\$	\$
<b>ASSETS</b>		
Cash at banks		
Other related parties	8,553,960	3,868,510
Loans and advances to customers		
Key management personnel	2,197,110	1,394,201
Other assets		
The Parent	472,634	544,008

Cash at banks earn interest at rates ranging from 0.00% to 1.50% (2016: 0.00% to 1.00%) per annum, and mature within one (1) year.

Loans and advances to customers earn interest at rates ranging from 0.00% to 12.00% (2016: 0.00% to 12.00%) per annum, with maturities up to twenty-four (24) years. There are no provisions for loan losses in respect of these balances.

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

	2017	2016
	\$	\$
<b>LIABILITIES</b>		
Deposits from customers		
The Parent	1,267,059	181,574
Key management personnel	2,765,913	530,228
Other related parties	23,060,623	19,665,442
Debt securities		
Key management personnel	35,000	35,000
Other related parties	14,013,700	13,788,200

Deposits from customers carry interest rates ranging from 0.00% to 5.00% (2016: 2.00% to 5.00%) per annum, and mature within one (1) year.

#### EQUITY

As of 31 December 2017, key management personnel and other related parties hold 1,693,694 (2016: 1,701,134) outstanding ordinary shares and 520,081 (2016: 574,400) outstanding preference shares.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 16. Related Party Balances and Transactions (Continued)

	2017	2016
	\$	\$
<b>INCOME</b>		
Interest income		
The Parent	-	762
Key management personnel	55,160	50,932
Other related parties	26,945	23,299
Interest expense		
The Parent	39,338	3,198
Key management personnel	35,906	27,908
Other related parties	30,159	59,003
Fees and commissions		
Other related parties	54,715	52,745
<b>EXPENSES</b>		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	130,138	107,522
Key management personnel (executive Directors and other)	1,285,291	1,099,207
Costs allocated from related parties		
The Parent	700,000	700,000
Costs allocated to related parties		
Other related parties	(2,183,408)	(2,105,551)

The Bank receives certain services from the Parent, with the charges for these services expensed in the relevant expense accounts to which the services relate. The Bank 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 2017, the Group had outstanding loan commitments amounting to \$7,650,961 (2016: \$9,033,298).

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 17. Commitments (Continued)

##### *Lease commitments*

The future minimum rental payments required under non-cancellable leases as of 31 December 2017 are as follows:

	2017	2016
	\$	\$
2017	-	593,836
2018	616,975	572,652
2019	580,091	535,600
2020	434,907	389,343
2021	285,294	239,558
2022 and later	51,934	-
<b>Total</b>	<b><u>1,969,201</u></b>	<b><u>2,330,989</u></b>

#### 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. Reserve for Credit Losses

The reserve for credit losses was created by the Bank through the appropriation of retained earnings in order to meet the requirements of the Central Bank for credit loss provisions. The reserve represents the Bank's provision required by the Central Bank in excess of amounts calculated in accordance with IFRS.

#### 20. 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.

##### *Impairment losses on loans and advances to customers*

The Group reviews its loan portfolios to assess impairment on a quarterly basis or more frequently when the need arises. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence for an individual financial asset includes: significant financial difficulty of the borrower; a breach of contract, such as delinquency in interest or principal payments; and actual or probable bankruptcy or other financial reorganisation of the borrower. Loans for which no specific impairment has been identified are grouped with similar loans in a portfolio and the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from that portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or economic conditions that correlate with defaults on financial assets.



## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

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

##### *Impairment losses on loans and advances to customers (continued)*

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. asset type, collateral, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Further, the fair value of collateral factors into the estimation of future cash flows and therefore an assessment of conditions that could impact the realisable value of collateral is also performed.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group, historical loss experience for financial assets with similar credit risk characteristics, collateral held in support of financial assets and objective evidence of impairment similar to those in the portfolio. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the loss experience ratios used in the calculation of provision for loan losses to differ by +/-0.50%, the provision for loan losses would be increased/decreased by \$2,068,825.

#### 21. Capital Management

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

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques designed to ensure compliance with guidelines established by the Central Bank, 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 2017 and 2016, the Group complied with all of the externally imposed capital requirements to which it is subject.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

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#### 22. 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 provisions for loan losses, through lending to commercial and retail borrowers with a range of credit standings. Such exposures comprise loans and advances to customers, as well as off-balance sheet exposures including guarantees and other commitments such as letters of credit, and performance and other bonds.

Credit risk is one of the most significant risks facing the Group and management therefore carefully manages its exposure to credit risk. Impairment provisions are provided for losses incurred 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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

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(Continued)

(Expressed in Bahamian dollars)

#### 22. Financial Risk Management (Continued)

##### *Credit risk (continued)*

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

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

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed. Investment securities with credit risk comprise debt securities issued by the Government of the Commonwealth of The Bahamas, which currently maintains investment grade credit ratings.

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.

The table below analyses the composition of the Group's loan portfolio as of 31 December 2017.

	2017		2016	
	\$	%	\$	%
Consumer	336,979,950	79.79	308,334,328	76.98
Family residential property	57,342,927	13.58	63,913,499	15.96
Undeveloped land	11,423,704	2.71	12,089,611	3.02
Cash secured	5,964,383	1.41	5,741,051	1.43
Overdrafts	3,719,002	0.88	3,514,331	0.88
Commercial property	1,894,560	0.45	1,935,445	0.48
Other	5,000,000	1.18	5,000,000	1.25
	<u>422,324,526</u>	<u>100.00</u>	<u>400,528,265</u>	<u>100.00</u>

The average mortgage loan balance is \$81,000 (2016: \$86,000) and the average consumer loan balance is \$39,000 (2016: \$37,000) with the largest exposure to a single customer totalling approximately \$5,000,000 (2016: \$5,000,000). Mortgage loans can extend up to twenty-five (25) years, and consumer loans up to ten (10) years.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

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(Continued)

(Expressed in Bahamian dollars)

#### 22. Financial Risk Management (Continued)

##### *Credit risk (continued)*

The table below analyses loans and advances to customers by payment status as of 31 December 2017.

	2017		2016	
	\$	%	\$	%
<b>Not impaired</b>				
– Neither past due nor impaired	388,850,647	92.07	367,452,469	91.74
– Past due but not impaired	18,832,135	4.46	17,956,839	4.48
<b>Impaired</b>				
– Past due up to 3 months	1,316,716	0.31	1,469,981	0.37
– Past due 3 – 6 months	3,394,501	0.80	2,911,509	0.73
– Past due 6 – 12 months	1,994,304	0.48	1,435,223	0.36
– Past due over 12 months	7,936,223	1.88	9,302,244	2.32
	<b>422,324,526</b>	<b>100.00</b>	<b>400,528,265</b>	<b>100.00</b>
<b>Provision for loan losses</b>				
– Individually impaired	8,557,828	82.60	8,382,012	80.22
– Portfolio allowance	1,803,293	17.40	2,066,498	19.78
	<b>10,361,121</b>	<b>100.00</b>	<b>10,448,510</b>	<b>100.00</b>

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

	Mortgages	Consumer	Other	Total
	\$	\$	\$	\$
<b>31 December 2017</b>				
Past due up to 3 months	3,231,496	1,642,149	554,990	5,428,635
Past due 3 – 6 months	778,472	-	191,746	970,218
Past due 6 – 12 months	1,458,680	-	814,342	2,273,022
Past due over 12 months	10,079,324	-	80,936	10,160,260
<b>Total past due but not impaired</b>	<b>15,547,972</b>	<b>1,642,149</b>	<b>1,642,014</b>	<b>18,832,135</b>
<b>31 December 2016</b>				
Past due up to 3 months	3,472,585	2,170,217	443,886	6,086,688
Past due 3 – 6 months	992,664	-	119,771	1,112,435
Past due 6 – 12 months	1,542,788	-	19,091	1,561,879
Past due over 12 months	9,195,837	-	-	9,195,837
<b>Total past due but not impaired</b>	<b>15,203,874</b>	<b>2,170,217</b>	<b>582,748</b>	<b>17,956,839</b>

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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements 31 December 2017 (Continued) (Expressed in Bahamian dollars)

#### 22. Financial Risk Management (Continued)

##### *Credit risk (continued)*

As of 31 December 2017, the individually impaired loans can be analysed as follows:

	<b>Mortgages</b>	<b>Consumer</b>	<b>Other</b>	<b>Total</b>
<b>31 December 2017</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Carrying amount	<u>7,208,946</u>	<u>6,846,682</u>	<u>586,116</u>	<u>14,641,744</u>
Provision for loan losses	<u>2,845,040</u>	<u>5,529,966</u>	<u>182,822</u>	<u>8,557,828</u>
<b>31 December 2016</b>				
Carrying amount	<u>8,540,467</u>	<u>6,285,496</u>	<u>292,994</u>	<u>15,118,957</u>
Provision for loan losses	<u>3,383,065</u>	<u>4,685,975</u>	<u>312,972</u>	<u>8,382,012</u>

##### Renegotiated loans and advances to customers

Restructuring activities include extended payment arrangements and modification and deferral of payments. Restructuring policies and practices are determined based on indicators or criteria that indicate that payment will most likely continue, and such policies are under constant review. Renegotiated loans and advances that would otherwise be past due or impaired totalled \$14,863,000 (2016: \$16,901,000) as of 31 December 2017.

##### 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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

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(Continued)

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#### 22. Financial Risk Management (Continued)

##### *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 2017, the Group is exposed to fair value interest rate risk on \$45,463,170 (2016: \$34,185,670) of its investments in Government debt securities, which are at fixed interest rates with maturity dates ranging from 2018 to 2031 (2016: 2018 to 2031). The remainder of debt securities in the Group's investment portfolio are at variable rates linked to the B\$ Prime rate.

As of 31 December 2017, the Group is exposed to fair value interest rate risk on debt securities with principal balances totalling \$10,000,000 (2016: \$15,000,000) of its debt securities which are at fixed interest rates, and does not hedge against this risk. The remaining debt securities are at variable interest rates linked to the B\$ Prime rate.

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.

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

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#### 22. Financial Risk Management (Continued)

*Interest rate risk (continued)*

31 December 2017	Immediate Repricing \$	Up to 3 months \$	3 to 12 months \$	12 months to 5 years \$	More than 5 years \$	Non-interest bearing \$	Total \$
<b>ASSETS</b>							
Cash on hand and at banks	4,808,747	-	-	-	-	99,050,239	103,858,986
Investment securities	42,555,968	10,311,239	500,658	11,473,280	23,655,622	-	88,496,767
Loans and advances to customers	74,459,413	533,262	904,401	43,177,487	288,323,653	1,246,021	408,644,237
Other assets	-	-	-	-	-	2,599,954	2,599,954
<b>Total financial assets</b>	<b><u>121,824,128</u></b>	<b><u>10,844,501</u></b>	<b><u>1,405,059</u></b>	<b><u>54,650,767</u></b>	<b><u>311,979,275</u></b>	<b><u>102,896,214</u></b>	<b><u>603,599,944</u></b>
<b>LIABILITIES</b>							
Deposits from customers	82,276,951	107,581,799	215,917,452	44,688,610	-	43,051,757	493,516,569
Accrued expenses and other liabilities	-	-	-	-	-	1,004,008	1,004,008
Debt securities	<u>29,900,627</u>	<u>-</u>	<u>10,032,336</u>	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>43,932,963</u>
<b>Total financial liabilities</b>	<b><u>112,177,578</u></b>	<b><u>107,581,799</u></b>	<b><u>225,949,788</u></b>	<b><u>48,688,610</u></b>	<b><u>-</u></b>	<b><u>44,055,765</u></b>	<b><u>538,453,540</u></b>
<b>Interest repricing gap</b>	<b><u>9,646,550</u></b>	<b><u>(96,737,298)</u></b>	<b><u>(224,544,729)</u></b>	<b><u>5,962,157</u></b>	<b><u>311,979,275</u></b>	<b><u>58,840,449</u></b>	

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 22. Financial Risk Management (Continued)

##### *Interest rate risk (continued)*

31 December 2016	Immediate Repricing \$	Up to 3 months \$	3 to 12 months \$	12 months to 5 years \$	More than 5 years \$	Non-interest bearing \$	Total \$
<b>ASSETS</b>							
Cash on hand and at banks	1,818,211	-	-	-	-	73,401,713	75,219,924
Investment securities	42,526,844	10,099,369	-	1,376,465	23,126,723	-	77,129,401
Loans and advances to customers	80,221,485	392,380	1,295,566	43,750,182	259,496,153	1,647,796	386,803,562
Other assets	-	-	-	-	-	3,161,364	3,161,364
<b>Total financial assets</b>	<b>124,566,540</b>	<b>10,491,749</b>	<b>1,295,566</b>	<b>45,126,647</b>	<b>282,622,876</b>	<b>78,210,873</b>	<b>542,314,251</b>
<b>LIABILITIES</b>							
Deposits from customers	69,859,175	103,967,024	182,818,868	42,403,538	-	31,834,487	430,883,092
Accrued expenses and other liabilities	-	-	-	-	-	870,908	870,908
Debt securities	29,843,715	-	5,059,444	13,989,371	-	-	48,892,530
<b>Total financial liabilities</b>	<b>99,702,890</b>	<b>103,967,024</b>	<b>187,878,312</b>	<b>56,392,909</b>	<b>-</b>	<b>32,705,395</b>	<b>480,646,530</b>
<b>Interest repricing gap</b>	<b>24,863,650</b>	<b>(93,475,275)</b>	<b>(186,582,746)</b>	<b>(11,266,262)</b>	<b>282,622,876</b>	<b>45,505,478</b>	

As of 31 December 2017, an increase/decrease in market interest rates by 0.50%, with all other variables remaining constant, would increase/decrease net income by \$56,170.

##### *Price risk*

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



## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 22. 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 2017	Repayable on demand \$	Up to 3 months \$	3 to 12 months \$	12 months to 5 years \$	More than 5 years \$	Total \$
<b>ASSETS</b>						
Cash on hand and at banks	103,858,986	-	-	-	-	103,858,986
Investment securities	-	11,501,780	3,666,773	35,190,320	72,528,151	122,887,024
Loans and advances to customers	3,719,002	37,877,525	61,448,847	295,586,254	316,230,034	714,861,662
Other assets	-	2,599,954	-	-	-	2,599,954
<b>Total financial assets</b>	<b><u>107,577,988</u></b>	<b><u>51,979,259</u></b>	<b><u>65,115,620</u></b>	<b><u>330,776,574</u></b>	<b><u>388,758,185</u></b>	<b><u>944,207,626</u></b>
<b>LIABILITIES</b>						
Deposits from customers	125,328,706	108,275,421	219,254,386	45,428,361	-	498,286,874
Accrued expenses and other liabilities	-	1,004,008	-	-	-	1,004,008
Debt securities	-	-	12,420,000	41,510,000	-	53,930,000
<b>Total financial liabilities</b>	<b><u>125,328,706</u></b>	<b><u>109,279,429</u></b>	<b><u>231,674,386</u></b>	<b><u>86,938,361</u></b>	<b><u>-</u></b>	<b><u>553,220,882</u></b>
<b>Net liquidity gap</b>	<b><u>(17,750,718)</u></b>	<b><u>(57,300,170)</u></b>	<b><u>(166,558,766)</u></b>	<b><u>243,838,213</u></b>	<b><u>388,758,185</u></b>	
<b>Loan commitments</b>	<b><u>7,650,961</u></b>					

## Fidelity Bank (Bahamas) Limited

### Notes to the Consolidated Financial Statements

31 December 2017

(Continued)

(Expressed in Bahamian dollars)

#### 22. Financial Risk Management (Continued)

*Liquidity risk (continued)*

31 December 2016	Repayable on demand \$	Up to 3 months \$	3 to 12 months \$	12 months to 5 years \$	More than 5 years \$	Total \$
<b>ASSETS</b>						
Cash on hand and at banks	75,219,924	-	-	-	-	75,219,924
Investment securities	-	1,171,067	11,929,316	22,410,999	71,615,808	107,127,190
Loans and advances to customers	3,514,331	35,323,656	58,310,215	285,025,234	299,346,731	681,520,167
Other assets	-	3,161,364	-	-	-	3,161,364
<b>Total financial assets</b>	<b><u>78,734,255</u></b>	<b><u>39,656,087</u></b>	<b><u>70,239,531</u></b>	<b><u>307,436,233</u></b>	<b><u>370,962,539</u></b>	<b><u>867,028,645</u></b>
<b>LIABILITIES</b>						
Deposits from customers	101,693,662	103,204,439	188,044,191	43,851,764	-	436,794,056
Accrued expenses and other liabilities	-	870,908	-	-	-	870,908
Debt securities	-	-	8,070,000	43,330,000	10,600,000	62,000,000
<b>Total financial liabilities</b>	<b><u>101,693,662</u></b>	<b><u>104,075,347</u></b>	<b><u>196,114,191</u></b>	<b><u>87,181,764</u></b>	<b><u>10,600,000</u></b>	<b><u>499,664,964</u></b>
<b>Net liquidity gap</b>	<b><u>(22,959,407)</u></b>	<b><u>(64,419,260)</u></b>	<b><u>(125,874,660)</u></b>	<b><u>220,254,469</u></b>	<b><u>360,362,539</u></b>	
<b>Loan commitments</b>	<b><u>9,033,298</u></b>					

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 2017 and 2016.

As of 31 December 2017, principal and interest balances of the deposits of the ten (10) largest customers totalled \$156,663,140 (2016: \$126,274,417) representing 31.74% (2016: 29.31%) of total deposits from customers.

## **Fidelity Bank (Bahamas) Limited**

### **Notes to the Consolidated Financial Statements**

**31 December 2017**

**(Continued)**

**(Expressed in Bahamian dollars)**

#### **22. 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 1:1.

#### **23. 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.

#### **24. Fair Values of Financial Instruments**

Financial instruments utilised by the Group comprise the recorded financial assets and liabilities disclosed in the consolidated financial statements. The Group's financial instruments are principally short term in nature, have interest rates that reset to market rates, or are carried at fair value; accordingly, their fair values approximate their carrying values. For long term financial assets and financial liabilities with fixed interest rates, despite a change in market rates since the issuance of the financial liabilities 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 as the discount 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 30 June 2011.

#### **25. Subsequent Events**

Subsequent to year end, the Directors approved a dividend on ordinary shares in the amount of \$0.25 per share and 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.