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FIDELITY

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Fidelity Bank Reports Q1 2018 Results

The financial position and performance of Fidelity Bank (Bahamas) Limited as of 31 March 2018 and for the three (3) months then ended are attached.

The Bank has experienced continued growth in the first quarter of 2018, with its asset/liability management strategies and lending practices yielding positive results. The loans and advances portfolio grew by $5,000,000 during the period, which along with the growth in the loans and advances portfolio of the prior full year has contributed to an increase in interest income of $1,000,000 (7%) over the corresponding period. The persistent significant liquidity in the domestic commercial banking sector, along with the still subdued domestic lending activity, continues to depress market interest rates which has led to lower interest expense for the Bank during the period. Overall, net interest income has increased by $1,300,000 (12%) over the corresponding period, with total income increasing by $1,200,000 (10%) over the corresponding period.

Operating expenses, excluding provision for loan losses, increased by $600,000 (12%) in large part due to resources necessary to facilitate the Bank's growth strategy and banking and business license fees as the assets and revenues of the Bank, on which such fees are charged, continue to grow. This increase was in part offset by the Bank's share of profits of its joint ventures, principally Royal Fidelity Merchant Bank & Trust Limited, the results of which were bolstered by successful capital raising activities in the first quarter.

Overall, net income increased by $650,000 (12%) over the corresponding period.

The first quarter also experienced the introduction of new accounting policies required by International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9). IFRS 9, effective 1 January 2018, requires a change in the Bank's accounting policies relative to its financial assets, principally its loans and advances to customers. The new accounting policies calculate provisions for loan losses based on an expected loss model, as opposed to an incurred loss model. In simple terms, the Bank is required to make provisions for all loans and advances to customers based on the expectation of the portion of loans and advances that will experience challenges in collection. Financial institutions apply interest rates on loans and advances based on the determined risk of challenges with collection (that is, the higher the risk, the higher the interest rate and vice versa), and IFRS 9 now requires the financial institutions to reduce the value of loans and advances by the expected loss experience, regardless of whether loans and advances are being serviced according to the terms of the loans and advances or not. Prior to 1 January 2018, provisions for loan losses were only recognized when loans and advances stopped performing according to the relevant terms. This change in accounting policy has resulted in the Bank increasing its provision for loan losses on its loans and advances portfolio by $6,700,000 shown in the consolidated statement of changes in equity for the three (3) months ended 31 March 2018. While expenses related to provisions for loan losses can increase as well, this adjustment due to the change in accounting policies represents a one (1) time adjustment. As reported for the expense for provision for loan losses in the first quarter, the Bank's lending practices have been balanced to achieve growth but not at the expense of acceptable credit risk; the period expense is consistent with the corresponding period under the old accounting policies, indicating the consistency in the lending policies of the Bank. The Bank's loss experience remains very strong in comparison to industry and competitor statistics and accordingly, the impact to the Bank is expected to be less than the impact of the change on competitors, relative to size of the loans and advances portfolio.

Other impacts of adopting IFRS9 will be disclosed in the audited financial statements for the year ended 31 December 2018, including the change in classification of investment securities and expanded disclosures. No additional quantitative impacts are expected.

The Bank's capital adequacy ratios remain strong, as financial performance for the first quarter has effectively compensated for the reduction in equity resulting from changes in accounting policies, and there is no anticipated impact on the Bank's policy regarding the declaration of dividends. Further, as published, the Bank will be utilizing $10,000,000 of surplus cash resources to redeem debt securities maturing in May 2018, further reducing interest expense of the Bank.

The first quarter represented an eventful one, with the operational achievements and financial reporting changes, which will calibrate throughout the first year of adoption. However, the financial position and performance demonstrates the soundness of strategies and practices of the Bank.

About Fidelity

Fidelity Bank (Bahamas) Limited is a 75% held subsidiary of Fidelity Bank & Trust International Limited (FBT) with the balance owned by the Bahamian public. FBT is a bank holding company incorporated in The Bahamas with licensed retail banking subsidiaries in The Bahamas and the Cayman Islands. FBT operates primarily in the personal banking segment and has consolidated assets of over $600 million. FBT also has a joint venture with Royal Bank of Canada which provides investment banking, corporate finance, and wealth management services through a 50/50 ownership of Royal Fidelity Merchant Bank &Trust Limited, which has operations in The Bahamas and Barbados.

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