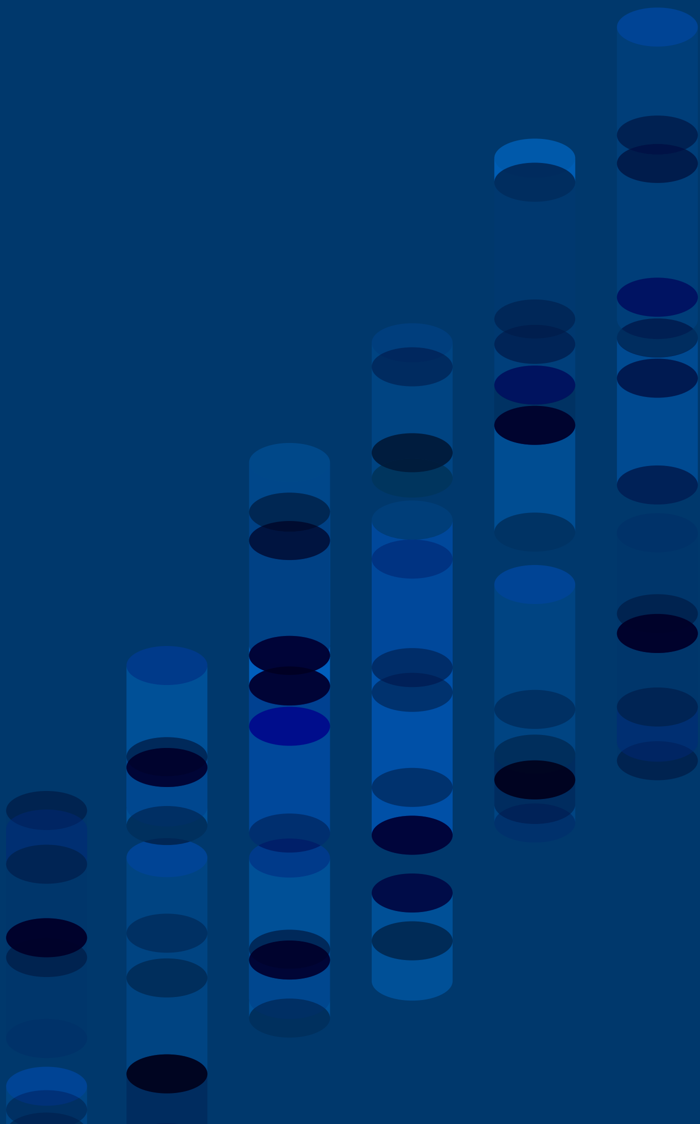
FIDELITY

Outstanding Year 2013

Strategy
Execution
Growth



FIDELITY

Board of Directors

Sir William Allen	*Chairman*
Anwer J. Sunderji	*Chief Executive Officer*
Jennifer P. Dilbert	*Director*
J. Nicholas Freeland	*Director*
Scott Elphinstone	*Director*
D. Anthony Jones	*Director*

Contents

Financial Highlights

For the years ended 31 December	2013	2012	% Change	2011	2010	2009	2008
Interest Income	39,541	33,205	19%	27,866	22,252	20,564	18,596
Interest Expense	(13,709)	(12,360)	6%	(12,360)	(11,647)	(11,156)	(9,813)
Net Interest Income	25,832	20,252	28%	15,506	10,605	9,408	8,783
Provision for Loan Losses	(6,148)	(3,954)	55%	(1,994)	(1,182)	(1,316)	(231)
Net Interest Income after Provision for Loan Losses	19,684	16,298	21%	13,512	9,423	8,092	8,552
Non-Interest Income	4,708	3,818	23%	3,694	4,020	5,059	5,140
Non-Interest Expenses	(14,658)	(13,702)	7%	(13,362)	(11,870)	(11,794)	(12,379)
Net Income	9,735	6,414	52%	3,844	1,573	1,357	1,313
Book Value	$ 1.45	$ 1.32	10%	$ 1.26	$ 1.21	$ 1.16	$ 1.15
Cash Dividends	$ 0.14	$ 0.14	0%	$ 0.07	$ -	$ 0.04	$ 0.04
Year End Share Price	$ 3.01	$ 2.10	43%	$ 1.77	$ 2.17	$ 2.37	$ 2.37
Weighted Average Ordinary Shares Outstanding	28,685,045	28,666,670	0.06%	28,666,670	28,666,670	28,666,670	28,666,670
Total Assets	444,188	386,854	15%	349,910	282,198	275,530	272,491
Investment Securities	47,901	38,232	25%	27,987	29,173	28,153	36,616
Loans and Advances	313,762	278,420	13%	243,921	212,665	200,122	198,862
Net Write-offs	3,442	2,353	46%	1,683	20	162	7
Deposits from Customers	354,454	307,934	15%	272,888	220,728	217,035	210,700
Total Equity	53,160	49,262	8%	47,172	34,722	33,149	32,969
Total Ordinary Shareholders' Equity	41,649	37,751	10%	36,161	34,722	33,149	32,969
Earnings Per Share	$ 0.31	$ 0.20	55%	$ 0.13	$ 0.05	$ 0.05	$ 0.05
Price/Earnings	9.71x	10.50x	-8%	13.62x	43.40x	47.40x	47.40x
Price/Book Value	2.08x	1.59x	31%	1.40x	1.79x	2.04x	2.06x
Dividend Yield	4.65%	6.67%	-30%	3.95%	0.00%	1.69%	1.69%
Return on Average Assets (ROAA)	2.34%	1.74%	35%	1.22%	0.56%	0.50%	0.53%
Return on Average Ordinary Shareholders' Equity (ROAE)	22.49%	15.16%	48%	10.30%	4.64%	4.10%	3.99%
Efficiency Ratio	48.00%	56.93%	-16%	69.59%	81.16%	81.52%	88.91%
Net Interest Margin	7.62%	6.88%	11%	6.04%	4.51%	4.06%	4.12%

Meet our Executive Officers

BACK ROW:

Crestwell Gardiner, *Vice President, Lending*

Andrew Pike, *Group Information Officer*

Thomas F. Hackett, *Group Chief Financial Officer*

Michael A. Anderson, *President, Royal Fidelity Merchant Bank & Trust*

FRONT ROW:

Anwer J. Sunderji, *Chief Executive Officer*

Tangela Albury, *Chief of Compliance & Internal Audit*

Gregory H. Bethel, *President, Retail Banking*

Judy A. Higgs, *Vice President & Corporate Secretary*

Chairman's Report

The Bahamian economy in 2013 continued to struggle with growth estimated at less than one per cent which was the lowest since the recovery began in 2010. Reflecting mainly a weakness in tourism performance, this mild economic growth was accompanied by continuing high levels of unemployment, fiscal strain, and a contraction in external reserves for a second straight year. For a second straight year, domestic credit to the private sector decreased while credit to the public sector was expanded. And there was further deterioration in the commercial banks' loan quality.

Sir William Allen, K.C.M.G., J.P

Profitability

THE CONTINUING SUCCESS OF OUR BANK IS A SOURCE OF ENORMOUS PRIDE AND IT GIVES ME GREAT PLEASURE ON BEHALF OF OUR BOARD OF DIRECTORS TO EXPRESS GRATITUDE TO OUR CUSTOMERS TO WHOM SERVICE IS OUR PRIVILEGE. WE ACKNOWLEDGE AND APPLAUD THE DEDICATION OF OUR MANAGEMENT AND STAFF AND THANK OUR SHAREHOLDERS FOR CONTINUING TO REPOSE THEIR CONFIDENCE IN US.

As it did throughout the entire period of the recession, the Bank successfully navigated the year's troubled economy and continued to expand its service to customers, increasing both its assets and profits, despite the economic headwinds. In the six years since the end of 2007 when the global recession began, the Bank nearly doubled its assets which expanded from $223.6 million at the end of 2007 to $444.2 million at the end of 2013. The Bank has historically traded on a maneuverability deriving from its size and agility in order to respond quickly to market impulses, to fashion products to meet evolving customer needs and to change its focus as necessary to reflect market realities.

This strategy has enabled the Bank to prosper in a highly competitive arena of relative giants.

It is likely that the economic turn-around which began in 2010 will begin to gain traction and become more convincing in the near-term as projects now underway come to completion. The improved economic performance and a consequent reduction in unemployment should benefit commercial banks' loan quality as well as improve the balance sheet of consumers generally, bringing them back to credit markets and adding sustainability to economic growth.

In the context of reflecting on this likelihood of more sustainable economic growth there may be some usefulness in also reflecting on a concern now coming into focus which has the potential to unsettle our economic situation. Current Account deficits have historically been associated with our balance of international payments and our ability to finance them on the Capital and Financial Account mainly through inflows of Foreign Direct Investment has been an assumption which we comfortably took for granted. In recent times these deficits have begun to widen, driven by what appears to be structural changes in aspects of our balance of payments, and our ability to finance them in the traditional way now seems less assured.

Trade data and estimates of National Income are always subject to change and are under constant revision but recent estimates of these data suggest that a troublesome realignment of our external accounts may be underway.

Although the Current Account deficit has been a constant feature of our balance of payments since reasonably reliable data were recorded in the mid-1960's, its financing has been relatively routine.
That appears no longer to be the case. The absolute level of the deficits since the latest recovery began seems well beyond the level of Foreign Direct Investment to finance. Reliance is now on foreign currency borrowing to balance our international accounts and the rapid increase in the level of foreign currency debt confirms that.

The absolute level of the Current Account deficit has doubled since the recovery began, rising from an estimated $813 million at the end of 2010 to an estimated $1,637 million at the end of 2013. The ratio of this level of deficit to GDP at constant prices represents also a doubling from 10% to 20%. The cumulative Current Account deficits for the four-year period from 2010 amounts to just over $5 billion. Meanwhile the level of foreign currency debt has grown from $1,375 million at the end of 2010 to $2,127 million at the end of 2013, notwithstanding that there was during the period a significant foreign exchange inflow by way of the Capital Account as a result of the sale of a substantial portion of a major capital asset.

This does raise a question about the net foreign exchange content of tourism spending and the desirability of creating linkages between the sector and the domestic economy so as to improve it. It also suggests that the net foreign cost of construction activity is enormously high even though a substantial proportion of it is thought to be foreign-investment driven. The elephant in the room, however, that so far has been able to avoid our active focus is the substantial proportion of our import bill devoted to energy. At 29% of total merchandise imports, oil for domestic consumption has more than doubled its proportion since the various energy crises have redefined global economic circumstances. Given the relative proportion of our balance of payments difficulty represented in this one component, it may not be long before it absolutely has to be addressed.

There are other challenges to our economic welfare that are on the horizon whose impacts may not be easily forecast but which are certainly non-neutral. One such challenge is the pending imposition of VAT or what ever other name an additional tax is called. There can be little doubt that some tax measure is required to address a fiscal gap that is inexorably leading to a fiscal crisis. Perhaps the one thing worse than not dealing with this tax measure is a fiscal gap remaining after a new tax is imposed. Quite how the measure will impact our economic circumstances is still to be determined, but it is not expected to be neutral as it transfers resources to the public sector from the private sector where it will also likely have an effect on income distribution.

Another pending development of some consequence is accession to the World Trade Organization (WTO) which is presently being negotiated and over which concern has been expressed by some members of the public. The concern primarily relates to the modification of our system of Customs tariffs and arrangements which the criteria for WTO membership imposes. The logic of the critics is that there is little justification to alter something that has worked reasonably well for years in order to engage in an excursion into the unknown whose outcome is at best uncertain and whose benefit is difficult to articulate.

The other point of view is that the WTO is a rules-based organization providing a forum for the negotiation of international trade agreements and for the settlement of trade disputes whose membership may be more revealing by the few, mostly 'outcast' countries, which are not included. There is little doubt that the best terms of membership for The Bahamas would be seen by the critics as those arrangements which require the least WTO-inspired change to the status quo. Like the imposition of VAT, accession to the WTO implies change to our economic arrangements which would have consequences for economic performance and welfare. And like VAT, its imposition seems inevitable yet unlikely to pose any long-term danger.

Another development now working its way toward some kind of rapprochement in the medium term is the Toynbeean 'Challenge and Response' interactions that have characterised the relationship between the industrial taxing jurisdictions and the offshore financial services centres for years. The industrial jurisdictions' challenges have been moving ever closer toward neutralising the tax advantage of the non-taxing offshore jurisdictions and they appear now to be arriving at that place. The cumulative effect of various initiatives, including the recent endorsement of the new Single Global Standard on Automatic Exchange of Information by the 34 members of the OECD and the Foreign Account Tax Compliance Act (FATCA) of the United States, appears to have effectively neutralised that tax advantage.
The response from The Bahamas, as from other Offshore jurisdictions, is to redefine the style and nature of the services they can provide so as to go beyond the temporary fix of staying a step ahead of the next challenge of the taxing jurisdictions as they once did. There can be little doubt that trading on a tax advantage between jurisdictions is no longer able to sustain the viability of the Offshore jurisdictions. That viability now depends upon the wisdom and creative thoughtfulness of the Offshore response to this final challenge.

There is a natural dynamism to our economic circumstances and it is without doubt that the economic environment will continue to be challenging even though on balance the immediate prospects for expanded growth are encouraging. The various developments we are able to identify will likely have impacts on economic circumstances in the near to medium term. To be sure your Bank will respond with the same soundness of judgment and vigour that have always characterised its performance and will willingly play its part in cooperation with the Government and its institutional partners to secure our common future.

I am grateful to my colleagues on the Board for their wise counsel and sound contributions. And finally we express our sincere thanks and best wishes to our colleague Peter Andrews who retired from the Board. We shall truly miss his thoughtful contribution to our deliberations.

Sir William Allen, K.C.M.G., J.P
CHAIRMAN

Message from the CEO

2013 was a good year for the Bank despite the headwinds from a tepid economy, high unemployment, muted credit demand and continuing deterioration in asset quality. Net income increased by 52% to $9.735 million and Earnings Per Share (EPS), or profits attributable to ordinary shareholders, increased to $0.31 from $0.20, or by 55%. The strong growth in earnings was driven largely by a continuing growth in the Bank's loan book (up 13%) despite the difficult economic environment.

Anwer J. Sunderji, MA, MBA

To Our Shareholders,

Total Assets grew to $444 million, up 15%, and Loan and Advances grew by $35 million. The growth in loans and advances and total assets was fueled by a 15% growth in deposits. Liquidity in the banking system remained robust and the Bank benefited from this growth with easing of deposit rates resulting in net interest margin improving by 11% to 7.6%. The Bank's Liquidity Ratio as measured by the percentage of average cash and securities to average total assets has remained consistant year over year.

Profitability Safety Liquidity

LIQUIDITY IN THE BANKING SYSTEM REMAINED ROBUST AND THE BANK BENEFITED FROM THIS GROWTH WITH EASING OF DEPOSIT RATES RESULTING IN NET INTEREST MARGIN IMPROVING BY 11% TO 8.22%.

Return on Average Assets (ROAA) jumped to 2.3% (2012 1.7%), Return on Average Shareholder Equity (ROAE) to 22.5% (2012 15.2%) and the Efficiency Ratio which measures the percentage of revenue consumed by operating expenses, to 48% (2012 57%). These are all respectable performance figures, and exceed management targets, and demonstrate the long way the Bank has come since 2008.

Consistent with the profitability growth, the Bank's share price soared by 43% in 2013 (2012 19%), and together with the dividend payout of $0.14 per share, represented a return of close to 50% to shareholders (2012 26%). The share price closed at $3.01 at year-end representing a Price to Earnings (P/E) multiple of a modest 9.71X and a dividend yield of 4.7%.

While there is no firm policy on the dividend payout ratio, the 2013 dividend of $0.14 constituted about 45% of net income attributable to ordinary shareholders, portending to the possibility of higher dividends should income continue to grow and capital demands are contained. Consistent with this possibility, the Bank paid a dividend of $0.10 per share in May 2014.

Non-Performing Loans (NPL) as a percentage of Total Loans increased to 8.3% (2012 7.8%) despite strenuous efforts to assist borrowers to restructure their loans, but remained well below industry benchmarks of 15.7%. During the year, provisions for loan losses were increased to $6.1 million, or 55% compared to prior year reflecting the continuing difficulty in managing the mortgage loan book in this recessionary environment.

Total provisions for loan losses as a percentage of NPLs jumped to 34% from 29% as the Bank sought to recognise the deterioration in the loan book, but remained below the industry benchmark of 46% and consistent with the Bank's lower NPL ratio. Ultimately, an increase in economic growth and improved employment prospects will be crucial to driving delinquency rates lower. There is much expectation that the opening of Baha Mar resort late in 2014 will be the beginning of this anticipated recovery.

At mid-year, the Bank purchased a 50% stake in Royal Fidelity Merchant Bank & Trust Limited (RFMBT) from its parent. RFMBT is a joint venture with the Royal Bank of Canada and the acquisition helps to diversify the Bank's earnings. RFMBT contributed a useful $800,000 to the Bank's bottom line for the six months after acquisition.

The Bank's consolidated Tier 1 and Tier 2 Capital Ratio of 17.5% exceeded the Central Bank's standards and the Bank continues to operate within Central Bank guidelines.

While the Bank's performance has improved substantially in recent years, there is much uncertainty regarding future years. The Government of The Bahamas is focused on reducing the fiscal deficit by increasing revenue through the introduction of VAT and other taxes. This necessary initiative will likely dampen consumer demand and prolong the recessionary environment. Recent reports suggest that VAT will now be introduced at year-end 2013 at the earliest and at a lower rate of 7.5%. These measures will be helpful if enacted.

Due to this uncertainty, the Bank remains focused on operating expenses which increased by only 7% in 2013. The Bank was fortunate in not expanding its footprint during the growth years and has not been forced to "downsize" its workforce and restructure in the recession.

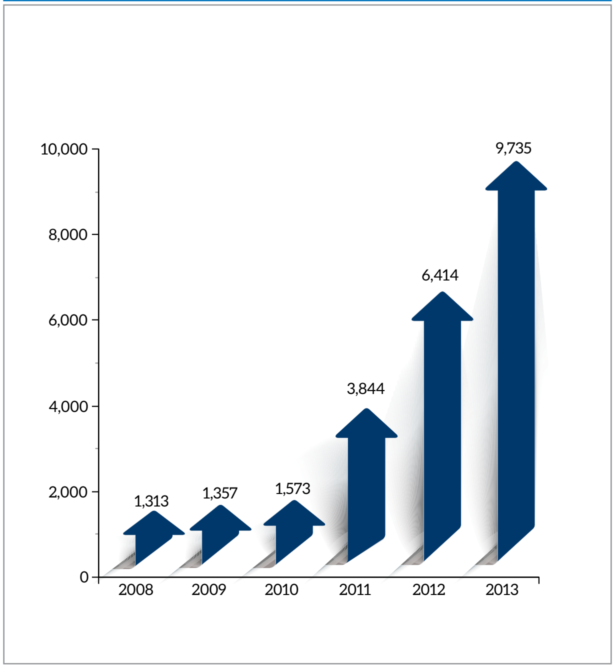
The Fidelity Group has chosen to centralise administrative and support services in The Bahamas and the Bank provides support to associate companies elsewhere in the Group for a fee. This initiative has assisted the Bank in improving economies of scale and resulted in a modest increase in its headcount.

The Bank remains indebted to its hard working, committed, engaged and passionate employees. They have made the difference. The Bank's Board of Directors has provided it with steady and consistent support and guidance and the Bank's management is deeply appreciative of their efforts.

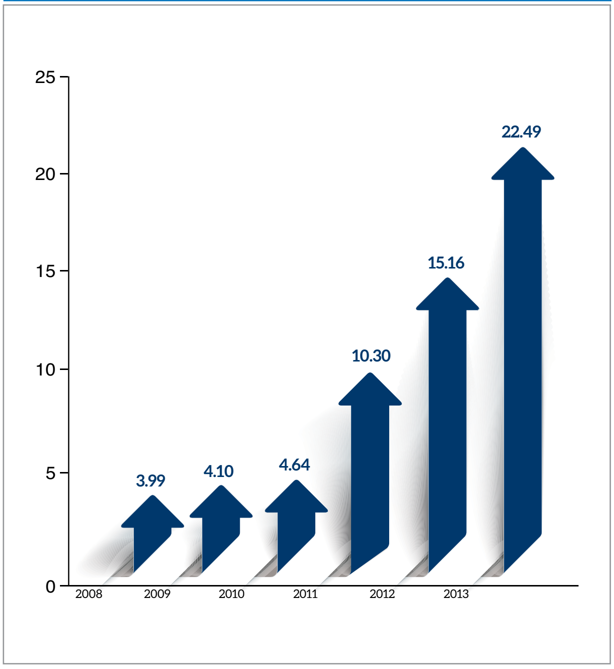
Anwer J. Sunderji, MA, MBA
CHIEF EXECUTIVE OFFICER

Financial Information

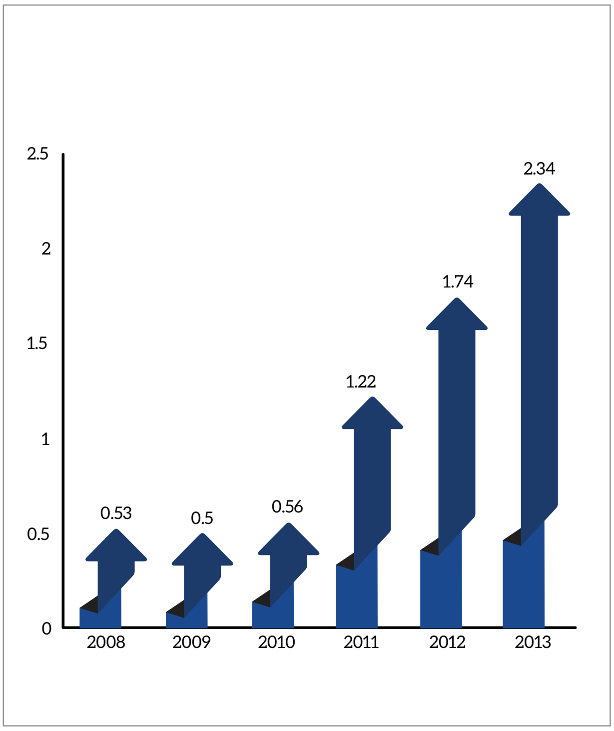
Net Income



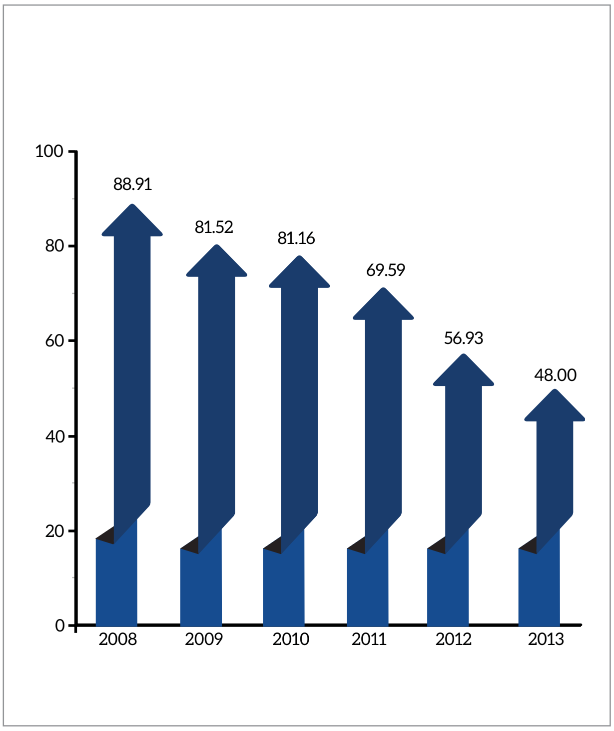
Return on Average Ordinary Shareholders' Equity (ROAE)



Return on Average Assets (ROAA)



Efficiency Ratio



Community Giving

Fidelity has long been focused on the well-being of the Bahamian community, and our passion for community involvement continued throughout 2013. A number of donations were made to organisations that support education, youth, culture, sports, health and more.

In August 2013, Fidelity collaborated with The College of The Bahamas to present the Keva M. Bethel Distinguished Lecture. With education being an area of special interest for Fidelity, our financial commitment to this event was coupled with the provision of a speaker, COB alumna Tangela Albury, who is also Fidelity's Chief of Compliance and Internal Audit.

Notably, in October 2013, Fidelity engaged employees to make donations to the Ranfurly Home for Children to aid in the care of abandoned, orphaned, neglected and abused children in The Bahamas. The amount given by employees was matched by Fidelity, and over $13,000 was donated to the Ranfurly Home.

In a similar initiative, in November 2013, Fidelity made a generous donation to help support disaster relief in the Philippines following the devastation caused by Typhoon Haiyan. Fidelity Group employees were encouraged to make individual donations to this cause. Their donations were then doubled by Fidelity, and again doubled by Western Union. A total of $15,000 was given to provide emergency shelters, health care, clean water, sanitation, and assistance with family links in the Philippines.

Additionally, some of the contributions made in 2013 included those to:

- The Ministry of Education for the purchase of awards for the top BJC and BGCSE performers
- The Sammie Swain production, which was a part of the non-profit 'Shakespeare in Paradise' series of theater productions
- The Z-Bandits Junkanoo & Community Organization, an educational summer youth program
- The Special Olympics, which organizes sports programs for the intellectually disabled
- The Bahamas Breast Cancer Initiative, which works to improve the quality of breast cancer care in The Bahamas

In 2013, we were pleased not only with the bank's contributions, but with the level to which our employees were involved. Fidelity plans to continue our charitable giving in commitment to our local, national and international communities.

Message from the President

Whether it's the new Value Added Tax, the demands of parenting and providing for our children and grand children, the many social ills which require resources to correct or our efforts to assist the less fortunate, there is more to be done. Fidelity Bank and its Senior Executives, Managers and Staff are committed to doing more for our customers and our communities throughout The Bahamas.

Gregory Bethel, BBA

People Products Performance

OUR PEOPLE, OUR PRODUCTS AND OUR PERFORMANCE ARE BETTER…ALL THE TIME.

The good results the Bank has achieved for its shareholders are a reflection of our sales culture. The focal point for sales is our financial centres located in New Providence, Freeport (Grand Bahama) and Marsh Harbour (Abaco). Led by their Financial Centre Manager, a highly motivated and well trained team of Lenders, Customer Service Associates and Sales Support Staff solicit, sell, lend, provide financial coaching and encourage saving with 'a quick turn around and no run around'.

Guided by the training, coaching and support of our Vice President for Lending and our Senior Financial Centre Manger, our Lenders and Customer Service Associates are constantly challenged to meet sales targets, perform at a higher standard, give outstanding customer service and deal diligently with customer requests and complaints as a reflection of our 'Paradigm' and 'Guiding Principle'.

As you enter a Financial Centre and approach the Ambassador's Desk, you will find the following on display along with our 'Minimum Service Standards': PARADIGM: Our PEOPLE, our PRODUCTS and our PERFORMANCE are BETTER…all the time.

GUIDING PRINCIPLE: Quality service is establishing a relationship with our clients that is so profound that it cannot be experienced elsewhere.
It begins with the first contact, the follow up process and each "post conversion" experience.

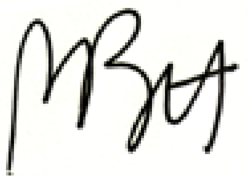
The Senior Executives, Managers and Staff of Fidelity Bank also give back to the community through their involvement in civic organisations, churches and committees which provide public service and advice.

Many times during any week you will find them at a school, church or other organisation conducting a free financial planning seminar giving tips on how to achieve successful outcomes in finances and in life. We are proud of our annual 'Women Only Seminars' which attract hundreds of women in New Providence and Freeport (Grand Bahama). At the most recent seminar, we collected donations for the Ranfurly Home for Children, The Women's Crisis Centre, the Grand Bahama Home for Children and the Children's Emergency Hostel and matched every dollar donated with five dollars for these organisations and worthy causes.

We are also mindful that we owe our success to our valued customers. The Associates and Assistants in the Office of The President remind our Managers and Staff of this every day as they respond to customer complaints, conduct customer satisfaction surveys and answer customer inquiries.

As we consider the way forward, there are many challenges which are faced by our customers, colleagues our communities in The Bahamas. We are all being asked to do more or pay more with less.

Whether it's the new Value Added Tax, the demands of parenting and providing for our children and grand children, the many social ills which require resources to correct or our efforts to assist the less fortunate, there is more to be done. Fidelity Bank and its Senior Executives, Managers and Staff are committed to doing more for our customers and our communities throughout The Bahamas.



Gregory Bethel, BBA
PRESIDENT

Meet our Management Team

BACK ROW:

Katherine Lockhart, *Manager, Central Service*

Janice Rolle, *Sr. Financial Centre Manager*

Domicia Hepburn, *Manager, Group Branch Operations*

Stacia Williams, *Group, HR Director*

Demetrius Bastian, *Financial Centre Manager*

Andrea Smith, *Senior Accountant*

FRONT ROW:

Khrystle Rutherford-Ferguson, *Manager Collections Litigation*

Malvern Bain, *Vice President, Asset Recovery*

Thallise Maycock, *Manager, Premises - Bahamas*

Samantha Carey-Davis, *Manager, Accounting Services*

Spencer Dean, *Compliance Officer*

BACK ROW:

Odia Gaskin,
Financial Centre Manager

Heatherdawn Blake-Brown,
Director, Card Services

Audbrey Sherman,
Fraud & Risk Manager

Calvin Rolle,
Manager, Money Transfer

FRONT ROW:

Carmetta Basden,
Manager, Fund Accounting

Antonio Saunders,
Manager, Media & Graphics

Eunice Johnson,
Card Services Ops. Manager

Dominic Ferguson,
Financial Centre Manager

Bridget Brown,
Financial Centre Manager

Message from the CFO

2013 has been a successfull year for the Bank and validates management's strategy of changing the product offerings by the Bank, investing in human capital and technology and managing its non-performing loan book. The Bank expects to continue this strategy in 2014 and looks forward to another successful year.

Thomas Hackett, **BA, FCA**

Management Discussion & Analysis

During 2013 total assets of the Bank increased by $57.3 million, or 14.8% to $444.2million from $386.9million in 2012 with total loans increasing by $35.4 million, or 12.7%, compared to an increase of $34.5 million, or 14.1%, in 2012.

The Bank reported net income of $9,735,204 or 31 cents per share as compared with net income for 2012 of $6,413,746 or 20 cents per share. Net income for 2013 was positively impacted by the growth in the consumer loan portfolio.

The return on average assets for the year was 2.3% (2012; 1.7%)

Dividends of 14 cents per share were paid in 2013 (2012: 14 cents per share)

CAPITAL ADEQUACY

The Central Bank of The Bahamas requires that the Bank maintains a ratio of total regulatory capital to risk – weighted assets at or above a minimum of 14%. The Bank's risk-weighted capital at 31 December 2013 was 17.52 %. (2012: 20.27%). Capital adequacy was impacted negatively by the purchase of Royal Fidelity Merchant Bank & Trust Limited as described in note 6 of the financial statements. Management plan to increase capital adequacy to in excess of 20% over the next two years through profit retention.

ANALYSIS OF LOAN PORTFOLIO

During 2013, the Banks mortgage portfolio declined by $11.4 million (2012: decrease of $11.0 Million), or -9.3% (2012: -8.2%) due to reduced demand and inability of potential borrowers to qualify.

Consumer and other loans increased by $50.6 million (2012: Increase of $47.2 million). This growth was in line with the Bank's strategy to rebalance the overall mix of its loan.

At the end of 2013, mortgage loans comprised 34.6% (2012: 43.4%) of total loans with consumer and other loans comprising the balance of 65.4% (2012: 56.6%) which was in line with the Bank's targeted ratio.

Total non-performing loans amounted to $27.1 million (2012: $22.5 million) or 8.3% (2012: 7.8%) of total loans. Provision for loan losses represent 2.8% (2012: 2.3%) of the total loan portfolio.

DEPOSIT BASE

During 2013, total deposits grew by $46.5 million (2012: $35.0 million), or 15.1 %, (2012: 12.8%).
Liquidity in the banking system remained high throughout 2013 as credit demand remained soft.

OPERATING REVENUES

Net Interest Income

Net interest income increased significantly from $20.3 million in 2012 to $25.8 million in 2013. The net interest margin, on average total assets increased from 5.5% in 2012 to 6.2% in 2013.

Non-Interest Income

Non-interest revenues, excluding share of profits from joint ventures, remained static with 2012 at $3.8 million 2012.
At the end of 2013, non-interest revenues comprised 12.9% (2012: 15.8%) of total revenues.

OPERATING EXPENSES

Operating expenses increased by 6.6% in line with expectations. Excluding loan loss provision charges, expenses were $14.7 million (2011: $13.7million)

LOAN LOSS PROVISIONS

Non Performing mortgage loans continued to increase during the year and the trend indicates that mortgage arrears are not stabilising and further increases are expected in 2014
Non-performing loans as a percentage of total loans were 8.3 % at the end of 2013 (2012: 7.8%). The level of loan loss provisions, as a percentage of non-performing loans, increased from 29.2 % in 2012 to 34.3 % at the end of 2013. Mortgages represent $20.3 million (2012: $17.1) of the non-performing loans with the balance of $ 6.8 million (2012: $ 5.4) comprising consumer loans and overdrafts. The Bank is of the view that provisions are adequate to cover any losses on its loan portfolio

The Bank continues to focus on managing its non-performing loans.

SUMMARY

2013 has been a successful year for the Bank and validates management's strategy of changing the product offerings by the Bank, investing in human capital and technology and managing its non- performing loan book. The Bank expects to continue this strategy in 2014 and looks forward to another successful year.

Thomas Hackett, BA, FCA
CHIEF FINANCIAL OFFICER

Consolidated Financial Statements

pwc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Fidelity Bank (Bahamas) Limited

We have audited the accompanying consolidated financial statements of Fidelity Bank (Bahamas) Limited and its subsidiary, which comprise the consolidated balance sheet as of 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fidelity Bank (Bahamas) Limited and its subsidiary as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
30 April 2014

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CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2013 | (EXPRESSED IN BAHAMIAN DOLLARS)

	2013	2012
	$	$
ASSETS		
Cash on hand and at banks (Note 3)	60,239,925	54,562,132
Investment securities (Note 4)	47,901,148	38,231,509
Loans and advances to customers (Note 5)	313,761,565	278,420,241
Other assets	2,182,713	3,883,734
Investments in joint ventures (Note 6)	9,884,445	209,218
Property, plant and equipment (Note 7)	10,218,134	11,546,777
Total assets	**444,187,930**	**386,853,611**
LIABILITIES		
Deposits from customers (Note 8)	354,454,189	307,933,859
Debt securities (Note 9)	35,923,704	29,005,424
Accrued expenses and other liabilities	649,904	652,511
Total liabilities	**391,027,797**	**337,591,794**
EQUITY		
Capital (Note 10)	31,578,377	31,511,001
Revaluation reserve	988,647	2,183,163
Reserve for credit losses (Note 18)	3,153,238	2,784,775
Retained earnings	17,439,871	12,782,878
Total equity	**53,160,133**	**49,261,817**
Total liabilities and equity	**444,187,930**	**386,853,611**

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

Director

Director

30 April 2014
Date

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

AS OF 31 DECEMBER 2013 | (EXPRESSED IN BAHAMIAN DOLLARS)

	2013	2012
	$	**$**
INCOME		
Interest income		
Bank deposits, loans and advances	37,535,292	31,685,716
Investment securities	2,005,728	1,519,042
	39,541,020	33,204,758
Interest expense	(13,708,774)	(12,953,156)
Net interest income	**25,832,246**	**20,251,602**
Fees and commissions	3,821,237	3,790,227
Net gain/(loss) on investment securities	11,907	(48,611)
	29,665,390	**23,993,218**
EXPENSES		
Salaries and employee benefits	7,205,817	6,890,869
General and administrative (Note 12)	5,863,592	5,405,124
Provision for loan losses (Note 5)	6,147,860	3,953,751
Depreciation and amortisation (Note 7)	1,588,144	1,405,667
	20,805,413	**17,655,411**
Operating profit	**8,859,977**	**6,337,807**
Share of profits of joint ventures (Note 6)	875,227	75,939
Net income	**9,735,204**	**6,413,746**
OTHER COMPREHENSIVE INCOME		
Items not reclassified to net income		
Property, plant and equipment revaluation (Note 7)	(1,057,160)	-
Total comprehensive income	**8,678,044**	**6,413,746**
Earnings per share (Note 11)	**0.31**	**0.20**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS OF 31 DECEMBER 2013 | (EXPRESSED IN BAHAMIAN DOLLARS)

	Capital $	Revaluation Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
As of 1 January 2012	31,011,001	2,286,386	2,439,125	11,435,078	47,171,590
Comprehensive income					
Net income	-	-	-	6,413,746	6,413,746
Other comprehensive income					
Depreciation transfer	-	(103,223)	-	103,223	-
Appropriation for credit losses	-	-	345,650	(345,650)	-
Total comprehensive income	-	(103,223)	345,650	6,171,319	6,413,746
Transactions with owners					
Issuance of preference shares	500,000	-	-	-	500,000
Dividends – preference shares	-	-	-	(810,185)	(810,185)
Dividends – ordinary shares (Note 15)	-	-	-	(4,013,334)	(4,013,334)
Total transactions with owners	500,000	-	-	(4,823,519)	(4,323,519)
As of 31 December 2012	**31,511,001**	**2,183,163**	**2,784,775**	**12,782,878**	**49,261,817**
As of 1 January 2013	31,511,001	2,183,163	2,784,775	12,782,878	49,261,817
Comprehensive income					
Net income	-	-	-	9,735,204	9,735,204
Other comprehensive income					
Property, plant and equipment revaluation	-	(1,057,160)	-	-	(1,057,160)
Depreciation transfer	-	(137,356)	-	137,356	-
Appropriation for credit losses	-	-	368,463	(368,463)	-
Total comprehensive income	-	(1,194,516)	368,463	9,504,097	8,678,044
Transactions with owners					
Issuance of ordinary shares	67,376	-	-	-	67,376
Dividends – preference shares	-	-	-	(805,770)	(805,770)
Dividends – ordinary shares	-	-	-	(4,041,334)	(4,041,334)
Total transactions with owners	67,376	-	-	(4,847,104)	(4,779,728)
As of 31 December 2013	**31,578,377**	**988,647**	**3,153,238**	**17,439,871**	**53,160,133**

Dividends per ordinary share: $0.14 (2012: $0.14)

CONSOLIDATED STATEMENT OF CASH FLOWS

AS OF 31 DECEMBER 2013 | (EXPRESSED IN BAHAMIAN DOLLARS)

	2013	2012
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	9,735,204	6,413,746
Adjustments for:		
Interest income	(39,541,020)	(33,204,758)
Interest expense	13,708,774	12,953,156
Net (gain)/loss on investment securities	(11,907)	48,611
Loss on disposal of property, plant and equipment	12,216	-
Salaries and employee benefits	67,376	-
Provision for loan losses	6,147,860	3,953,751
Depreciation and amortisation	1,588,144	1,405,667
Share of profits of joint ventures	(875,227)	(75,939)
Interest received	37,136,138	30,508,931
Interest paid	(12,974,122)	(13,359,914)
(Increase)/Decrease in operating assets		
Mandatory reserve deposits	(969,812)	(1,940,858)
Loans and advances to customers	(39,254,348)	(35,904,932)
Other assets	1,701,021	(1,415,407)
Increase/(Decrease) in operating liabilities		
Deposits from customers	45,898,958	35,479,191
Accrued expenses and other liabilities	(2,607)	(219,010)
Net cash from operating activities	**22,366,648**	**4,642,235**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	100,000	100,000
Purchase of investment securities	(9,677,200)	(12,517,433)
Proceeds from sale/maturity of investment securities	189,514	2,372,005
Investment in joint venture	(8,900,000)	-
Purchase of property, plant and equipment	(1,328,877)	(1,313,342)
Net cash used in investing activities	**(19,616,563)**	**(11,358,770)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt securities	9,805,000	-
Redemption of debt securities	(3,000,000)	-
Proceeds from issuance of preference shares	-	500,000
Dividends paid on preference shares	(805,770)	(810,185)
Dividends paid on ordinary shares	(4,041,334)	(1,004,610)
Net cash from/(used in) financing activities	**1,957,896**	**(1,314,795)**
Net increase/(decrease) in cash and cash equivalents	**4,707,981**	**(8,031,330)**
Cash and cash equivalents as of beginning of year	42,044,544	50,075,874
Cash and cash equivalents as of end of year (Note 3)	**46,752,525**	**42,044,544**

See Notes 10 and 15 for significant non-cash transactions.

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. The Bank offers a full range of retail banking services, including internet and telephone banking, acceptance of deposits, granting of loans and the provision of foreign exchange services through each of its four branches in New Providence, its branch in Grand Bahama and its branch in Abaco.

The Bank has one subsidiary, West Bay Development Company Limited, a property holding company incorporated in The Bahamas, which owns a building occupied by the Bank and its related parties. The Bank and its subsidiary are collectively referred to as the Group. The ordinary shares of the Bank are listed and traded on The Bahamas International Stock Exchange (BISX).

Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 75% (2012: 75%) of the issued ordinary shares of the Bank, with the balance being held by the Bahamian public.

The registered office of the Bank is situated at #51 Frederick Street, Nassau, Bahamas. As of 31 December 2013, the Group employed 182 (2012: 173) persons.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted 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(l) and 19.

New and amended standards adopted by the Group

During the current year, the Group adopted IFRS 13 Fair Value Measurement (IFRS 13) that became effective for its financial year beginning on 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. Where IFRS 13 requires additional disclosures to be made in the consolidated financial statements, these have been included.

The remaining standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2013 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

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

With the exception of IFRS 9 Financial Instruments (IFRS 9), the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the parts of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) that relate to the classification and measurement of financial instruments. IFRS 9 will require financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the Group's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains the majority of the IAS 39 requirements, with the main change being that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to the Group's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. The Group has not yet assessed the full impact of adopting IFRS 9, and the final mandatory effective date has not yet been determined.

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

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

(c) Foreign currency translation

Functional and presentation currency

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

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as a part of net income in the consolidated statement of comprehensive 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 investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two 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 designated 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.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for investments traded in active markets (e.g. international securities exchange) or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants, for securities not traded in active markets. 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 as a part of net income in the consolidated statement of comprehensive income in the financial period in which they arise.

(e) Non-performing financial assets

All loans and advances to customers on which principal or interest payments are overdue in excess of ninety days are classified by management as non-performing, and monitored closely for impairment.

2. Summary of Significant Accounting Policies (Continued)

(f) Impairment of financial assets at amortised cost

The Group assesses at each balance sheet date 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 as a part of net income in the consolidated statement of comprehensive 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 as a part of net income in the consolidated statement of comprehensive 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.

(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 years, less subsequent depreciation for buildings.

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.

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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.

(h) 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.

(i) 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.

(j) 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.

2. Summary of Significant Accounting Policies (Continued)

(j) Share capital (continued)

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 balance sheet date, but before the consolidated financial statements are issued, are dealt with in the subsequent events note.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet 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.

(l) 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.

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. 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. Other income and expenses are recognised on the accrual basis.

2. Summary of Significant Accounting Policies (Continued)

(m) 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.

(n) 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.

(o) 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 months or less.

(p) Taxation

Under the current laws of The Bahamas, the country of domicile of the Bank and its subsidiary, 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) 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 Bank.

Income and expenses directly associated with each segment are included in determining business segment performance. The Group has identified the following business segments: retail banking and money transfer operations.

2. Summary of Significant Accounting Policies (Continued)

(r) 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.

(s) Corresponding figures

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

3. Cash on Hand and at Banks

	2013 $	2012 $
Cash on hand	2,529,600	2,548,295
Current accounts at banks	44,222,925	39,496,249
Mandatory reserve deposits	13,487,400	12,517,588
Total	**60,239,925**	**54,562,132**

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 2.00% (2012: 0.00% to 2.00%) per annum.

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

	2013 $	2012 $
Cash on hand	2,529,600	2,548,295
Current accounts at banks	44,222,925	39,496,249
Total	**46,752,525**	**42,044,544**

4. 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 types of inputs lead to the following fair value hierarchy:

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

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

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

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

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

4. Investment Securities (Continued)

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

	2013 $	2012 $
Level 1		
Equity securities	221,760	299,367
Level 2		
Government debt securities	46,860,500	37,283,300
Level 3		
Equity securities	108,661	108,661
Total – all levels	47,190,921	37,691,328
Accrued interest	710,227	540,181
Total	**47,901,148**	**38,231,509**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2014 to 2037 (2012: 2013 to 2037) and with either fixed interest rates ranging from 4.13% to 4.35% (2012: 4.13% to 4.35%) or floating interest rates ranging from 0.00% to 0.75% (2012: 0.00% to 0.75%) above the B$ Prime rate of 4.75% (2012: 4.75%).

As of 31 December 2013, the cost of investment securities totalled $47,287,665 (2012: $37,839,820), of which $169,165 (2012: $169,165) represented Level 3 securities.

During the year, movements in Level 3 securities comprise:

	2013 $	2012 $
Balance as of 1 January	108,661	108,661
Purchases	-	-
Sales	-	-
Net realised gain/(loss)	-	-
Net change in unrealised appreciation/depreciation	-	-
Balance as of 31 December	**108,661**	**108,661**

5. Loans and Advances to Customers

	2013 $	2012 $
Mortgages	112,177,561	123,627,252
Consumer and other loans	211,727,545	161,166,869
	323,905,106	284,794,121
Unamortised loan origination fees	(3,565,585)	(2,929,435)
Accrued interest	2,711,968	3,139,366
Provision for loan losses	(9,289,924)	(6,583,811)
Total	**313,761,565**	**278,420,241**

Movements in provision for loan losses are as follows:

	2013			2012		
	Mortgages $	**Consumer** $	**Total** $	**Mortgages** $	**Consumer** $	**Total** $
Balance as of 1 January	2,825,665	3,758,146	6,583,811	1,826,987	3,156,524	4,983,511
Provisions	536,795	5,611,065	6,147,860	1,238,708	2,715,043	3,953,751
Write-offs net of recoveries	(261,724)	(3,180,023)	(3,441,747)	(240,030)	(2,113,421)	(2,353,451)
Balance as of 31 December	**3,100,736**	**6,189,188**	**9,289,924**	**2,825,665**	**3,758,146**	**6,583,811**

The provision for loan losses represents 2.84% (2012: 2.29%) of the total loan portfolio, inclusive of accrued interest, and 34.28% (2012: 29.21%) of total non-performing loans. As of 31 December 2013, principal and interest balances of non-performing loans totalled $27,096,390 (2012: $22,536,506), representing 8.30% (2012: 7.83%) of the total loan portfolio.

6. Investments in Joint Ventures

	2013 $	2012 $
Investment in RFMBT	9,699,159	-
Investment in BACH	185,286	209,218
Total	**9,884,445**	**209,218**

RFMBT

Effective 1 July 2013, the Bank acquired the outstanding ordinary shares of Royal Fidelity Merchant Bank & Trust Limited (RFMBT), representing 50% of the total outstanding ordinary shares, previously held by the Parent for $8,900,000. The purchase price of the ordinary shares of RFMBT, a bank incorporated and licensed in The Bahamas, was based on a valuation performed by an independent accounting firm, and the book value of net assets acquired as of the effective date totalled $5,511,500.

6. Investment in Joint Ventures (Continued)

RFMBT (continued)

The acquisition was approved by the Central Bank, and as part of the transaction, the Parent was required to guarantee the Bank against operating losses of RFMBT and any capital contributions necessary for RFMBT to comply with capital adequacy regulations.

The Group, assuming the rights and obligations of the Parent pursuant to the acquisition, is a party to a joint venture agreement involving RFMBT and RBC Holdings (Bahamas) Limited (RBC), a company incorporated in The Bahamas and ultimately owned by Royal Bank of Canada, whereby the Group and RBC each own 50% of the shareholding of RFMBT and have agreed that RFMBT will operate as a joint venture with rights to operate in The Bahamas and Barbados in the business of merchant banking.

Movements in investment in joint venture comprise:

	2013 $	2012 $
Balance as of 1 January	-	-
Investment in joint venture	8,900,000	-
Share of profits of joint venture	799,159	-
Balance as of 31 December	**9,699,159**	**-**

The consolidated financial information of the joint venture as of 31 December 2013, and for the year then ended, is as follows:

	2013 $	2012 $
ASSETS		
Cash on hand and at banks	71,915,402	32,719,388
Investment securities	21,230,019	20,609,600
Loans and advances to customers	12,346,508	9,855,952
Other assets	1,806,714	1,237,490
Investment in joint venture	1,191,099	1,174,108
Property, plant and equipment	429,437	561,070
Intangible asset	782,086	1,096,571
Total assets	**109,701,265**	**67,254,179**
LIABILITIES		
Deposit from customers	58,031,097	56,423,982
Accrued expenses and other liabilities	39,716,892	1,178,040
Total liabilities	**97,747,989**	**57,602,022**

6. Investment in Joint Ventures (Continued)

RFMBT (continued)

	2013 $	2012 $
EQUITY		
Capital	11,000,000	11,000,000
Retained earnings/(Accumulated deficit)	953,276	(1,347,843)
Total equity	**11,953,276**	**9,652,157**
Total liabilities and equity	**109,701,265**	**67,254,179**
TOTAL COMPREHENSIVE INCOME/(LOSS)		
Income	8,244,652	5,868,181
Expenses	5,943,533	5,950,709
Total comprehensive income/(loss)	**2,301,119**	**(82,528)**

The Bank is a shareholder in a business venture, namely Bahamas Automated Clearing House Limited (BACH), created by the seven (7) members of the Clearing Banks Association (CBA) of The Bahamas; the Group being a member. BACH is incorporated in The Bahamas and operates a secure interbank settlement system linking clearing banks in The Bahamas. Each member of the CBA has an equal shareholding in BACH (circa 14.29%) and equal control over its financial and operating policies.

Movements in investment in joint venture comprise:

	2013 $	2012 $
Balance as of 1 January	209,218	233,279
Share of profits of joint venture	76,068	75,939
Dividends received	(100,000)	(100,000)
Balance as of 31 December	**185,286**	**209,218**

The financial information of the joint venture as of 31 December 2013, and for the year then ended, is as follows:

	2013 $	2012 $
Assets	1,336,165	1,491,217
Liabilities	(39,165)	(26,698)
Total income	1,415,588	1,396,920
Total comprehensive income	532,481	549,381

7. Property, Plant and Equipment (Continued)

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Improvements $	Total $
Year ended 31 December 2013						
Opening net book value	7,269,210	903,478	22,850	1,308,218	2,043,021	11,546,777
Additions	402,536	192,528	-	463,275	270,538	1,328,877
Transfers						
Cost	802,155	-	-	-	(802,155)	-
Accumulated depreciation	(374,193)	-	-	-	374,193	-
Disposals						
Cost	(12,216)	-	-	-	-	(12,216)
Accumulated depreciation	-	-	-	-	-	-
Depreciation	(330,332)	(240,759)	(5,900)	(334,505)	(676,648)	(1,588,144)
Revaluation	(1,057,160)	-	-	-	-	(1,057,160)
Closing net book value	**6,700,000**	**855,247**	**16,950**	**1,436,988**	**1,208,949**	**10,218,134**
As of 31 December 2013						
Cost or valuation	6,700,000	4,252,681	83,430	8,495,000	5,944,815	25,475,926
Accumulated depreciation	-	(3,397,434)	(66,480)	(7,058,012)	(4,735,866)	(15,257,792)
Net book value	**6,700,000**	**855,247**	**16,950**	**1,436,988**	**1,208,949**	**10,218,134**
Year ended 31 December 2012						
Opening net book value	6,727,501	902,728	27,193	1,582,818	2,398,862	11,639,102
Additions	778,230	276,560	7,000	184,300	67,252	1,313,342
Depreciation	(236,521)	(275,810)	(11,343)	(458,900)	(423,093)	(1,405,667)
Closing net book value	**7,269,210**	**903,478**	**22,850**	**1,308,218**	**2,043,021**	**11,546,777**
As of 31 December 2012						
Cost or valuation	7,907,625	4,060,153	83,430	8,031,725	6,476,432	26,559,365
Accumulated depreciation	(638,415)	(3,156,675)	(60,580)	(6,723,507)	(4,433,411)	(15,012,588)
Net book value	**7,269,210**	**903,478**	**22,850**	**1,308,218**	**2,043,021**	**11,546,777**

Non-financial assets are ranked 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. The hierarchy is consistent with that described for financial assets in Note 4.

Land and buildings are classified as Level 3 assets. 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 2013.

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%	$330,000/($350,000)
Vacancy rates	+5.00%	($740,000)
Discount rate	+1.00%/-1.00%	($640,000)/$740,000

7. Property, Plant and Equipment (Continued)

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

	2013 $	2012 $
Cost	7,255,766	6,051,075
Accumulated depreciation	(1,544,413)	(965,028)
Net book value	**5,711,353**	**5,086,047**

8. Deposits from Customers

	2013 $	2012 $
Demand deposits	19,708,060	22,044,723
Savings deposits	56,790,857	40,547,084
Escrow deposits	1,846,095	1,167,470
Term deposits	271,881,288	240,568,065
	350,226,300	304,327,342
Accrued interest	4,227,889	3,606,517
Total	**354,454,189**	**307,933,859**

Included in deposits from customers are deposits from banks totalling $18,281,300 (2012: $7,777,723). Deposits carry fixed interest rates ranging from 0.00% to 7.25% (2012: 2.00% to 7.25%) per annum, but the fixed interest rates are determined based on variable market rates and can be adjusted based on changes in market rates.

9. Debt Securities

	2013 $	2012 $
Series A redeemable fixed rate notes; 7.00%; 2017	4,952,647	4,942,791
Series B redeemable floating rate notes; B$ Prime + 1.75%; 2022	9,873,683	9,848,714
Series C redeemable fixed rate notes; 7.00%; 2013	-	2,994,727
Series D redeemable floating rate notes; B$ Prime + 1.75%; 2015	6,963,365	6,956,371
Series E redeemable fixed rate notes; 6.00%; 2018	9,835,593	-
Series B redeemable preference shares; B$ Prime + 1.00%; 2021	4,000,000	4,000,000
	35,625,288	28,742,603
Accrued interest	298,416	262,821
Total	**35,923,704**	**29,005,424**

9. Debt Securities (Continued)

As part of a $50,000,000 note programme approved by the Directors, the Bank offered through private placement, $25,000,000 of unsecured fixed and floating rate notes consisting of Series A – $5,000,000 redeemable 7.00% fixed rate notes due 19 October 2017; Series B – $10,000,000 redeemable floating rate notes (B$ 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 – $7,000,000 redeemable floating rate notes (B$ Prime rate plus 1.75%) due 30 May 2015; and Series E – $10,000,000 redeemable fixed rate notes due 30 May 2018, which were issued during 2013. On 30 May 2013, the Series C redeemable fixed rate notes were redeemed. Interest is payable semi-annually on 19 April and 19 October each year for Series A and B; and 30 May and 30 November each year for Series D and E.

In prior years, the Bank issued 400,000 Series B variable rate redeemable preference shares at a par value of $1.00 per share and a share premium of $9.00 per share. The shares will mature 10 years after the issue date. Dividends are payable on these shares at the rate of B$ Prime rate plus 1.00% 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 December and June each year.

10. Capital

	2013 $	2012 $
Authorised		
35,000,000 ordinary shares of $0.30 each	**10,500,000**	**10,500,000**
10,000,000 preference shares of $1.00 each	**10,000,000**	**10,000,000**
Issued and fully paid – ordinary shares		
28,866,670 (2012: 28,666,670) ordinary shares	8,660,001	8,600,001
Share premium	11,890,000	11,400,000
	20,550,001	20,000,001
Treasury – ordinary shares		
175,500 (2012: Nil) ordinary shares	(482,624)	-
Issued and fully paid – preference shares		
1,151,100 (2012: 1,151,100) preference shares	1,151,100	1,151,100
Share premium	10,359,900	10,359,900
	11,511,000	11,511,000
Total	**31,578,377**	**31,511,001**

In prior years, the Bank issued 1,151,100 Series A variable rate redeemable preference shares at a par value of $1.00 per share and a share premium of $9.00 per share. These shares are perpetual but may be redeemed at the option of the Bank with 90 days written notice to the shareholders at any time after the fifth anniversary of the closing date with the prior approval of the Central Bank. Dividends are payable on these shares at the rate of B$ Prime rate plus 2.25%, subject to the declaration of the Directors and prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in December and June each year.

10. Capital (Continued)

During 2013, the Directors approved the establishment of 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. Share based compensation to employees resulted in 24,500 ordinary shares being issued by the trust, with the remaining shares treated as treasury shares. The ordinary shares issued to employees were valued at $2.75 per share with an equivalent expense recognised in salaries and employee benefits.

11. Earnings per Share

	2013 $	2012 $
Net income	9,735,204	6,413,746
Net income attributable to preference shareholders	(805,770)	(810,185)
Net income attributable to ordinary shareholders	8,929,434	5,603,561
Weighted average number of ordinary shares outstanding	28,685,045	28,666,670
Earnings per share	**0.31**	**0.20**

12. General and Administrative Expenses

	2013 $	2012 $
Office expenses	3,628,192	3,520,424
Bank licence fees	652,994	731,168
Public relations	615,851	424,756
Legal and professional fees	264,729	161,233
Directors' cost	94,506	82,597
Other	607,320	484,946
Total	**5,863,592**	**5,405,124**

13. Employee Benefits

The Group participates in a defined contribution pension plan (the Plan), which covers all employees of the Parent's Bahamas based operations.

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 4 years of employment with incremental vesting following each additional year of employment and fully vest upon completion of 10 years of employment. Pension expense for the year ended 31 December 2013 totalled $190,425 (2012: $224,348).

14. 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 has two main business segments:

Retail banking – incorporating mortgage and consumer loans; current account, savings and term deposits; credit and debit cards; and related services.

Money transfer services – the Group is an authorised representative of Western Union.

There are no other operations that constitute separate reportable segments. The segment operations are all financial and principal revenues are derived from interest income and fees and commissions. Segment information for the reportable segments for the year ended 31 December 2013 is as follows:

	Retail banking $	Money transfer $	Total $
31 December 2013			
INCOME			
Net interest income	25,832,246	-	25,832,246
Fees and commissions	2,868,177	953,060	3,821,237
Net gain on investment securities	11,907	-	11,907
EXPENSES			
Salaries and employee benefits	7,205,817	-	7,205,817
General and administrative	5,863,592	-	5,863,592
Provision for loan losses	6,147,860	-	6,147,860
Depreciation and amortisation	1,588,144	-	1,588,144
Operating profit	**7,906,917**	**953,060**	**8,859,977**
Share of profits of joint ventures	875,227	-	875,227
Net income	**8,782,144**	**953,060**	**9,735,204**
OTHER COMPREHENSIVE INCOME			
Property, plant and equipment revaluation	(1,057,160)	-	(1,057,160)
Total comprehensive income	**7,724,984**	**953,060**	**8,678,044**
TOTAL ASSETS	**444,187,930**	**-**	**444,187,930**
TOTAL LIABILITIES	**(391,027,797)**	**-**	**(391,027,797)**

14. Segment Analysis (Continued)

	Retail banking $	Money transfer $	Total $
31 December 2012			
INCOME			
Net interest income	20,251,602	-	20,251,602
Fees and commissions	2,826,145	964,082	3,790,227
Net loss on investment securities	(48,611)	-	(48,611)
EXPENSES			
Salaries and employee benefits	6,890,869	-	6,890,869
General and administrative	5,405,124	-	5,405,124
Provision for loan losses	3,953,751	-	3,953,751
Depreciation and amortisation	1,405,667	-	1,405,667
Operating profit	**5,373,725**	**964,082**	**6,337,807**
Share of profits of joint ventures	75,939	-	75,939
Net income and total comprehensive income	**5,449,664**	**964,082**	**6,413,746**
TOTAL ASSETS	**386,853,611**	**-**	**386,853,611**
TOTAL LIABILITIES	**(337,591,794)**	**-**	**(337,591,794)**

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 the business segments.

The information provided about each segment is based on the internal reports about the segment's profit or loss, assets and other information, which are regularly reviewed by ExCom. Segment assets and liabilities comprise operating assets and liabilities, representing the consolidated balance sheet. 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% or more of the Group's total income.

15. Related Party Balances and Transactions

Related parties include key management personnel (including Directors) and those 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.

15. Related Party Balances and Transactions (Continued)

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

	2013 $	2012 $
ASSETS		
Cash at bank		
Other related parties	-	787,276
Loans and advances to customers		
The Parent	525,177	881,226
Key management personnel	1,525,845	1,775,908
Other assets		
The Parent	1,171,948	2,933,156
Other related parties	77,906	125,662
LIABILITIES		
Deposits from customers		
The Parent	3,012,880	2,314
Key management personnel	187,122	248,679
Other related parties	16,390,178	8,686,846
Debt securities		
Other related parties	7,062,000	3,552,000
INCOME		
Interest income		
The Parent	43,950	72,000
Other related parties	3,704	48,065
Interest expense		
The Parent	27,427	-
Other related parties	412,338	357,836
Fees and commissions		
Other related parties	27,237	181,252
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	94,506	82,597
Key management personnel (executive Directors and other)	475,245	551,930
Costs allocated to other related parties	(1,986,240)	(2,011,699)
Costs allocated from the Parent	600,000	600,000

During 2013, the Group acquired the ordinary shares of RFMBT held by the Parent; See Note 6.

During 2012, the Directors approved a credit facility for the Parent in the amount of $1,000,000, which bears interest at the B$ Prime rate plus 1.50% with monthly repayments of $33,000.

Amounts due from the Parent are unsecured, interest-free and have no set terms of repayment. During 2012, dividends of $3,008,724 payable to the Parent were applied against amounts owing to the Group by the Parent.

15. Related Party Balances and Transactions (Continued)

As of 31 December 2013, other related parties hold 569,662 (2012: 374,930) outstanding ordinary shares and 225,500 (2012: 225,500) outstanding preference shares.

The Bank provides certain services to the Parent and other related parties under service agreements; incurred costs associated with these services are allocated to the respective parties and are recorded as deductions in the relevant expense accounts. Similarly, the Bank receives certain services from the Parent, with the charges for these services expensed in the relevant expense accounts.

16. 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 2013, the Group had outstanding loan commitments amounting to $399,832 (2012: $836,261).

Capital commitments

As of 31 December 2013, the Group had commitments for capital expenditure totalling $Nil (2012: $148,461), in relation to property, plant and equipment.

Operating lease commitments

The future minimum rental payments required under non-cancellable leases as of 31 December 2013 are as follows:

	2013 $	2012 $
2013	-	366,863
2014	425,598	304,272
2015	436,504	305,840
2016	441,286	307,455
2017 and later	1,668,145	1,260,000
Total minimum payments	**2,971,533**	**2,544,430**

17. 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.

18. 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.

19. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment on a quarterly basis, and 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.

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 debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the bases of the contractual cash flows of the assets in the group, historical loss experience for financial assets with similar credit risk characteristics 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 +/−4%, the provision for loan losses would be increased/decreased by $308,000.

20. Capital Management

The Group's objectives when managing capital, which comprises total equity on the face of the consolidated balance sheet, 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. 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%. During 2013, the Group complied with all of the externally imposed capital requirements to which it is subject.

21. Financial Risk Management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all 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 and liquidity risks. The Group does not use derivative instruments to manage any of these risks.

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 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 allowances, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances to customers, but also guarantees and other commitments such as letters of credit, and performance and other bonds.

Credit risk is the greatest risk facing the Group and management therefore carefully manages its exposure to credit risk. Impairment provisions are provided for losses incurred as of the balance sheet date (Note 5). 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 balance sheet date.

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 policy, 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 analysis of the ability of borrowers to meet contractual obligations, performed by branch managers, 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 assets. The classes of financial instruments to which the Group is most exposed to credit risk are loans and advances to customers (Note 5), cash at banks (Note 3) and certain investment securities (Note 4). 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.

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.

21. Financial Risk Management (Continued)

Credit risk (continued)

The table below analyses the composition of the Group's loan portfolio as of 31 December 2013:

	2013		2012	
	$m	%	$m	%
Consumer	200	62	150	53
Family residential property	92	28	101	35
Undeveloped land	18	6	19	7
Overdrafts	6	2	5	2
Cash secured	5	1	7	2
Commercial property	3	1	3	1
	324	**100**	**285**	**100**

The average mortgage loan balance is $89,000 (2012: $87,000) and the average consumer loan balance is $31,500 (2012: $30,500) with the largest exposure to a single customer totalling approximately $1.6 million (2012: $1.5 million). Mortgage loans can extend up to 24 years, and consumer loans up to 10 years.

The table below analyses loans and advances to customers by payment status as of 31 December 2013.

	2013		2012	
	$m	%	$m	%
Not impaired				
– Neither past due or impaired	288.9	89	252.7	88
– Past due but not impaired	19.4	5	18.4	6
Impaired				
– Past due up to 3 months	1.1	1	-	-
– Past due 3 – 6 months	1.9	1	1.6	1
– Past due 6 – 12 months	2.3	1	1.1	1
– Past due over 12 months	10.3	3	11.0	4
	323.9	**100**	**284.8**	**100**
Provision for loan losses				
– Individually impaired	7.5	81	5.7	86
– Portfolio allowance	1.8	19	0.9	14
	9.3	**100**	**6.6**	**100**

21. Financial Risk Management (Continued)

Credit risk (continued)

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

	Mortgages $m	Consumer $m	Other $m	Total $m
31 December 2013				
Past due up to 3 months	5.7	1.0	0.2	6.9
Past due 3 – 6 months	1.9	-	0.2	2.1
Past due 6 – 12 months	2.4	-	-	2.4
Past due over 12 months	8.0	-	-	8.0
Total past due but not impaired	**18.0**	**1.0**	**0.4**	**19.4**
31 December 2012				
Past due up to 3 months	7.6	1.4	0.6	9.6
Past due 3 – 6 months	1.4	-	-	1.4
Past due 6 – 12 months	1.7	-	-	1.7
Past due over 12 months	5.7	-	-	5.7
Total past due but not impaired	**16.4**	**1.4**	**0.6**	**18.4**

As of 31 December 2013, the individually impaired loans can be analysed as follows:

	Mortgages $m	Consumer $m	Other $m	Total $m
31 December 2013				
Carrying amount	12.4	4.0	2.5	18.9
Provision for loan losses	2.5	3.8	1.2	7.5
31 December 2012				
Carrying amount	8.3	3.3	2.1	13.7
Provision for loan losses	1.9	2.6	1.2	5.7

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 $19,048,000 (2012: $16,969,000) as of 31 December 2013.

21. Financial Risk Management (Continued)

Credit risk (continued)

Credit-related commitments

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

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 16 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 risk in respect of geographical area, as both customers and assets held as collateral are based in The Bahamas.

Interest rate risk

Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument 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 floating interest rates linked to the B$ Prime rate that generally reset within three 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 2013, the Group is exposed to fair value interest rate risk on $6.5 million (2012: $5 million) of its investments in Government debt securities, which are at fixed interest rates with maturity dates ranging from 2022 to 2031. The remainder of debt securities in the Group's investment portfolio are at floating rates linked to the B$ Prime rate.

As of 31 December 2013, the Group is exposed to fair value interest rate risk on approximately $15 million (2012: $8 million) of its debt securities which are at fixed interest rates, and does not hedge against this risk. The remaining debt securities are at floating interest rates linked to the B$ Prime rate.

21. Financial Risk Management (Continued)

Price risk

Price risk is the risk that the fair value and/or amounts realised on sale of financial instruments may fluctuate significantly as a result of changes in market price. This risk is considered to be minimal, as the Group's investment securities are represented in the vast majority by Government debt securities.

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due or can do so only at an excessive 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 balance sheet date and represent undiscounted cash flows.

As of 31 December 2013	Repayable on demand $m	Up to 3 months $m	3 – 12 months $m	1 – 5 years $m	More than 5 years $m	Total $m
ASSETS						
Cash on hand and at banks	60.2	-	-	-	-	60.2
Investment securities	0.3	0.8	1.6	10.3	63.5	76.5
Loans and advances to customers	14.4	16.1	47.7	234.9	193.1	506.2
Other assets	2.2	-	-	-	-	2.2
Total assets	**77.1**	**16.9**	**49.3**	**245.2**	**256.6**	**645.1**
LIABILITIES						
Deposits from customers	76.5	105.6	163.3	15.0	-	360.4
Debt securities	-	-	2.5	30.9	16.9	50.3
Other liabilities	-	1.5	-	-	-	1.5
Total liabilities	**76.5**	**107.1**	**165.8**	**45.9**	**16.9**	**412.2**
Net liquidity gap	**0.6**	**(90.2)**	**(116.5)**	**199.3**	**239.7**	
Loan commitments	**0.4**					

21. Financial Risk Management (Continued)

Liquidity risk (continued)

As of 31 December 2012	Repayable on demand $m	Up to 3 months $m	3 – 12 months $m	1 – 5 years $m	More than 5 years $m	Total $m
ASSETS						
Cash on hand and at banks	54.6	-	-	-	-	54.6
Investment securities	0.4	1.0	1.5	7.8	51.7	62.4
Loans and advances to customers	12.6	13.7	40.6	198.8	180.9	446.6
Other assets	3.9	-	-	-	-	3.9
Total assets	**71.5**	**14.7**	**42.1**	**206.6**	**232.6**	**567.5**
LIABILITIES						
Deposits from customers	63.4	81.1	154.3	14.9	-	313.7
Debt securities	-	-	5.0	19.6	18.0	42.6
Other liabilities	-	0.7	-	-	-	0.7
Total liabilities	**63.4**	**81.8**	**159.3**	**34.5**	**18.0**	**357.0**
Net liquidity gap	**8.1**	**(67.1)**	**(117.2)**	**172.1**	**214.6**	
Loan commitments	**0.8**					

The maturity analysis above is representative of the discounted cash flows.

Regulatory authorities set limits for liquidity balances. The Group was in compliance with these requirements during the year.

22. Fiduciary Risk Management

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

23. Fair Values of Financial Instruments

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.

24. Subsequent Events

Subsequent to year end, the Directors approved dividends of $2,869,117 ($0.10 per share) on ordinary shares.