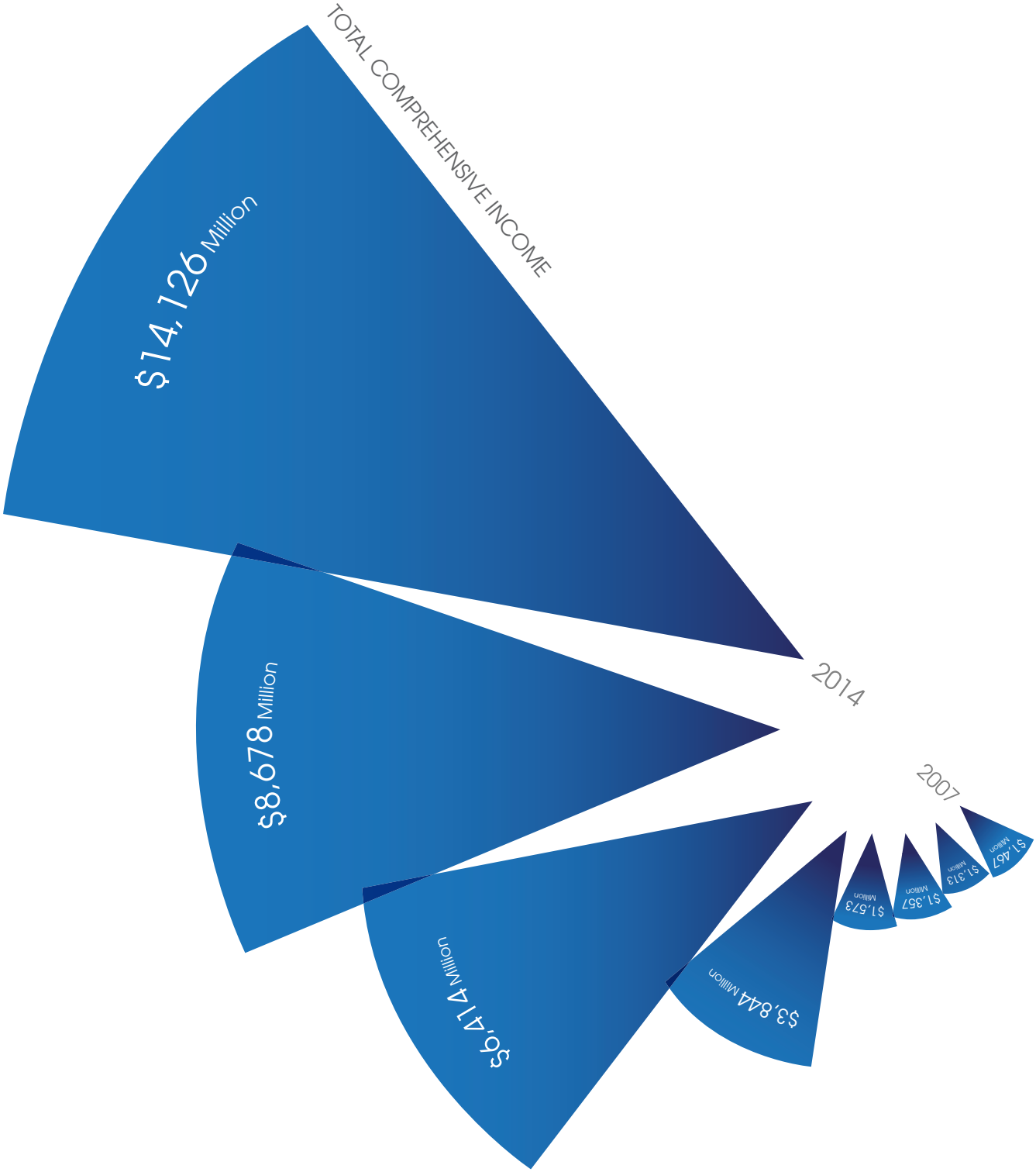
FIDELITY



Annual Report 2014

Sustainability & Strength

In 2014, our profit growth continued. Net income to Ordinary Shareholders jumped by 49%. We raised our dividend by 79%. Our stock price responded well increasing by 58% in 2014 and a further 20% to June 2015.Our aim in 2015 is to continue the progress.

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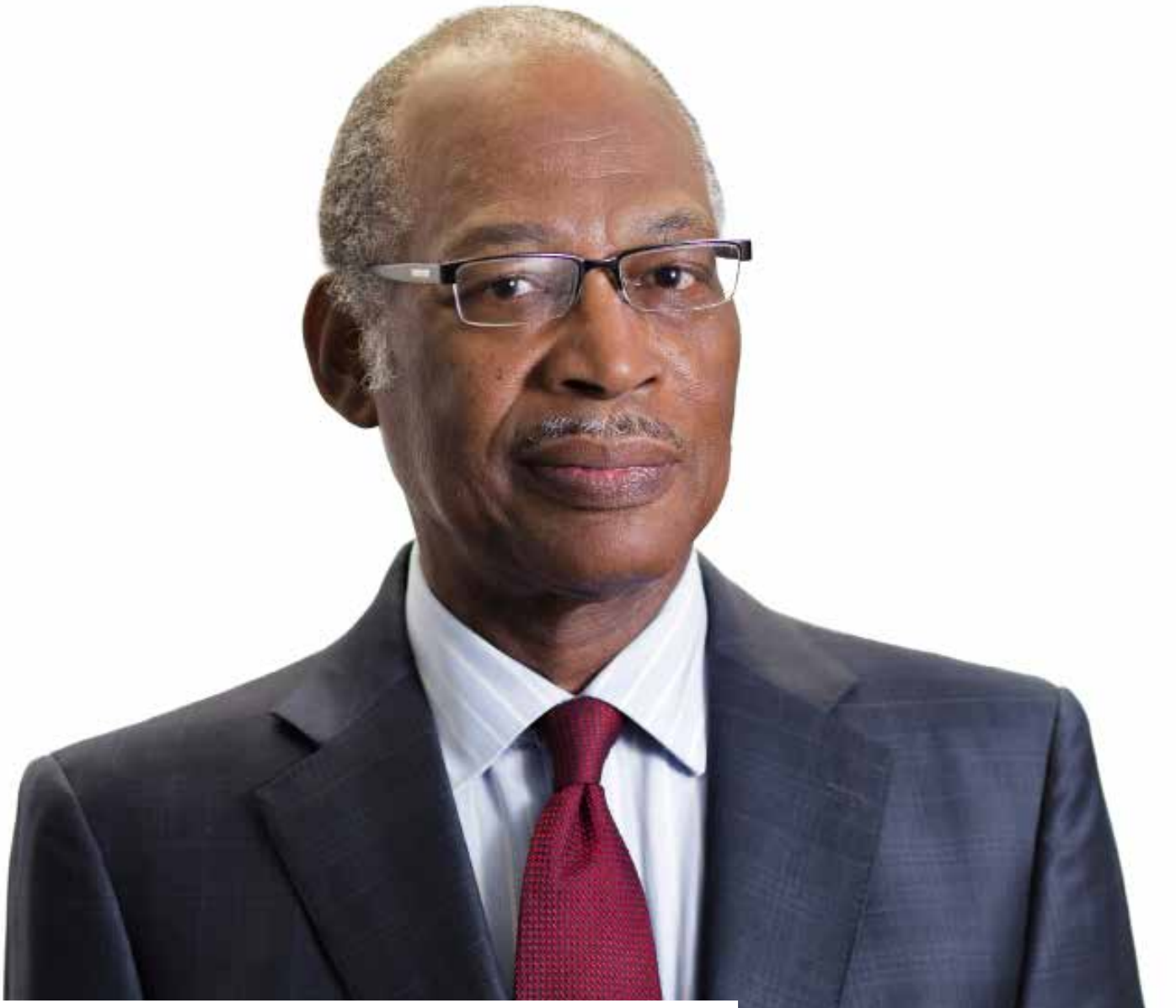
Financial Highlights

For the years ended 31 December (B$000)	2014	2013	YOY % Change	2012	2011	2010
INCOME STATEMENT DATA (B$000):						
Interest Income	45,604	39,541	15%	33,205	27,866	22,252
Interest Expense	(13,995)	(13,709)	2%	(12,953)	(12,360)	(11,647)
Net Interest Income	31,609	25,832	22%	20,252	15,506	10,605
Provision for Loan Losses	(6,860)	(6,148)	12%	(3,954)	(1,994)	(1,182)
Net Interest after Provision for Loan Losses	24,749	19,684	26%	16,298	13,512	9,423
Non-interest Income	4,270	3,833	11%	3,742	3,619	4,181
Non-interest Expenses	(16,535)	(14,658)	13%	(13,702)	(13,362)	(11,870)
Share of Profits of joint venture	1,642	875	88%	76	75	(161)
Net Income	14,126	9,745	45%	6,414	3,844	1,573
Items not reclassified to Net Income						
Property Plant and Equipment Revaluation	-	(1,057)	-100%	-	-	-
Total Comprehensive Income	14,126	8,678	63%	6,414	3,844	1,573
Net Income attributable to Ordinary Shareholders	13,321	8,929	49%	5,604	3,652	1,573
PER SHARE DATA:						
Book Value	$ 1.67	$ 1.45	15%	$ 1.32	$ 1.26	$ 1.21
Cash Dividends	$ 0.25	$ 0.14	79%	$ 0.14	$ 0.07	$ -
Year End Share Price	$ 4.75	$ $3.01	58%	$ 2.10	$ 1.77	$ 2.17
Weighted Average Ordinary Shares Outstanding (000's)	28,707,045	28,685,045	0%	28,666,670	28,666,670	28,666,670
BALANCE SHEET DATA (B$000):						
Investment Securities	55,608	47,901	16%	38,232	27,987	29,173
Loans and Advances	332,370	313,762	6%	278,420	243,921	212,665
Total Assets	472,794	444,188	6%	386,854	349,910	282,198
Net Write-offs	3,874	3,442	13%	2,353	1,683	20
Deposits from Customers	376,650	354,454	6%	307,934	272,888	220,728
Total Equity Capital	59,366	53,160	12%	49,262	47,172	34,722
Total Ordinary Shareholders' Equity	47,855	41,649	15%	37,751	36,161	34,722
Asset growth	6.44%	14.82%	-57%	10.56%	23.99%	2.42%
Loan Growth	5.93%	12.69%	-53%	14.14%	14.70%	6.27%
PERFORMANCE RATIOS:						
Earnings Per Share (EPS)	$ 0.46	$ 0.31	49%	$ 0.20	$ 0.13	$ 0.05
Price/Earnings Ratio (PER)	10.24x	9.67	6%	10.74x	13.89x	39.55x
Price/Book Value (P/BV)	2.85	2.07	37%	1.59	1.40	1.79
Dividend Yield	5.26%	4.65%	13%	6.67%	3.95%	0.00%
Return on Average Assets (ROAA)	3.08%	2.34%	32%	1.74%	1.22%	0.56%
Return on Average Common Shareholders' Equity (ROAE)	29.77%	22.49%	32%	15.16%	10.30%	4.64%
Ordinary Dividend Payout Ratio	53.88%	44.97%	20%	71.62%	54.95%	0.00%
Efficiency Ratio	46.08%	49.41%	-7%	57.11%	69.87%	80.28%
Net Interest Margin	8.43%	7.62%	11%	6.88%	6.04%	4.51%
ASSET QUALITY RATIOS:						
Non-Performing Loans to Total Loans and advances	8.41%	8.30%	1%	7.83%	7.51%	9.00%
Non-Performing Loans to Total Assets	6.23%	6.10%	2%	5.83%	5.40%	6.99%
Net Write-offs to Average Gross Loans	1.14%	1.12%	2%	0.87%	0.72%	0.01%
Provision for Loan Losses to Loan Portfolio	3.50%	2.84%	23%	2.29%	1.98%	2.13%
Provision for Loan Losses to Non-Performing Loans	41.66%	34.28%	22%	29.21%	26.39%	23.68%



Chairman's Report

Sir William Allen, K.C.M.G., JP

During 2014, the Bank expanded its assets by more than 6%, and increased its net income by 45% percent. Its return on average assets was higher for the year, as also were its earnings per share.

Clearly the Bank is continuing to perform well against the background of an economy still struggling with its weak recovery, although economic prospects are perhaps better now than at any time since the global recession which began in 2008. Nevertheless, challenges and uncertainties remain.

The stage is set now for significant progress in fiscal consolidation with the successful implementation of Value Added Tax (VAT). Furthermore, a substantial expansion in tourism capacity is poised to come on stream, while smaller investments continue to supplement the tourism stock. And some important public sector infrastructure capacity and upgrades, supplemental to tourism expansion, have recently taken place.

But it is unmistakable that in most of the last two decades the performance of the Bahamian economy has been remarkably unimpressive.

Chairman's Report (continued)

Economic growth was anemic, unable to make any lasting impact on unemployment. Except for brief interludes, unemployment has been running at double digits and continues to do so. External reserves, which have shown only nominal annual increases when not experiencing occasional deficits, have been demonstrably unable to build a reserves buffer, despite high levels of foreign direct investment inflows.

The apparent inability of the economy to generate the dynamism necessary to have a major impact on unemployment, the abiding sense of needing to secure ever higher levels of foreign direct investment to balance international payments, and generally the impression of an economy too long at the brink of a breakthrough, suggest there may be a need for change in some of our basic economic arrangements.

The first change may have already occurred. The implementation of VAT creates the opportunity for arresting the ever-increasing level of national debt and once again restoring confidence in public finances. Such confidence is hugely important to long-term planning in both the private and public sectors. And the instability in public finances brought on by excessive Government debt unsettles the financial system, and is not helpful to prospective investors.

Another candidate for change as suggested by the intransigence in the economic situation is the high cost and inefficiency in our production and distribution of electricity. There can be little doubt that this represents an enormous burden on the Bahamian economy as a silent killer of profits and opportunity. If this burden cannot be addressed, it is doubtful that the vibrancy of the Bahamian economy will ever be unleashed again.

This represents a burden on every level of society. And if it truly is that relief is now in sight, as is being promised, this could represent a sea change in our circumstances.

A further area where change could have a profound impact on our economic circumstances is the challenge of dealing with the enormous imbalance on the Current Account of our Balance of Payments. The historical hugeness of this imbalance has been a monumental drag on our resources over the years and has prevented us building reserves surpluses despite the considerable foreign investments the country has traditionally attracted. It is what makes us run ever faster to remain in the same place.

Dealing with this imbalance is complex and could involve many moving parts, but the end result of a successful outcome would be a net reduction in the deficit on the Current Account. In point of fact, one of the positive outcomes that can result from a successful energy/electricity policy would be a reduction of the deficit on the Current Account primarily as a consequence of any reduction in the oil import bill. So there are several good reasons to pursue an aggressive energy policy.

A final change that could improve the competitiveness of the Bahamian situation, and alter the perception of an economy unable to realise its obvious potential is to be found in the concept referred to generally as the ease of doing business in The Bahamas. This is a pervasive condition, perhaps more easily identified than defined. Various attempts at measuring the ease of doing business across countries invariably associate greater ease in doing business with the more successful economies.

Ease of doing business may be measured by reference to the level and efficiency of bureaucratic interventions, including the licensing and regulatory processes, the style and cost of such interventions, the time and effort spent in securing final approvals, and maintaining such approvals, etc. There is the perception that there is scope for improving the ease of doing business in The Bahamas.

Reliance on growth in the United States and the global economy as a sufficient condition to restore vibrancy to the Bahamian economy seems a doubtful proposition now. Perhaps a bit of `retooling' of our own economic situation could be helpful.

Our Bank has learned how to prosper in weak economic circumstances and has been doing that remarkably well. But the sustainability of such a strategy in the long run has to eventually betray its limited shelf-life.

In the upcoming year the Board looks forward to welcoming Mr. Stuart Bowe as its newest member, subject to the approval of the Central Bank. It has been my great honour and pleasure to serve as Chairman of the Board since 2004 and as I take my leave as Chairman I avail myself of the opportunity to thank the Shareholders for that privilege and to express my gratitude to my colleagues on the Board for their support and wise counsel over the years.

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

Message from the President

Gregory Bethel, BBA

The formula for the growth and success of Fidelity Bank (Bahamas) Limited is planning, teamwork and accountability. Success does not come by chance. Careful planning - with dedication and diligence by those who execute the plan - is necessary for any successful outcome.

At the core of the products and services offered by Fidelity Bank (Bahamas) Limited is Personal Financial Planning, with accountability to a Financial Coach. This core service entails using the Financial Planning 'Smart Steps' Checklist which highlights the following:

Set your goals (in order of priority & with a time frame)

Prepare a monthly budget (a spending, giving, savings and investing plan) to:

-fund short, medium, long and longer term goals

-fund basic urgent needs

-fund loan, credit card & other debt payments

-fund gifts, donations, tithes, etc

-fund savings and investments

Prepare a weekly time allocation plan (a time table of activities and pursuits to assist you in working towards your goals)

Develop an ACTION PLAN (a list of DOs, DEFERs and DON'Ts based on the budget) with the help of a financial coach (or mentor) who will keep you accountable

Reduce and consolidate debt (to provide more money for savings and to fund your goals)
Establish an Asue savings account to fund your goals

-Save to fund short term and medium term goals

-Save to fund emergencies and annual expenses

-Save and invest to fund long term goals (especially retirement)

Only borrow to buy something which increases in value or to increase cash flow for saving (e.g. debt consolidation loan)

Contribute to a Retirement Fund (to supplement National Insurance)

Prepare an Estate Plan (Term Life Insurance and a Will)

A GOAL without a plan (budget, savings, debt consolidation (to increase the cash flow needed for more savings), investments and accountability) is just a wish or a passing dream!

The choices we make today will affect our tomorrow and determine if and when we can retire. They also determine the quality of life for our offspring and the quality of the inheritance we will leave behind to benefit others.

'You reap what you sow' is an irrevocable truth.

Gregory Bethel, BBA
PRESIDENT

Letter from the CEO

Anwer J. Sunderji, MA, MBA

Fidelity Bank (Bahamas) Limited (BISX: FBB) reported total comprehensive income for 2014 of $14.126 million, an increase of 63% over prior year. Earnings per share amounted to $0.46 (2013: $0.31), and net income attributable to ordinary shareholders was $13.321 million, an increase of 49%. Return on Average Assets (ROAA) improved to 3.08%, up from 2.34% and Return on Average Ordinary Shareholders' Equity (ROAE) was 29.77%, a 32% increase from prior year. Operating expenses jumped by approximately $2.589 million or 13%. Despite the increase in business licence fees, the Bank improved its Efficiency Ratio to 46.08% from 49.41%. During the year, the Bank increased its ordinary dividend to $0.25 per share, for a payout ratio of 53.88%. The increase in dividend, coupled with growing profitability, resulted in an increase in the Bank's share price of some 58% during 2014, boosting the market capitalisation to just under $140 million. The share price has increased by a further 20% in 2015 to $6.15 as of June 2015 Provision for loan losses was 19% of revenue at $6.860 million, increasing by 12% from prior year. Assets grew by 6% to $472.794 million and loan assets by 6% to $332.370 million. The Loans to Deposit ratio was a comfortable 88.24%. Mortgage loans continued to decline steadily as higher levels of system liquidity prompted other lenders to offer lower rates than the Bank thought prudent on a risk adjusted basis.

Letter from the CEO (continued)

But overall credit demand remained modest as borrowers reduced their purchases, and banks pulled back from offering 100% financing for homes and sought borrower contribution to equity. The Bank's Capital Adequacy stood at 18.5% at year-end (with a forward target of 20%), well above the Central Bank of The Bahamas (the Central Bank) requirement of 14%. The Bank remains in full compliance with all regulatory requirements.

According to the Central Bank March 2015 Asset Quality Report, Total Private Sector loans added up to approximately $6 billion. Consumer Loans account for $2.3 billion and Mortgage Loans $2.8 billion with the balance in Commercial Loans. Roughly 10% of Consumer Loans and 18.5% of Mortgage loans are more than 90 days past due with Total Delinquency for Private Sector loans at about 16%. While the Bank's non-performing book overall remained contained at approximately 8.41% of total loans, the prognosis is not good. Headwinds from a recessionary economy continue to be felt and there appears to be a growing late payment problem (the precursor to a full blown delinquency) pushing the Bank's mortgage delinquency above its historical norms. Also, the mortgage delinquency situation is exacerbated each time the Government announces a "mortgage relief" programme, as borrowers stop paying their loans hoping to benefit from the Government largess, causing further delinquency increases. As it turns out, not all delinquent borrowers are elderly, disabled or unemployed (the Government's target for assistance) and many of them have been occupying their homes for more than 5 years and not paying their mortgages. As we have intimated before, the loan delinquency problem can only improve once the economy creates jobs and unemployment starts to come down materially from the reported 15% level and further, employed borrowers accept their responsibility to discharge their debts.

The Government is understood to be in active discussions to impose possible limitations to the amount of their salaries that employees can pledge to secure loans. We support this initiative but think it will create substantial hardship amongst many borrowers who use such access for funding basic living expenses such as school fees, utility bills, and medical expenses, amongst other things. In addition, the Bahamian economy is dependent on consumer spending, as it is estimated that more than 50% of the nation's GDP is driven by it. Any change in limiting consumer loans could have an impact on the economy, that is still hurting from a slow recovery from the recession. It should be noted that the regulated banking industry is not the sole provider of credit in The Bahamas.

There are hundreds of unregulated lenders who are involved in everything from car lending to home mortgages to payday lending. Any curbs to borrowing will also have an impact on them too and to employment in the private sector engaged in retail.

We have yet to see any negative impact of VAT on borrowers and we believe that it has been temporarily offset by lower prices at the gas pump. We also suspect that the legalisation of gaming will not have a material impact on the lives of ordinary people because it was already widely pervasive in its illegal form.

In summary therefore, there are many challenges ahead but management expects the Bank to continue to show satisfactory returns on a sustained basis, notwithstanding the launch of the Credit Bureau and possible curbs to salary deductions.

Finally, I take this opportunity to thank the Chairman Sir William Allen for his stewardship of the Bank. Under his guidance, the Bank's Total Comprehensive Income has soared by an average of 50% per year over the last five years. He has provided the Bank with a steady hand in leadership and active risk management. Sir William has decided to step down from the chairmanship as he is assuming the chairmanship of Global Nexus, an URCA licensed Telecommunications Company that he pioneered which will shortly be announcing its plans for going forward. He believes that his commitment will leave him limited time to discharge his fiduciary duty to the Bank as chairman. He has kindly agreed to stay on the board as a director after his resignation as chairman at the AGM in July 2015.

Our employees and customers played a large part in these favourable results and we are grateful to them for their support.

Anwer J. Sunderji, MA, MBA
CHIEF EXECUTIVE OFFICER

Financial Performance At a Glance

NET INTEREST INCOME

up by 22%

to 31.609m

PROVISION FOR LOAN LOSSES

up by 12%

to 6.860m

NON-INTEREST INCOME

up by 11%

to 4.270m

TOTAL COMPREHENSIVE INCOME

up by 63%

to 14.126m

NET INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

up by 49%

to 13.321m

LOAN AND ADVANCES

up by 6%

to 332m

TOTAL ASSETS

up by 6%

to 473m

CASH DIVIDENDS PER SHARE

up by 79%

to $0.25

YEAR-END SHARE PRICE

up by 58%

to $4.75

RETURN ON AVERAGE ASSETS (ROAA)

up by 32%

to 3.08%

RETURN ON AVERAGE ORDINARY SHAREHOLDERS' EQUITY (ROAE)

up by 32%

to 29.77%

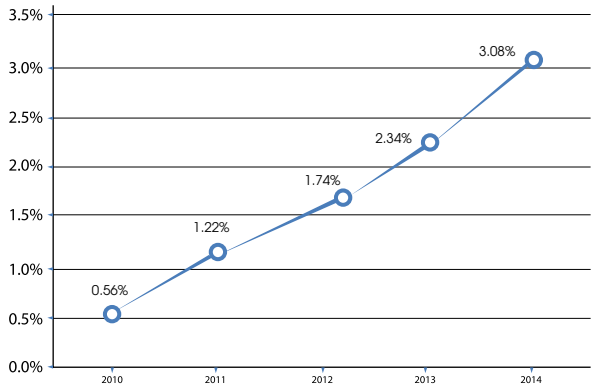
EFFICIENCY RATIO

improved by 7%

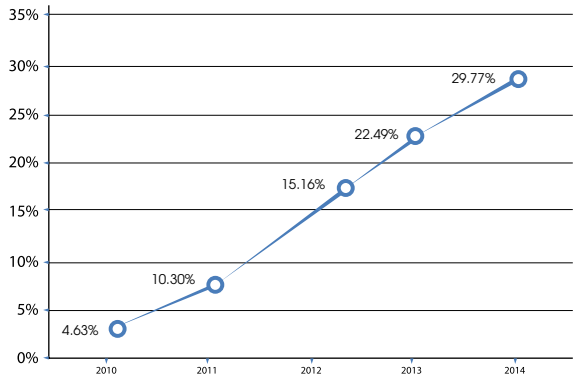
to 46.08%

Financial Performance

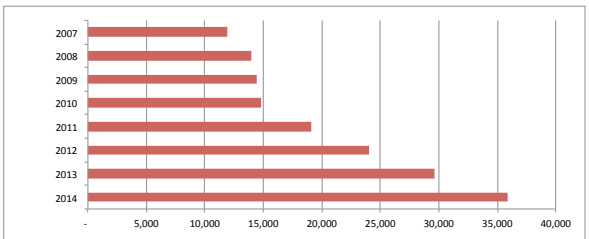
ROAA



ROAE

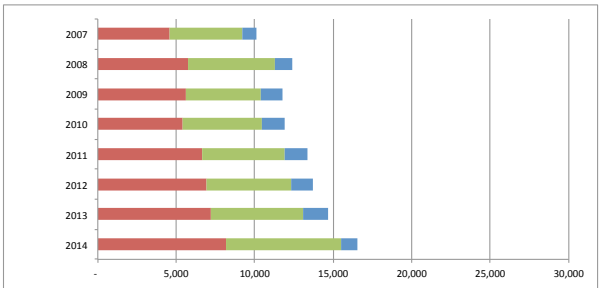


TOTAL REVENUE



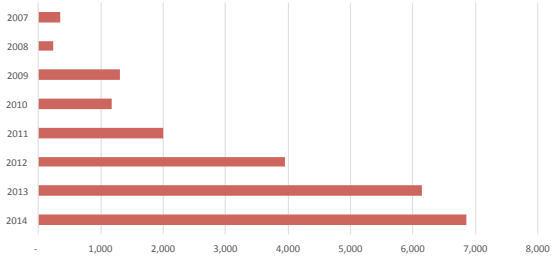
	2014	2013	2012	2011	2010	2009	2008	2007
Total Revenue	35,879	29,665	23,993	19,125	14,786	14,467	13,923	11,935

TOTAL EXPENSES



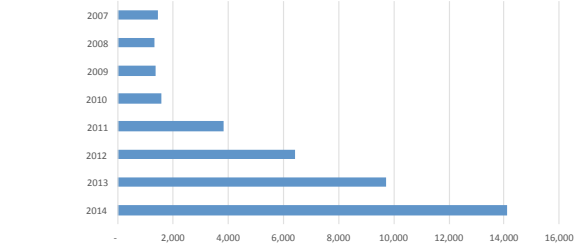
	2014	2013	2012	2011	2010	2009	2008	2007
Compensation	8,163	7,206	6,891	6,647	5,420	5,605	5,771	4,548
G&A	7,304	5,864	5,405	5,223	5,033	4,760	5,541	4,686
Depreciation	1,068	1,588	1,406	1,492	1,417	1,430	1,067	879

PROVISIONS FOR LOAN LOSSES



	2014	2013	2012	2011	2010	2009	2008	2007
PLL	6,860	6,148	3,954	1,994	1,182	1,316	231	356

TOTAL COMPREHENSIVE INCOME



	2014	2013	2012	2011	2010	2009	2008	2007
Comprehensive Income	14,126	9,734	6,414	3,844	1,573	1,357	1,313	1,467

Meet our Executive Team

Michael Anderson
President, Royal Fidelity Merchant Bank & Trust Limited

Gregory Bethel
President, Retail Banking

Judy Higgs
Vice President, Corporate Secretary

Thomas Hacket
Group Chief Financial Officer

Anwer J. Sunderji
Group Chairman

Tangela N. Albury
Chief of Compliance & Internal Audit, Compliance & Control

Crestwell Gardiner
Vice President, Credit & Lending

Andrew Pike
Group Chief Information Officer

Meet our Management Team

Back row L to R

Carmetta Basden
Manager, Fund Accounting

Antonio Saunders
Manager, Marketing Media & Graphics

Eunice Johnson
Card Services, Operations Manager

Dominic Ferguson
Financial Centre Manager

Bridget Forbes
Financial Centre Manager

Front row L to R

Khrystle Rutherford-Ferguson
Manager Collections, Litigation

Spencer Dean
Compliance Officer & MLRO

Thallise Maycock
Manager, Premises - Bahamas

Samantha Carey-Davis
Manager, Accounting Services

Malvern Bain
Vice President, Asset Recovery

Back row L to R

Janice Rolle
Sr. Financial Centre Manager

Domicia Hepburn
Manager, Group Branch Operations

Stacia Williams
Group HR Director

Demetrius Bastian
Financial Centre Manager

Front row L to R

Katherine Lockhart
Manager, Central Services

Andrea Smith
Senior Accountant

Odia Gaskin
Financial Centre Manager

Heatherdawn Blake-Brown
Director, Card Services & Money Transfer Services

Audbrey Sherman
Fraud & Risk Manager

Message from the CFO

Thomas Hacket, BA, FCCA

During 2014 total assets of the Bank increased by $28.6 million, or 6% to $472.8million from $444.2 in 2013 with total loans increasing by $18.6 million, or 6%, compared to an increase of $35.4 million, or 13%, in 2013.

The Bank reported net income of $14,126,485 or 46 cents per share as compared with net income for 2013 of $9,735,204 or 31 cents per share. Net income for 2014 was positively impacted by the growth in the consumer loan portfolio.

The return on average assets for the year was 3.08% (2013; 2.34%)

Dividends of 25 cents per share were paid in 2014 (2013: 14 cents per share)

Management Discussion & Analysis

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 2014 was 18.5%.(2013:17.5%). Capital adequacy was impacted negatively in 2013 by the purchase of Royal Fidelity Merchant Bank & Trust Limited as described in Note 6 of the financial statements. Management plans to increase capital adequacy to in excess of 20% over the next two year through profit retention.

ANALYSIS OF LOAN PORTFOLIO

During 2014, the Banks mortgage portfolio declined by $12.1 million (2013: decrease of $11.4 Million), or -10.8% (2013: - 9.3%), due to reduced demand and inability of potential borrowers to qualify.

Consumer and other loans increased by $33.9 million (2013: Increase of $50.6 million). This growth was in line with the Bank's strategy to rebalance the overall mix of its loan.

At the end of 2014, mortgage loans comprised 29.0% (2013: 34.6%) of total loans with consumer and other loans comprising the balance of 71.0% (2013: 65.4%) which was in line with the Bank's targeted ratio.

Total non-performing loans amounted to $29.5 million (2013: $27.1 million) or 8.4% (2013: 8.3%) of total loans. Provision for loan losses represent 3.50% (2013: 2.84%) of the total loan portfolio.

DEPOSIT BASE

During 2014, total deposits grew by $22.2 million (2013: $46.5million), or 6.3 %, (2013: 15.1%). Liquidity in the banking system remained high throughout 2014 as credit demand remained soft.

OPERATING REVENUES

Net Interest Income

Net interest income increased significantly from $25.8 million in 2013 to $31.6 million in 2014. The net interest margin, on average total assets increased from 6.2% in 2013 to 6.9% in 2014.

Non-Interest Income

Non-interest revenues increased from 3.8 million in 2013 to $4.3 million in 2014.

At the end of 2014, non-interest revenues comprised 11.9% (2013: 12.9%) of total revenues.

OPERATING EXPENSES

Operating expenses increased by 13.0% in line with expectations. Excluding loan loss provision charges, expenses were $16.5 million (2013: $14.6 million). $1.3 million of the increase related to new business licence fees in 2014

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 2015. Non-performing loans as a percentage of total loans were 8.4 % at the end of 2014 (2013: 8.3%). The level of loan loss provisions, as a percentage of non-performing loans, increased from 34.3 % in 2013 to 41.7 % at the end of 2014 .Mortgages represent $21.8 million (2013:$20.3 million) of the non-performing loans with the balance of $ 7.7 million (2013: $ 6.8 million) 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

2014 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 2015 and looks forward to another successful year.

Thomas Hackett, BA, FCA
CHIEF FINANCIAL OFFICER

2014 Consolidated Financial Statements

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 2014, 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 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
30 April 2015

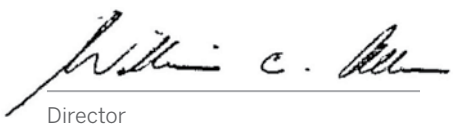
PricewaterhouseCoopers, Providence House, East Hill Street, P.O. Box N-3910, Nassau, Bahamas
T: + 1 242 302 5300, F: + 1 242 302 5350, www.pwc.com/bs, E-mail: pwcbs@bs.pwc.com

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2014 | (EXPRESSED IN BAHAMIAN DOLLARS)

	2014 $	2013 $
ASSETS		
Cash on hand and at banks (Note 3)	60,304,617	60,239,925
Investment securities (Note 4)	55,607,612	47,901,148
Loans and advances to customers (Note 5)	332,370,348	313,761,565
Other assets	2,680,929	2,182,713
Investments in joint ventures (Note 6)	11,468,402	9,884,445
Property, plant and equipment (Note 7)	10,362,563	10,218,134
Total assets	**472,794,471**	**444,187,930**
LIABILITIES		
Deposits from customers (Note 8)	376,650,387	354,454,189
Accrued expenses and other liabilities	796,942	649,904
Debt securities (Note 9)	35,981,622	35,923,704
Total liabilities	**413,428,951**	**391,027,797**
EQUITY		
Capital (Note 10)	31,653,119	31,578,377
Revaluation reserve	910,149	988,647
Reserve for credit losses (Note 18)	3,353,581	3,153,238
Retained earnings	23,448,671	17,439,871
Total equity	**59,365,520**	**53,160,133**
Total liabilities and equity	**472,794,471**	**444,187,930**

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



Director

Director

30 April 2015

Date

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014 | (EXPRESSED IN BAHAMIAN DOLLARS)

	2014 $	2013 $
INCOME		
Interest income		
Bank deposits, loans and advances	43,196,040	37,535,292
Investment securities	2,408,383	2,005,728
	45,604,423	39,541,020
Interest expense	(13,994,942)	(13,708,774)
Net interest income	**31,609,481**	**25,832,246**
Fees and commissions	4,273,591	3,821,237
Net gain/(loss) on investment securities	(3,600)	11,907
	35,879,472	**29,665,390**
EXPENSES		
Salaries and employee benefits	8,162,766	7,205,817
General and administrative (Note 12)	7,303,717	5,863,592
Provision for loan losses (Note 5)	6,860,345	6,147,860
Depreciation and amortisation (Note 7)	1,068,070	1,588,144
	23,394,898	**20,805,413**
Operating profit	**12,484,574**	**8,859,977**
Share of profits of joint ventures (Note 6)	1,641,911	875,227
Net income	**14,126,485**	**9,735,204**
OTHER COMPREHENSIVE INCOME		
Items not reclassified to net income		
Property, plant and equipment revaluation (Note 7)	-	(1,057,160)
Total comprehensive income	**14,126,485**	**8,678,044**
Earnings per share (Note 11)	**0.46**	**0.31**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014 | (EXPRESSED IN BAHAMIAN DOLLARS)

	Capital $	Revaluation Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
As of 1 January 2013	31,011,001	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**
As of 1 January 2013	31,578,377	988,647	3,153,238	17,439,871	53,160,133
Comprehensive income					
Net income	-	-	-	14,126,485	14,126,485
Other comprehensive income					
Depreciation transfer	-	(78,498)	-	78,498	-
Appropriation for credit losses	-	-	200,343	(200,343)	-
Total comprehensive income	-	(78,498)	200,343	14,004,640	14,126,485
Transactions with owners					
Issuance of ordinary shares	74,742	-	-	26,596	101,338
Dividends – preference shares	-	-	-	(805,770)	(805,770)
Dividends – ordinary shares	-	-	-	(7,216,666)	(7,216,666)
Total transactions with owners	74,742	-	-	(7,995,840)	(7,921,098)
As of 31 December 2014	**31,653,119**	**910,149**	**3,353,581**	**23,448,671**	**59,365,520**

Dividends per preference share: $0.70 (2013: $0.70)
Dividends per ordinary share: $0.25 (2013: $0.14)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014 | (EXPRESSED IN BAHAMIAN DOLLARS)

	2014	2013
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	14,126,485	9,735,204
Adjustments for:		
Interest income	(45,604,423)	(39,541,020)
Interest expense	13,994,942	13,708,774
Net (gain)/loss on investment securities	3,600	(11,907)
Loss on disposal of property, plant and equipment	8,904	12,216
Salaries and employee benefits	101,338	67,376
Provision for loan losses	6,860,345	6,147,860
Depreciation and amortisation	1,068,070	1,588,144
Share of profits of joint ventures	(1,641,911)	(875,227)
Interest received	42,532,628	37,136,138
Interest paid	(13,968,772)	(12,974,122)
(Increase)/Decrease in operating assets		
Mandatory reserve deposits	(869,280)	(969,812)
Loans and advances to customers	(22,521,418)	(39,254,348)
Other assets	(498,216)	1,701,021
Increase/(Decrease) in operating liabilities		
Deposits from customers	22,227,946	45,898,958
Accrued expenses and other liabilities	147,038	(2,607)
Net cash from operating activities	**15,967,276**	**22,366,648**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	57,954	100,000
Purchase of investment securities	(8,727,800)	(9,677,200)
Proceeds from sale/maturity of investment securities	1,141,821	189,514
Investment in joint venture	-	(8,900,000)
Purchase of property, plant and equipment	(1,223,403)	(1,328,877)
Proceeds from disposal of property, plant and equipment	2,000	-
Net cash used in investing activities	**(8,749,428)**	**(19,616,563)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt securities	-	9,805,000
Redemption of debt securities	-	(3,000,000)
Dividends paid on preference shares	(805,770)	(805,770)
Dividends paid on ordinary shares	(7,216,666)	(4,041,334)
Net cash from/(used in) financing activities	**(8,022,436)**	**1,957,896**
Net increase/(decrease) in cash and cash equivalents	**(804,588)**	**4,707,981**
Cash and cash equivalents as of beginning of year	46,752,525	42,044,544
Cash and cash equivalents as of end of year (Note 3)	**45,947,937**	**46,752,525**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

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 Securities Exchange (BISX).

Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 75% (2013: 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 2014, the Group employed 190 (2013: 182) 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(m) and 19.

New standards, amendments and interpretations adopted by the Group

Standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2014 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) and IFRS 15 Revenue from Contracts with Customers (IFRS 15), the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

The determination is made at initial recognition, and the basis of classification depends on the Group's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Group has not yet assessed the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after 1 January 2018.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2017, and replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The Group has not yet assessed the full impact of adopting IFRS 15.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised 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 classified as at fair value through profit or loss have been so designated by management.

ii) Loans and receivables

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

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for securities 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 are recognised as a part of net income in the consolidated statement of comprehensive income in the financial period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(e) Non-performing financial assets

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

(f) Impairment of financial assets at amortised cost

The Group assesses at each 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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statement of comprehensive income as a part of net income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to "revaluation reserve" in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the consolidated statement of comprehensive income as a part of net income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

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

	Estimated Useful Life
Buildings	30 – 50 years
Furniture and fixtures	3 – 10 years
Motor vehicles	3 – 5 years
Computer software and office equipment	3 – 10 years
Leasehold 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) Deposits from customers

Deposits from customers are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Deposits from customers are derecognised when the financial liability has been extinguished.

(i) Borrowings

Borrowings, which include debt securities, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently recognised at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(i) Borrowings (continued)

Preference shares, which are mandatorily redeemable on a specific date, are classified as financial liabilities. The dividends on these preference shares are recognised in the consolidated statement of comprehensive income as interest expense.

(j) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(k) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Dividends

Dividends on ordinary shares, and preference shares classified as equity, are recognised in equity in the financial period in which they are approved by the Bank's Directors. Dividends declared after the balance sheet date, but before the consolidated financial statements are issued, are dealt with in the subsequent events note.

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(m) Income and expense recognition

Interest income and expense are recognised in the consolidated statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loans.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(m) Income and expense recognition (continued)

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.

(n) Leases

The Group is the lessee

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

The Group is the lessor

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

(o) Employee benefits

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

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

(p) 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.

(q) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

(r) Segment reporting

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

(s) Fiduciary activities

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

(t) Corresponding figures

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

3. Cash on Hand and at Banks

	2014 $	2013 $
Cash on hand	1,997,032	2,529,600
Current accounts at banks	43,950,905	44,222,925
Mandatory reserve deposits	14,356,680	13,487,400
Total	60,304,617	60,239,925

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 0.50% (2013: 0.00% to 2.00%) per annum.

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

	2014 $	2013 $
Cash on hand	1,997,032	2,529,600
Current accounts at banks	43,950,905	44,222,925
Total	45,947,937	46,752,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

4. Investment Securities (Continued)

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

	2014 $	2013 $
Level 1		
Equity securities	-	221,760
Level 2		
Government debt securities	54,773,300	46,860,500
Level 3		
Equity securities	-	108,661
Total – all levels	54,773,300	47,190,921
Accrued interest	834,312	710,227
Total	55,607,612	47,901,148

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2015 to 2037 (2013: 2014 to 2037) and with either fixed interest rates ranging from 4.13% to 4.35% (2013: 4.13% to 4.35%) or floating interest rates ranging from 0.00% to 1.19% (2013: 0.00% to 0.75%) above the B$ Prime rate of 4.75% (2013: 4.75%).

As of 31 December 2014, the cost of investment securities totalled $54,823,304 (2013: $47,287,665), of which $50,004 (2013: $169,165) represented Level 3 securities.

During the year, movements in Level 3 securities comprise:

	2014 $	2013 $
Balance as of 1 January	108,661	108,661
Purchases	-	-
Sales	(108,661)	-
Net realised gain/(loss)	(10,500)	-
Net change in unrealised appreciation/depreciation	10,500	-
Balance as of 31 December	-	108,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

5. Loans and Advances to Customers

	2014 $	2013 $
Mortgages	100,094,903	112,177,561
Consumer and other loans	245,670,571	211,727,545
	345,765,474	323,905,106
Unamortised loan origination fees	(5,610,931)	(3,565,585)
Accrued interest	4,491,895	2,711,968
Provision for loan losses	(12,276,090)	(9,289,924)
Total	332,370,348	313,761,565

Movements in provision for loan losses are as follows:

	2014			2013		
	Mortgages $	Consumer $	Total $	Mortgages $	Consumer $	Total $
Balance as of 1 January	3,100,736	6,189,188	9,289,924	2,825,665	3,758,146	6,583,811
Provisions	1,247,360	5,612,985	6,860,345	536,795	5,611,065	6,147,860
Write-offs net of recoveries	(260,945)	(3,613,234)	(3,874,179)	(261,724)	(3,180,023)	(3,441,747)
Balance as of 31 December	4,087,151	8,188,939	12,276,090	3,100,736	6,189,188	9,289,924

The provision for loan losses represents 3.50% (2013: 2.84%) of the total loan portfolio, inclusive of accrued interest, and 41.66% (2013: 34.28%) of total non-performing loans. As of 31 December 2014, principal and interest balances of non-performing loans totalled $29,467,355 (2013: $27,096,390), representing 8.41% (2013: 8.30%) of the total loan portfolio.

6. Investments in Joint Ventures

	2014 $	2013 $
Investment in RFMBT	11,263,533	9,699,159
Investment in BACH	204,869	185,286
Total	11,468,402	9,884,445

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

6. Investments 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. Under the joint venture agreement, the Group was entitled to 30% of RFMBT's net income for five years, commencing with the year ended 31 December 2008, before sharing equally the remaining net income with RBC; this entitlement ended 31 December 2012 with the accumulated benefit still to be received through dividends from RFMBT.

Movements in investment in joint venture comprise:

	2014 $	2013 $
Balance as of 1 January	9,699,159	-
Investment in joint venture	-	8,900,000
Share of profits of joint venture	1,564,374	799,159
Balance as of 31 December	11,263,533	9,699,159

The consolidated financial information of the joint venture as of 31 December 2014, and for the year then ended, is as follows:

	2014 $	2013 $
ASSETS		
Cash on hand and at banks	42,287,235	71,915,402
Investment securities	19,263,900	21,230,019
Loans and advances to customers	10,247,242	12,346,508
Other assets	1,151,478	1,806,714
Investment in joint venture	1,153,231	1,191,099
Property, plant and equipment	330,167	429,437
Intangible asset	651,738	782,086
Total assets	75,084,991	109,701,265
LIABILITIES		
Deposit from customers	58,224,487	58,031,097
Accrued expenses and other liabilities	1,778,476	39,716,892
Total liabilities	60,002,963	97,747,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

6. Investments in Joint Ventures (Continued)

RFMBT (continued)

	2014 $	2013 $
EQUITY		
Capital	11,000,000	11,000,000
Retained earnings	4,082,028	953,276
Total equity	15,082,028	11,953,276
Total liabilities and equity	75,084,991	109,701,265
INCOME		
Net interest income	891,993	638,320
Fees and commissions	6,745,608	6,283,611
Other	1,454,660	1,165,730
	9,092,261	8,087,661
EXPENSES		
Salaries and employee benefits	2,823,599	3,155,450
Depreciation and amortisation	283,228	350,931
Provision for loan losses	29,574	65,632
Other	2,961,614	2,347,964
	6,098,015	5,919,977
Operating profit	2,994,246	2,167,684
Share of profits of joint venture	162,132	156,991
Net income before tax	3,156,378	2,324,675
Taxation	(27,626)	(23,556)
Total comprehensive income	3,128,752	2,301,119

BACH

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

6. Investments in Joint Ventures (Continued)

BACH (continued)

Movements in investment in joint venture comprise:

	2014 $	2013 $
Balance as of 1 January	185,286	209,218
Share of profits of joint venture	77,537	76,068
Dividends received	(57,954)	(100,000)
Balance as of 31 December	204,869	185,286

The financial information of the joint venture as of 31 December 2014, and for the year then ended, is as follows:

	2014 $	2013 $
ASSETS		
Cash on hand and at banks	1,160,842	892,433
Other assets	206,324	177,670
Property, plant and equipment	91,932	266,062
Total assets	1,459,098	1,336,165
LIABILITIES		
Accrued expenses and other liabilities	25,017	39,165
Total liabilities	25,017	39,165
EQUITY		
Share capital	70,000	70,000
Contributed capital	-	405,675
Retained earnings	1,364,081	821,325
Total equity	1,434,081	1,297,000
Total liabilities and equity	1,459,098	1,336,165

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

6. Investments in Joint Ventures (Continued)

BACH (continued)

	2014 $	2013 $
INCOME		
Fees and commissions	1,420,918	1,410,538
Other	9,417	5,150
Interest income	7,153	11,037
	1,437,488	1,426,725
EXPENSES		
Salaries and employee benefits	262,055	256,388
Depreciation and amortisation	177,592	174,749
Other	455,085	463,107
	894,732	894,244
Total comprehensive income	542,756	532,481

7. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Improvements $	Total $
Year ended 31 December 2014						
Opening net book value	6,700,000	855,247	16,950	1,436,988	1,208,949	10,218,134
Additions	164,705	231,680	36,995	518,891	271,132	1,223,403
Disposals						
Cost	-	-	(18,340)	-	-	(18,340)
Accumulated depreciation	-	-	7,436	-	-	7,436
Depreciation	(185,212)	(228,965)	(10,136)	(337,291)	(306,466)	(1,068,070)
Closing net book value	6,679,493	857,962	32,905	1,618,588	1,173,615	10,362,563
As of 31 December 2014						
Cost or valuation	6,864,705	4,484,361	102,085	9,013,891	6,215,947	26,680,989
Accumulated depreciation	(185,212)	(3,626,399)	(69,180)	(7,395,303)	(5,042,332)	(16,318,426)
Net book value	6,679,493	857,962	32,905	1,618,588	1,173,615	10,362,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

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

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

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

	2014 $	2013 $
Cost	7,420,471	7,255,766
Accumulated depreciation	(1,651,127)	(1,544,413)
Net book value	5,769,344	5,711,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

8. Deposits from Customers

	2014 $	2013 $
Demand deposits	25,309,893	19,708,060
Savings deposits	49,974,243	56,790,857
Escrow deposits	2,519,817	1,846,095
Term deposits	294,650,293	271,881,288
	372,454,246	350,226,300
Accrued interest	4,196,141	4,227,889
Total	376,650,387	354,454,189

Included in deposits from customers are deposits from banks totalling $16,968,659 (2013: $18,281,300). Deposits carry fixed interest rates ranging from 0.00% to 7.25% (2013: 0.00% 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

	2014 $	2013 $
Series A redeemable fixed rate notes; 7.00%; 2017	4,963,248	4,952,647
Series B redeemable floating rate notes; B$ Prime + 1.75%; 2022	9,871,530	9,873,683
Series D redeemable floating rate notes; B$ Prime + 1.75%; 2015	6,962,972	6,963,365
Series E redeemable fixed rate notes; 6.00%; 2018	9,884,848	9,835,593
Series B redeemable preference shares; B$ Prime + 1.00%; 2021	4,000,000	4,000,000
	35,682,598	35,625,288
Accrued interest	299,024	298,416
Total	35,981,622	35,923,704

As part of a $50,000,000 note programme approved by the Directors, the Bank offered through private placement, $35,000,000 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 6.00% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

10. Capital

	2014 $	2013 $
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 ordinary shares	8,660,001	8,660,001
Share premium	11,890,000	11,890,000
	20,550,001	20,550,001
Treasury – ordinary shares		
148,321 (2013: 175,500) ordinary shares	(407,882)	(482,624)
Issued and fully paid – preference shares		
1,151,100 (2013: 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	31,653,119	31,578,377

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.

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 27,179 (2013: 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 $3.73 (2013: $2.75) per share with an equivalent expense recognised in salaries and employee benefits.

11. Earnings per Share

	2014 $	2013 $
Net income	14,126,485	9,735,204
Net income attributable to preference shareholders	(805,770)	(805,770)
Net income attributable to ordinary shareholders	13,320,715	8,929,434
Weighted average number of ordinary shares outstanding	28,707,545	28,685,045
Earnings per share	0.46	0.31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

12. General and Administrative Expenses

	2014 $	2013 $
Office expenses	2,909,140	3,047,014
Bank and business licence fees	1,929,044	652,994
Public relations	697,724	615,851
Rent	559,052	581,178
Legal and professional fees	375,280	264,729
Directors' cost	83,059	94,506
Other	750,418	607,320
Total	7,303,717	5,863,592

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 2014 totalled $260,400 (2013: $190,425).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

14. Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2014 is as follows:

	Retail banking $	Money transfer $	Total $
31 December 2014			
INCOME			
Net interest income	31,609,481	-	31,609,481
Fees and commissions	3,396,866	876,725	4,273,591
Net loss on investment securities	(3,600)	-	(3,600)
EXPENSES			
Salaries and employee benefits	8,162,766	-	8,162,766
General and administrative	7,303,717	-	7,303,717
Provision for loan losses	6,860,345	-	6,860,345
Depreciation and amortisation	1,068,070	-	1,068,070
Operating profit	11,607,849	876,725	12,484,574
Share of profits of joint ventures	1,641,911	-	1,641,911
Net income	13,249,760	876,725	14,126,485
OTHER COMPREHENSIVE INCOME			
Property, plant and equipment revaluation	-	-	-
Total comprehensive income	13,249,760	876,725	14,126,485
TOTAL ASSETS	472,794,471	-	472,794,471
TOTAL LIABILITIES	413,428,951	-	413,428,951
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

14. Segment Analysis (Continued)

31 December 2013	Retail banking $	Money transfer $	Total $
TOTAL ASSETS	444,187,930	-	444,187,930
TOTAL LIABILITIES	(391,027,797)	-	(391,027,797)

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.

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

	2014 $	2013 $
ASSETS		
Cash at bank		
Other related parties	4,188,846	-
Loans and advances to customers		
The Parent	146,225	525,177
Key management personnel	1,169,950	1,525,845
Other assets		
The Parent	1,074,823	1,171,948
Other related parties	149,549	77,906
LIABILITIES		
Deposits from customers		
The Parent	203,852	3,012,880
Key management personnel	847,530	187,122
Other related parties	10,664,785	16,390,178
Debt securities		
Other related parties	7,194,000	7,062,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

15. Related Party Balances and Transactions (Continued)

	2014 $	2013 $
INCOME		
Interest income		
The Parent	21,049	43,950
Other related parties	3,951	3,704
Interest expense		
The Parent	13,728	27,427
Other related parties	339,141	412,338
Fees and commissions		
Other related parties	45,143	27,237
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	83,059	94,506
Key management personnel (executive Directors and other)	543,091	475,245
Costs allocated to other related parties	(2,049,433)	(1,986,240)
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.

In prior years, the Directors approved a credit facility for the Parent in the amount of $1,000,000 included in loans and advances to customers, which bears interest at the B$ Prime rate plus 1.50% with monthly repayments of $33,333.

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

As of 31 December 2014, other related parties hold 467,833 (2013: 569,662) outstanding ordinary shares and 225,500 (2013: 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 2014, the Group had outstanding loan commitments amounting to $286,420 (2013: $399,832).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

16. Commitments (Continued)

Operating lease commitments

The future minimum rental payments required under non-cancellable leases as of 31 December 2014 are as follows:

	2014 $	2013 $
2014	-	425,598
2015	495,985	436,504
2016	477,886	441,286
2017	407,113	370,513
2018	326,232	294,099
2019	288,600	252,000
2020 and later	540,600	751,533
Total minimum payments	2,536,416	2,971,533

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

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

Impairment losses on loans and advances to customers (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. asset type, collateral, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the 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 +/−2%, the provision for loan losses would be increased/decreased by $609,651.

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 2014, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

21. Financial Risk Management (Continued)

Credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

21. Financial Risk Management (Continued)

Credit risk (continued)

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

	2014		2013	
	$m	%	$m	%
Consumer	234	68	200	62
Family residential property	84	24	92	28
Undeveloped land	15	4	18	6
Overdrafts	6	2	6	2
Cash secured	5	1	5	1
Commercial property	2	1	3	1
	346	100	324	100

The average mortgage loan balance is $86,000 (2013: $89,000) and the average consumer loan balance is $33,000 (2013: $31,500) with the largest exposure to a single customer totalling approximately $1.6 million (2013: $1.6 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 2014.

	2014		2013	
	$m	%	$m	%
Not impaired				
– Neither past due or impaired	308.4	88	288.9	89
– Past due but not impaired	20.9	6	19.4	5
Impaired				
– Past due up to 3 months	1.0	1	1.1	1
– Past due 3 – 6 months	2.2	1	1.9	1
– Past due 6 – 12 months	2.3	1	2.3	1
– Past due over 12 months	11.0	3	10.3	3
	345.8	100	323.9	100
Impaired				
– Individually impaired	10.3	83	7.5	81
– Portfolio allowance	2.0	17	1.8	19
	12.3	100	9.3	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

21. Financial Risk Management (Continued)

Credit risk (continued)

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

31 December 2014	Mortgages $m	Consumer $m	Other $m	Total $m
Past due up to 3 months	5.4	1.3	0.3	7.0
Past due 3 – 6 months	2.0	-	0.1	2.1
Past due 6 – 12 months	2.0	-	-	2.0
Past due over 12 months	9.8	-	-	9.8
Total past due but not impaired	19.2	1.3	0.4	20.9
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

As of 31 December 2014, the individually impaired loans can be analysed as follows:

31 December 2014	Mortgages $m	Consumer $m	Other $m	Total $m
Carrying amount	8.0	7.1	1.3	16.4
Provision for loan losses	3.0	6.0	1.3	10.3
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

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 $19,922,000 (2013: $19,048,000) as of 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

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 values of financial instruments will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce gains or create losses in the event that unexpected movements arise.

The Group does not attempt to hedge specifically against the impact of changes in market interest rates on cash flow and interest margins and relies on the fact that the loan portfolio generally is based on 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 2014, the Group is exposed to fair value interest rate risk on $7.4 million (2013: $6.5 million) of its investments in Government debt securities, which are at fixed interest rates with maturity dates ranging from 2022 to 2031. The remainder of debt securities in the Group's investment portfolio are at floating rates linked to the B$ Prime rate.

As of 31 December 2014, the Group is exposed to fair value interest rate risk on approximately $15 million (2013: $15 million) of its debt securities which are at fixed interest rates, and does not hedge against this risk. The remaining debt securities are at floating interest rates linked to the B$ Prime rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

21. Financial Risk Management (Continued)

Price risk

Price risk is the risk that the fair values and/or amounts realised on sales of financial instruments may fluctuate significantly as a result of changes in market prices. This risk is considered to be minimal, as the Group's investment securities are represented in the vast majority by Government debt securities, which have limited trading and where trading is observed the prices continue to be at face value.

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 2014	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	60.9	-	-	-	-	60.9
Investment securities	-	7.7	1.5	13.6	60.2	83.0
Loans and advances to customers	21.7	11.6	51.7	246.8	220.3	552.1
Other assets	2.1	-	-	-	-	2.1
Total assets	84.7	19.3	53.2	260.4	280.5	698.1
LIABILITIES						
Deposits from customers	77.8	107.7	178.8	16.2	-	380.5
Debt securities	-	-	9.1	20.7	16.4	46.2
Other liabilities	-	0.8	-	-	-	0.8
Total liabilities	77.8	108.5	187.9	36.9	16.4	427.5
Net liquidity gap	6.9	(89.2)	(134.7)	223.5	264.1	
Loan commitments	0.3					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014 (CONTINUED)

21. Financial Risk Management (Continued)

Liquidity risk (continued)

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					

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.

Financial instruments are principally Level 2 in the fair value hierarchy.

24. Subsequent Events

Subsequent to year end, the Directors approved dividends of $3,608,334 ($0.13 per share) on ordinary shares. In addition, the Directors approved the issuance of additional Series A redeemable preference shares totalling $3,500,000, with the same terms and conditions as disclosed in Note 10.