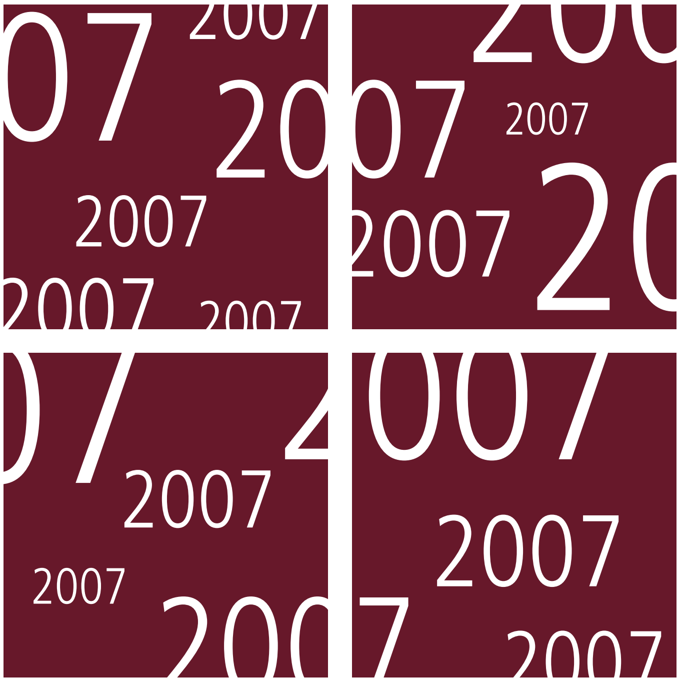


Fidelity Bank (Bahamas) Limited

ANNUAL REPORT

FIDELITY
30th ANNIVERSARY

FIDELITY
30th ANNIVERSARY

Financial Highlights

SUMMARY OF RESULTS

	2007 ($000)	2006 ($000)
REVENUE	11,936	9,755
Expenses	10,469	8,168
Net Income	1,467	1,587
Assets	223,649	149,303
Capital	32,803	32,483
Return on assets	0.8%	1.1%
EPS	5.0 cents	8.0 cents

CAPITAL ADEQUACY

Tier 1[3]	25.87%	39.35%
Tier 1 & 2[4]	28.08%	42.81%

[3] Minimum required 4%
[4] Minimum required 8%

Board of Directors
FIDELITY BANK (BAHAMAS) LIMITED

Sir William Allen
Chairman

Anwer J. Sunderji

Alfred H. Stewart

Gregory H.J. Bethel

Walter A. Wells

Lenworth C. Smith

Dr. Franklin Walkine

Chairman's Report

Sir William Allen
Chairman

In 2007 your Bank continued aggressive implementation of its strategy for transformation begun in 2005. Since embarking on this strategy the Bank has expanded its assets by almost two-thirds, developed and rolled out new products, substantially strengthened its management team, undertaken a major upgrade in premises, opened new branches and added new vigour to a programme of staff training and development. During the period the Board of Directors also reviewed its corporate governance regime and introduced a Board of Directors Charter to guide its responsibility of providing oversight to the business of the Bank.

At the outset, the Board and the Management perceived the task of re-branding as a mission and their engagement in it as a dedication that would be both challenging and exciting. In moving forward, the Bank was able to successfully trade on its smallness and on the dedication and commitment of its staff to achieve the agility and responsiveness from which the initiative so considerably benefited. And the single-mindedness of purpose that drove the undertaking was very much in evidence in 2007.

It is itself an extremely rewarding experience to witness an institution transforming itself -- to see a new culture emerge, and to observe this change reflecting itself in the arithmetic of its financial performance. As the work of upgrading is concluded and the related expenses come to an end, the rewards of the strategy will be even more fully reflected, especially in its profitability. I think we may all share a sense of pride in our accomplishment to-date and in how quickly it has been achieved.

The Bank's performance in 2007 demonstrates both the success and the cost of our transformation strategy through the enormous growth of roughly 50% in its assets and the significant increase of 30% in its operating expenses. Operating revenues increased in 2007 by $2.2 million over 2006, as operating expenses increased by $2.3 million over 2006. This, however, reflects a deliberate policy of the Board to grow the Bank and to undertake the cost of restructuring it for sustained growth. The cost of restructuring will shortly come to an end.

The Bank was fortunate to have undertaken the major part of its restructuring against the background of a very vibrant Bahamian economy. And although now the vibrancy of the economy is challenged by the consequences of the sub-prime market collapse and by sustained global price pressures, the short to medium term outlook is, nevertheless, cautiously positive. The Bank is therefore fully expected to conclude its restructuring in 2008, and to continue to aggressively grow its assets going forward.

In the development and rollout of its new products to-date, the Bank has displayed the characteristic which will be one of its defining hallmarks – the spirit of innovation. As it moves to carve out its place in Bahamian banking your Bank will, as a matter of deliberate policy, seek to position itself consistently at the forefront of progressive change and innovation. We are deeply convinced that the Bank has already demonstrated a capacity to do this.

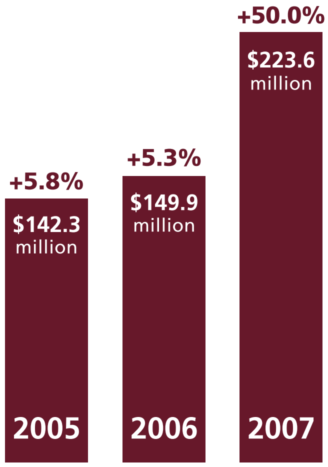
On behalf of the Board of Directors I should like to express our profound thanks and appreciation to the Management and Staff for another successful year for the Bank and for their continued dedication to our Mission. And I wish to express my personal thanks to the other members of the Board for their guidance and for their commitment on which we have so confidently relied.

William C. Allen

Sir William Allen
Chairman

Report from the
Chief Executive Officer

2007 WAS A VERY GOOD YEAR FOR OUR COMPANY. We made giant strides in our primary long-term objective of growing the bank, as total assets increased by 50%. Profits decreased slightly to $1.47 million, since despite the increase in revenue, our operating expenses increased even more as we continued our investment in people, premises and product innovation.

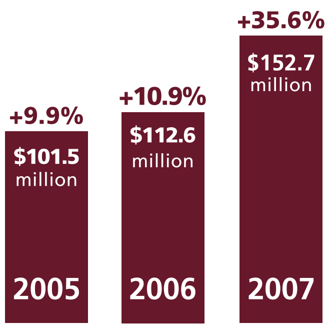


Asset Growth

Mortgages, consumer and other loans grew by 36% or $40 million as a greater focus on sales started to pay dividends. We are launching innovative new products, increasing market share and expanding customer relationships across the company. Our growth momentum has continued in 2008, with the first five months registering $25 million growth in loan assets (17%), and trailing twelve months showing growth of $60 million (50%). This growth level is unprecedented in the Bank's 30 year history.

Our earnings power from a larger loan book will become apparent over the next 12 months as expenses level off and investments in repositioning our Bank to be a more competitive and opportunistic enterprise are largely completed.

Over the last two years, we have taken steps to build up our capital strength. Our balance sheet boasts a robust Tier 1 capital ratio of 26%. To fund this rapid growth in assets, we have tapped the Bahamian capital market and successfully placed $15 million in long-term notes. Core deposits continue to increase, but loan assets are increasing faster. We will be issuing a second tranche of $10 million in notes in 2008 under the $50 million note programme previously approved by the Board.



Loan Growth

Loan commitments in 2007 totaled $75 million, with 2008 projected to end at $115 million. Our focus on loan growth has been in higher yielding consumer loans, and this has improved the loan mix in consumer loans from 17% to 20%. Our target for 2008 is to increase the consumer loan ratio to 30%, with the intent to ultimately have

Gregory H.J. Bethel
President

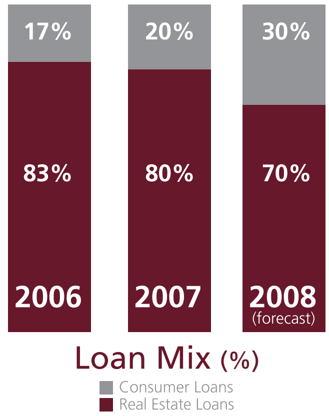
Anwer J. Sunderji
Chief Executive Officer

Thomas Hackett
Chief Financial Officer

Report from the
Chief Executive Officer

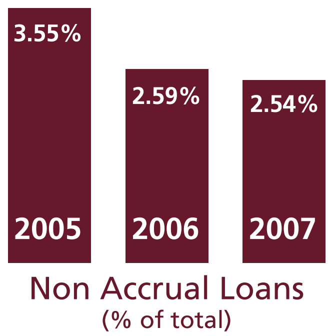
an equally balanced book by 2010. This will improve the weighted average yield by about 150 to 200 basis points.

The Bahamian economy is likely to show very modest growth in 2008 as the U.S. sub-prime woes spill over into the global economy and impact U.S. consumer spending, which is the mainstay of the Bahamian tourist industry. Exacerbating this anticipated slowdown in one of the main pillars of our economy is the reduction in foreign direct investment, as several large investment projects have been deferred. These developments will have an impact on domestic liquidity, but we expect that several government sponsored infrastructure projects underway and government borrowing in foreign currency will help mitigate the impact.



We remain vigilant in managing credit risk, and our delinquency ratios remain under control. However, with a slowing Bahamian economy, we are anticipating some deterioration in ratios. As our loan book comprises predominantly lower risk real estate loans secured by single family homes, we do not expect to see a material adverse impact. Like all other banking institutions operating in the Bahamian economy, our lending practices remain traditional; we own every loan we extend and have a focused approach on underwriting risk.

Our priorities remain: maintaining a strong balance sheet, emphasizing credit quality, remaining focused on growth, delivering superior service and innovative products to market, and retaining a highly skilled and motivated work force. We know these are the components of a profitable strategy.



We thank our hard-working Board of Directors, enthusiastic employees, loyal customers and our owners.

Anwer J. Sunderji
Chief Executive Officer

Fidelity Financial Centre, Frederick Street

Fidelity MoneyBack Mortgage

Switch your Mortgage to the new Fidelity MoneyBack Mortgage and make a bundle and save a bundle! We give you a monthly rebate and invest it for you and we pay all legal fees when you switch.

Why settle for an ordinary Visa Card?

Greater benefits, superior protection

+

freedompoints by Fidelity

Life can be rich

Extra benefits

+

freedompoints by Fidelity

Life can be rich

An easier way to manage your shopping and cash needs

+

freedompoints by Fidelity

Life can be rich

Cash back to spend the way you want

Great value with a low rate

Fidelity Visa Card Collection

Why settle for an ordinary Visa card when you can choose from The Fidelity Visa Credit and Debit Card Collection, offering either money back, lower rates or FreedomPoints rewards programme?

Management
Discussion & Analysis

During 2007, total assets of the Bank increased by $74.3 million, or 49.8%, to $223.6 million from $149.3 million in 2006, with total loans increasing by $40.1 million, or 35.6%, compared to an increase of $11.2 million, or 11.0%, in 2006.

The Bank reported net income attributable to equity holders of $1,466,780 or 5 cents per share as compared with net income for 2006 of $1,555,209 or 8 cents per share. Net income for 2007 was in line with budgets and continues to be impacted by increased expenses from the Bank strategy of growing and investing for the longer term in people, premises and products. The Bank will complete the rollout of its product range and upgrading of premises in 2008.

The return on assets for the year was 0.8% compared with 1.1% for 2006.

Dividends of 4 cents per share were paid in 2007 compared with 5 cents per share in 2006.

CAPITAL ADEQUACY

The Bank's tier 1 capital is comprised of ordinary share capital and retained earnings while the Bank's tier 1 & 2 capital is comprised of tier 1 capital plus revaluation reserves. Using the risk weightings in accordance with the Basle Accord guidelines on capital adequacy, the Bank's ratios of risk weighted assets to tier 1 and tier 1 & 2 capital as at December 31, 2007 were 25.87% (2006: 39.35%) and 28.08% (2006: 42.81%). The Central Bank guidelines require banks to have a minimum risk-weighted tier 1 & 2 capital of 8% with tier 1 capital of at least 4%.

ANALYSIS OF LOAN PORTFOLIO

During 2007 the Bank increased its mortgage loans by $28.0 million (2006: $9.2 million), or 29.4% (2006: 10.6%). Consumer and other loans increased by $11.8 million, or 62.4%. This increase in loans is due to the Bank's focus on growing its business.

Increased flexibility in loan pricing and related terms and conditions, together with the introduction of innovative loan products were largely responsible for the increase in loans and further strong growth is expected during 2008.

At the end of 2007 mortgage loans comprised 80.0% of total loans with consumer and other loans comprising the balance of 20.0% consistent with the Bank's loan targets.

Total non-performing loans amounted to $3.9 million (2006: $3.0 million) or 2.54% (2006: 2.59%) of total loans. Provision for loan losses represent 1.38% (2006: 1.95%) of the total loan portfolio.

DEPOSIT BASE

The strong growth in demand for credit, combined with the increased financing requirements of the Bahamas Government resulted in reduction in liquidity in the Bahamian banking system and increased competition for deposits towards the end of 2006, and this competition continued throughout 2007.

During 2007, total deposits grew by $48.5 million (2006: $3.9 million), or 42.7% (2006: 3.6%). It is anticipated that the deposit base will continue to grow strongly in 2008 as the Bank widens its product offerings and is able to attract an increased level of institutional support.

OPERATING REVENUES

Net Interest Income

Net interest income increased slightly from $6.6 million in 2006 to $7.1 million in 2007. The net interest margin, on average total assets decreased from 4.57% in 2006 to 3.8% in 2007. The cost of funds increased significantly in the latter half of 2006 and continued throughout 2007.

Non-Interest Income

In line with the Bank's strategic plans, non-interest revenues, increased to $4.8 million in 2007 compared with $3.2 million in 2006. At the end of 2007, non-interest revenues comprised 40.0% (2006: 33.0%) of total revenues. Continued growth in Western Union and an increase in fee income associated with the Bank's increased activities, were largely responsible for the increase.

OPERATING EXPENSES

Operating expenses have increased significantly from 2006. Excluding loan loss provision charges, expenses were $10.1 million (2006: $7.8 million), an increase of $2.3 million or 30.0% over 2006. The increase in expenses is the result of a Board decision to grow the Bank at a much faster rate than in previous years. Part of this strategy required significant investment in:

- New premises and upgrading of existing premises
- Strengthening of the management team
- Training and education for staff
- Upgrading of software
- New product development and rollout
- Expansion of Western Union outlets
- Expansion of branch outlets

The Bank will complete its upgrading strategy in 2008 and expects costs to stabilise enabling the Bank to reap the reward of its investment strategy.

LOAN LOSS PROVISIONS

Non-performing loans as a percentage of total loans, at 2.54% at the end of 2007, remain consistent with 2006 at 2.59%. The level of loan loss provisions, as a percentage of non-performing loans, decreased from 75.2% in 2006 to 54.4% at the end of 2007. Provisions at 54.4% is consistent with the Bank's historical experience.

The Bank has continued to make significant progress in reducing its non-performing loans and, when combined with improved underwriting controls on new loans, this should limit future requirements for additional provisions.

NEW PRODUCTS & TECHNOLOGY

The Bank introduced a number of innovative new products in 2007. Its MoneyBack Mortgage and Debit Card have been very successful. Credit cards will be introduced in the summer of 2008.

SUMMARY

The Bank had a successful year in implementing its strategy. New products were rolled out, premises were upgraded and new branches opened. Loan and deposit bases were expanded. 2008 will see a continuation of this strategy.

While the Bank's profitability in 2007 was adversely impacted by increased expenses arising from our strategy of investing in people, premises, systems and products, the Board remains optimistic that continuing improvements in the local economy, the changes in the Bank's products and services, the refurbishment of the Bank's branches and the continued improvements to its management and staff will serve to further grow the Bank and improve its long term profitability.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Fidelity Bank (Bahamas) Limited

We have audited the accompanying consolidated financial statements of Fidelity Bank (Bahamas) Limited (the Bank) and its subsidiary (together, the Group), which comprise the consolidated balance sheet as of 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers.

Chartered Accountants
24 April 2008

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

Consolidated Balance Sheet as of 31 December 2007
(Amounts expressed in Bahamian dollars)

	2007 $	2006 $ Restated (Note 21)
ASSETS		
Cash on hand and at banks (Note 3)	19,553,274	7,177,963
Investment securities (Note 4)	38,624,455	19,600,151
Mortgages, consumer and other loans (Note 5)	152,715,851	112,634,580
Property, plant and equipment (Note 6)	11,309,408	9,297,438
Prepayments and other assets	1,445,935	593,009
TOTAL ASSETS	**223,648,923**	**149,303,141**
LIABILITIES		
Customer deposits (Note 7)	162,240,639	113,711,450
Loan from bank (Note 8)	146,403	348,251
Debt securities (Note 9)	27,172,674	-
Accrued expenses and other liabilities (Note 10)	1,286,478	2,760,824
TOTAL LIABILITIES	**190,846,194**	**116,820,525**
EQUITY		
Share capital (Note 11)	20,000,001	20,000,001
Revaluation surplus	2,572,037	2,621,619
Retained earnings	10,230,691	9,860,996
TOTAL EQUITY	**32,802,729**	**32,482,616**
TOTAL LIABILITIES AND EQUITY	**223,648,923**	**149,303,141**

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

William C. Allen
Director

Director

24 April 2008
Date

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Income Statement for the Year Ended 31 December 2007

(Amounts expressed in Bahamian dollars)

	2007 $	2006 $ Restated (Note 21)
INCOME		
Interest on bank deposits and loans	11,046,949	9,209,343
Interest on investment securities	1,168,388	1,130,508
	12,215,337	10,339,851
Interest expense	(5,096,888)	(3,775,110)
Net interest income	7,118,449	6,564,741
Non-interest income	4,817,159	3,189,967
	11,935,608	**9,754,708**
EXPENSES		
Salaries and staff benefits	4,547,556	4,051,909
General and administrative	4,685,821	3,211,168
Provision for loan losses (Note 5)	356,321	399,763
Depreciation and amortisation (Note 6)	879,130	505,312
	10,468,828	**8,168,152**
NET INCOME	**1,466,780**	**1,586,556**
Attributable to:		
Equity holders of the Bank	1,466,780	1,555,209
Minority interest	-	31,347
	1,466,780	**1,586,556**
Weighted average number of ordinary shares outstanding	**28,666,670**	**20,666,670**
Earnings per share	**$0.05**	**$0.08**

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2007
(Amounts expressed in Bahamian dollars)

	Ordinary Shares $	Preference Shares $	Revaluation Surplus $	Retained Earnings $	Total $	Minority Interest $	Total Equity $
As of 1 January 2006, as previously reported	5,000,001	10,000,000	1,695,320	10,289,639	26,984,960	888,354	27,873,314
Prior period adjustment (Note 21)	-	-	-	(455,628)	(455,628)	-	(455,628)
As of 1 January 2006, as restated	5,000,001	10,000,000	1,695,320	9,834,011	26,529,332	888,354	27,417,686
Issuance of ordinary shares	15,000,000	-	-	-	15,000,000	-	15,000,000
Redemption of preference shares	-	(10,000,000)	-	-	(10,000,000)	-	(10,000,000)
Purchase of minority interest	-	-	-	-	-	(919,701)	(919,701)
Property, plant and equipment revaluation	-	-	971,409	-	971,409	-	971,409
Depreciation transfer	-	-	(45,110)	45,110	-	-	-
Net income, as restated	-	-	-	1,555,209	1,555,209	31,347	1,586,556
Dividends on ordinary shares	-	-	-	(1,073,334)	(1,073,334)	-	(1,073,334)
Dividends on preference shares	-	-	-	(500,000)	(500,000)	-	(500,000)
As of 31 December 2006, as restated	**20,000,001**	**-**	**2,621,619**	**9,860,996**	**32,482,616**	**-**	**32,482,616**
As of 1 January 2007	20,000,001	-	2,621,619	9,860,996	32,482,616	-	32,482,616
Depreciation transfer	-	-	(49,582)	49,582	-	-	-
Net income	-	-	-	1,466,780	1,466,780	-	1,466,780
Dividends on ordinary shares	-	-	-	(1,146,667)	(1,146,667)	-	(1,146,667)
As of 31 December 2007	**20,000,001**	**-**	**2,572,037**	**10,230,691**	**32,802,729**	**-**	**32,802,729**

Dividends per ordinary share: $0.04 (2006: $0.05)

Dividends per preference share: $Nil (2006: $0.05)

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Cash Flow Statement for the Year Ended 31 December 2007

(Amounts expressed in Bahamian dollars)

	2007 $	2006 $ Restated (Note 21)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,466,780	1,586,556
Adjustments for:		
Interest income	(12,215,337)	(10,339,851)
Interest expense	5,096,888	3,775,110
Provision for loan losses	356,321	399,763
Depreciation and amortisation	879,130	505,312
Net change in unrealised appreciation/depreciation in investment securities	(1,063,761)	221,620
Realised gains on investment securities	-	(232,250)
Loss on disposal of property, plant and equipment	8,216	-
Interest received	12,042,072	10,211,539
Interest paid	(4,317,506)	(3,658,661)
Operating cash flows before changes in operating assets and liabilities	**2,252,803**	**2,469,138**
(Increase)/Decrease in mandatory reserve deposits	(2,061,460)	802,248
Increase in mortgages, consumer and other loans	(40,301,769)	(11,436,942)
(Increase)/Decrease in prepayments and other assets	(852,926)	140,548
Increase in customer deposits	47,988,806	3,820,575
Decrease in accrued expenses and other liabilities	(1,474,346)	(1,182,667)
Net cash flows from/(used in) operating activities	**5,551,108**	**(5,387,100)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of minority interest	-	(919,701)
Purchase of investment securities	(17,923,101)	(527,622)
Proceeds from sale of investment securities	-	3,408,679
Purchase of property, plant and equipment	(2,899,316)	(1,780,004)
Net cash flows from/(used in) investing activities	**(20,822,417)**	**181,352**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of ordinary shares	-	15,000,000
Issuance of debt securities	26,933,675	-
Redemption of preference shares	-	(10,000,000)
Repayment of loan from bank	(201,848)	(151,749)
Preference dividends paid	-	(687,500)
Ordinary dividends paid	(1,146,667)	(1,073,334)
Net cash flows from financing activities	**25,585,160**	**3,087,417**
Net increase/(decrease) in cash and cash equivalents	10,313,851	(2,118,331)
Cash and cash equivalents as of beginning of year	3,683,401	5,801,732
Cash and cash equivalents as of end of year	**13,997,252**	**3,683,401**

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

1. General Information

Fidelity Bank (Bahamas) Limited (the Bank) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas 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, the acceptance of deposits, granting of loans and the provision of foreign exchange services through each of its five branches in New Providence, its branch on Paradise Island, 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 principally occupied by the Bank and its related parties. The Bank and its subsidiary are collectively referred to as the Group.

Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 75% (2006: 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 2007, the Bank employed 153 (2006: 106) persons.

The Bank is listed on The Bahamas International Stock Exchange (BISX).

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these 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, as modified by the revaluation of financial assets held at fair value through profit or loss.

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.

In the current year, the Group adopted IFRS 7 *Financial Instruments: Disclosures* and the amendments to IAS 1 *Presentation of Financial Statements*, which became effective for fiscal periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

The remaining standards and amendments and interpretations to published standards that became effective for fiscal periods beginning on or after 1 January 2007 were not relevant to the Group's operations and accordingly did not impact the Group's accounting policies or consolidated financial statements.

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 period of initial application, except IFRIC 13 *Customer Loyalty Programmes*. IFRIC 13, which is effective for fiscal periods beginning on or after 1 July 2008, clarifies the accounting for customer loyalty programmes (e.g. loyalty points) that are provided with services offered by an entity. The Group will apply IFRIC 13 from 1 January 2009, and does not expect this to materially impact the consolidated financial statements.

(b) Principles of consolidation

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated 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 polices of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Bank.

(c) Foreign currency translation

i) Functional and presentation currency

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

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation (continued)

ii) 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 of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on monetary financial assets measured at fair value through profit or loss are included as part of the fair value gains and losses.

(d) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its investment 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 in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Investment securities have been designated as financial assets at fair value through profit or loss.

ii) Loans and receivables

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

Regular-way purchases and sales of financial assets are recognised on 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.

Loans and receivables are subsequently carried at amortised cost less provisions for impairment, and financial assets at fair value through profit or loss are carried at fair value. Fair value is based on quoted prices for investments quoted in an active market (e.g. international securities exchange) or valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants, for securities not traded in active market.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Gains or losses arising from sale or changes in fair value of financial assets at fair value through profit or loss are recognised in the consolidated income statement within "non-interest income" in the period in which they arise.

(e) Non-performing assets

All loans 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) Borrowings

Borrowings, which include loan from bank and 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 in the consolidated income statement over the period of the borrowings using the effective interest method.

(g) Income and expense recognition

Interest income and expense are recognised in the consolidated income statement for all 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 points 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.

Fee and commission income is recognised on the completion of the underlying transaction, which is generally at the time the customer's account is charged. Dividend income is recognised in the consolidated income statement when the Group's right to receive payment has been established.

Other income and expenses are recognised on an accrual basis.

2. Summary of Significant Accounting Policies (Continued)

(h) 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.

(i) 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.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, 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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If a loan 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.

(j) 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, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals not exceeding three years, less subsequent depreciation for buildings.

2. Summary of Significant Accounting Policies (Continued)

(j) 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 income statement 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 surplus" in equity. Decreases that offset previous increases of the same asset are charged against revaluation surplus directly in equity; all other decreases are charged to the consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from revaluation surplus to retained earnings.

Land is not depreciated. Depreciation on other assets is 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 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 value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, amounts included in revaluation surplus are transferred directly to retained earnings.

2. Summary of Significant Accounting Policies (Continued)

(k) Leases

i) The Group is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the consolidated income statement 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 period in which termination takes place.

ii) The Group is the lessor

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

(l) Share capital

i) Share issue costs

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

ii) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's Directors. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(m) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition, including cash and deposits at banks.

(n) 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, and 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.

2. Summary of Significant Accounting Policies (Continued)

(o) Employee benefits

The Group's employees participate in a defined contribution pension plan of an affiliate, administered by trustees that include executives of the Bank.

A defined contribution 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 contributions are recognised as staff benefits expense in the consolidated income statement when they are due. The Group has no further payment obligations once the recognised contributions have been paid.

(p) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The vast majority of the Group's activities are retail banking and all of its activities are based in The Bahamas. Therefore the Group has only one business segment and one geographical segment that require segment reporting. As such, no segment disclosures are made in these consolidated financial statements.

(q) 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 institutions. These assets are excluded from these consolidated financial statements as they do not belong to the Group.

(r) Corresponding figures

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

3. Cash on Hand and at Banks

	2007 $	2006 $
Cash on hand and deposits at banks	13,997,252	3,683,401
Mandatory reserve deposits	5,556,022	3,494,562
	19,553,274	**7,177,963**

Mandatory reserve deposits are placed with the Central Bank of The Bahamas (the Central Bank) to meet requirements of the Bank's license 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 at banks earn interest rates ranging from 0.000% to 4.000% (2006: 0.000% to 4.000%).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits at banks.

4. Investment Securities

Financial assets at fair value through profit or loss

	2007 $	2006 $
Government securities (Note 15)	21,218,200	18,002,800
Mutual fund shares (Note 9)	17,026,674	1,255,212
	38,244,874	19,258,012
Accrued interest	379,581	342,139
Total	**38,624,455**	**19,600,151**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2010 to 2027 (2006: 2010 to 2025) and with interest rates ranging from 0.125% to 1.250% above the B$ Prime rate of 5.500% (2006: 5.500%). As of 31 December 2007, the cost of investment securities totalled $37,017,963 (2006: $19,094,862).

5. Mortgages, Consumer and Other Loans

	2007 $	2006 $ Restated (Note 21)
Mortgages	123,399,264	95,349,477
Consumer and other loans	30,747,042	18,947,716
	154,146,306	114,297,193
Accrued interest	701,412	565,589
Provision for loan losses	(2,131,867)	(2,228,202)
Total	**152,715,851**	**112,634,580**

Movements in provision for loan losses are as follows:

	2007			2006		
	Mortgages $	Consumer $	Total $	Mortgages $	Consumer $	Total $
Balance as of 1 January	1,054,123	1,174,079	2,228,202	988,103	1,100,546	2,088,649
Provision during the year	240,597	115,724	356,321	66,020	333,743	399,763
Write-offs during year	-	(452,656)	(452,656)	-	(260,210)	(260,210)
Balance as of 31 December	**1,294,720**	**837,147**	**2,131,867**	**1,054,123**	**1,174,079**	**2,228,202**

Included in provision for loan losses are specific loan loss reserves totalling $708,148 (2006: $1,065,973). The provision for loan losses represents 1.38% (2006: 1.95%) of the total loan portfolio and 54.40% (2006: 75.18%) of total non-performing loans.

As of 31 December 2007, principal balances of non-performing loans totalled $3,916,712 (2006: $2,963,896), representing 2.54% (2006: 2.59%) of the loan portfolio.

6. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Improvements $	Total $
Cost or valuation:						
As of 1 January 2007	6,778,656	1,977,709	58,645	4,633,941	3,601,571	17,050,522
Additions	-	847,231	35,890	928,499	1,087,696	2,899,316
Disposal	-	-	(17,000)	-	-	(17,000)
As of 31 December 2007	**6,778,656**	**2,824,940**	**77,535**	**5,562,440**	**4,689,267**	**19,932,838**
Accumulated depreciation & amortisation:						
As of 1 January 2007	-	1,418,984	41,681	4,145,257	2,147,162	7,753,084
Charge for the year	196,901	298,144	7,327	130,997	245,761	879,130
Disposal	-	-	(8,784)	-	-	(8,784)
As of 31 December 2007	**196,901**	**1,717,128**	**40,224**	**4,276,254**	**2,392,923**	**8,623,430**
Net book value:						
As of 31 December 2007	**6,581,755**	**1,107,812**	**37,311**	**1,286,186**	**2,296,344**	**11,309,408**
As of 31 December 2006	**6,778,656**	**558,725**	**16,964**	**488,684**	**1,454,409**	**9,297,438**

Land and buildings were revalued as of 31 December 2006, and include revaluation increments totalling $3,520,543 (2006: $3,520,543).

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

	2007 $	2006 $
Cost	4,445,349	4,445,349
Accumulated depreciation	(527,309)	(395,482)
Net book value	**3,918,040**	**4,049,867**

7. Customer Deposits

	2007 $	2006 $
Demand deposits	18,441,291	8,962,912
Savings certificates	32,912,961	28,727,589
Term deposits	109,367,805	75,042,750
	160,722,057	112,733,251
Accrued interest	1,518,582	978,199
Total	**162,240,639**	**113,711,450**

All customer deposits carry fixed interest rates ranging from 2.500% to 7.000% (2006: 2.500% to 6.000%).

8. Loan from Bank

	2007 $	2006 $
Current	146,403	200,000
Non-current	-	148,251
Total	**146,403**	**348,251**

The Group has a loan from a commercial bank in The Bahamas that is supported by a first mortgage over the property owned by West Bay Development Company Limited, bears interest at 3-month US$ LIBOR plus 1.500% per annum and is repayable in 40 equal quarterly payments of $50,000, plus any interest accrued as of each payment date, that commenced in August 1998. The loan was fully repaid in March 2008.

9. Debt Securities

	2007 $	2006 $
Series A redeemable fixed rate notes due 2017	4,903,204	-
Series B redeemable floating rate notes due 2022	9,806,407	-
Short-term note issued to related party	12,227,877	-
	26,937,488	-
Accrued interest	235,186	-
	27,172,674	**-**

As part of a $50 million note programme approved by the Directors during 2007, the Bank offered, through private placement, $15,000,000 of unsecured fixed and floating rate notes consisting of Series A - $5 million redeemable 7% fixed rate notes due 19 October 2017 and Series B - $10,000,000 redeemable floating rate notes (B$ Prime rate plus 1.750%) due 19 October 2022. Interest is payable semi-annually on 19 April and 19 October each year.

Costs of the notes issue totalled $294,202 and these are being amortised on an effective yield basis over the life of the notes. Of the total costs, $225,000 was paid to a related party.

On 30 November 2007, the Bank purchased mutual fund shares from a related party, Royal Fidelity Merchant Bank & Trust Limited at the then current market value of $12,227,877. The transaction was settled by the issue of a promissory note equal to the purchase price, which is unsecured, accrues interest at the rate of 5.500% per annum and is payable on or before 31 May 2008.

10. Accrued Expenses and Other Liabilities

	2007 $	2006 $
Accrued expenses	486,014	486,884
Insurance premiums held in escrow	679,462	486,814
Due to related parties	-	1,226,376
Other	121,002	560,750
Total	**1,286,478**	**2,760,824**

11. Share Capital

	2007 $	2006 $
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 & fully paid		
28,666,670 ordinary shares	8,600,001	8,600,001
Share premium	11,400,000	11,400,000
Total	**20,000,001**	**20,000,001**

12. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, 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 a 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 national or local economic conditions that correlate with defaults on assets in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

13. Staff Benefits

The Bank participates in a defined contribution pension plan, Fidelity Merchant Bank & Trust Limited Employees Pension Plan (the Plan), which covers all employees of the Parent's Bahamas based operations. Under the Plan, all employees contribute 5% of gross salary and the Bank matches employee contributions.

Pension expense for the year ended 31 December 2007 totalled $206,272 (2006: $141,470), and is included in salaries and staff benefits in the consolidated income statement.

14. Related Party Balances and Transactions

Related parties include those entities and individuals 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 them.

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

	2007 $	2006 $
ASSETS		
Cash at bank	883,398	100,065
Investment securities	17,026,674	1,255,212
Other assets	-	262,872
LIABILITIES		
Customer deposits (excluding directors and officers)	6,263,457	1,149,248
Debt securities	12,283,897	-
Other liabilities	-	1,226,376
EXPENSES		
Group allocated costs and other related party expenses	43,895	526,746
Costs allocated to group companies	(1,109,951)	-

Effective February 2007, the Bank provides certain services to the Parent and other related parties under service agreements. Prior to February 2007, these services were provided by other related parties.

Loans to and deposits from directors and officers totalled to $2,519,256 (2006: $2,609,575), and $518,930 (2006: $299,770), respectively.

Key management compensation (excluding directors) for the year totalled $726,600 (2006: $664,950). Included in expenses to related parties above are costs for key management personnel compensation of affiliates that have been allocated to the Group based on services provided to the Group by such personnel.

Director's compensation for the year was $61,000 (2006: $70,000).

15. Commitments

Loan commitments

In the normal course of business various credit-related arrangements are entered into 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 the consolidated balance sheet date, these credit-related arrangements were as follows:

	2007 $	2006 $
Loan commitments	**20,043,866**	**7,972,353**

Lines of credit

The Bank has pledged $3,000,000 (2006: $3,000,000) of Bahamas Government Registered Stock to secure an overdraft facility with another Bahamian commercial bank. The facility bears interest at 0.500% above the B$ Prime rate up to $1 million and 1.250% above the B$ Prime rate for amounts in excess of $1 million with a stand by fee of 0.250% per annum on any unused portion of the facility.

As of 31 December 2007, unused lines of credit with the commercial bank amounted to $3,000,000 (2006: $3,000,000).

Operating lease commitments

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

	2007 $	2006 $
2007	-	379,903
2008	521,071	379,903
2009	446,570	379,903
2010	400,481	387,101
2011	360,353	-
2012	250,000	-
2013	250,000	-
Total minimum payments	**2,228,475**	**1,526,810**

16. Contingent Liabilities

Love Estates: In 1988, the Bank lent the developer of Love Estates certain sums of money and also joined in as surety for various performance bonds aggregating $3,328,043 in favor of the Ministry of Public Works. The loans and the bonds were supported by a first legal mortgage over the unsold lots in the subdivision. The works under the bonds were to have been completed within 36 months. The developer defaulted under the mortgage with the Bank. Through the years, the Bank has been in discussion with the Ministry of Public Works and various prospective purchasers. In 2001, the Ministry obtained a judgment against the developer and the Bank for the amount of the bonds.

The Bank is being sued for specific performance and damages in connection with a sale agreement dated 24 September 1997 in respect of the Love Estates property. As all conditions of the sale agreement have still not been met, and in order to resolve this long outstanding matter, the Bank entered into a Deed of Settlement (the Deed) with Rolling Hills Development Corporation Limited (Rolling Hills) in April 2005. Under the Deed, Rolling Hills assumed liability for the installation of the infrastructure in Phase One and Phase Two of the Love Estates Subdivision and would enter into performance bonds, in a form agreed by the Ministry of Works, to guarantee Rolling Hills installation of the infrastructure and enable the Bank to have the performance bonds entered into between the Bank and the Ministry of Works dated 30 May 1988, cancelled.

In exchange for Rolling Hills entering into the above noted performance bonds, the Bank agreed to pay settlement costs totalling $350,000 to Rolling Hills which were expensed in 2004. Should Rolling Hills not enter into the performance bonds, in a form agreed by the Ministry of Works, the Deed will become void as if it never existed. The Bank and Rolling Hills are still in the process of obtaining all documents required under the Deed of Settlement. It is anticipated that all outstanding documentation issues will be resolved in 2008 and that the associated sale of the Love Estates property will be completed without any further loss to the Bank.

Other: The Bank is also involved in various other 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.

17. Ordinary Share Dividends

The Board of Directors declared a final dividend of $0.02 per share in respect of 31 December 2006 and a $0.02 dividend per share in respect of the six month period ended 30 June 2007. Such dividends were paid on 31 August 2007 and 21 December 2007, respectively.

18. Capital Management

The Bank's objectives when managing capital, which is a broader concept than 'equity' on the face of the consolidated balance sheet, are:

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Bank'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 Bank'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 requires that the Bank maintains a ratio of total regulatory capital to risk-weighted assets at or above a minimum of 8%.

The table below summaries the composition of regulatory capital and shows the capital adequacy ratio of the Bank, determined in accordance with the Basle Accord, as of the consolidated balance sheet date. During 2007 and 2006, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2007 $	2006 $
Tier 1 capital		
Share capital	20,000,001	20,000,001
Retained earnings	10,230,691	9,860,996
	30,230,692	29,860,997
Tier 2 capital		
Revaluation surplus	2,572,037	2,621,619
Total	**32,802,729**	**32,482,616**
Risk-weighted assets	**116,834,824**	**75,881,785**
Capital adequacy ratio – Tier 1	**25.87%**	**39.35%**
Capital adequacy ratio – Tier 1 and 2	**28.08%**	**42.81%**

19. 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 – predominantly mortgages. 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 Group also 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; the Group also enters into guarantees and other commitments such as letters of credit, and performance and other bonds.

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

Credit risk

Credit risk is the risk that a counterparty may be unable to pay amounts in full when due. Impairment provisions are provided for losses incurred as of the consolidated balance sheet date (Note 5). Significant changes in the economy or a sector that represents a concentration in the Group's portfolio could result in losses that are different from those provided for as of the consolidated balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank's credit committee is responsible for approving and monitoring the banks credit exposure, which is done through review and approval of the Bank'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 Bank does not use an automated credit scoring system. It is the Bank'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 are loans to customers (Note 5) and certain investment securities (Note 4).

The table below provides further information on mortgages, consumer and other loans by payment due status as of 31 December.

19. Financial Risk Management (Continued)

Credit risk (continued)

	2007		2006	
	$m	%	$m	%
Not impaired				
- Neither past due or impaired	149.4	96.9	110.6	96.8
- Past due up to 3 months but not impaired	0.9	0.6	0.7	0.6
Impaired				
- Past due 3 – 6 months	1.1	0.7	0.8	0.7
- Past due 6 – 12 months	1.1	0.7	0.8	0.7
- Past due over 12 months	1.7	1.1	1.4	1.2
	154.2	**100**	**114.3**	**100**

Of the $124 million of mortgage loans, $99 million are supported by family residential property, $21 million on undeveloped land and $4 million by commercial property. Of the $31 million consumer loans, $6 million are cash secured, $6 million are funded by salary deductions from employers and $6 million are overdraft facilities to customers.

The average mortgage loan balance is $85,000 and the average consumer loan balance is $18,000 with the largest exposure to a single customer totalling approximately $1.4 million. Mortgage loans can extend up to 24 years, and consumer loans up to 10 years.

Non-performing loans of $3.9 million, are comprised of mortgage loans totalling $3.1 million and consumer loans totalling $800,000.

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. 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.

19. Financial Risk Management (Continued)

Geographical concentrations of financial assets

The Group has a concentration of risk in respect of geographical area, as both customer and assets held as collateral are primarily based in The Bahamas.

Interest rate risk

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

The Group does not attempt to hedge specifically against the impact of changes in market interest rates on cash flow and interest margins and relies on the fact that the loan portfolio is based on floating interest rates linked to the B$ Prime rate that generally reset within three months of any rate change and has financial liabilities that offset these loans but at lower floating interest rates. The Bank maintains a general policy of fixing the interest rate spread between interest earned on financial assets and interest incurred on financial liabilities.

The Bank is exposed to fair value interest rate risk on $5 million of its debt securities which are at fixed interest rates for 10 years, and does not hedge against this risk. The remaining debt securities are at floating interest rates linked to the B$ Prime rate.

The Government securities in the Group's investment portfolio are at floating rates linked to the B$ Prime rate.

Price risk

Price risk is the risk that the fair value and/or amounts realised on sale of financial instruments may fluctuate significantly as a result of changes in market price. This risk is concentrated in investments in mutual fund shares. The investments in mutual fund shares are represented by investments in three funds, managed by a related party. The funds' assets are Bahamas based and are 60% equity and 40% fixed income in one fund and 100% fixed income in another. The funds' investments are diversified with no single investment exceeding 10 % of the total portfolio and the funds do not leverage. Effective 1 January 2008, the Group entered into a yield management agreement with the Parent to limit its exposure to changes in market prices. Under the agreement the Parent guarantees a yield of 6% plus 25% of any gain in excess of the 6% yield with 75% of any gain in excess of 6% remitted to the Parent.

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 at an excessive cost.

19. Financial Risk Management (Continued)

Liquidity risk (continued)

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.

As additional support, the Bank maintains committed standby facilities of $3,000,000, which have not been drawn upon during the year.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity dates as of the consolidated balance sheet date.

As of 31 December 2007	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 bank	19.5	-	-	-	-	19.5
Investment securities	17.4	0.4	-	7.5	13.3	38.6
Mortgage, consumer and other loans	0.7	4.6	5.0	21.4	121.0	152.7
Other assets	1.5	-	-	-	11.3	12.8
Total assets	**39.1**	**5.0**	**5.0**	**28.9**	**145.6**	**223.6**
Liabilities						
Customer deposits	51.2	39.1	58.4	13.6	-	162.3
Loan from bank	0.1	-	-	-	-	0.1
Debt securities	-	-	12.2	-	14.9	27.1
Other liabilities	-	-	1.3	-	-	1.3
Equity	-	-	-	-	32.8	32.8
Total liabilities	**51.3**	**39.1**	**71.9**	**13.6**	**47.7**	**223.6**
Net liquidity gap	**(12.2)**	**(34.1)**	**(66.9)**	**15.3**	**97.9**	**-**

As of 31 December 2006	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	7.2	-	-	-	-	7.2
Investment securities	1.6	-	-	0.4	17.6	19.6
Mortgage, consumer and other loans	0.6	4.3	4.7	24.2	78.8	112.6
Other assets	0.6	-	-	-	9.3	9.9
Total assets	**10.0**	**4.3**	**4.7**	**24.6**	**105.7**	**149.3**
Liabilities						
Customer deposits	43.8	26.5	39.5	3.9	-	113.7
Loan from bank	-	-	0.1	0.2	-	0.3
Other liabilities	-	-	2.8	-	-	2.8
Equity	-	-	-	-	32.5	32.5
Total liabilities	**43.8**	**26.5**	**42.4**	**4.1**	**32.5**	**149.3**
Net liquidity gap	**(33.8)**	**(22.2)**	**(37.7)**	**20.5**	**73.2**	**-**

19. Financial Risk Management (Continued)

Liquidity risk (continued)

Regulatory authorities set limits for liquidity balances. The requirements for the Bank are 20% of demand deposits and 15% of savings and fixed deposits. The Bank was in compliance with these requirements during the year.

Fiduciary risk

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

20. Fair values of financial instruments

Financial instruments utilised by the Group comprise the recorded financial assets and liabilities disclosed in these consolidated financial statements. The Group's financial instruments are principally short-term in nature, have interest rates that reset to market rates, or are fair valued; accordingly, their fair value approximates their carrying value. For long-term financial liabilities with fixed interest rates, there has been no change in market rates since the issuance of the financial liabilities and therefore, the carrying value approximates fair value.

21. Prior Period Adjustment

International Accounting Standard 18 *Revenue* requires loan origination fees relating to loans that have a high probability of being drawn down to be deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. The Group did not apply this accounting treatment in prior years as calculations of the adjustment were not considered material, and continued to recognise such fees as income in the period received. In the current year, the calculation of the adjustment was considered material, and the Group has elected to commence applying the requirements of IAS 18.

The change in accounting policy has been applied retrospectively, and comparative amounts have been restated. The impact of the change in accounting policy was to reduce retained earnings as of 1 January 2006 by $455,628, and reduce net income for the year ended 31 December 2006 by $107,504. The total impact on retained earnings as of 1 January 2007 was a reduction of $563,132.

22. Subsequent Event

During March 2008, the Directors declared a dividend of $0.02 per ordinary share.

FIDELITY
30th ANNIVERSARY

Certificate of Deposits

Visa Debit & Credit Cards

Consolidation Loans

Zero Down Lot Loans

Mortgage & Personal Loans

MoneyBack Mortgage

Financial Planning

Home Equity Loans

Free Internet Banking

FIDELITY
30th ANNIVERSARY