Fidelity Bank (Bahamas) Limited

2010

ANNUAL REPORT

FIDELITY

FIDELITY

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Financial Highlights

SUMMARY OF RESULTS

	2010 ($000)	2009 ($000)
Revenue	14,786	14,468
Expenses	13,052	13,110
Total Comprehensive Income	1,573	1,327
Assets	282,198	275,530
Capital	34,722	33,149
Return on assets	0.6%	0.5%
EPS	$0.05	$0.05

Board of Directors

Sir William Allen, Chairman

Anwer J. Sunderji

Peter Andrews

Frank Crothers

Scott Elphinstone

D. Anthony Jones

Hugh Sands

Chairman's Report

Sir William Allen,
Chairman

In my report to shareholders last year I referred to the enormous global economic challenges which formed the background to your Bank's performance in 2009. While challenges still remain, the continued negative growth through 2010, that we anticipated at the time, gave way to modest positive growth estimated at 1.0% by the Department of Statistics.

This contrasted with the declines of 1.3% in 2008 and 5.4% in 2009. Despite this obvious turnaround, however, there is still significant softness across some economic sectors and any improvement in the unemployment situation is so far only marginal. There is still therefore, evidence of continued consumer caution in spending and this is likely to prevail until external factors improve further, and particularly, until growth in the U.S. economy becomes more demonstrably sustainable.

Nevertheless, economic recovery in The Bahamas did begin in 2010 and it is expected to continue and gain momentum. Against this background of modest economic recovery the Bank posted an increase in total assets of 2.4% and an increase in total comprehensive income of 18.5% over 2009.

The emerging economic recovery, in combination with the efficiencies of a new technology platform, a strategic shift in the Bank's asset mix, and a determined focus on growing its market share are factors likely to propel the Bank's growth and profitability in the near term. The commitment to product innovation and the dynamism and agility which characterised the Bank early on will undoubtedly continue to be important drivers in the Bank's future growth and development.

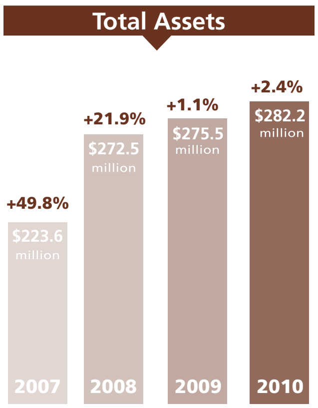
The global challenges which had so considerably dominated the international economic landscape for more than three years are beginning to diminish, but still cast a fading shadow. The Bank, however, has begun to reflect the improving domestic economic situation and stands poised to benefit from the ongoing recovery.

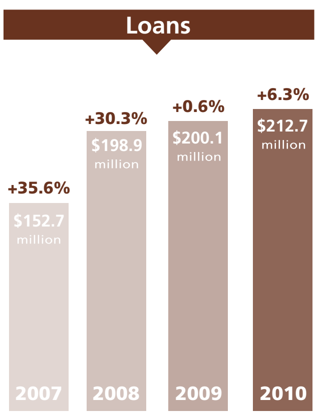
On behalf of the Board of Directors, I wish to extend our thanks and appreciation to the management and staff for their dedication and hard work during the year and to express our sincere appreciation to our customers and our shareholders for their continued support and confidence.

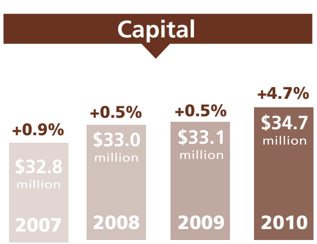
Sir William Allen
Chairman

Chief Executive Officer Report

Anwer J. Sunderji,
Chief Executive







The Bank reported total comprehensive income of $1.6 million in 2010, an increase of 18.5% over the prior year. Total assets grew by 2.4% to $282.2 million while loan assets grew by 6.3% to $212.7 million.

Net income in 2010 was positively impacted by a variety of factors, including higher net interest margins, lower loan loss provisions and cost containment. These factors, and others, are covered in greater detail in the Management Discussion & Analysis section of the Annual Report.

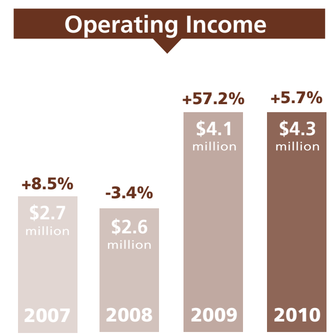
The overall performance of the Bank in 2010, while satisfactory in a very difficult economic environment, masks approximately $327,000 in losses the first half of the year followed by a sharp recovery in the second half when the Bank made a profit of around $2.0 million. The second half results of 2010 portend well for 2011, providing the domestic economy continues to recover and asset quality remains steady, which seems likely after the ground breaking of the Baha Mar project.

During the year, total loan arrears declined from 13.6% to 12.7%, well below the industry average of 18.0%. Non-accrual loans (NAL) held steady at 9.0%, also below industry averages. Arrears and delinquencies stabilised which meant we could reduce additional bad debt provisions for the year. During 2010, we restructured nearly $6 million in loans to assist borrowers to meet their loan obligations and that process has continued into 2011.

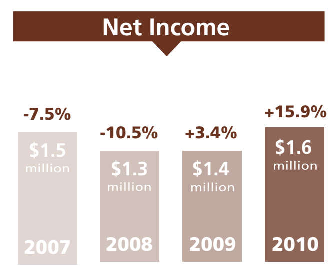
After tepid growth in 2009, loans grew by a respectable $12.6 million, or 6.3%, despite muted credit demand, with total loans reaching $217.5 million at year-end. Much of our focus during the year was on originating consumer loans. I am pleased to report that the bank was successful in increasing that portfolio by nearly 60%, or $26 million, to $71 million. In the process we increased percentage of consumer loan from 22.2% of total loans to 32.9%. The mortgage book declined by 7.9%, or $13 million, during the year as demand for real estate softened in the recession. These shorter term and higher margin consumer loans boosted net interest income and offset the decline in the lower margin mortgage book.

Chief Executive Officer Report *Continued...*

Elsewhere in our business, all fundamental operating parameters remained stable in 2010. Liquidity improved towards the end of the year and remains favourable into early 2011. Our technology platform is largely bedded down, and the Bank is starting to benefit through higher efficiencies and better controls.



The Bahamian economy is showing signs of improvement, and as employment recovers, we anticipate that NAL will decline and credit demand will increase. Our emphasis will remain on originating consumer installment credit to achieve a 40% ratio of consumer loans by year-end 2011. Early indications are that demand for such loans remains robust. The Bank's liquidity levels remain satisfactory and the Bank is well equipped to fund the planned increase of its loan portfolio during 2011.



2011 is expected to be a good year. The Bank is positioned to benefit from our many years of significant investments to compete effectively in the Bahamian market. Our goal is to double profitability to between $3.5 million and $4.5 million in 2011 so that the Return on Equity (ROE) exceeds 12%, with a view to further improving on it in subsequent years.

Anwer J. Sunderji
Chief Executive Officer

Management Discussion & Analysis

During 2010 total assets of the Bank increased by $6.7 million, or 2.4% to $282.2 million from $275.5 million in 2009 with total loans increasing by $12.6 million, or 6.3%, compared to an increase of $1.2 million, or 0.6%, in 2009.

The Bank reported total comprehensive income of $1,572,845 or 5.5 cents per share as compared with total comprehensive income for 2009 of $1,326,915 or 4.6 cents per share. Total comprehensive income for 2010 was positively impacted by the growth in the consumer loan portfolio.

The return on assets for the year was 0.6% (2009: 0.5%).

No dividends were paid in 2010 (2009: 4 cents per share).

CAPITAL ADEQUACY

The Central Bank, the Bank regulator requires that the Bank maintains a ratio of total regulatory capital to risk –weighted assets at or above a minimum of 14.0%. The Bank risk-weighted capital at 31 December 2010 was 19.0%.

ANALYSIS OF LOAN PORTFOLIO

During 2010, the Bank's mortgage portfolio declined by $12.6 million (2009: increased by $2.4 million), or -7.9% (2009: 1.5%) due to reduced demand and inability of potential borrowers to qualify.

Consumer and other loans increased by $26.2 million (2009 : no change from 2008). This growth was in line with the Bank strategy to rebalance the overall mix of its loan.

At the end of 2010, mortgage loans comprised 67.1% (2009: 77.8%) of total loans with consumer and other loans comprising the balance of 32.9% (2009: 22.2%) which was in line with the Bank's targeted ratio.

Total non-performing loans amounted to $19.7 million (2009: $18.6 million) or 9.0% (2009: 9.1%) of total loans. Provision for loan losses represent 2.1% (2009: 1.7%) of the total loan portfolio.

DEPOSIT BASE

During 2010, total deposits grew by $3.5 million (2009: $5.7 million), or 1.6%, (2009: 2.7%). Liquidity in the banking system remained high throughout 2010 as credit demand remained soft.

Management Discussion & Analysis *Continued...*

OPERATING REVENUES

Net Interest Income

Net interest income increased slightly from $9.4 million in 2009 to $10.6 million in 2010. The net interest margin, on average total assets increased from 3.2% in 2009 to 3.8% in 2010.

Non-Interest Income

Non-interest revenues, declined from $5.1 million in 2009 to $4.2 million in 2010 due primarily to a reduction in rental income on expiry of a lease and decline in other income. At the end of 2010, non-interest revenues comprised 28.3% (2009: 35.0%) of total revenues.

OPERATING EXPENSES

Operating expenses have stabilised in line with 2009. Excluding loan loss provision charges, expenses were $11.9 million (2009: $11.8 million)

LOAN LOSS PROVISIONS

Non-performing loans increased slightly during the year but the trend indicated that arrears are stabilising and reductions are expected in 2011.

Non-performing loans as a percentage of total loans were 9.0% at the end of 2010 (2009: 9.1%). The level of loan loss provisions, as a percentage of non-performing loans, increased from 18.8% in 2009 to 23.7% at the end of 2010. Mortgages represent $14.8 million (2009: $13.8 million) of the non- performing loans with the balance of $4.9 million (2009: $4.8 million) comprising consumer loans and overdrafts. The Bank is of the view that that provisions are adequate to cover any losses on its loan portfolio.

The Bank continues to focus on managing its non-performing loans. 2011 is expected to see an overall improvement in non-performing loans.

Management Discussion & Analysis *Continued...*

NEW PRODUCTS & TECHNOLOGY

The Bank successfully moved to a new banking platform in mid 2009 and has achieved significant operational efficiencies from this. The Bank has now completed its technology platform and products and will focus on gaining market share and operational efficiencies moving forward.

SUMMARY

2010 has been a challenging year for the Bank. Success in some areas, namely growth of the consumer loan portfolio, cost control and technology have been offset by continued increases in loan loss provisions arising from the deterioration in the non-performing loan book. Continuing the growth of the consumer loan portfolio and managing the loan book will be the major challenge for 2011, but we expect to have success in both these areas.

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Consolidated Financial Statements

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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 subsidiaries, which comprise the consolidated balance sheet as of 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and 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 subsidiaries as of 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
29 April 2011

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

Consolidated Balance Sheet
As of 31 December 2010
(Expressed in Bahamian dollars)

	2010 $	2009 $
ASSETS		
Cash on hand and at banks (Note 3)	23,413,772	28,479,649
Investment securities (Note 4)	29,172,807	28,152,658
Loans and advances to customers (Note 5)	212,665,067	200,121,534
Other assets	5,049,062	6,191,283
Investment in joint venture (Note 6)	157,862	196,862
Property, plant and equipment (Note 7)	11,739,755	12,388,180
Total assets	**282,198,325**	**275,530,166**
LIABILITIES		
Deposits from customers (Note 8)	220,727,917	217,035,497
Debt securities (Note 9)	24,937,187	24,898,349
Accrued expenses and other liabilities (Note 10)	1,811,460	447,404
Total liabilities	**247,476,564**	**242,381,250**
EQUITY		
Capital (Note 11)	20,000,001	20,000,001
Revaluation reserve	2,370,259	2,452,416
Reserve for credit losses (Note 19)	2,119,431	2,102,818
Retained earnings	10,232,070	8,593,681
Total equity	**34,721,761**	**33,148,916**
Total liabilities and equity	**282,198,325**	**275,530,166**

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

Director **Director**

29 April 2011
Date

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2010
(Expressed in Bahamian dollars)

	2010 $	2009 $
INCOME		
Interest income		
Bank deposits, loans and advances	20,893,377	19,375,721
Investment securities	1,358,325	1,188,756
	22,251,702	20,564,477
Interest expense	(11,647,029)	(11,156,032)
Net interest income	**10,604,673**	**9,408,445**
Fees and commissions	3,877,228	4,273,330
Net loss on investment securities	(449,480)	(1,904,911)
Other income	753,200	2,690,669
	14,785,621	**14,467,533**
EXPENSES		
Salaries and employee benefits	5,419,540	5,604,650
General and administrative (Note 13)	5,032,777	4,759,675
Provision for loan losses (Note 5)	1,182,299	1,316,265
Depreciation and amortisation (Note 7)	1,417,382	1,429,719
	13,051,998	**13,110,309**
Operating profit	**1,733,623**	**1,357,224**
Share of losses of joint venture (Note 6)	(160,778)	-
Net income	**1,572,845**	**1,357,224**
OTHER COMPREHENSIVE INCOME		
Property, plant and equipment revaluation	-	(30,309)
	-	**(30,309)**
Total comprehensive income	**1,572,845**	**1,326,915**
Earnings per share (Note 12)	**.05**	**.05**

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 2010
(Expressed in Bahamian dollars)

	Capital $	Revaluation Surplus $	Reserve for Credit Losses $	Retained Earnings $	Total $
As of 1 January 2009	20,000,001	2,526,329	-	10,442,338	32,968,668
Comprehensive income					
Net income	-	-	-	1,357,224	1,357,224
Other comprehensive income					
Property, plant and equipment revaluation	-	(30,309)	-	-	(30,309)
Depreciation transfer	-	(43,604)	-	43,604	-
Appropriation for credit losses	-	-	2,102,818	(2,102,818)	-
Total comprehensive income	-	(73,913)	2,102,818	(701,990)	1,326,915
Transactions with owners					
Dividends	-	-	-	(1,146,667)	(1,146,667)
Total transactions with owners	-	-	-	(1,146,667)	(1,146,667)
As of 31 December 2009	**20,000,001**	**2,452,416**	**2,102,818**	**8,593,681**	**33,148,916**
As of 1 January 2010	20,000,001	2,452,416	2,102,818	8,593,681	33,148,916
Comprehensive income					
Net income	-	-	-	1,572,845	1,572,845
Other comprehensive income					
Depreciation transfer	-	(82,157)	-	82,157	-
Appropriation for credit losses	-	-	16,613	(16,613)	-
Total comprehensive income	-	(82,157)	16,613	1,638,389	1,572,845
As of 31 December 2010	**20,000,001**	**2,370,259**	**2,119,431**	**10,232,070**	**34,721,761**

Dividends per share: $Nil (2009: $0.04)

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 2010
(Expressed in Bahamian dollars)

	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,572,845	1,357,224
Adjustments for:		
Interest income	(22,251,702)	(20,564,477)
Interest expense	11,647,029	11,156,032
Net loss on investment securities	449,480	1,904,911
Provision for loan losses	1,182,299	1,316,265
Depreciation and amortisation	1,417,382	1,429,719
Share of losses of joint venture	160,778	-
Interest received	20,765,450	19,699,240
Interest paid	(11,413,233)	(10,492,460)
(Increase)/Decrease in operating assets		
Mandatory reserve deposits	(47,140)	(851,030)
Loans and advances to customers	(12,287,059)	(1,740,913)
Other assets	1,142,221	(971,302)
Increase/(Decrease) in operating liabilities		
Deposits from customers	3,497,462	5,690,989
Accrued expenses and other liabilities	1,364,056	(267,502)
Net cash from/(used in) operating activities	**(2,800,132)**	**7,666,696**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(6,919,275)	(1,793,784)
Proceeds from sale/maturity of investment securities	5,497,125	8,382,519
Investment in joint venture	(121,778)	(196,862)
Purchase of property, plant and equipment	(768,957)	(1,561,602)
Net cash from/(used in) investing activities	**(2,312,885)**	**4,830,271**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt securities	-	(3,227,855)
Dividends paid	-	(287,031)
Net cash used in financing activities	**-**	**(3,514,886)**
Net increase/(decrease) in cash and cash equivalents	**(5,113,017)**	**8,982,081**
Cash and cash equivalents as of beginning of year	20,314,549	11,332,468
Cash and cash equivalents as of end of year (Note 3)	**15,201,532**	**20,314,549**

See Notes 4 and 16 for significant non-cash transactions.

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 (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 five 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 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 76% (2009: 76%) 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 2010, the Group employed 164 (2009: 154) persons.

The shares of the Bank are listed and traded on The Bahamas International Stock Exchange (BISX).

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) and 20.

Amendments and interpretations to published standards that became effective for fiscal periods beginning on or after 1 July 2009 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.

2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. 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 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 significant influence but not control, and the operations are generally governed by shareholder agreements. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. 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 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 an impairment of the asset transferred. Accounting policies of joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for investments traded in active markets (e.g. international securities exchange) or valuation techniques, including recent arm's length transactions, discounted cash flow analysis 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 sale and changes in fair value of financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income in the period in which they arise.

(e) Non-performing 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) 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 in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

(g) Income and expense recognition

Interest income and expense are recognised in the consolidated statement of comprehensive income 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 commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions are generally recognised on the accrual basis when the service has been provided. Fee and commission income arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction, which is generally at the time the customer's account is charged. Custody service and other similar fees are recognised based on the applicable service contracts, usually rateably over the period in which the service is provided. Performance linked fees are recognised when the performance criteria are fulfilled.

Dividend income is recognised in the consolidated statement of comprehensive income when the Group's right to receive payment has been established. Other income and expenses are recognised on the accrual basis.

(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.

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.

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets at amortised cost (continued)

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 statement of comprehensive income. 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.

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.

When a financial asset is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

(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 for the Group's operations, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals not exceeding three years, less subsequent depreciation for buildings.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statement of comprehensive income 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. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

2. Summary of Significant Accounting Policies (Continued)

(j) Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other assets, except assets under construction, 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

Assets under construction are not subject to depreciation until the assets are available for use, at which time they are transferred to the appropriate grouping. Depreciation is then calculated in accordance with the policy described above.

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. When revalued assets are sold, amounts included in revaluation reserve are transferred directly to retained earnings.

(k) Leases

i) 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 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 are shown in equity as a deduction from the proceeds.

2. Summary of Significant Accounting Policies (Continued)

(l) Share capital (continued)

ii) Dividends

Dividends on ordinary shares are recognised in equity in the 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.

(m) 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 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.

(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.

(o) Cash and cash equivalents

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

(p) 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.

(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 entities. These assets are excluded from these consolidated financial statements, as they do not belong to the Group.

2. Summary of Significant Accounting Policies (Continued)

(r) 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

	2010 $	2009 $
Cash on hand	2,205,801	4,306,305
Current accounts at banks	12,995,731	16,008,244
Mandatory reserve deposits	8,212,240	8,165,100
Total	**23,413,772**	**28,479,649**

Mandatory reserve deposits are placed with the Central Bank of The Bahamas (the Central Bank) to meet requirements of the Group's licences and are not available for use in the Group's day to day operations. Cash on hand, and mandatory reserve deposits and other deposits with the Central Bank are non-interest bearing. Deposits with other banks earn interest at rates ranging from 0.00% to 2.00% (2009: 0.00% to 3.00%) per annum.

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

	2010 $	2009 $
Cash on hand	2,205,801	4,306,305
Current accounts at banks	12,995,731	16,008,244
Total	**15,201,532**	**20,314,549**

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. This level includes equity securities and debt instruments listed on exchanges.

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). This level includes the government debt securities and other securities with observable inputs.

4. Investment Securities (Continued)

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

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity securities and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

	2010 $	2009 $
Level 1		
Equity securities	938,048	2,681,129
Level 2		
Government debt securities	26,320,000	19,400,900
Corporate debt securities	-	100,000
Equity securities	-	239,808
	26,320,000	19,740,708
Level 3		
Mutual fund shares	1,331,766	4,729,939
Corporate debt securities	-	409,740
Equity securities	113,661	169,289
	1,445,427	5,308,968
Total – all levels	28,703,475	27,730,805
Accrued interest	469,332	421,853
Total	**29,172,807**	**28,152,658**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2011 to 2036 (2009: 2010 to 2036) and with interest rates ranging from 0.03% to 1.19% (2009: 0.09% to 1.25%) above the B$ Prime rate of 5.50% (2009: 5.50%). The Group has pledged $3 million of such securities to support a credit facility of the same amount with another Bahamian commercial bank (Note 17).

As of 31 December 2010, the cost of investment securities totalled $29,049,091 (2009: $27,938,411), of which $1,771,145 (2009: $5,565,544) represented Level 3 securities.

4. **Investment Securities (Continued)**

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

During the year, movements in Level 3 securities comprise:

	Mutual Fund Shares $	Corporate Debt Securities $	Equity Securities $	Total $
Balance as of 1 January 2009	14,845,751	-	-	14,845,751
Purchases	264,565	409,740	169,289	843,594
Sales	(8,411,732)	-	-	(8,411,732)
Realised gains/(losses)	(2,158,007)	-	-	(2,158,007)
Net change in unrealised appreciation/depreciation	189,362	-	-	189,362
Balance as of 31 December 2009	**4,729,939**	**409,740**	**169,289**	**5,308,968**
Balance as of 1 January 2010	4,729,939	409,740	169,289	5,308,968
Purchases	-	-	-	-
Sales	(3,102,478)	(408,165)	-	(3,510,643)
Realised gains/(losses)	(282,181)	(1,575)	-	(283,756)
Net change in unrealised appreciation/depreciation	(13,514)	-	(55,628)	(69,142)
Balance as of 31 December 2010	**1,331,766**	**-**	**113,661**	**1,445,427**

In prior years, the Group purchased mutual fund shares from a related party, as a part of a transaction involving the Parent. Effective 1 January 2008, the Group entered into a yield management agreement with the Parent to limit its exposure to changes in market prices; see Note 16.

Under the agreement the Parent guarantees a yield of 6.00% per annum plus 25% of gains is excess of 6.00% per annum; any remaining gain is to be remitted to the Parent. All securities, except government debt securities, are subject to the agreement. The agreement was terminated on 31 December 2010.

The Group has been redeeming a portion of the mutual fund shares each month since the acquisition of the portfolio. In 2009, the Group requested the redemption of shares with fair values totalling $5 million that was settled by the relevant fund exchanging a portfolio comprising other mutual fund shares, corporate debt securities and equity securities, with a value equal to the redemption values. Certain of the securities received were subsequently sold during 2009 and 2010.

Effective 1 July 2009, the Group entered into an arrangement with the aforementioned related party, which serves as investment manager of the mutual fund, to rebate to the Group 50% of the investment management fees charged to the mutual fund in relation to shares of the mutual fund owned by the Group; see Note 16.

5. Loans and Advances to Customers

	2010 $	2009 $
Mortgages	146,045,047	158,634,164
Consumer and other loans	71,458,603	45,333,857
	217,503,650	203,968,021
Unamortised loan origination fees	(1,865,583)	(1,402,052)
Accrued interest	1,699,034	1,065,604
Provision for loan losses	(4,672,034)	(3,510,039)
Total	**212,665,067**	**200,121,534**

Movements in provision for loan losses are as follows:

	2010			2009		
	Mortgages $	Consumer $	Total $	Mortgages $	Consumer $	Total $
Balance as of 1 January	963,366	2,546,673	3,510,039	1,086,116	1,269,582	2,355,698
Provisions	565,525	616,774	1,182,299	(122,750)	1,439,015	1,316,265
Write-offs	11,770	(32,074)	(20,304)	-	(161,924)	(161,924)
Balance as of 31 December	**1,540,661**	**3,131,373**	**4,672,034**	**963,366**	**2,546,673**	**3,510,039**

The provision for loan losses represents 2.13% (2009: 1.71%) of the total loan portfolio, inclusive of accrued interest, and 23.68% (2009: 18.84%) of total non-performing loans. As of 31 December 2010, principal and interest balances of non-performing loans totalled $19,729,390 (2009: $18,635,611), representing 9.00% (2009: 9.09%) of the total loan portfolio.

6. Investment in Joint Venture

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

Movements in investment in joint venture comprise:

	2010 $	2009 $
Balance as of 1 January	196,862	-
Investment in joint venture	121,778	196,862
Share of losses of joint venture	(160,778)	-
Balance as of 31 December	**157,862**	**196,862**

6. Investment in Joint Venture (Continued)

The financial information of the joint venture as of 31 December 2010 follows:

	$
Assets	1,141,630
Liabilities	(66,368)

7. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Improvements $	Total $
Year ended 31 December 2010						
Opening net book value	6,300,000	1,204,600	31,815	2,090,050	2,761,715	12,388,180
Additions	-	65,197	-	218,783	484,977	768,957
Depreciation	(165,743)	(326,823)	(11,185)	(490,920)	(422,711)	(1,417,382)
Closing net book value	**6,134,257**	**942,974**	**20,630**	**1,817,913**	**2,823,981**	**11,739,755**
As of 31 December 2010						
Cost or valuation	6,300,000	3,535,799	69,930	7,526,229	6,433,489	23,865,447
Accumulated depreciation	(165,743)	(2,592,825)	(49,300)	(5,708,316)	(3,609,508)	(12,125,692)
Net book value	**6,134,257**	**942,974**	**20,630**	**1,817,913**	**2,823,981**	**11,739,755**
Year ended 31 December 2009						
Opening net book value	6,457,499	1,367,829	44,168	1,466,906	2,950,204	12,286,606
Revaluation	(30,309)	-	-	-	-	(30,309)
Additions	-	120,127	-	1,162,389	279,086	1,561,602
Depreciation	(127,190)	(283,356)	(12,353)	(539,245)	(467,575)	(1,429,719)
Closing net book value	**6,300,000**	**1,204,600**	**31,815**	**2,090,050**	**2,761,715**	**12,388,180**
As of 31 December 2009						
Cost or valuation	6,300,000	3,470,602	69,930	7,307,446	5,948,512	23,096,490
Accumulated depreciation	-	(2,266,002)	(38,115)	(5,217,396)	(3,186,797)	(10,708,310)
Net book value	**6,300,000**	**1,204,600**	**31,815**	**2,090,050**	**2,761,715**	**12,388,180**

Land and buildings were revalued by independent appraisers as of 31 December 2009.

7. **Property, Plant and Equipment (Continued)**

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

	2010 $	2009 $
Cost	4,443,450	4,443,450
Accumulated depreciation	(679,452)	(595,866)
Net book value	**3,763,998**	**3,847,584**

8. **Deposits from Customers**

	2010 $	2009 $
Demand deposits	12,438,878	16,499,246
Savings deposits	31,498,553	33,934,328
Escrow deposits	923,617	825,488
Term deposits	172,620,833	162,725,357
	217,481,881	213,984,419
Accrued interest	3,246,036	3,051,078
Total	**220,727,917**	**217,035,497**

Included in deposits from customers are deposits from banks totalling $1,030,000 (2009: $1,000,000). Deposits carry fixed interest rates ranging from 2.00% to 8.00% (2009: 2.50 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**

	2010 $	2009 $
Series A redeemable fixed rate (7.00%) notes; 2017	4,925,034	4,917,069
Series B redeemable floating rate (B$ Prime + 1.75%) notes; 2022	9,828,904	9,820,328
Series C redeemable fixed rate (7.00%) notes; 2013	2,975,471	2,966,837
Series D redeemable floating rate (B$ Prime + 1.75%) notes; 2015	6,926,448	6,913,168
	24,655,857	24,617,402
Accrued interest	281,330	280,947
Total	**24,937,187**	**24,898,349**

9. Debt Securities (Continued)

As part of a $50,000,000 note programme approved by the Directors, the Bank offered through private placement, $25,000,000 of unsecured fixed and floating rate notes consisting of Series A – $5,000,000 redeemable 7.00% fixed rate notes due 19 October 2017; Series B – $10,000,000 redeemable floating rate notes (B$ Prime rate plus 1.75%) due 19 October 2022; Series C – $3,000,000 redeemable 7.00% fixed rate notes due 30 May 2013 and Series D – $7,000,000 redeemable floating rate notes (B$ Prime rate plus 1.75%) due 30 May 2015. 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 C and D.

10. Accrued Expenses and Other Liabilities

	2010 $	2009 $
Insurance premiums payable	1,117,863	-
Accrued expenses	620,270	334,994
Other liabilities	73,327	112,410
Total	**1,811,460**	**447,404**

11. Capital

	2010 $	2009 $
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		
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. Earnings per Share

	2010 $	2009 $
Net income attributable to ordinary shareholders	1,572,845	1,357,224
Weighted average number of ordinary shares outstanding	28,666,670	28,666,670
Earnings per share	**$0.05**	**$0.05**

13. General and Administrative Expenses

	2010	2009
	$	$
Office expenses	3,342,989	3,531,745
Public relations	267,495	291,104
Legal and professional fees	333,877	137,741
Directors' cost	72,182	76,736
Taxes and bank charges	167,881	186,120
Other	848,353	536,229
Total	**5,032,777**	**4,759,675**

14. Employee Benefits

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

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 an additional 10% of vesting following each additional year of employment and fully vest upon completion of 10 years of employment. Pension expense for year ended 31 December 2010 totalled $200,793 (2009: $223,934).

15. Segment Analysis

Operating segments are reported in accordance with the internal reporting provided to the Executive Committee (ExCom), which is responsible for allocating resources to the reportable segments and assesses 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 with principal revenues are derived from interest income and fees and commissions. The revenues from external parties reported to ExCom are measured in a manner consistent with that presented in the statement of comprehensive income; there are no material items of income and expense between the business segments.

15. Segment Analysis (Continued)

The information provided about each segment is based on the internal reports about the segment 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. Segment information for the reportable segments for the year ended 31 December 2010 is as follows:

31 December 2010	Retail banking $	Money transfer $	Total $
INCOME			
Net interest income	10,604,673	-	10,604,673
Fees and commissions	2,870,226	1,007,002	3,877,228
Net loss on investment securities	(449,480)	-	(449,480)
Other income	753,200	-	753,200
EXPENSES			
Salaries and employee benefits	5,419,540	-	5,419,540
General and administrative	5,032,777	-	5,032,777
Provision for loan losses	1,182,299	-	1,182,299
Depreciation and amortisation	1,417,382	-	1,417,382
Operating profit	726,621	1,007,002	1,733,623
Share of losses of joint venture	(160,778)	-	(160,778)
Other comprehensive income	-	-	-
Total comprehensive income	**565,843**	**1,007,002**	**1,572,845**
TOTAL ASSETS	**282,198,325**	**-**	**282,198,325**
TOTAL LIABILITIES	**(247,476,564)**	**-**	**(247,476,564)**
31 December 2009			
INCOME			
Net interest income	9,408,445	-	9,408,445
Fees and commissions	3,325,884	947,446	4,273,330
Net loss on investment securities	(1,904,911)	-	(1,904,911)
Other income	2,690,669	-	2,690,669
EXPENSES			
Salaries and employee benefits	5,604,650	-	5,604,650
General and administrative	4,759,675	-	4,759,675
Provision for loan losses	1,316,265	-	1,316,265
Depreciation and amortisation	1,429,719	-	1,429,719
Operating profit	409,778	947,446	1,357,224
Share of losses of joint venture	-	-	-
Other comprehensive income	(30,309)	-	(30,309)
Total comprehensive income	**379,469**	**947,446**	**1,326,915**
TOTAL ASSETS	**275,530,166**	**-**	**275,530,166**
TOTAL LIABILITIES	**(242,381,250)**	**-**	**(242,381,250)**

15. Segment Analysis (Continued)

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.

16. 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:

	2010 $	2009 $
ASSETS		
Cash at bank		
Other related parties	518,817	2,821,514
Investment securities		
Other related parties	1,331,766	4,729,939
Loans and advances to customers		
Key management personnel	2,181,917	2,610,456
Other assets		
The Parent	3,763,558	4,914,009
Other related parties	68,677	71,194
LIABILITIES		
Deposits from customers		
The Parent	26,863	1,458,061
Key management personnel	186,941	293,424
Other related parties	12,748,663	9,190,310
Debt securities		
Other related parties	2,814,500	4,243,500
INCOME		
Interest income		
The Parent	72,000	72,000
Other related parties	90,913	-
Interest expense	699,978	-
Fees and commissions		
Other related parties	162,410	186,366
Other income		
The Parent	753,200	2,690,669
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	72,181	76,736
Key management personnel (executive Directors and other)	498,452	659,839
Costs allocated to other related parties	1,772,233	1,591,138

16. Related Party Balances and Transactions (Continued)

Other assets and other income are amounts due from the Parent in relation to the yield management agreement; See Note 4. Amounts due from the Parent are unsecured, interest-free and have no set terms of repayment. During 2009, dividends of $859,636 payable to the Parent were applied against amounts owing to the Group from the Parent.

Fees and commissions from other related parties include income of $21,563 (2009: $45,518) from the rebate agreement described in Note 4. 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.

17. Commitments

Loan commitments

In the normal course of business, the Group enters into various credit-related arrangements to meet the needs of customers and earn income. These financial instruments are subject to the Group's standard credit policies and procedures. As of 31 December 2010, the Group had outstanding loan commitments amounting to $1,227,479 (2009: $3,569,577).

Lines of credit

The Bank has pledged $3,000,000 (2009: $3,000,000) of Bahamas Government Registered Stock to support a credit facility of an equal amount with another Bahamian commercial bank. The facility bears interest at an annual interest rate equal to 0.50% above the B$ Prime rate on borrowings up to $1 million and 1.25% above the B$ Prime rate for borrowings in excess of $1 million with a standby fee of 0.25% per annum on any unused portion of the facility. As of 31 December 2010, this facility was not utilised (2009: not utilised).

Operating lease commitments

The future minimum rental payments required under non-cancellable leases as of 31 December 2010 are as follows:

	2010 $	2009 $
2010	-	436,481
2011	397,333	397,333
2012	289,000	289,000
2013	289,000	289,000
2014	38,000	38,000
2015 and later	116,000	116,000
Total minimum payments	**1,129,333**	**1,565,814**

18. Contingent Liabilities

The Group is involved in various legal proceedings covering a range of matters that arise in the ordinary course of business activities. Management is of the view that no significant losses will arise as a result of these proceedings.

19. Reserve for Credit Losses

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

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances to customers

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. asset type, collateral, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the bases of the contractual cash flows of the assets in the group, historical loss experience for financial assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

21. Capital Management

The Group'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 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.

21. Capital Management (Continued)

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 2010, the Group complied with all of the externally imposed capital requirements to which it is subject.

22. Financial Risk Management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and 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 principal risks which arise from the Group's core activities that must be effectively managed include credit, interest rate, price and liquidity risks. The Group does not use derivative instruments to manage any of these risks.

Credit risk

Credit risk is the risk of suffering financial losses should any of the Group's customers or other counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to customers, including loan commitments arising from such lending activities, and investments in debt securities as part of the Group's treasury management activities. The Group seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances to customers, but also guarantees and other commitments such as letters of credit, and performance and other bonds.

Credit risk is the greatest risk facing the Group and management therefore carefully manages its exposure to credit risk. Impairment provisions are provided for losses incurred as of the balance sheet date (Note 5). Significant changes in the economies or sectors that represent a concentration in the Group's portfolio could result in losses that are different from those provided for as of the balance sheet date.

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

22. Financial Risk Management (Continued)

Credit risk (continued)

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) and certain investment securities (Note 4).

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. The table below analyses the composition of the Group's loan portfolio as of 31 December 2010:

	2010		2009	
	$m	%	$m	%
Family residential property	117	54	129	63
Commercial property	4	2	4	2
Undeveloped land	25	11	26	13
Consumer	60	28	33	17
Overdrafts	4	2	5	2
Cash secured	7	3	7	3
	217	**100**	**204**	**100**

In The Bahamas, the average mortgage loan balance is $93,000 (2009: $93,000) and the average consumer loan balance is $20,000 (2009: $20,000) with the largest exposure to a single customer totalling approximately $1.5 million (2009: $1.5 million). Mortgage loans can extend up to 24 years, and consumer loans up to 10 years.

The table below analyses loans and advances to customers by payment status as of 31 December 2010.

	2010		2009	
	$m	%	$m	%
Not impaired				
– Neither past due or impaired	189.0	87	174.0	86
– Past due but not impaired	18.2	8	20.7	10
Impaired				
– Past due 3 – 6 months	0.7	1	2.8	1
– Past due 6 – 12 months	1.9	1	2.6	1
– Past due over 12 months	7.7	3	3.9	2
	217.5	**100**	**204.0**	**100**

22. Financial Risk Management (Continued)

Credit risk (continued)

	2010		2009	
	$m	%	$m	%
Provision for loan losses				
– Individually impaired	4.1	87	3.0	86
– Portfolio allowance	0.6	13	0.5	14
	4.7	**100**	**3.5**	**100**

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

31 December 2010	Mortgages $m	Consumer $m	Other $m	Total $m
Past due up to 3 months	7.0	1.3	0.3	8.6
Past due 3 – 6 months	3.0	0.2	-	3.2
Past due 6 – 12 months	1.5	-	-	1.5
Past due over 12 months	4.0	0.3	0.6	4.9
Total past due but not impaired	**15.5**	**1.8**	**0.9**	**18.2**
31 December 2009				
Past due up to 3 months	8.4	1.3	0.6	10.3
Past due 3 – 6 months	3.7	-	1.2	4.9
Past due 6 – 12 months	2.2	-	-	2.2
Past due over 12 months	3.3	-	-	3.3
Total past due but not impaired	**17.6**	**1.3**	**1.8**	**20.7**

As of 31 December 2010, the individually impaired loans can be analysed as follows:

31 December 2010	Mortgages $m	Consumer $m	Other $m	Total $m
Carrying amount	6.3	2.7	1.3	10.3
Provision for loan losses	0.9	2.3	0.9	4.1

22. Financial Risk Management (Continued)

Credit risk (continued)

31 December 2009	Mortgages $m	Consumer $m	Other $m	Total $m
Carrying amount	4.3	3.3	1.7	9.3
Provision for loan losses	0.4	1.9	0.7	3.0

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 $5,897,134 (2009: $1,973,490) as of 31 December 2010.

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 17 for loan commitments.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Geographical concentrations of financial assets

The Group has a concentration of 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 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.

22. Financial Risk Management (Continued)

Interest rate risk (continued)

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 2010, the Group is exposed to fair value interest rate risk on approximately $8 million (2009: $8 million) of its debt securities which are at fixed interest rates for 10 years, and does not hedge against this risk. The remaining debt securities are at floating interest rates linked to the B$ Prime rate.

The Bahamas Government Registered Stock 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 present specifically 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; and the third fund is invested in a basket of international indices. The funds' investments are diversified and the funds do not use leverage.

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.

As additional support, the Group has access to committed undrawn credit facilities; see Note 17.

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.

22. Financial Risk Management (Continued)

Liquidity risk (continued)

As of 31 December 2010	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	23.4	-	-	-	-	23.4
Investment securities	2.4	0.9	4.7	7.4	33.7	49.1
Loans and advances to customers	9.3	10.5	31.1	142.0	203.7	396.6
Other assets	5.0	-	-	-	-	5.0
Total assets	**40.1**	**11.4**	**35.8**	**149.4**	**237.4**	**474.1**
LIABILITIES						
Deposits from customers	46.0	64.3	102.9	14.1	-	227.3
Debt securities	-	-	1.8	16.4	20.8	39.0
Other liabilities	-	0.7	-	-	-	0.7
Total liabilities	**46.0**	**65.0**	**104.7**	**30.5**	**20.8**	**267.0**
Net liquidity gap	**(5.9)**	**(53.6)**	**(68.9)**	**118.9**	**216.6**	
Loan commitments	**1.2**					
As of 31 December 2009						
ASSETS						
Cash on hand and at bank	28.5	-	-	-	-	28.5
Investment securities	8.3	0.7	0.9	9.7	20.1	39.7
Loans and advances to customers	9.7	10.7	31.7	147.8	272.2	472.1
Other assets	6.2	-	-	-	-	6.2
Total assets	**52.7**	**11.4**	**32.6**	**157.5**	**292.3**	**546.5**
LIABILITIES						
Deposits from customers	51.3	53.3	104.6	12.8	-	222.0
Debt securities	-	-	1.8	9.9	29.1	40.8
Other liabilities	-	0.4	-	-	-	0.4
Total liabilities	**51.3**	**53.7**	**106.4**	**22.7**	**29.1**	**263.2**
Net liquidity gap	**1.4**	**(42.3)**	**(73.8)**	**134.8**	**263.2**	
Loan commitments	**3.6**					

The short-term nature of the financial liabilities is such that 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.

23. Fiduciary Risk Management

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

24. Fair Values of Financial Instruments

Financial instruments utilised by the Group comprise the recorded financial assets and liabilities disclosed in the consolidated financial statements. The Group's financial instruments are principally short-term in nature, have interest rates that reset to market rates, or are 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.

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