Fidelity Bank (Bahamas) Limited

2011

ANNUAL REPORT

FIDELITY

FIDELITY

Table of Contents

Financial Highlights	1
Board of Directors	2
Chairman's Report	3
Report from the Chief Executive Officer	4
Management Discussion and Analysis	11
Independent Auditors' Report	14
Consolidated Balance Sheet	15
Consolidated Statement of Comprehensive Income	16
Consolidated Statement of Changes in Equity	17
Consolidated Statement of Cash Flows	18
Notes to the Consolidated Financial Statements	19 - 44

Financial Highlights

SUMMARY OF RESULTS

	2011 ($000)	2010 ($000)
Revenue	19,124	14,786
Expenses	15,356	13,052
Total Comprehensive Income	3,844	1,573
Assets	349,910	282,198
Net Loans	243,921	212,665
Capital	47,172	34,722
Return on Average Ordinary Assets (ROA)	1.22%	0.56%
Return on Average Shareholder Funds (ROE)	10.3%	4.63%
Efficiency Ratio	69.87%	80.28%
EPS	$0.13	$0.05
Dividends/Shares	$0.07	$0.00

Board of Directors

Sir William Allen, Chairman

Anwer J. Sunderji

Peter Andrews

Scott Elphinstone

D. Anthony Jones

Hugh Sands

Chairman's Report

Sir William Allen
Chairman

The fragile economic recovery which began in 2010 became somewhat more substantial in 2011, yet it remained weak and had little effect on unemployment. But notwithstanding its continued economic weakness, 2011 was quite a successful year for the Bank which realised significant benefits from the shift in its asset mix, its continuing investment in human capital and technology, and its focus on the management of its non-performing loan book.

The Bank's nimbleness and dexterity in policy formulation and its size and institutional capacity to respond quickly to new policy impulses have been characteristic strengths over the years. The benefits of this are particularly evident in the very positive performance in 2011.

It is especially encouraging to be able to report a significant increase in assets and profitability in a still challenging year and to resume the payment of dividends, as the Bank has done. Economic performance in the near-term is expected to be more accommodating of the Bank's growth prospects as the outlook is for the recovery to continue and to gain some momentum. After estimated economic growth of 2.0% in 2011, the IMF projects growth of 2.5% for 2012 and 2.7% for 2013. There is therefore every reason to expect that the Bank's current strategy may achieve even greater success going forward.

The economy's circumstances seem well-suited for a period of sustained growth: considerable investment in infrastructure to be coming on line shortly; the largest investment project in the region in the process of being rolled out over the next few years; an adequately capitalised banking system; and spare capacity in labour and accommodation. And the Bank is well-positioned to participate in this growth with it's high levels of capital and liquidity.

There can be no doubt that the last four years have indeed been a hugely challenging period for our banking system from which it seems now to be gradually emerging. But banks were not the only victims of the global economic crisis that brought on our difficulties. That pain was very broadly spread, and although banks were, in a sense, at the centre, they were certainly not alone.

On reflection, however, it may be recalled that the banks were virtually alone for more than a decade. Now at the centre of activity, the banking system's supervisory and regulatory structures in The Bahamas have undergone a profound overhaul. It's over a decade since The Bahamas, and many other financial jurisdictions, had been required to implement major changes to their financial administrative and regulatory frameworks. The speed and extent of the undertakings have had a great impact on how banking institutions do business, on their customers, their managements and staff. The administrative and regulatory overhaul was far reaching.

Our Bank was energetic in its response to the initiatives which drove the overhaul. There is no doubt that the regulatory environment is now considerably improved and we are proud of the part we are playing in this continuing project. The challenge this represented to our management and staff and indeed to our customers was very real. Each of these constituents made a contribution to the success of this huge undertaking in some way, and our acknowledgement and thanks would not be inappropriate. I take this opportunity on behalf of my Board of Directors to say thanks for this major national effort.

The Bank had a very good year despite the strains in the economic background. This has to be attributed to the people of our Bank – our staff and those who manage them with the support of our Board of Directors. On behalf of our Board of Directors I take this opportunity to say thanks to our staff and management for a job well done. I wish also to thank our shareholders for continuing to repose their confidence in us. And I thank my colleagues on the Board for their invaluable contribution to our deliberations and their guidance for our Bank.

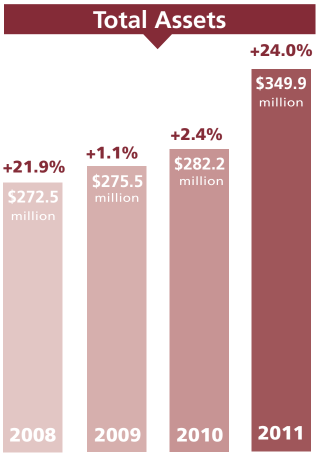
And finally we wish a fond farewell to our colleague Alfred Stewart as he takes his leave from the Fidelity Group of Companies after more than 34 years to fully engage in a higher calling. We thank him for the many years of dedicated service and for his wise counsel, and extend our best wishes to him.

William C. Allen

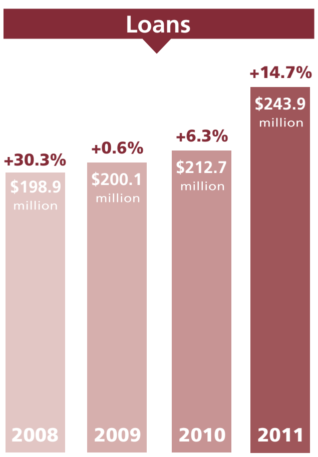
Sir William Allen
Chairman

Report from the
Chief Executive Officer

Anwer J. Sunderji



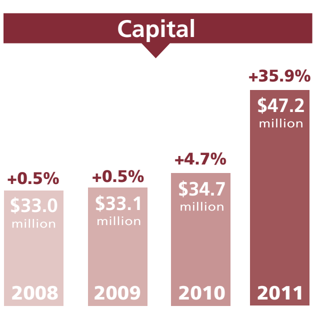
Despite a challenging domestic economy, 2011 was a good year for the Bank. Comprehensive income grew by 144% to a record $3.84 million from $1.57 million the prior year. Revenues grew strongly by 29% to $19.4 million and the Bank's assets grew by 24%, or $68 million, to $350 million. In spite of muted credit demand, the loan book grew by 15%, or $31 million, to $244 million. Increased levels of liquidity in the banking system propelled deposits up by 24%, or $52 million, to $273 million. This very satisfactory level of balance sheet and earnings growth took place despite a difficult economic environment with elevated unemployment and increased levels of loan arrears. This growth is the result of a change in the Bank's strategy to de-emphasise mortgage loans and increase the Bank's exposure to higher margin consumer loans. By year-end, mortgage loans had declined by 8% through normal amortisation and payoffs and were just over 54% of the total loan portfolio. Consumer Installment and other loans grew to 46% of total. This trend is expected to continue in 2012.



The Bank's delinquency experience in the consumer loan segment since 2010, when the new strategy was deployed, is under 3% and reflects the prudent approach to the Bank's lending profile.

A key component of the new lending strategy is to assist borrowers with a long-term plan to simplify their financial lives by helping them to manage their debt, control their spending habits, increase their savings and provide them with on-going assistance in the form of financial coaching. In many cases, borrowers are required to save monthly and employ prudent spending habits. This approach, while expensive to execute, has resonated well with borrowers and has resulted in an increased demand for the Bank's products.

In summary, greater diversification, higher margins and better asset/liability match associated with the new lending strategy have contributed to higher earnings and lower financial risk.

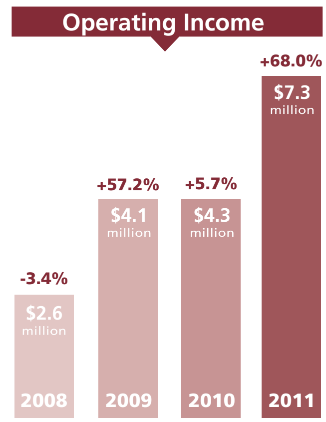


Overall, the Bank's credit quality stabilised during the year and non-performing loans declined to 7.5% of total loans thanks to a determined effort by the Asset Recovery Team. However, loan loss provisions increased to reflect the reality that it is difficult to sell homes in a depressed market where there were few qualified buyers and the supply of such distressed properties is high. During the year, the Bank restructured $12.3 million of mortgages and other loans to assist borrowers in this difficult time. Where appropriate, the Bank temporarily reduced monthly loan payments and in some cases adjusted payments to interest only. These efforts continue.

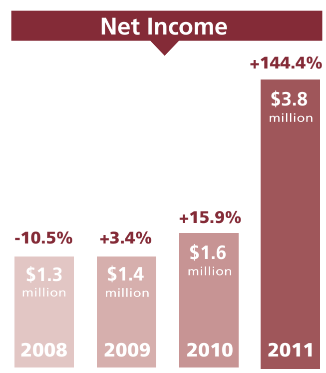
Report from the

Chief Executive Officer *continued...*

The Bank provided a further $2 million in loan loss reserves during the year with total provisions now representing approximately 26.4% of the delinquent loan portfolio (up from 23.7% at the end of 2010). The Bank is satisfied that the reserves provide an adequate cushion against future loan losses based on present trends. It is likely that the Bank may see some moderate increases in loan loss provisions if the Bahamian economy grows less robustly, but the Bank does not believe that the levels will be unmanageable. An unknown factor is the impact of moral hazard on loan arrears arising from statements by political parties to provide relief to delinquent mortgagors during the run up to the elections. We remain hopeful that any blip in arrears will be temporary.



Performance as measured by Return on Average Ordinary Shareholder Funds (ROE) grew to an acceptable 10.3% and Return on Average Assets (ROA) to 1.2%. The Bank's performance goals are to reach an ROE of around 20% and an ROA of 2% over the next two years.



The Bank's Efficiency Ratio, which compares non-interest expenses with revenue, improved to 70% but is still short of our target of 50%. Growing revenues and a flat expense base will help in reaching this target over the next two years.

During the year, the Bank resumed the payment of dividends and distributed dividends to ordinary shareholders of $0.07 per share generating a dividend yield of 4.0% on the share price at year-end. Also during the year, the Bank's Tier 1 capital increased by $11 million from the issue of perpetual preference shares. A further $4 million was raised in long-term redeemable preference shares. The increase in debt and equity capital will equip the Bank to maintain its growth trajectory.

After the global financial crisis, the Central Bank of The Bahamas increased the minimum capital threshold requirement of Bahamian banks to 14%, over the new global standard known as Basle III. In addition, it recommended that Bahamian banks maintain capital ratios of 17%. As at December 31, 2011, the Bank's Risk Weighted Capital Ratio was 20.57% and in excess of both Central Bank benchmarks.

A fuller review of the Bank's financial results is presented elsewhere in the Annual Report under the section "Management Discussion & Analysis".

Chief Executive Officer *continued...*

In summary, the fundamentals of the Bank remain sound with high levels of liquidity and capital well in excess of regulatory requirements. The demand for consumer installment loans remains satisfactory and the Bank continues to emphasize credit quality as it pursues growth.

The Bahamian economic environment is showing nascent signs of recovery with an increase in foreign direct investment stemming from the launch of the Baha Mar project coupled with higher domestic capital investment in infrastructure projects initiated by the Government. These initiatives are expected to improve employment levels resulting in higher consumer spending and lower levels of financial stress felt by borrowers. It is clear, however, that much has changed in the global economy and that The Bahamas too will have to retool and re-engineer itself to compete if the prosperity it enjoyed previously is to return.

The Bahamian economy is expected to grow modestly in 2012, and the prospects for the Bank are satisfactory with a forecast for higher levels of income and continuing growth. The Bank is committed to a dividend yield that is attractive and maintaining prudent levels of risk while improving earnings quality despite the changing landscape for financial services in general and retail banking in particular. We expect that the Bank's share price will reflect an improvement in earnings, future prospects and the restoration of attractive dividend yields.

Our improved results would not be possible without committed and engaged employees. We are grateful to all our staff for their passion for service. Finally, I take this opportunity to thank my colleague, Alfred Stewart, who retires at the end of 2012. He was the founder of the Bank; under his stewardship the Bank pioneered innovative products and services and built a foundation that continues to serve the Bank and its shareholders well. We will miss his wisdom.

A Sunderji

Anwer J. Sunderji
Chief Executive Officer

Bringing Back the Buzz: Fidelity Makes Donation to Downtown Revitalisation Project

The Downtown Revitalisation Project (DRP) has received a substantial donation from Fidelity Bank (Bahamas) Ltd. as it moves forward with its goal of redeveloping and preserving the heart of the city. Making Bay Street a vibrant boulevard is a huge undertaking that will involve the building of a super marina, enhancement of the water front, the creation of spaces for art and culture to flourish and of course the preservation of historical sites and buildings.

COMM

Pictured at the cheque presentation on behalf of Fidelity Bank to the DRP representatives are (L-R) Bank President, Mr. Gregory Bethel, Manager for Sales and Client Relationship, Mrs. Odia Gaskins and Mr. Charles Klonaris.

While the DRP is indeed necessary for restoring the city of Nassau to its glory days of the 1950's and 60's when it attracted royalty, Hollywood glitterati and business magnets, it is a costly project. Unlike private developments, the DRP depends heavily on the contributions of corporate citizens like Fidelity to buy into the project and lend financial support.

A call Fidelity Bank was more than ready to answer. "There was no question on whether or not we were going to support the Downtown Revitalisation Project.

The impact it will have on Bahamian businesses and the ability of their owners and employees to support themselves and their families was reason enough," said bank president, Gregory Bethel.

Fidelity Bank (Bahamas) Ltd. is headquartered on Frederick Street, Downtown with branches throughout New Providence, Grand Bahama and Abaco.

Fidelity Bank Endorses R.E.A.C.H. Bahamas

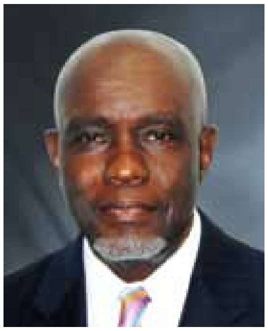
Fidelity Bank (Bahamas) Ltd. has recently made a donation to R.E.A.C.H. Bahamas – Resources and Education for AUTISUM and Related Challenges, an organisation dedicated to supporting those with and affected by Autism, with a special interest in making the public more socially aware of the disease. Among its many functions, R.E.A.C.H. provides training for teachers, support for families touched by Autism and advocates for services to improve the quality of life for those living Autism.

UNITY

Fidelity Bank (Bahamas) Ltd. is proud to add R.E.A.C.H to the many organizations it supports annually (L-R) Mario Carey, President R.E.A.C.H Bahamas and Selina Archer, Marketing Manager, Fidelity Bank Bahamas. Mario Carey accepted the check donation on behalf of R.E.A.C.H. Bahamas.

"We applaud the work that R.E.A.C.H. is doing in our community," said Marketing Manager for Fidelity, Selina Archer. "R.E.A.C.H. is a volunteer group changing the lives of so many and as a corporate citizen this is our way of showing our support."

President, of R.E.A.C.H. Mario Carey shared, "R.E.A.C.H. has an exciting and educational filled 2012 calendar of events that include observing April as Autism Awareness month, classroom awareness programs, an annual summer programme, liaising with international autism groups and local fund-raisers to support projects. Fidelity's donation is much appreciated as we need funding to support these initiatives"

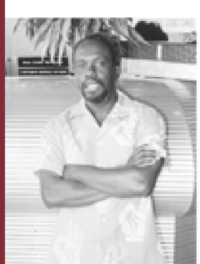


Alfred Stewart
Executive Vice President
Fidelity Bank (Bahamas) Ltd

Fulfilling the Purpose

After more than 34 years with the Fidelity Group of Companies, Mr. Stewart will retire from Fidelity at the end of 2012 and take on the full time role of Pastor to his congregation at The New Mount Zion Missionary Baptist Church. "Life is ever-changing," said Mr. Stewart, "We are given assignments, we take them on and as we do, life becomes more purposeful, meaningful and fulfilling. So when those assignments change, we have the obligation to shift as we enter new seasons."

A founding father of the Fidelity Group of Companies, Mr. Stewart's initial venture, First Home Savings & Loan made home ownership a reality for masses of Bahamians by lowering equity requirements for borrowers from 25% to 10% and extending mortgage loan repayment periods from 15 to 25 years. Today, with Mr. Stewart's influence, Fidelity distinguishes itself in the banking industry in The Bahamas by specialising in products designed to help Bahamians to create and build wealth.



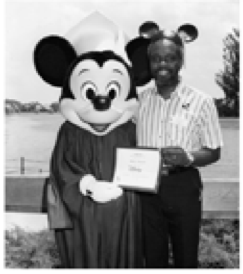




"Consumption patterns and levels have dramatically changed over the past 30 years. During that period, because of increased desire for instant gratification and easy availability of credit, 'I need' has changed to 'I want' with no regard for 'costs'. Bahamians need to become more aware of hazards of excessive debt and its effects on lifestyle. Unless we begin to reverse the trend, homeownership will no longer be a realisable goal for many.

We need to reintroduce a savings culture in The Bahamas so that land and home ownership will remain within the reach of most working Bahamians. While Fidelity continues to offer innovative savings options for consumers, there needs to be a broad national effort with governmental incentives to reintroduce and promote a culture of saving that will lead to a better way of living for all," Mr. Stewart observed.






Management Discussion & Analysis

During 2011 total assets of the Bank increased by $67.7 million, or 24.0% to $349.9 million from $282.2 million in 2010 with total loans increasing by $31.2 million, or 14.7%, compared to an increase of $12.6 million, or 6.3%, in 2010

The Bank reported net income of $3.8 million or 12.7 cents per share as compared with net income for 2010 of $1.6 million or 5.5 cents per share. Net income for 2011 was positively impacted by the growth in the consumer loan portfolio.

The return on average assets for the year was 1.2% (2010: 0.6%)

Dividends of 7 cents per share were paid in 2011 (2010: Nil cents per share)

CAPITAL ADEQUACY

In September 2011, the Bank issued $11,011,000 of Series A redeemable preference shares. These shares are perpetual in nature but can be redeemed at the option of the Bank after 5 years with the prior approval of the Central Bank of The Bahamas, the Bank's Regulator. These shares rank as Tier 1 regulatory capital. The Bank also issued $4,000,000 of Series B variable rate redeemable preference shares with a maturity of 10 years. These are shown as debt securities in the financial statements.

The Central Bank of The Bahamas requires that the Bank maintains a ratio of total regulatory capital to risk –weighted assets at or above a minimum of 17%. The Bank's risk-weighted capital at 31 December 2011 was 20.57%. (2010:18.99%).

ANALYSIS OF LOAN PORTFOLIO

During 2011, the Banks mortgage portfolio declined by $11.4 million (2010: decline of $12.6 Million), or -7.8% (2010: -7.9%). due to reduced demand and inability of potential borrowers to qualify.

Consumer and other loans increased by $42.5 million (2010: Increase of $26.2 million). This growth was in line with the Bank's strategy to rebalance the overall mix of it's loans.

At the end of 2010, mortgage loans comprised 54.2% (2010: 67.1%) of total loans with consumer and other loans comprising the balance of 45.8% (2010: 32.9%) which was in line with the Bank's targeted ratio.

Total non-performing loans amounted to $18.9 million (2010: $19.7 million) or 7.5% (2010: 9.0%) of total loans. Provision for loan losses represent 1.98% (2010: 2.13%) of the total loan portfolio.

DEPOSIT BASE

During 2011, total deposits grew by $52.2 million (2010: $3.5 million), or 23.6%, (2010: 1.6%). Liquidity in the banking system remained high throughout 2011 as credit demand remained soft.

OPERATING REVENUES

Net Interest Income

Net interest income increased significantly from $10.6 million in 2010 to $15.5 million in 2011. The net interest margin, on average total assets increased from 3.8% in 2010 to 5.8% in 2011.

Non-Interest Income

Non-interest revenues, declined from $4.2 million in 2010 to $3.6 in 2011 due primarily to a reduction in rental income on expiry of a lease and decline in other income.

At the end of 2011, non-interest revenues comprised 18.9% (2010: 28.3%) of total revenues.

OPERATING EXPENSES

Operating expenses have increased but mainly in salaries and employees benefits which reflect the increase in staff numbers by 12 and the upgrading of a number of positions to manage the expansion of the business. Excluding loan loss provision charges, expenses were $13.4 million (2010: $11.9 million)

LOAN LOSS PROVISIONS

Non Performing loans decreased slightly during the year and the trend indicates that arrears are stabilising and further reductions are expected in 2012.

Non-performing loans as a percentage of total loans were 7.51% at the end of 2011 (2010: 9.00%). The level of loan loss provisions, as a percentage of non-performing loans, increased from 23.7% in 2010 to 26.4% at the end of 2011 .Mortgages represent $14.6 million (2010: $14.8 million) of the non-performing loans with the balance of $ 4.3 million (2010: $4.9 million) comprising consumer loans and overdrafts. The Bank is of the view that provisions are adequate to cover any losses on its loan portfolio.

The Bank continues to focus on managing its non-performing loans. 2012 is expected to see an overall improvement in non-performing loans.

Consolidated Financial Statements

pwc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Fidelity Bank (Bahamas) Limited

We have audited the accompanying consolidated financial statements of Fidelity Bank (Bahamas) Limited and its subsidiary, which comprise the consolidated balance sheet as of 31 December 2011, 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 subsidiary as of 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
30 April 2012

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

FIDELITY BANK (BAHAMAS) LIMITED

(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Balance Sheet
As of 31 December 2011

(Expressed in Bahamian dollars)

	2011 $	2010 $
ASSETS		
Cash on hand and at banks (Note 3)	60,652,604	23,413,772
Investment securities (Note 4)	27,986,657	29,172,807
Loans and advances to customers (Note 5)	243,921,268	212,665,067
Other assets	5,477,051	5,049,062
Investment in joint venture (Note 6)	233,279	157,862
Property, plant and equipment (Note 7)	11,639,102	11,739,755
Total assets	**349,909,961**	**282,198,325**
LIABILITIES		
Deposits from customers (Note 8)	272,887,887	220,727,917
Debt securities (Note 9)	28,978,963	24,937,187
Accrued expenses and other liabilities (Note 10)	871,521	1,811,460
Total liabilities	**302,738,371**	**247,476,564**
EQUITY		
Capital (Note 11)	31,011,001	20,000,001
Revaluation reserve	2,286,386	2,370,259
Reserve for credit losses (Note 19)	2,439,125	2,119,431
Retained earnings	11,435,078	10,232,070
Total equity	**47,171,590**	**34,721,761**
Total liabilities and equity	**349,909,961**	**282,198,325**

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

Director **Director**

19 April 2012

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 2011
(Expressed in Bahamian dollars)

	2011 $	2010 $
INCOME		
Interest income		
Bank deposits, loans and advances	26,440,587	20,893,377
Investment securities	1,425,677	1,358,325
	27,866,264	22,251,702
Interest expense	(12,360,668)	(11,647,029)
Net interest income	**15,505,596**	**10,604,673**
Fees and commissions	3,653,118	3,877,228
Net loss on investment securities	(34,443)	(449,480)
Other income	-	753,200
	19,124,271	**14,785,621**
EXPENSES		
Salaries and employee benefits	6,646,538	5,419,540
General and administrative (Note 13)	5,222,627	5,032,777
Provision for loan losses (Note 5)	1,994,031	1,182,299
Depreciation and amortisation (Note 7)	1,492,694	1,417,382
	15,355,890	**13,051,998**
Operating profit	**3,768,381**	**1,733,623**
Share of profits/(losses) of joint venture (Note 6)	75,417	(160,778)
Net income and total comprehensive income	**3,843,798**	**1,572,845**
Earnings per share (Note 12)	**$0.13**	**$0.05**

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 2011
(Expressed in Bahamian dollars)

	Capital $	Revaluation Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
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**
As of 1 January 2011	20,000,001	2,370,259	2,119,431	10,232,070	34,721,761
Comprehensive income					
Net income	-	-	-	3,843,798	3,843,798
Other comprehensive income					
Depreciation transfer	-	(83,873)	-	83,873	-
Appropriation for credit losses	-	-	319,694	(319,694)	-
Total comprehensive income	-	(83,873)	319,694	3,607,977	3,843,798
Transactions with owners					
Proceeds from issue of preference shares	11,011,000	-	-	(206,504)	10,804,496
Dividends – preference shares	-	-	-	(191,798)	(191,798)
Dividends – ordinary shares (Note 16)	-	-	-	(2,006,667)	(2,006,667)
Total transactions with owners	11,011,000	-	-	(2,404,969)	8,606,031
As of 31 December 2011	**31,011,001**	**2,286,386**	**2,439,125**	**11,435,078**	**47,171,590**

Dividends per ordinary share: $0.07 (2010: $Nil)

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

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2011
(Expressed in Bahamian dollars)

	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3,843,798	1,572,845
Adjustments for:		
Interest income	(27,866,264)	(22,251,702)
Interest expense	12,360,668	11,647,029
Net loss on investment securities	34,443	449,480
Loss on disposal of property, plant and equipment	4,535	-
Provision for loan losses	1,994,031	1,182,299
Depreciation and amortisation	1,492,694	1,417,382
Share of (profits)/losses of joint venture	(75,417)	160,778
Interest received	25,855,687	20,765,450
Interest paid	(11,525,192)	(11,413,233)
(Increase)/Decrease in operating assets		
Mandatory reserve deposits	(2,364,490)	(47,140)
Loans and advances to customers	(31,162,469)	(12,287,059)
Other assets	(1,932,351)	1,142,221
Increase/(Decrease) in operating liabilities		
Deposits from customers	51,366,270	3,497,462
Accrued expenses and other liabilities	(939,939)	1,364,056
Net cash from/(used in) operating activities	**21,086,004**	**(2,800,132)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(4,247,869)	(6,919,275)
Proceeds from sale/maturity of investment securities	5,322,390	5,497,125
Investment in joint venture	-	(121,778)
Purchase of property, plant and equipment	(1,396,576)	(768,957)
Net cash used in investing activities	**(322,055)**	**(2,312,885)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt securities	4,000,000	-
Proceeds from issuance of preference shares	10,804,496	-
Dividends paid on preference shares	(191,798)	-
Dividends paid on ordinary shares	(502,305)	-
Net cash from financing activities	**14,110,393**	**-**
Net increase/(decrease) in cash and cash equivalents	**34,874,342**	**(5,113,017)**
Cash and cash equivalents as of beginning of year	15,201,532	20,314,549
Cash and cash equivalents as of end of year (Note 3)	**50,075,874**	**15,201,532**

See Note 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 four branches in New Providence, its branch in Grand Bahama and its branch in Abaco.

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

Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 76% (2010: 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 2011, the Group employed 176 (2010: 164) persons.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Notes 2(d), 2(g), 2(l) and 20.

Amendments and interpretations to published standards that became effective for the financial year beginning 1 January 2011 were either not relevant or not significant to the Group's operations and accordingly did not have a material 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 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 sales 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 financial assets

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

(f) Impairment of financial assets at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. Summary of Significant Accounting Policies (Continued)

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a 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.

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, 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. 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. Recoveries of accounts previously written off are recognised directly in the consolidated statement of comprehensive income.

(g) Property, plant and equipment

Property, plant and equipment, other than land and buildings, are carried at historical cost less accumulated depreciation and amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Land and buildings, which comprise branches and offices for the Group's operations, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals 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.

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

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.

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 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.

(h) Borrowings

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

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

(i) Provisions

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

2. Summary of Significant Accounting Policies (Continued)

(j) Share capital

Share issue costs

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

Dividends

Dividends on ordinary shares, and preference shares classified as equity, 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.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(l) Income and expense recognition

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

2. Summary of Significant Accounting Policies (Continued)

(m) Leases

The Group is the lessee

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to the consolidated statement of comprehensive income 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.

The Group is the lessor

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

(n) Employee benefits

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

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

(o) Cash and cash equivalents

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

(p) 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

	2011 $	2010 $
Cash on hand	2,175,495	2,205,801
Current accounts at banks	47,900,379	12,995,731
Mandatory reserve deposits	10,576,730	8,212,240
Total	**60,652,604**	**23,413,772**

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% (2010: 0.00% to 2.00%) per annum.

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

	2011 $	2010 $
Cash on hand	2,175,495	2,205,801
Current accounts at banks	47,900,379	12,995,731
Total	**50,075,874**	**15,201,532**

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 government debt securities and other securities with observable inputs.

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.

4. Investment Securities (Continued)

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

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

	2011 $	2010 $
Level 1		
Equity securities	498,450	938,048
Level 2		
Government debt securities	26,987,400	26,320,000
Level 3		
Mutual fund shares	-	1,331,766
Corporate debt securities	-	-
Equity securities	108,661	113,661
	108,661	1,445,427
Total – all levels	27,594,511	28,703,475
Accrued interest	392,146	469,332
Total	**27,986,657**	**29,172,807**

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2012 to 2037 (2010: 2011 to 2036) and with interest rates ranging from 0.00% to 1.19% (2010: 0.09% to 1.25%) above the B$ Prime rate of 4.75% (2010: 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 2011, the cost of investment securities totalled $27,732,328 (2010: $29,049,091), of which $169,165 (2010: $1,771,145) represented Level 3 securities.

During the year, movements in Level 3 securities comprise:

	Mutual Fund Shares $	Corporate Debt Securities $	Equity Securities $	Total $
Balance as of 1 January 2011	1,331,766	-	113,661	1,445,427
Purchases	-	-	-	-
Sales	(1,321,055)	-	-	(1,321,055)
Realised gains/(losses)	(280,925)	-	-	(280,925)
Net change in unrealised appreciation/depreciation	270,214	-	(5,000)	(265,214)
Balance as of 31 December 2011	**-**	**-**	**108,661**	**108,661**

4. Investment Securities (Continued)

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

	Mutual Fund Shares $	Corporate Debt Securities $	Equity Securities $	Total $
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 guaranteed a yield of 6.00% per annum plus 25% of gains in excess of 6.00% per annum; any remaining gain was to be remitted to the Parent. All securities, except government debt securities, were subject to the agreement. The agreement was terminated on 31 December 2010.

The Group had been redeeming a portion of the mutual fund shares each month since the acquisition of the portfolio. During 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. The arrangement was terminated on 31 December 2010.

5. Loans and Advances to Customers

	2011 $	2010 $
Mortgages	134,649,856	146,045,047
Consumer and other loans	113,981,354	71,458,603
	248,631,210	217,503,650
Unamortised loan origination fees	(2,417,240)	(1,865,583)
Accrued interest	2,690,809	1,699,034
Provision for loan losses	(4,983,511)	(4,672,034)
Total	**243,921,268**	**212,665,067**

5. Loans and Advances to Customers (Continued)

Movements in provision for loan losses are as follows:

	2011			2010		
	Mortgages $	Consumer $	Total $	Mortgages $	Consumer $	Total $
Balance as of 1 January	1,540,661	3,131,373	4,672,034	963,366	2,546,673	3,510,039
Provisions	524,946	1,469,085	1,994,031	565,525	616,774	1,182,299
Write-offs net of recoveries	(238,620)	(1,443,934)	(1,682,554)	11,770	(32,074)	(20,304)
Balance as of 31 December	**1,826,987**	**3,156,524**	**4,983,511**	**1,540,661**	**3,131,373**	**4,672,034**

The provision for loan losses represents 1.98% (2010: 2.13%) of the total loan portfolio, inclusive of accrued interest, and 26.39% (2010: 23.68%) of total non-performing loans. As of 31 December 2011, principal and interest balances of non-performing loans totalled $18,883,175 (2010: $19,729,390), representing 7.51% (2010: 9.00%) 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:

	2011 $	2010 $
Balance as of 1 January	157,862	196,862
Investment in joint venture	-	121,778
Share of profits/(losses) of joint venture	75,417	(160,778)
Balance as of 31 December	**233,279**	**157,862**

The financial information of the joint venture as of 31 December 2011 follows:

	2011 $	2010 $
Assets	1,655,238	1,141,630
Liabilities	(40,100)	(66,358)
Total income	1,366,097	1,141,693
Total comprehensive income	539,876	325,031

7. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Improvements $	Total $
Year ended 31 December 2011						
Opening net book value	6,410,082	942,974	20,630	1,817,913	2,548,156	11,739,755
Additions	542,674	247,794	22,500	321,196	262,412	1,396,576
Disposals						
Cost	-	-	(16,000)	-	-	(16,000)
Accumulated depreciation	-	-	11,465	-	-	11,465
Depreciation	(225,255)	(288,040)	(11,402)	(556,291)	(411,706)	(1,492,694)
Closing net book value	**6,727,501**	**902,728**	**27,193**	**1,582,818**	**2,398,862**	**11,639,102**
As of 31 December 2011						
Cost or valuation	7,129,395	3,783,593	76,430	7,847,425	6,409,180	25,246,023
Accumulated depreciation	(401,894)	(2,880,865)	(49,237)	(6,264,607)	(4,010,318)	(13,606,921)
Net book value	**6,727,501**	**902,728**	**27,193**	**1,582,818**	**2,398,862**	**11,639,102**
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	286,721	65,197	-	218,783	198,256	768,957
Depreciation	(176,639)	(326,823)	(11,185)	(490,920)	(411,815)	(1,417,382)
Closing net book value	**6,410,082**	**942,974**	**20,630**	**1,817,913**	**2,548,156**	**11,739,755**
As of 31 December 2010						
Cost or valuation	6,586,721	3,535,799	69,930	7,526,229	6,146,768	23,865,447
Accumulated depreciation	(176,639)	(2,592,825)	(49,300)	(5,708,316)	(3,598,612)	(12,125,692)
Net book value	**6,410,082**	**942,974**	**20,630**	**1,817,913**	**2,548,156**	**11,739,755**

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

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

	2011 $	2010 $
Cost	5,272,845	4,730,171
Accumulated depreciation	(831,730)	(690,348)
Net book value	**4,441,115**	**4,039,823**

8. Deposits from Customers

	2011 $	2010 $
Demand deposits	14,383,826	12,438,878
Savings deposits	34,952,673	31,498,553
Escrow deposits	721,145	923,617
Term deposits	218,790,507	172,620,833
	268,848,151	217,481,881
Accrued interest	4,039,736	3,246,036
Total	**272,887,887**	**220,727,917**

Included in deposits from customers are deposits from banks totalling $1,060,901 (2010: $1,030,000). Deposits carry fixed interest rates ranging from 2.00% to 7.25% (2010: 2.00% to 8.00%) 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

	2011 $	2010 $
Series A redeemable fixed rate (7.00%) notes; 2017	4,933,589	4,925,034
Series B redeemable floating rate (B$ Prime + 1.75%) notes; 2022	9,838,131	9,828,904
Series C redeemable fixed rate (7.00%) notes; 2013	2,984,754	2,975,471
Series D redeemable floating rate (B$ Prime + 1.75%) notes; 2015	6,940,747	6,926,448
Series B redeemable preference shares (B$ Prime + 1.00%); 2021	4,000,000	-
	28,697,221	24,655,857
Accrued interest	281,742	281,330
Total	**28,978,963**	**24,937,187**

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.

9. Debt Securities (Continued)

In December 2011, the Bank issued 400,000 Series B variable rate redeemable preference shares at a par value of $1.00 per share and a share premium of $9.00 per share. The shares will mature 10 years after the issue date. Dividends are payable on these shares at the rate of B$ Prime rate plus 1.00% (currently 5.75% per annum) subject to the declaration of the Directors and the prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in December and June each year commencing in December 2011.

10. Accrued Expenses and Other Liabilities

	2011 $	2010 $
Insurance premiums payable	-	1,117,863
Accrued expenses and other liabilities	871,521	693,597
Total	**871,521**	**1,811,460**

11. Capital

	2011 $	2010 $
Authorised		
35,000,000 ordinary shares of $0.30 each	**10,500,000**	**10,500,000**
10,000,000 preference shares of $1.00 each	**10,000,000**	**10,000,000**
Issued and fully paid – ordinary shares		
28,666,670 ordinary shares	8,600,001	8,600,001
Share premium	11,400,000	11,400,000
	20,000,001	20,000,001
Issued and fully paid – preference shares		
1,101,100 preference shares	1,101,100	-
Share premium	9,909,900	-
	11,011,000	-
Total	**31,011,001**	**20,000,001**

In September 2011, the Bank issued 1,101,000 Series A variable rate redeemable preference shares at a par value of $1.00 per share and a share premium of $9.00 per share. These shares are perpetual but may be redeemed at the option of the Bank with 90 days written notice to the shareholders at any time after the fifth anniversary of the closing date with the prior approval of the Central Bank. Dividends are payable on these shares at the rate of B$ Prime rate plus 2.25% (currently 7.00% per annum) subject to the declaration of the Directors and prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in December and June each year commencing in December 2011.

12. Earnings per Share

	2011 $	2010 $
Net income	3,843,798	1,572,845
Net income attributable to preference shareholders	(191,798)	-
Net income attributable to ordinary shareholders	3,652,000	1,572,845
Weighted average number of ordinary shares outstanding	28,666,670	28,666,670
Earnings per share	**$0.13**	**$0.05**

13. General and Administrative Expenses

	2011 $	2010 $
Office expenses	3,327,937	3,041,809
Taxes and bank charges	628,993	471,776
Public relations	249,121	267,495
Legal and professional fees	110,735	108,311
Directors' cost	67,812	72,182
Other	838,029	1,071,204
Total	**5,222,627**	**5,032,777**

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 incremental vesting following each additional year of employment and fully vest upon completion of 10 years of employment. Pension expense for the year ended 31 December 2011 totalled $205,235 (2010: $200,793).

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.

15. Segment Analysis (Continued)

There are no other operations that constitute separate reportable segments. The segment operations are all financial and principal revenues are derived from interest income and fees and commissions. The revenues from external parties reported to ExCom are measured in a manner consistent with that presented in the consolidated statement of comprehensive income; there are no material items of income and expense between the business segments.

The information provided about each segment is based on the internal reports about the segment 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 2011 is as follows:

31 December 2011	Retail banking $	Money transfer $	Total $
INCOME			
Net interest income	15,505,596	-	15,505,596
Fees and commissions	2,668,522	984,596	3,653,118
Net loss on investment securities	(34,443)	-	(34,443)
Other income	-	-	-
EXPENSES			
Salaries and employee benefits	6,646,538	-	6,646,538
General and administrative	5,222,627	-	5,222,627
Provision for loan losses	1,994,031	-	1,994,031
Depreciation and amortisation	1,492,694	-	1,492,694
Operating profit	2,783,785	984,596	3,768,381
Share of profit of joint venture	75,417	-	75,417
Net income and total comprehensive income	**2,859,202**	**984,596**	**3,843,798**
TOTAL ASSETS	**349,909,961**	**-**	**349,909,961**
TOTAL LIABILITIES	**(302,738,371)**	**-**	**(302,738,371)**

15. Segment Analysis (Continued)

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)
Net income and 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)**

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:

	2011 $	2010 $
ASSETS		
Cash at bank		
Other related parties	3,704,998	520,644
Investment securities		
Other related parties	-	1,331,766
Loans and advances to customers		
Key management personnel	2,150,663	2,181,917
Other assets		
The Parent	4,007,543	3,763,558
Other related parties	463,599	68,677

16. Related Party Balances and Transactions (Continued)

	2011 $	2010 $
LIABILITIES		
Deposits from customers		
The Parent	2,263	26,863
Key management personnel	85,764	186,941
Other related parties	9,900,589	12,748,663
Debt securities		
Other related parties	3,405,000	2,814,500
INCOME		
Interest income		
The Parent	72,000	72,000
Other related parties	100,702	90,913
Interest expense		
Other related parties	535,958	699,978
Fees and commissions		
Other related parties	140,848	162,410
Other income		
The Parent	-	753,200
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	67,811	72,181
Key management personnel (executive Directors and other)	475,118	498,452
Costs allocated to other related parties	(1,896,162)	(1,772,233)
Cost allocated from the Parent	600,000	-

Amounts due from the Parent are unsecured, interest-free and have no set terms of repayment. During 2011, dividends of $1,504,362 payable to the Parent were applied against amounts owing to the Group by the Parent.

As of 31 December 2011, other related parties hold 320,766 (2010: 317,458) outstanding ordinary shares and 253,500 (2010: Nil) outstanding preference shares.

Fees and commissions from other related parties include income of $Nil (2010: $21,563) from the rebate agreement, and other income represents amounts due from the Parent in relation to the yield management agreement; see 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. Similarly, the Bank receives certain services from the Parent, with the charges for these services expensed 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 2011, the Group had outstanding loan commitments amounting to $191,631 (2010: $1,227,479).

17. Commitments (Continued)

Lines of credit

The Bank has pledged $3,000,000 (2010: $3,000,000) of Bahamas Government Registered Stock to support a credit facility of an equal amount with another Bahamian commercial bank. The facility bears interest at an annual interest rate equal to 0.50% above the B$ 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. This facility was not utilised during 2011 and 2010.

Operating lease commitments

The future minimum rental payments required under non-cancellable leases as of 31 December 2011 are as follows:

	2011	2010
	$	$
2011	-	397,333
2012	353,114	289,000
2013	331,530	289,000
2014	252,000	38,000
2015 and later	1,764,000	116,000
Total minimum payments	**2,700,644**	**1,129,333**

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.

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

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.

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 2011, 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.

Maximum credit exposure at the year end approximates the carrying value of all assets. The classes of financial instruments to which the Group is most exposed to credit risk are loans and advances to customers (Note 5), cash at banks and certain investment securities (Note 4). The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed.

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 2011:

22. Financial Risk Management (Continued)

Credit risk (continued)

	2011		2010	
	$m	%	$m	%
Family residential property	109	44	117	54
Commercial property	3	1	4	2
Undeveloped land	23	9	25	11
Consumer	105	42	60	28
Overdrafts	3	1	4	2
Cash secured	6	3	7	3
	249	**100**	**217**	**100**

The average mortgage loan balance is $91,000 (2010: $93,000) and the average consumer loan balance is $28,000 (2010: $20,000) with the largest exposure to a single customer totalling approximately $1.5 million (2010: $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 2011.

	2011		2010	
	$m	%	$m	%
Not impaired				
– Neither past due or impaired	221.4	88	189.0	87
– Past due but not impaired	17.3	7	18.2	8
Impaired				
– Past due 3 – 6 months	1.0	1	0.7	1
– Past due 6 – 12 months	1.0	1	1.9	1
– Past due over 12 months	7.9	3	7.7	3
	248.6	**100**	**217.5**	**100**
Provision for loan losses				
– Individually impaired	3.9	78	4.1	87
– Portfolio allowance	1.1	22	0.6	13
	5.0	**100**	**4.7**	**100**

22. Financial Risk Management (Continued)

Credit risk (continued)

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

31 December 2011	Mortgages $m	Consumer $m	Other $m	Total $m
Past due up to 3 months	6.9	1.0	0.4	8.3
Past due 3 – 6 months	1.5	-	0.1	1.6
Past due 6 – 12 months	1.7	-	-	1.7
Past due over 12 months	5.5	0.2	-	5.7
Total past due but not impaired	**15.6**	**1.2**	**0.5**	**17.3**
31 December 2010				
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**

As of 31 December 2011, the individually impaired loans can be analysed as follows:

31 December 2011	Mortgages $m	Consumer $m	Other $m	Total $m
Carrying amount	5.9	2.6	1.4	9.9
Provision for loan losses	0.8	2.1	1.0	3.9
31 December 2010				
Carrying amount	6.3	2.7	1.3	10.3
Provision for loan losses	0.9	2.3	0.9	4.1

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 $12,279,993 (2010: $5,897,134) as of 31 December 2011.

22. Financial Risk Management (Continued)

Credit risk (continued)

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. See Note 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 the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce gains or create losses in the event that unexpected movements arise.

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

As of 31 December 2011, the Group is exposed to fair value interest rate risk on approximately $8 million (2010: $8 million) of its debt securities which are at fixed interest rates for 10 years, and does not hedge against this risk. The remaining debt securities are at floating interest rates linked to the B$ Prime rate.

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

22. Financial Risk Management (Continued)

Price risk

Price risk is the risk that the fair value and/or amounts realised on sale of financial instruments may fluctuate significantly as a result of changes in market price. This risk was present specifically in investments in mutual fund shares. The investments in mutual fund shares were 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. The Group disposed of all of its investments in mutual fund shares during 2011, thereby reducing price risk.

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.

As of 31 December 2011	Repayable on demand $m	Up to 3 months $m	3 – 12 months $m	1 – 5 years $m	More than 5 years $m	Total $m
ASSETS						
Cash on hand and at banks	60.7	-	-	-	-	60.7
Investment securities	0.6	0.7	3.2	5.5	34.4	44.4
Loans and advances to customers	9.0	11.4	33.7	164.4	180.5	399.0
Other assets	5.5	-	-	-	-	5.5
Total assets	**75.8**	**12.1**	**36.9**	**169.9**	**214.9**	**509.6**
LIABILITIES						
Deposits from customers	50.0	70.9	149.5	9.2	-	279.6
Debt securities	-	-	2.1	23.1	19.1	44.3
Other liabilities	-	0.9	-	-	-	0.9
Total liabilities	**50.0**	**71.8**	**151.6**	**32.3**	**19.1**	**324.8**
Net liquidity gap	**25.8**	**(59.7)**	**(114.7)**	**137.6**	**195.8**	
Loan commitments	**0.2**					

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 banks	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	-	1.8	-	-	-	1.8
Total liabilities	**46.0**	**66.1**	**104.7**	**30.5**	**20.8**	**268.1**
Net liquidity gap	**(5.9)**	**(54.7)**	**(68.9)**	**118.9**	**216.6**	
Loan commitments	**1.2**					

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, despite a change in market rates since the issuance of the financial liabilities there has been no observable change in fair values; accordingly, the carrying value approximates fair value.