FIDELITY

2012 ANNUAL REPORT

BOARD OF DIRECTORS

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

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FINANCIAL HIGHLIGHTS

INCOME STATEMENT DATA ($000):

	2012	2011	% Change	2010
Interest Income	$ 33,205	$ 27,866	19%	$ 22,252
Interest Expense	(12,953)	(12,360)	5%	(11,647)
Net Interest Income	20,252	15,506	31%	10,605
Loan Impairment Expense	(3,954)	(1,994)	98%	(1,183)
Net Interest Income after Loan Impairment Expense	16,298	13,512	21%	9,422
Non-interest Income	3,742	3,619	3%	4,181
Non-interest Expenses	(13,702)	(13,362)	3%	(11,869)
Share of profits/(losses of joint venture	76	75	1%	(161)
Net Income	$ 6,414	$ 3,844	67%	$ 1,573
Preference Share Dividends	$ 810	$ 192	322%	$ -
Income Attributable to Ordinary Shareholders	$ 5,604	$ 3,652	53%	$ 1,573

PER ORDINARY SHARE DATA:

	2012	2011	% Change	2010
Book Value	1.32	1.26	5%	$ 1.21
Cash Dividends	0.14	0.07	100%	-
Year End Share Price	2.10	1.77	19%	2.17

BALANCE SHEET DATA ($000):

	2012	2011	% Change	2010
Securities	38,232	27,987	37%	29,173
Loans	278,420	243,921	14%	212,665
Total Assets	386,854	349,910	11%	282,198
Net Write-offs	2,353	1,683	40%	20
Total Deposits	307,934	272,888	13%	220,728
Total Shareholder Equity	49,262	47,172	4%	34,722

PERFORMANCE RATIOS:

	2012	2011	2010
Earnings Per Share	$ 0.20	$ 0.13	$ 0.05
Price/Earnings	10.7X	13.9X	39.6X
Price/Book Value	1.6X	1.4X	1.8X
Dividend Yield	6.7%	4.0%	0.0%
Return on Average Assets (ROA)	1.5%	1.2%	0.6%
Return Attributable to Ordinary Shareholders (ROE)	15.2%	10.3%	4.6%
Ordinary Dividend Payout Ratio	71.6%	55.0%	0.0%
Efficiency Ratio	57.1%	69.9%	80.3%
Net Interest Margin	7.4%	6.5%	4.9%

ASSET QUALITY RATIOS:

Non-accrual Loans to Total Loans	7.8%	7.5%	9.0%
Non-accrual Loans to Total Assets	5.8%	5.4%	7.0%
Net Write-offs to Average Loans	0.9%	0.7%	0.0%
Provision for Loan Losses to Total Loans	2.3%	2.0%	2.1%
Provision for Loan Losses to Non-Accrual Loans	29.2%	26.4%	23.7%

LIQUIDITY RATIO:

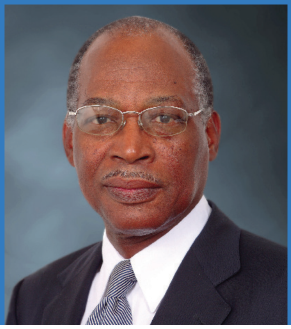
Average Cash and Securities to Average Total Assets	24.6%	22.3%	19.6%

CAPITAL RATIOS:

Leverage Ratio			
Average Shareholders' Equity to Average Total Assets	13.1%	13.0%	12.2%

CHAIRMAN'S REPORT

SIR WILLIAM ALLEN
CHAIRMAN



We are delighted once again to report to our shareholders a successful year of operations despite the challenging economic circumstances which have prevailed since 2008. It is likely that economic circumstances will remain challenging for perhaps another year or even longer, but it is undoubtedly true that an economic turnaround has already begun. Until it becomes more robust, however, this turnaround will have only marginal impact on unemployment which is the most probative expression of our economic weakness.

Throughout the period of this global recession there were only two years, 2008 and 2009, when our economy registered negative growth, and since that time it has been on a steadily improving growth path. In some important ways it has also been positioned to benefit from improvements in the global economy as those improvements occur. Important capital investments in both the private and public sectors are coming on stream over the coming years that have the potential to substantially enable the next robust growth cycle.

The major improvements and expansion of our road networks, the liberalization of our telecommunications sector, the modernization and expansion of the international airport facilities and an enormous increase in our tourism capacity are converging over the next several years to facilitate the next period of economic expansion. These developments together are likely to have a hugely positive impact on our economic prospects.

To be sure, however, there are down-side risks to our future prospects that need to be taken into account, and among them would have to be included our much-debated fiscal challenge which is already a focus of government attention and prospective policy, and the ruinously high cost of energy over which we are able to exert little influence in the near-term.

Regarding our fiscal challenge, there is both a little good news and some bad news here. The good news is that at just under 60% of GDP, Government debt is still below the danger level that is creating such havoc for some countries in our region and many around the world today. The bad news is that, given the seemingly intractable nature of the imbalance between recurrent revenue and expenditure, it is only a matter of a little time before the level of debt could be well beyond the danger zone. It would be both courageous and wise if the level of Government debt could be restricted, at least in practice, to a maximum 60% of GDP.

Hopefully, the introduction of value added taxes (VAT) and the proposed improvements in tax administration will ultimately eliminate that imbalance and return public finances to sustainability. How quickly that can be done or indeed how quickly it should be done is a matter which still lacks some clarity. Too rapid an elimination of the imbalance could put a drag on growth in an economy which already suffers from unemployment estimated at over 14%.

It is important to note here the distinction between elimination of the fiscal imbalance and arresting the growth of debt as a proportion of GDP. This critical distinction is important in the context of the urgent need to grow an economy with a very high rate of unemployment and in recognition of the fact that the Government's capacity to service its debt is determined by the size of the economy in relation to that debt. Debt as a proportion of GDP is, therefore, a more revealing and critical statistic than the debt's absolute size. Properly reflecting this distinction in their economic policy seems to have eluded some policymakers elsewhere and appears to be creating a self-sustaining economic crisis in their countries.

The proposed date of 1st July, 2014 for implementation of VAT will itself be a huge accomplishment if it could be achieved. A realistic assessment of this target date suggests it has to be viewed as doubtful. Perhaps equally as doubtful is the projection of fiscal year 2015/16 as the date for the elimination of the fiscal deficit.

Such a herculean feat is not necessarily desirable because of the unintended consequences that will likely accompany its achievement. It could only happen when expenses equal to 3% of GDP are eliminated or additional revenue of the same amount is collected or some equivalent combination of both is realized.

Between 1st July, 2014 when the new tax system is scheduled to be implemented and 30th June, 2016 when a balanced budget is projected to be achieved, the economy is projected to show cumulative growth in nominal terms of $795 million. During the same period, 1st July, 2014 to 30th June, 2016, government revenue is projected to grow by $372 million, or nearly 50% of the total economy's growth.

And so Government which aims to peg its revenue at about 20% of the economy will be taking a substantially higher proportion of the economy's growth in order to eliminate the fiscal imbalance in that short period of time.

The transition period to a new tax system will be enormously challenging. Getting it right will take some time as Government seeks to achieve an appropriate balance in resources allocation between the public and private sectors while working toward the laudable objective of ultimately eliminating its recurrent deficit. The essential objective of our tax reform is to increase government revenue by about 3% of GDP. Tax reform is, therefore, not intended to be a neutral exercise and so looking for a reduction in other taxes and charges sufficient to offset the VAT, as some appear to be assuming, is not realistic.

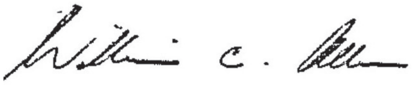
The problem represented by the high cost of energy is perhaps less daunting but it is also less capable of a local solution, although it is a huge burden across the entire economy. Forty years ago oil consumption accounted for about 13% of our total merchandise import bill; now, after several oil shocks and decades of oil crises, it appears that oil has achieved some kind of permanently very high relative price level and now represents on average more than 27% of our merchandise imports. In The Bahamas the price of oil seems downward inflexible. The cost of energy has substantially reordered our individual and corporate budgetary allocations and placed a huge burden on our balance of payments. A long-term strategy to lower the cost of energy could yield significant benefits to the economy in the future.

In considering down-side risks to the achievement of a robust growth cycle for The Bahamas it may also be necessary to reflect on the possibility that the global economic circumstances which have supported such growth cycles in the past may not be fully in place, at least in the near-term. In particular, Europe seems to be facing economic uncertainty as the fiscal challenges of some of its members raise doubts about the viability of its integration and even its largest economies are now showing signs of weakness. The major impact for us may be how the European situation directly impacts the economy of our principal trading partner which still continues to gain momentum.

All said, however, The Bahamas still seems poised to enter a period of improved economic growth, permitting it to focus with less distraction on important long-term investment objectives like achieving continuous improvements in health and especially in education. Although the robust growth that once characterized our growth cycles may be missing due mainly to changes in global economic circumstances, there is a reasonable expectation for a period of modest prosperity. Our Bank has positioned itself in the last several years to be able to achieve maximum benefits from such an improvement in our economic circumstances.

For the success of our performance in 2012, the Board is grateful to our customers whom we have been privileged to serve. We acknowledge the commitment and dedication of our staff and management for another year of excellent contribution. We express our gratitude to our shareholders for continuing to repose their trust in us; and we look forward in confidence to what appears to be an even more successful year.

During the year the Board was pleased to welcome two new members, Mr. Nick Freeland in July and Mrs. Jennifer Dilbert in December. We are delighted to have persons of their distinguished backgrounds join us and look forward to the benefit of their wise counsel. In December, Mr. Hugh Sands completed six years of excellent service to the business of the Bank and took his leave of us. Hugh served on our Board with distinction and we are grateful for the brilliant perspective he brought to our deliberations. On behalf of the Bank we express to Hugh our heartfelt thanks and extend to him our very best wishes.

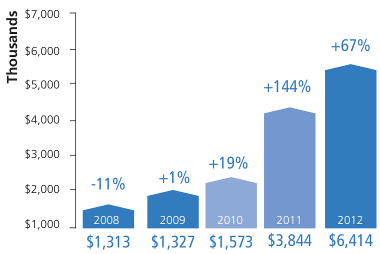


SIR WILLIAM ALLEN
Chairman

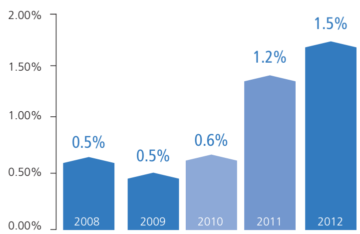
CHIEF EXECUTIVE OFFICER REPORT

ANWER J. SUNDERJI
CHIEF EXECUTIVE OFFICER

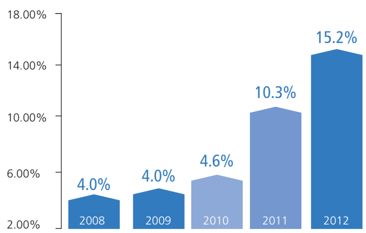
Comprehensive Income ($000)



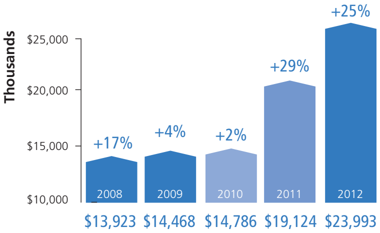
Return on Average Assets - ROA



Return on Average Equity Attributable to Ordinary Shareholders - ROE



Total Revenue



Fidelity Bank (Bahamas) Limited (BISX: FBB) reported satisfactory results for the year, with comprehensive income increasing by 67% to $6.4 million, or $0.20 per share. Return on Average Equity attributable to Ordinary Shareholders (ROE) improved to 15% and Return on Average Assets (ROA) to 1.5%. The Bank's Efficiency Ratio, which measures the percentage of revenue consumed by operating expenses, improved to 57% from 70% in the prior year. The Bank paid dividends of $0.14 per share, and based on the year-end share price of $2.10, the dividends provided an effective dividend yield of 6.7%, well ahead of 95% of BISX listed public companies. During 2012, the Bank's share price increased by 19%, providing a total return to our shareholders of nearly 26% for the year.

Total assets increased by some 11% to $386.9 million, with loan assets increasing by 14% to $278.4 million. Revenues increased by 25% to $24.0 million while Operating Expenses increased by 3% to $13.7 million.

The Bank's Tier 1 (T1) and Tier 2 (T2) risk weighted capital ratios comfortably exceeded the Central Bank of The Bahamas (CBOB) benchmarks. Despite new, more stringent requirements for the calculation of risk weighted capital under the Basel III regime as promulgated by CBOB, the Bank remains confident that it will meet these higher benchmarks.

The Bank's results are encouraging in light of the headwinds from a tepid economy, high unemployment, muted credit demand and continuing deterioration in asset quality.

Non-performing loans (NPL), or loans past due ninety days or more and inclusive of principal and interest, remained elevated in 2012 and increased by $3.7 million to $22.5 million, with mortgage loans accounting for 69% of the deterioration and consumer installment loans for the balance. NPL as a percentage of total loans deteriorated to 7.8% from 7.5% in the prior year, but remained well below the industry average of 14%. Total loan loss provisions as a percentage of NPL were close to 30%, below the industry average of 43% but consistent with the Bank's lower delinquency ratios, and are deemed to be adequate.

Non-performing mortgage loans accounted for 76% of the Bank's total non-performing book, and it is evident that the risk-reward equation in this segment of the credit business has deteriorated sharply. Over 90% of the Bank's delinquent properties continue to be occupied by mortgagors, or their tenants, some for in excess of three years. Regrettably, not all delinquencies since the onset of the recession have been a function of job losses, lower earnings or chronic illness; some home owners have simply chosen not to pay their mortgage obligations but continue to service their credit card debts and auto loans.

The government's proposed "Homeowner's Protection Bill", as the name implies, significantly changes the status quo ante and limits mortgage lenders in exercising their rights in the mortgage deed without court sanction, and allows for delinquent mortgagors to seek relief from the legal system. As drafted, it promises to further increase the lending risk in this segment and may have unintended consequences that could have a negative impact on the economy in general, and access to home ownership in particular.

The Bank increased its provisions for loan losses by 98% during the year and recorded a charge of $3.95 million reflecting both the increased size of the loan book and general difficulty in resolving delinquent mortgages. In 2012, the government announced further details of a $10 million "Mortgage Relief Programme" (MRP) to assist delinquent homeowners. Some four hundred and thirty six delinquent mortgagors with over $70 million in principal balances outstanding have applied for assistance; over 63% have not qualified for a variety of reasons including nearly 30% who do not qualify due to their income being insufficient to service even the restructured debt.

We remain optimistic that some of the problems experienced by borrowers in discharging their debt obligations will be eased under the MRP. In the meantime we have worked diligently to restructure the terms and conditions of delinquent mortgages, regardless of whether they qualify under the government sponsored programme, to provide relief to borrowers during these difficult times. Extended terms, interest only and partial payments are some of the options the Bank has offered to assist delinquent homeowners to continue to own their homes. Approximately $17 million in mortgage loans have been restructured since the onset of the recession.

In 2012, the Banking sector posted a $51 million increase in non-performing loans (NPL) to a total of $868 million, with the bulk of the increase in the mortgage sector. NPL as a percentage of the total loan portfolio increased from 13.02% to 13.9%. Non-performing mortgages at $497 million constituted a significant 16% of all mortgages and account for 57% of all NPL. The deterioration in asset quality prompted the Banking industry to increase provisions for loan losses by $73 million, or 24%, to $374 million during 2012. According to CBOB, Banks also wrote-off an estimated $225.1 million in delinquent loans and recovered approximately $44.3 million in outstanding obligations during 2012. The industry average for provisions as a percentage of NPL is 43.05%, up from 36.82% at the start of the year. Unsurprisingly, the growing delinquencies, write-offs and additional loan loss provisions had a negative impact on industry profitability.

Ultimately, an increase in economic growth and improved employment prospects will be critical to driving delinquency rates lower. It does not appear that such positive developments will be apparent during 2013 and the delinquency problem is likely to persist for a while.

With low demand for credit in the banking system, liquidity remained robust during the year, and the Bank was able to comfortably fund the expansion in its loan book. At year-end, the Bank's loan to deposit ratio was 90%, indicating further headroom for loan growth.

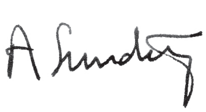
For much of the year, the Bank carried surplus liquidity which allowed the cost of funds to ease. However, the low interest rate regime arising from the strong domestic liquidity may not persist for too long. The government may likely fund its growing fiscal deficit from domestic sources, which could have a negative impact on foreign reserves and domestic liquidity.

During the year, the credit rating of The Bahamas foreign currency debt was lowered by Moody's to Baa1, with a negative watch, suggesting the possibility of further downgrading in the months ahead. While The Bahamas still retains its Investment grade status, Baa1 is just three notches above speculative grade. The government proposes to move swiftly to put its fiscal house in order, and a combination of revenue measures and expense containment will undoubtedly assist - but should The Bahamas lose its coveted investment grade rating, it is possible that the cost of US dollar borrowing will increase and demands for Bahamian foreign currency debt may diminish. The effect of such a development on the economy in general, and the Banking sector in particular, is uncertain, but unlikely to be positive.

The government has announced an introduction of a Value Added Tax (VAT) of 15% in mid-2014, which, coupled with possible increases in Bank license fees, will increase the Bank's operating costs in the years ahead. Despite these adverse developments, the Bank remains committed to improving its efficiency ratio to below 50%.

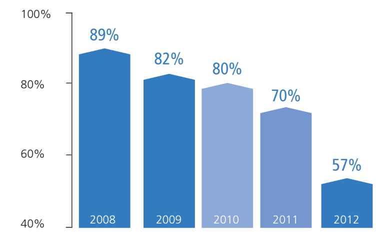
Prospects for the Bank in 2013 look encouraging despite the challenging economic environment, and management remains committed to improving the performance metrics of the business. A rebound in the tourism sector, and specifically an increase in stopover visitors from the United States, would provide a boost to the domestic economy and help underpin a more sustainable recovery. The US economy is demonstrating greater resilience than originally anticipated, and assuming the rancorous debate over deficits, entitlements and sequesters is resolved satisfactorily, is anticipated to grow at 2% in 2013 and possibly higher in 2014. This should improve tourism prospects and yield higher occupancy rate and revenue per available room, hopefully in time for the anticipated opening of Baha Mar in 2014.

Finally, this considerable improvement in the Bank's performance would not be possible without committed, engaged and passionate employees. We are deeply grateful to them. Our customer base has grown during the year and we thank our clients for their support and loyalty as we retool and reengineer our processes to manage the much higher demands being placed on our infrastructure. The Bank's board of directors has provided us with steady and consistent support, and we thank them for their wisdom and guidance.

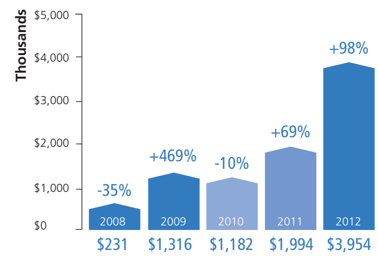


ANWER J. SUNDERJI
CHIEF EXECUTIVE OFFICER

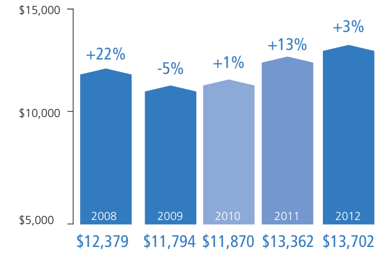
Efficiency Ratio



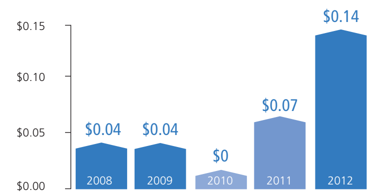
Provisions for Loan Losses



Operating Expenses



Dividends Per Share



MANAGEMENT DISCUSSION & ANALYSIS

During 2012 total assets of the Bank increased by $37.0 million, or 10.6% to $386.9 million from $349.9 million in 2011 with total loans increasing by $34.5 million, or 12.4%, compared to an increase of $34.5 million, or 14.1%, in 2011.

The Bank reported net income of $6,413,746 or 20 cents per share as compared with net income for 2011 of $3,843,798 or 13 cents per share. Net income for 2012 was positively impacted by the growth in the consumer loan portfolio.

The return on average assets for the year was 1.5% (2011: 1.2%).

Dividends of 14 cents per share were paid in 2012 (2011: 7 cents per share).

CAPITAL ADEQUACY

The Central Bank of The Bahamas requires that the Bank maintains a ratio of total regulatory capital to risk – weighted assets at or above a minimum of 14%. The Bank's risk-weighted capital at 31 December 2012 was 20.3%. (2011: 21.8%).

ANALYSIS OF LOAN PORTFOLIO

During 2012, the Banks mortgage portfolio declined by $11.0 million (2011: decrease of $11.4 million), or -8.2% (2011: -7.8%) due to reduced demand and inability of potential borrowers to qualify.

Consumer and other loans increased by $47.2 million (2011: Increase of $42.5 million). This growth was in line with the Bank's strategy to rebalance the overall mix of its loan.

At the end of 2012, mortgage loans comprised 43.4% (2011: 54.2%) of total loans with consumer and other loans comprising the balance of 56.6% (2011: 45.8%) which was in line with the Bank's targeted ratio.

Total non-performing loans amounted to $22.5 million (2011: $18.9 million) or 7.8% (2011: 7.5%) of total loans. Provision for loan losses represent 2.3% (2011: 2.0%) of the total loan portfolio.

DEPOSIT BASE

During 2012, total deposits grew by $35.1 million (2011: $52.2 million), or 12.8 %, (2011: 23.6%). Liquidity in the banking system remained high throughout 2012 as credit demand remained soft.

OPERATING REVENUES

Net Interest Income

Net interest income increased significantly from $15.5 million in 2011 to $20.3 million in 2012. The net interest margin on average earning total assets, including current accounts with other banks increased slightly from 5.8% in 2011 to 5.5% in 2012.

Non-Interest Income

Non-interest revenues including share of profits of joint venture, increased slightly from $3.7 million in 2011 to $3.8 million in 2012. At the end of 2012, non-interest revenues comprised 19% (2011: 24%) of total revenues.

OPERATING EXPENSES

Operating expenses have only increased in line with inflation. Excluding loan loss provision charges, expenses were $13.7 million (2011: $13.4 million).

LOAN LOSS PROVISIONS

Non Performing mortgage loans continued to increase during the year and the trend indicates that mortgage arrears are not stabilising and further increases are expected in 2013.

Non-performing loans as a percentage of total loans were 7.8% at the end of 2012 (2011: 7.5%). The level of loan loss provisions, as a percentage of non-performing loans, increased from 26.4% in 2011 to 29.2% at the end of 2012. Mortgages represent $17.1 million (2011: $14.5 million) of the non-performing loans with the balance of $5.5 million (2011: $4.3 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.

CONSOLIDATED
FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Fidelity Bank (Bahamas) Limited

We have audited the accompanying consolidated financial statements of Fidelity Bank (Bahamas) Limited and its subsidiary, which comprise the consolidated balance sheet as of 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fidelity Bank (Bahamas) Limited and its subsidiary as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
29 April 2013

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FIDELITY BANK (BAHAMAS) LIMITED

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

Consolidated Balance Sheet
As of 31 December 2012

(Expressed in Bahamian dollars)

	2012 $	2011 $
ASSETS		
Cash on hand and at banks (Note 3)	54,562,132	60,652,604
Investment securities (Note 4)	38,231,509	27,986,657
Loans and advances to customers (Note 5)	278,420,241	243,921,268
Other assets	3,883,734	5,477,051
Investment in joint venture (Note 6)	209,218	233,279
Property, plant and equipment (Note 7)	11,546,777	11,639,102
Total assets	**386,853,611**	**349,909,961**
LIABILITIES		
Deposits from customers (Note 8)	307,933,859	272,887,887
Debt securities (Note 9)	29,005,424	28,978,963
Accrued expenses and other liabilities (Note 10)	652,511	871,521
Total liabilities	**337,591,794**	**302,738,371**
EQUITY		
Capital (Note 11)	31,511,001	31,011,001
Revaluation reserve	2,183,163	2,286,386
Reserve for credit losses (Note 19)	2,784,775	2,439,125
Retained earnings	12,782,878	11,435,078
Total equity	**49,261,817**	**47,171,590**
Total liabilities and equity	**386,853,611**	**349,909,961**

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

Director

Director

29 April 2013
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 2012
(Expressed in Bahamian dollars)

	2012 $	2011 $
INCOME		
Interest income		
Bank deposits, loans and advances	31,685,716	26,440,587
Investment securities	1,519,042	1,425,677
	33,204,758	27,866,264
Interest expense	(12,953,156)	(12,360,668)
Net interest income	**20,251,602**	**15,505,596**
Fees and commissions	3,790,227	3,653,118
Net loss on investment securities	(48,611)	(34,443)
	23,993,218	**19,124,271**
EXPENSES		
Salaries and employee benefits	6,890,869	6,646,538
General and administrative (Note 13)	5,405,124	5,222,627
Provision for loan losses (Note 5)	3,953,751	1,994,031
Depreciation and amortisation (Note 7)	1,405,667	1,492,694
	17,655,411	**15,355,890**
Operating profit	**6,337,807**	**3,768,381**
Share of profits of joint venture (Note 6)	75,939	75,417
Net income and total comprehensive income	**6,413,746**	**3,843,798**
Earnings per share (Note 12)	**$0.20**	**$0.13**

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 2012
(Expressed in Bahamian dollars)

	Capital $	Revaluation Reserve $	Reserve for Credit Losses $	Retained Earnings $	Total $
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**
As of 1 January 2012	31,011,001	2,286,386	2,439,125	11,435,078	47,171,590
Comprehensive income					
Net income	-	-	-	6,413,746	6,413,746
Other comprehensive income					
Depreciation transfer	-	(103,223)	-	103,223	-
Appropriation for credit losses	-	-	345,650	(345,650)	-
Total comprehensive income	-	(103,223)	345,650	6,171,319	6,413,746
Transactions with owners					
Proceeds from issue of preference shares	500,000	-	-	-	500,000
Dividends – preference shares	-	-	-	(810,185)	(810,185)
Dividends – ordinary shares (Note 16)	-	-	-	(4,013,334)	(4,013,334)
Total transactions with owners	500,000	-	-	(4,823,519)	(4,323,519)
As of 31 December 2012	**31,511,001**	**2,183,163**	**2,784,775**	**12,782,878**	**49,261,817**

Dividends per ordinary share: $0.14 (2011: $0.07)

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 2012
(Expressed in Bahamian dollars)

	2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	6,413,746	3,843,798
Adjustments for:		
Interest income	(33,204,758)	(27,866,264)
Interest expense	12,953,156	12,360,668
Net loss on investment securities	48,611	34,443
Loss on disposal of property, plant and equipment	-	4,535
Provision for loan losses	3,953,751	1,994,031
Depreciation and amortisation	1,405,667	1,492,694
Share of profits of joint venture	(75,939)	(75,417)
Interest received	30,508,931	25,855,687
Interest paid	(13,359,914)	(11,525,192)
(Increase)/Decrease in operating assets		
Mandatory reserve deposits	(1,940,858)	(2,364,490)
Loans and advances to customers	(35,904,932)	(31,162,469)
Other assets	(1,415,407)	(1,932,351)
Increase/(Decrease) in operating liabilities		
Deposits from customers	35,479,191	51,366,270
Accrued expenses and other liabilities	(219,010)	(939,939)
Net cash from operating activities	**4,642,235**	**21,086,004**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	100,000	-
Purchase of investment securities	(12,517,433)	(4,247,869)
Proceeds from sale/maturity of investment securities	2,372,005	5,322,390
Purchase of property, plant and equipment	(1,313,342)	(1,396,576)
Net cash used in investing activities	**(11,358,770)**	**(322,055)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt securities	-	4,000,000
Proceeds from issuance of preference shares	500,000	10,804,496
Dividends paid on preference shares	(810,185)	(191,798)
Dividends paid on ordinary shares	(1,004,610)	(502,305)
Net cash from/(used in) financing activities	**(1,314,795)**	**14,110,393**
Net increase/(decrease) in cash and cash equivalents	**(8,031,330)**	**34,874,342**
Cash and cash equivalents as of beginning of year	50,075,874	15,201,532
Cash and cash equivalents as of end of year (Note 3)	**42,044,544**	**50,075,874**

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 occupied by the Bank and its related parties. The Bank and its subsidiary are collectively referred to as the Group. The ordinary shares of the Bank are listed and traded on The Bahamas International Stock Exchange (BISX).

Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 75% (2011: 75%) of the issued ordinary shares of the Bank, with the balance being held by the Bahamian public.

The registered office of the Bank is situated at #51 Frederick Street, Nassau, Bahamas. As of 31 December 2012, the Group employed 173 (2011: 176) 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 Group's financial year beginning on 1 January 2012 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

With the exception of IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement*, 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)

(a) Basis of preparation (continued)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the parts of IAS 39 *Financial Instruments: Recognition and Measurement* that relate to the classification and measurement of financial instruments. IFRS 9 will require financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the Group's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains the majority of the IAS 39 requirements, with the main change being that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to the Group's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. The Group has not yet assessed the full impact of adopting IFRS 9, but intends to adopt IFRS 9 no later than the financial year beginning on 1 January 2015.

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is effective for the Group's financial year beginning on 1 January 2013. The Group has not yet assessed the full impact of adopting IFRS 13.

(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, including dividends received, 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.

2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation (continued)

Joint ventures (continued)

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

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as a part of net income in the consolidated statement of comprehensive income. Translation differences on monetary financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(d) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Group's Executive Committee. All of the Group's investment securities designated as at fair value through profit or loss have been so designated by management.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

ii) Loans and receivables

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

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

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

Gains or losses arising from sales and changes in fair value of financial assets at fair value through profit or loss are recognised as a part of net income in the consolidated statement of comprehensive income in the 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.

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

2. Summary of Significant Accounting Policies (Continued)

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as a part of net income in the consolidated statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised as a part of net income in the consolidated statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Such 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 as a part of net income.

(g) Property, plant and equipment

Property, plant and equipment, other than land and buildings, are carried at historical cost less accumulated depreciation and amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Land and buildings, which comprise branches and offices for the Group's operations, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals generally not exceeding three years, less subsequent depreciation for buildings.

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

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

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

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

(h) Borrowings

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

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

(i) Provisions

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

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 as a part of net income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the 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

	2012 $	2011 $
Cash on hand	2,548,295	2,175,495
Current accounts at banks	39,496,249	47,900,379
Mandatory reserve deposits	12,517,588	10,576,730
Total	**54,562,132**	**60,652,604**

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% (2011: 0.00% to 2.00%) per annum.

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

	2012 $	2011 $
Cash on hand	2,548,295	2,175,495
Current accounts at banks	39,496,249	47,900,379
Total	**42,044,544**	**50,075,874**

4. Investment Securities

Financial assets at fair value through profit or loss

The Group ranks its investment securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs lead to the following fair value hierarchy:

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

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

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

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

4. Investment Securities (Continued)

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

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

The determination of what constitutes 'observable' requires significant judgment by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include government debt securities and other securities with observable inputs.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components, including equity securities.

	2012 $	2011 $
Level 1		
Equity securities	299,367	498,450
Level 2		
Government debt securities	37,283,300	26,987,400
Level 3		
Mutual fund shares	-	-
Equity securities	108,661	108,661
	108,661	108,661
Total – all levels	37,691,328	27,594,511
Accrued interest	540,181	392,146
Total	**38,231,509**	**27,986,657**

4. Investment Securities (Continued)

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

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2013 to 2037 (2011: 2012 to 2036) and with either fixed interest rates ranging from 4.13% to 4.35% or floating interest rates ranging from 0.00% to 0.75% (2011: 0.00% to 0.94%) above the B$ Prime rate of 4.75% (2011: 4.75%).

As of 31 December 2012, the cost of investment securities totalled $37,839,820 (2011: $27,732,328), of which $169,165 (2011: $169,165) represented Level 3 securities.

During the year, movements in Level 3 securities comprise:

	Mutual Fund Shares $	Equity Securities $	Total $
Balance as of 1 January 2012	-	108,661	108,661
Purchases	-	-	-
Sales	-	-	-
Net realised gain/(loss)	-	-	-
Net change in unrealised appreciation/depreciation	-	-	-
Balance as of 31 December 2012	**-**	**108,661**	**108,661**
Balance as of 1 January 2011	1,331,766	113,661	1,445,427
Purchases	-	-	-
Sales	(1,321,055)	-	(1,321,055)
Net realised gain/(loss)	(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**

5. Loans and Advances to Customers

	2012 $	2011 $
Mortgages	123,627,252	134,649,856
Consumer and other loans	161,166,869	113,981,354
	284,794,121	248,631,210
Unamortised loan origination fees	(2,929,435)	(2,417,240)
Accrued interest	3,139,366	2,690,809
Provision for loan losses	(6,583,811)	(4,983,511)
Total	**278,420,241**	**243,921,268**

5. Loans and Advances to Customers (Continued)

Movements in provision for loan losses are as follows:

	2012			2011		
	Mortgages	Consumer	Total	Mortgages	Consumer	Total
	$	$	$	$	$	$
Balance as of 1 January	1,826,987	3,156,524	4,983,511	1,540,661	3,131,373	4,672,034
Provisions	1,238,708	2,715,043	3,953,751	524,946	1,469,085	1,994,031
Write-offs net of recoveries	(240,030)	(2,113,421)	(2,353,451)	(238,620)	(1,443,934)	(1,682,554)
Balance as of 31 December	**2,825,665**	**3,758,146**	**6,583,811**	**1,826,987**	**3,156,524**	**4,983,511**

The provision for loan losses represents 2.29% (2011: 1.98%) of the total loan portfolio, inclusive of accrued interest, and 29.21% (2011: 26.39%) of total non-performing loans. As of 31 December 2012, principal and interest balances of non-performing loans totalled $22,536,506 (2011: $18,883,175), representing 7.83% (2011: 7.51%) 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:

	2012	2011
	$	$
Balance as of 1 January	233,279	157,862
Share of profits of joint venture	75,939	75,417
Dividends received	(100,000)	-
Balance as of 31 December	**209,218**	**233,279**

The financial information of the joint venture as of 31 December 2012 and for the year then ended is as follows:

	2012	2011
	$	$
Assets	1,491,217	1,655,238
Liabilities	(26,698)	(40,100)
Total income	1,396,920	1,366,097
Total comprehensive income	549,381	539,876

7. Property, Plant and Equipment

	Land & Buildings $	Furniture & Fixtures $	Motor Vehicles $	Computer Software & Office Equipment $	Leasehold Improvements $	Total $
Year ended 31 December 2012						
Opening net book value	6,727,501	902,728	27,193	1,582,818	2,398,862	11,639,102
Additions	778,230	276,560	7,000	184,300	67,252	1,313,342
Depreciation	(236,521)	(275,810)	(11,343)	(458,900)	(423,093)	(1,405,667)
Closing net book value	**7,269,210**	**903,478**	**22,850**	**1,308,218**	**2,043,021**	**11,546,777**
As of 31 December 2012						
Cost or valuation	7,907,625	4,060,153	83,430	8,031,725	6,476,432	26,559,365
Accumulated depreciation	(638,415)	(3,156,675)	(60,580)	(6,723,507)	(4,433,411)	(15,012,588)
Net book value	**7,269,210**	**903,478**	**22,850**	**1,308,218**	**2,043,021**	**11,546,777**
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**

Land and buildings were revalued by independent appraisers as of 31 December 2009. Due to significant capital works being carried out as of 31 December 2012, an independent appraisal has been deferred and management has performed a valuation analysis. Based on this analysis, the carrying values of the Group's land and buildings approximate their fair values.

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

	2012 $	2011 $
Cost	6,051,075	5,272,845
Accumulated depreciation	(965,028)	(831,730)
Net book value	**5,086,047**	**4,441,115**

8. Deposits from Customers

	2012 $	2011 $
Demand deposits	22,044,723	14,383,826
Savings deposits	40,547,084	34,952,673
Escrow deposits	1,167,470	721,145
Term deposits	240,568,065	218,790,507
	304,327,342	268,848,151
Accrued interest	3,606,517	4,039,736
Total	**307,933,859**	**272,887,887**

Included in deposits from customers are deposits from banks totalling $7,777,723 (2011: $9,941,162). Deposits carry fixed interest rates ranging from 2.00% to 7.25% (2011: 2.00% to 7.25%) per annum, but the fixed interest rates are determined based on variable market rates and can be adjusted based on changes in market rates.

9. Debt Securities

	2012 $	2011 $
Series A redeemable fixed rate notes; 7.00%; 2017	4,942,791	4,933,589
Series B redeemable floating rate notes; B$ Prime + 1.75%; 2022	9,848,714	9,838,131
Series C redeemable fixed rate notes; 7.00%; 2013	2,994,727	2,984,754
Series D redeemable floating rate notes; B$ Prime + 1.75%; 2015	6,956,371	6,940,747
Series B redeemable preference shares; B$ Prime + 1.00%; 2021	4,000,000	4,000,000
	28,742,603	28,697,221
Accrued interest	262,821	281,742
Total	**29,005,424**	**28,978,963**

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.

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% subject to the declaration of the Directors and the prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in December and June each year.

10. Accrued Expenses and Other Liabilities

	2012 $	2011 $
Accrued expenses	544,381	597,935
Other liabilities	108,130	273,586
Total	**652,511**	**871,521**

11. Capital

	2012 $	2011 $
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		
1,151,100 (2011: 1,101,100) preference shares	1,151,100	1,101,100
Share premium	10,359,900	9,909,900
	11,511,000	11,011,000
Total	**31,511,001**	**31,011,001**

In January 2012, the Bank issued 50,000 (September 2011: 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% 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

	2012 $	2011 $
Net income	6,413,746	3,843,798
Net income attributable to preference shareholders	(810,185)	(191,798)
Net income attributable to ordinary shareholders	5,603,561	3,652,000
Weighted average number of ordinary shares outstanding	28,666,670	28,666,670
Earnings per share	**$0.20**	**$0.13**

13. General and Administrative Expenses

	2012 $	2011 $
Office expenses	3,520,424	3,327,937
Bank licence fees	731,168	628,993
Public relations	424,756	249,121
Legal and professional fees	161,233	110,735
Directors' cost	82,597	67,812
Other	484,946	838,029
Total	**5,405,124**	**5,222,627**

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 2012 totalled $224,348 (2011: $205,235).

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 assessing their performance. The Group has two main business segments:

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

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

There are no other operations that constitute separate reportable segments. The segment operations are all financial and principal revenues are derived from interest income and fees and commissions. Segment information for the reportable segments for the year ended 31 December 2012 is as follows:

15. Segment Analysis (Continued)

	Retail banking $	Money transfer $	Total $
31 December 2012			
INCOME			
Net interest income	20,251,602	-	20,251,602
Fees and commissions	2,826,145	964,082	3,790,227
Net loss on investment securities	(48,611)	-	(48,611)
EXPENSES			
Salaries and employee benefits	6,890,869	-	6,890,869
General and administrative	5,405,124	-	5,405,124
Provision for loan losses	3,953,751	-	3,953,751
Depreciation and amortisation	1,405,667	-	1,405,667
Operating profit	**5,373,725**	**964,082**	**6,337,807**
Share of profit of joint venture	75,939	-	75,939
Net income and total comprehensive income	**5,449,664**	**964,082**	**6,413,746**
TOTAL ASSETS	**386,853,611**	**-**	**386,853,611**
TOTAL LIABILITIES	**(337,591,794)**	**-**	**(337,591,794)**
31 December 2011			
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)
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)**

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.

15. Segment Analysis (Continued)

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

There were no aggregated transactions with a single external customer that amounted to 10% or more of the Group's total income.

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:

	2012 $	2011 $
ASSETS		
Cash at bank		
Other related parties	787,276	3,704,998
Loans and advances to customers		
The Parent	881,226	-
Key management personnel	1,775,908	2,150,663
Other assets		
The Parent	2,933,156	4,007,543
Other related parties	125,662	463,599
LIABILITIES		
Deposits from customers		
The Parent	2,314	2,263
Key management personnel	248,679	85,764
Other related parties	8,686,846	9,900,589
Debt securities		
Other related parties	3,552,000	3,405,000
INCOME		
Interest income		
The Parent	72,000	72,000
Other related parties	48,065	100,702
Interest expense		
Other related parties	357,836	535,958
Fees and commissions		
Other related parties	181,252	140,848

16. Related Party Balances and Transactions (Continued)

	2012	2011
	$	$
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	82,597	67,811
Key management personnel (executive Directors and other)	551,930	475,118
Costs allocated to other related parties	(2,011,699)	(1,896,162)
Costs allocated from the Parent	600,000	600,000

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

Amounts due from the Parent are unsecured, interest-free and have no set terms of repayment. During 2012, dividends of $3,008,724 (2011: $1,504,362) payable to the Parent were applied against amounts owing to the Group by the Parent.

As of 31 December 2012, other related parties hold 374,930 (2011: 320,766) outstanding ordinary shares and 225,500 (2011: 253,500) outstanding preference shares.

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

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 2012, the Group had outstanding loan commitments amounting to $836,261 (2011: $191,631).

Capital commitments

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

Lines of credit

The Bank had pledged $3,000,000 (2011: $3,000,000) of Bahamas Government Registered Stock to support a credit facility of an equal amount with another Bahamian commercial bank. The facility bore interest at an annual interest rate equal to the B$ Prime rate plus 0.50% on borrowings up to $1 million and the B$ Prime rate plus 1.25% 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 2012 and 2011, and the credit facility was cancelled in 2012.

17. Commitments (Continued)

Operating lease commitments

The future minimum rental payments required under non-cancellable leases as of 31 December 2012 are as follows:

	2012 $	2011 $
2012	-	353,114
2013	366,863	331,530
2014	304,272	252,000
2015	305,840	252,000
2016 and later	1,567,455	1,512,000
Total minimum payments	**2,544,430**	**2,700,644**

18. Contingent Liabilities

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

19. Reserve for Credit Losses

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

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances to customers

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

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

Impairment losses on loans and advances to customers (continued)

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the bases of the contractual cash flows of the assets in the group, historical loss experience for financial assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the loss experience ratios used in the calculation of provision for loan losses to differ by +/–4%, the provision for loan losses would be increased/decreased by $308,000.

21. Capital Management

The Group's objectives when managing capital, which comprises total equity on the face of the consolidated balance sheet, are:

- To comply with the capital requirements set by the Central Bank.
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for its shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques designed to ensure compliance with guidelines established by the Central Bank. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank, the Group's principal regulator, requires that the Group maintains a ratio of total regulatory capital to risk-weighted assets at or above a minimum of 14%. During 2012, 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. 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.

22. Financial Risk Management (Continued)

Credit risk

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

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

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

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

The Group employs a range of policies and practices to mitigate credit risk. The most traditional is the taking of security for funds advanced, which is common practice.

The Group implements guidelines on the acceptability of specific classes of collateral or other credit risk mitigation. The principal collateral or other credit risk mitigation for loans and advances to customers include, first mortgages on property, chattel mortgages, restricted deposits from customers and salary deductions from employers. The table below analyses the composition of the Group's loan portfolio as of 31 December 2012:

	2012		2011	
	$m	%	$m	%
Family residential property	101	35	109	44
Commercial property	3	1	3	1
Undeveloped land	19	7	23	9
Consumer	150	53	105	42
Overdrafts	5	2	3	1
Cash secured	7	2	6	3
	285	**100**	**249**	**100**

22. Financial Risk Management (Continued)

Credit risk (continued)

The average mortgage loan balance is $87,000 (2011: $91,000) and the average consumer loan balance is $30,500 (2011: $28,000) with the largest exposure to a single customer totalling approximately $1.6 million (2011: $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 2012.

	2012		2011	
	$m	%	$m	%
Not impaired				
– Neither past due or impaired	252.7	88	221.4	88
– Past due but not impaired	18.4	6	17.3	7
Impaired				
– Past due 3 – 6 months	1.6	1	1.0	1
– Past due 6 – 12 months	1.1	1	1.0	1
– Past due over 12 months	11.0	4	7.9	3
	284.8	**100**	**248.6**	**100**
Provision for loan losses				
– Individually impaired	5.7	86	3.9	78
– Portfolio allowance	0.9	14	1.1	22
	6.6	**100**	**5.0**	**100**

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

31 December 2012	Mortgages $m	Consumer $m	Other $m	Total $m
Past due up to 3 months	7.6	1.4	0.6	9.6
Past due 3 – 6 months	1.4	-	-	1.4
Past due 6 – 12 months	1.7	-	-	1.7
Past due over 12 months	5.7	-	-	5.7
Total past due but not impaired	**16.4**	**1.4**	**0.6**	**18.4**
31 December 2011				
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**

22. Financial Risk Management (Continued)

Credit risk (continued)

As of 31 December 2012, the individually impaired loans can be analysed as follows:

31 December 2012	Mortgages $m	Consumer $m	Other $m	Total $m
Carrying amount	8.3	3.3	2.1	13.7
Provision for loan losses	1.9	2.6	1.2	5.7
31 December 2011				
Carrying amount	5.9	2.6	1.4	9.9
Provision for loan losses	0.8	2.1	1.0	3.9

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 $16,969,000 (2011: $12,280,000) as of 31 December 2012.

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.

22. Financial Risk Management (Continued)

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 2012, the Group is exposed to fair value interest rate risk on $5 million (2011: Nil) of its investments in Government debt securities, which are at fixed interest rates with maturity dates ranging from 2022 to 2031. The remainder of debt securities in the Group's investment portfolio are at floating rates linked to the B$ Prime rate.

As of 31 December 2012, the Group is exposed to fair value interest rate risk on approximately $8 million (2011: $8 million) of its debt securities which are at fixed interest rates, and does not hedge against this risk. The remaining debt securities are at floating interest rates linked to the B$ Prime rate.

Price risk

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

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due or can do so only at an excessive cost. The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable it to meet all financial obligations. This is achieved by maintaining a prudent level of liquid assets, through management control of the rate of growth of the business and maintaining high levels of capital.

22. Financial Risk Management (Continued)

Liquidity risk (continued)

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 2012	Repayable on demand $m	Up to 3 months $m	3 – 12 months $m	1 – 5 years $m	More than 5 years $m	Total $m
ASSETS						
Cash on hand and at banks	54.6	-	-	-	-	54.6
Investment securities	0.4	1.0	1.5	7.8	51.7	62.4
Loans and advances to customers	12.6	13.7	40.6	198.8	180.9	446.6
Other assets	3.9	-	-	-	-	3.9
Total assets	**71.5**	**14.7**	**42.1**	**206.6**	**232.6**	**567.5**
LIABILITIES						
Deposits from customers	63.4	81.1	154.3	14.9	-	313.7
Debt securities	-	-	5.0	19.6	18.0	42.6
Other liabilities	-	0.7	-	-	-	0.7
Total liabilities	**63.4**	**81.8**	**159.3**	**34.5**	**18.0**	**357.0**
Net liquidity gap	**8.1**	**(67.1)**	**(117.2)**	**172.1**	**214.6**	
Loan commitments	**0.8**					
As of 31 December 2011						
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)

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 carried at fair value; accordingly, their fair values approximate their carrying values. For long term financial assets and financial liabilities with fixed interest rates, despite a change in market rates there has been no observable change in fair values; accordingly, the carrying values approximate fair values.


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