BCB Holdings Limited

BCB Holdings Limited

Consolidated Financial Statements

March 31, 2014

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Report of the Chief Executive Officer

The Company has completed another satisfactory year during which the underlying financial services business continues to show signs of improvement and operational efficiency. Improvements in efficiency of the continuing business and some new business growth were offset by the need for loan provisioning on certain historic commercial loans whose collateral has been affected by a market in which it is difficult to realize adequate property values. During the past year substantial investment was made in process re-engineering, information technology and staff training. Solid gains were also made in the area of Non Performing Loan ("NPL") management where we saw a significant reduction in the NPL ratio. These initiatives provide a strong platform for growth and profitability when the Belizean economy rebounds.

The Belizean economy faced deceleration in calendar 2013 with real output slowing from 4.0% in calendar 2012, to 0.7% at the end of 2013. This decline was due largely to the fall-off in petroleum extraction coupled with the myriad of challenges that face the agricultural sector. These factors were offset to an extent by growth from tourism flows and the demand side policies of the Government of Belize ("GOB") that saw increased capital spending through municipal infrastructure projects. In the first quarter of calendar 2014, the overall downward trend continued with the economy contracting by 0.4%.

GOB's official reserves flourished as savings from the debt restructuring along with inflows from the nationalization of the International Business Companies Registry and the International Shipping Registry manifested themselves in a 35 per cent increase in reserve assets. Notwithstanding the expansion in credit, the financial system continued to be characterized by high levels of excess liquidity. The outlook for the remainder of 2014 calls for a modest rebound in the economy with GDP expected to grow just under 2.0 per cent buoyed principally by tourism and construction. Systemic liquidity is also expected to remain high, placing continued downward pressure on interest rates.

The Financial Services Division improved from an operating loss before non-recurring losses of $4.6 million in fiscal 2013 to an operating loss of $0.5 million in fiscal 2014. The underlying improvement of $4.1 million is principally due to increased interest income of $1.8 million, a decrease in interest expense of $3.0 million and an increase in non-interest income of $2.3 million. This was however, offset by an increase in non-interest expense of $3.1 million. Loan provisioning of $19.8 million was flat when compared to fiscal 2013. Approximately $12.0 million of the $19.8 provision related to the historic NPLs. Although NPL's are down the Company's overall performance continues to reflect the negative effect of accrued interest not being recognized on these loans. The financial impact of this amounted to $13.3 million in the current fiscal year. The Company continues to manage its NPL portfolio through controlled liquidations. In due course the Company will redeploy the funds into new lending when suitable opportunities present themselves.

Non-recurring losses amount to $6.8 million in fiscal 2014 compared with $12.7 million in fiscal 2013. The current year loss reflects a loss on an asset held for resale. In fiscal 2014 the non-recurring loss of $12.7 million related to historic matters concerning arrangements between GOB and the Company.

Loss per share for the year, before net non-recurring losses, amounted to $0.01 in fiscal 2014 compared with a loss per share of $0.05 in fiscal 2013.

The Company's balance sheet remains strong with shareholders' equity of $74.3 million at March 31, 2014 compared with $86.0 million last year.

Against the backdrop of lackluster economic growth, the financial system was further challenged with the addition of a new entrant to the Belizean banking arena in the form of the GOB owned National Bank. High levels of NPL write-offs remained a dominant feature of the financial system as banks continued their efforts to comply with regulatory requirements. At the end of the fiscal year banks remained relatively well capitalized with a system-wide capital adequacy average of 17%.

Despite significant write-offs, aggregate domestic banking system credit expanded by $32.4 million.

With 35 per cent of the system's assets and 31 per cent of loans, the Belize Bank continues to be the market leader in Belize, particularly in the productive sector where it provides significant support to the country's economy. The primary focus over the coming year will be to continue to make further in-roads into the NPL portfolio, to reinvest very selectively in new business and to build the investment portfolio as the economy improves and opportunities arise.

In May 2014 the Company contracted with Misys Limited, a well-known provider of financial services software, to license its Fusion Banking Essence core banking software. Among other things Fusion Banking Essence was selected because of its modern technological platform that in turn, will allow for easy expansion and growth for banking services both within Belize and wider geographic locations. In approving this project, management has accorded it the highest level of priority and importance since the replacement of the core banking system will provide significant strategic, competitive and operational benefits when implemented. Additionally, given the new system scalability and functionality, it will also facilitate our stated mandate of expanding the Belize Bank franchise across Central America and the Caribbean.

In keeping with the Group's vision of pre-eminence and "service level excellence", during the course of 2014 the Belize Bank embarked on a major branch transformation initiative. The key elements of this initiative were anchored on three specific pillars: to implement a new operating branch structure with its primary focus on sales; to restructure the credit operations of the branches, and to establish a new service delivery channel in order to rationalize on-line banking services. In this regard all branches within the network were re-engineered in order to improve efficiency and to promote greater accountability. New policies and procedures were also introduced mandating new standards and developing uniformity of processes in keeping with best banking practice.

As part of its organizational re-engineering, in June 2014 a group Treasury Department was also established with a mandate to increase efficiency and profitability through increased liquidity and balance sheet management. Among other things the Treasury Department will be responsible for the development and implementation of effective funding, investing and hedging strategies to support the banks activities in accordance with policies approved by the Asset and Liability Committee.

BCBHL continues to be strategically focused on expanding its financial services business into Central America and the Caribbean in order to increase and diversify its earnings across a broader range of economic jurisdictions and products.

We are extremely proud of our dedicated, focused and professional management team and workforce that together possess the expertise and demonstrate the commitment to achieve our objectives. I therefore express my deepest gratitude to the management and staff who have contributed to the Company's progress. On behalf of the entire management team and the employees, I would like to thank our customers for the continuing opportunity to serve their banking and financial needs.

Lyndon Guiseppi
Chief Executive Officer

Statement of management responsibilities

Management has prepared and is responsible for the consolidated financial statements and related notes of BCB Holdings Limited and its subsidiary companies ("Group"). The financial statements have been prepared in accordance with generally accepted accounting standards in the United States of America ("US GAAP") and necessarily include amounts based on judgments and estimates by Management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with Management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements, operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the preparation of financial statements.

Lyndon Guiseppi
Chief Executive Officer

Peter Gaze
Chief Financial Officer

September 29, 2014

Independent auditor's report

To the Directors of

BCB Holdings Limited

We have audited the accompanying consolidated financial statements of BCB Holdings Limited, which comprise the consolidated balance sheet as at March 31, 2014 and the related consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 auditor's 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 auditor considers 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 referred to above present fairly, in all material respects, the financial position of BCB Holdings Limited as of March 31, 2014 and the results of its operations and their its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

The consolidated financial statements of BCB Holdings Limited for the year ended March 31, 2013 were audited by another auditor who expressed an unqualified opinion on those statements on August 30, 2013.

Moore Stephens Magaña LLP
Belize City, Belize

September 29, 2014

Consolidated statements of comprehensive loss (in US dollars)

Year ended March 31	Notes	2014 $m	2013 $m
Financial Services			
Interest income		**41.3**	39.5
Interest expense	4	**(10.7)**	(13.7)
Net interest income		**30.6**	25.8
Provision for loan losses	12	**(19.8)**	(19.9)
		10.8	5.9
Non-interest income	5	**16.3**	14.0
Non-interest expense	6	**(27.6)**	(24.5)
Operating loss before non-recurring loss		**(0.5)**	(4.6)
Non-recurring net loss	7	**(6.8)**	(12.7)
Operating loss - Financial Services		**(7.3)**	(17.3)
Corporate expenses		**(4.7)**	(4.3)
Net loss from operations		**(12.0)**	(21.6)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities		**0.3**	(0.3)
Comprehensive loss		**(11.7)**	(21.9)
Loss per ordinary share (basic and diluted)	8	**$(0.12)**	$(0.22)

Consolidated statements of changes in shareholders' equity (in US dollars)

	Share capital $m	Additional paid in capital $m	Treasury shares $m	Retained earnings $m	Total $m
At March 31, 2012	0.6	52.8	(21.6)	76.2	108.0
Purchase of treasury shares	–	–	(0.1)	–	(0.1)
Accumulated other comprehensive loss	–	–	–	(0.3)	(0.3)
Net loss	–	–	–	(21.6)	(21.6)
At March 31, 2013	0.6	52.8	(21.7)	54.3	86.0
Accumulated other comprehensive income	–	–	–	0.3	0.3
Net loss	–	–	–	(12.0)	(12.0)
At March 31, 2014	0.6	52.8	(21.7)	42.6	74.3

At March 31, 2014, retained earnings included non-distributable statutory reserves in The Belize Bank Limited of $2.2 million (2013 - $2.2 million). Belize Bank International Limited does not have non-distributable statutory reserves.

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

Consolidated balance sheets (in US dollars)

At March 31	Notes	2014 $m	2013 $m
Assets			
Financial Services			
Cash, cash equivalents and due from banks	9	**170.5**	125.2
Interest-bearing deposits with correspondent banks		**54.3**	17.6
Investment securities	10	**37.3**	81.8
Government of Belize securities	11	**20.0**	31.0
Loans - net	12	**326.2**	350.7
Property, plant and equipment - net	13	**17.2**	15.8
Government of Belize receivable	14	**24.6**	20.9
Other assets	15	**31.2**	37.9
Total Financial Services assets		**681.3**	680.9
Corporate			
Cash and cash equivalents		**4.0**	7.3
Other current assets		**3.9**	2.4
Total assets		**689.2**	690.6
Liabilities and shareholders' equity			
Financial Services			
Deposits	16	**593.1**	580.9
Interest payable		**4.3**	5.1
Other liabilities		**8.5**	10.9
Total Financial Services liabilities		**605.9**	596.9
Corporate			
Current liabilities		**9.0**	7.7
Total liabilities		**614.9**	604.6
Shareholders' equity:			
Share capital (ordinary shares of no par value - 2014 and 2013 -103,642,984)	18	**0.6**	0.6
Additional paid-in capital		**52.8**	52.8
Treasury shares	18	**(21.7)**	(21.7)
Retained earnings		**42.6**	54.3
Total shareholders' equity		**74.3**	86.0
Total liabilities and shareholders' equity		**689.2**	690.6

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

Consolidated statements of cash flows (in US dollars)

Year ended March 31	2014 $m	2013 $m
Cash flows from operating activities		
Net loss from operations	(12.0)	(21.6)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1.7	1.7
Provision for loan losses	19.8	19.9
Changes in assets and liabilities:		
(Decrease) in interest payable	(0.8)	(1.4)
(Increase) decrease in Government of Belize Receivable	(3.7)	10.4
Decrease (increase) in other and current assets	5.2	(2.6)
(Decrease) increase in other and current liabilities	(1.1)	3.5
Net cash provided by operating activities	9.1	9.9
Cash flows from investing activities		
Purchase of property, plant and equipment (net of disposals)	(3.1)	(2.4)
(Increase) decrease in interest-bearing deposits with correspondent banks	(36.7)	13.4
Decrease (increase) in investment securities	44.5	(71.1)
Decrease (increase) in Government of Belize securities	11.0	(12.5)
Decrease in loans (net of charge-offs) to customers	4.7	5.1
Net cash provided (utilized) by investing activities	20.4	(67.5)
Cash flows from financing activities		
Increase in deposits	12.2	35.3
Purchase of treasury shares	–	(0.1)
Other movements	0.3	(0.3)
Net cash provided by financing activities	12.5	34.9
Net change in cash, cash equivalents and due from banks	42.0	(22.7)
Cash, cash equivalents and due from banks at beginning of year	132.5	155.2
Cash, cash equivalents and due from banks at end of year	174.5	132.5
Cash - financial services	170.5	125.2
Cash - corporate	4.0	7.3
	174.5	132.5

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

Notes to consolidated financial statements

Note 1 - Description of business

Introduction

BCB Holdings Limited ("BCBH" or "the Company") is a company incorporated in Belize. BCBH's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange. BCBH is a holding company with no independent business operations or assets other than its investment in its wholly-owned subsidiaries, intercompany balances and holdings of cash and cash equivalents. BCBH's businesses are conducted through its principle operating subsidiaries: Belize Bank Limited, which directly owns Belize Bank International Limited, and Belize Corporate Services Limited which together comprise the Finance Services segment.

The business of the subsidiaries consist of the following: The Belize Bank Limited ("BBL") which is incorporated and based in Belize and focuses on the provision of financial services and lending to domestic clients, (ii) Belize Bank International Limited ("BBIL") (formerly named British Caribbean Bank International Limited) which is incorporated and based in Belize and focuses on the provision of financial services and lending to international clients, and (iii) Belize Corporate Services Limited which provides corporate services to clients in Belize and internationally. BCBH and its subsidiaries are referred herein as the "Group".

Note 2 - Summary of significant accounting policies

Basis of presentation

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group's companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

Basis of Consolidation

The consolidated financial statements have been prepared in United States dollars in accordance with US GAAP and as described below. The consolidated financial statements incorporate the financial statements of the Group. BCBH consolidates its subsidiaries all of which are wholly owned. The results of subsidiary companies acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with US GAAP requires management to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These management estimates include, among others, an allowance for doubtful receivables, asset impairments, and useful lives for depreciation and amortization, loss contingencies, and allowance for loan losses. Estimates are based on historical experience, where applicable and other assumptions that management believes are reasonable under the circumstances. Actual results may differ materially from those estimates under different assumptions or conditions.

Government of Belize Securities and Other Securities

Government of Belize securities available for sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income. The securities which consist of Government of Belize ("GOB") treasury notes and/or treasury bills, are issued by the Central Bank of Belize at a discount usually with a 90 day maturity. Interest income is recognized using the interest method during the period to maturity. BBL has the intent and ability to hold its securities to maturity, so they are carried at cost, which approximates market value. There is no active market for these securities in Belize.

Other marketable securities held as short term investments and available for sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Loans and interest income recognition

Loans are stated at the principal amount outstanding, net of unearned income and allowance for loan losses. Interest income is recorded on an accrual basis. When either the collectability of principal or interest is considered doubtful, or payment of principal or interest is ninety days or more past due, loans are placed on non-accrual status and previously accrued but unpaid interest is charged against current year interest income, unless the amounts are in the process of collection. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Interest expenses

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expenses.

Allowance for loan losses

The Group's consideration as to the adequacy of the allowance to provide for probable loan losses is based on a continuing review of the loan portfolio and includes, but is not limited to, consideration of the actual loan loss experience, the present and prospective condition of each borrower and its related industry, general economic conditions prevailing from time to time, and the estimated fair value of the related collateral. Loans are charged off against allowance for loan losses when the amounts are deemed to be uncollectible.

The Group measures its estimates of impaired loans in accordance with Accounting Standards Codification (ASC) Topic 310-10-35 Receivables subsequent measurements. Under the Group's accounting policy for loan loss provisioning, the Group evaluates the probability of an impairment loss when a loan is classified as non-accrual. An impairment loss is recognized and fully provided for if the recorded amount of the non-accrual loan exceeds the estimated fair value of the underlying collateral less costs to sell. Impairment on certain loans is also measured by calculating the present value of estimated collections and comparing with the carrying amount. The amount of the difference (carrying value less estimated collections) is recorded as a provision. The majority of the Group's loan portfolio is fully collateralized. Interest income on impaired loans is recognized only when payments are received and the Group considers that the loan will remain performing.

Leases

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions for the Group are operating leases. Payments made under operating leases are recorded as an expense.

Acceptances

The Group's potential liability under acceptances is reported as a liability in the balance sheet. The Group has equal and offsetting claims against its customers in event of a call on these commitments, which are reported as an asset.

Foreign currency translation

The reporting and functional currency of the Group is United States dollars. The results of subsidiaries and associates, which account in a functional currency other than United States dollars, are translated into United States dollars at the average rate of exchange for the year. The assets and liabilities of subsidiaries and associates which account in a functional currency other than United States dollars are translated into United States dollars at the rate of exchange ruling at the balance sheet date. The rate of exchange between the US dollar and the Belize dollar has been fixed since 1976 at the rate of Belize $2.00 equals US $1.00.

Transaction gains/losses are included in determining net income for the period in the financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and highly liquid instruments, with an original maturity of three months or less. As a result of the short-term maturity of these financial instruments, their carrying value is approximately equal to their fair market value.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided to write off the cost of the assets over their estimated useful lives, using the straight-line method, over the following periods:

Buildings	life of building, not exceeding 50 years
Leasehold improvements	term of lease
Motor vehicle	4 years
Fixtures, fittings and office equipment	3 to 10 years

The carrying value of property, plant and equipment is evaluated periodically in relation to the operating performance and future cash flows of the underlying businesses. Where, in the opinion of the Group, an impairment in the value of property plant and equipment has occurred, the amount of the impairment is recorded in the consolidated statements of comprehensive income.

Repairs and maintenance costs are expensed as incurred. Gains and losses arising on the disposal of property, plant and equipment are included in the consolidated statements of income.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the consolidated statement of income as incurred.

Stock-based compensation

Stock-based employee compensation is accounted for under the fair value based method of accounting (note 18).

Other Assets classified as held for sale

Other assets classified as available for sale are stated at the lower of cost or net realizable value in the balance sheet. The Group assesses at the end of each reporting period whether there is objective evidence that an asset held for sale is impaired and the realizable value is less than book value. Realizable value is ascertained by reference to one of the following: market bid prices where these have been available, independent valuation where these have been obtained or Management estimates of realizable value.

Income taxes

Taxation has been provided for in the financial statements in accordance with Belize legislation currently in force. The Bank is a member of a PIC Group as defined by Section 115 of the International Business Companies Act, 1990 of Belize, as amended in 1995 (IBC Act). In 1998, corporate taxation was replaced by Business Tax which, in the case of banks, is assessed on revenues less interest expense. Taxes, other than business tax, are recorded within operating expenses.

New accounting standards

In fiscal 2014, consideration was given to the implications, if any, of the following new and revised standards:

ASU 2013-4, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. This standard provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance (e.g. debt arrangements, other contractual obligations and settled litigation and judicial rulings) is fixed at the reporting date. ASU 2013- is effective December 15, 2013 and is not expected to have a material effect on the Group's financial condition or results of operation.

ASU 2013- 5, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force). The objective of the amendments in this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment *in* a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) *within* a foreign entity.

Subtopic 810-10, as amended by Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, requires that a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. The derecognition guidance in Subtopic 810-10 supports releasing the cumulative translation adjustment into net income upon the loss of a controlling financial interest in such a subsidiary or group of assets. That guidance does not distinguish between sales or transfers pertaining to an investment *in* a foreign entity (as defined in Topic 830) and those pertaining to a subsidiary or group of assets *within* a foreign entity. Subtopic 830-30, however, provides for the release of the cumulative translation adjustment into net income only if a sale or transfer represents a sale or complete or substantially complete liquidation of an investment *in* a foreign entity.

In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. Some entities view step acquisitions as being composed of two events, the disposition of an equity method investment and simultaneous acquisition of a controlling financial interest. Those entities generally release the cumulative translation adjustment related to the equity method investment. Those entities that view step acquisitions as being composed of a single event (increasing an investment) generally do not release the cumulative translation adjustment in practice. ASU 2013-5 is effective December 15, 2013 and is not expected to have a material effect on the Group's financial condition or results of operation.

ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists. This ASU provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. Income tax accounting guidance does not explicitly express how to present unrecognized tax benefits when a company also has net operating losses or tax credit carry forwards. Most companies present these unrecognized benefits as a liability (i.e., gross presentation), but some present the liability as a reduction of their net operating losses or tax credit carry forwards (net presentation). To address this diversity in practice, the FASB issued ASU 2013-11 which became effective on December 15, 2103. Adoption of this standard is not expected to have a material effect on the Group's statement of condition or results of operation.

ASU 2014-4, Receivables – Troubled Debt Restructurings by Creditors clarifying that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through a deed in lieu of foreclosure or other similar legal agreement. In addition, entities are required to disclose the recorded investment in residential mortgage loans for which formal foreclosure proceedings are in process. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, with early adoption permitted. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operation or cash flows.

ASU 2014-08, Presentation of financial statements (Topic 205) and Property plant and equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. ASU 2014-08 becomes effective December 15, 2014. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operation or cash flows.

ASU 2014-09, Revenue from Contracts with Customer (Topic 606): The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 becomes effective December 15, 2016. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operation or cash flows.

ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force). A reporting entity that consolidates a collateralized financing entity within the scope of this Update may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in this Update or Topic 820 on fair value measurement. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of this Update, the amendments clarify that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of Topic 820 and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). ASU 2014-13 becomes effective December 15, 2015. Management is currently evaluating the impact of adoption, but does not anticipate it will have a material effect on the Group's financial position, results of operation or cash flows.

The Group has adopted, on a prospective basis, all of the FASB pronouncements it considers relevant to its operations. Adoption has not materially impacted the Group's financial condition or results of operations.

Note 3 - Segmental analysis

The Group classifies its business activities into two reportable segments: financial services and corporate.

Financial services comprises of all banking activities and related corporate services for the Group's customers.

Corporate activities comprise the cost of executive management of the BCBH Group's activities, the administrative cost of operating a listed company together with other related general corporate costs.

The following analysis is key to decision making for each segment:

Year ended March 31	2014 $m	2013 $m
Depreciation		
Financial Services	1.7	1.7
Corporate	–	–
	1.7	1.7

Year ended March 31	2014 $m	2013 $m
Capital expenditures		
Financial Services	3.1	3.8
Corporate	–	–
	3.1	3.8

At March 31	2014 $m	2013 $m
Total assets		
Financial Services	681.3	680.9
Corporate	7.9	9.7
	689.2	690.6

Year ended March 31	2014 $m	2013 $m
Net loss		
Financial Services	(7.3)	(17.3)
Corporate	(4.7)	(4.3)
	(12.0)	(21.6)

Note 4 - Interest expense

Year ended March 31	2014 $m	2013 $m
Interest on customer deposits	10.7	13.7
	10.7	13.7

Note 5 - Non-interest income

Year ended March 31	2014 $m	2013 $m
Foreign exchange income and commissions	4.5	4.3
Customer service and letter of credit fees	2.8	2.7
Credit card fees	5.8	3.8
Other financial and related services	2.1	2.0
Other income	1.1	1.2
	16.3	14.0

Note 6 - Non-interest expense

Year ended March 31	2014 $m	2013 $m
Salaries and benefits	9.6	8.9
Premises and equipment	3.8	3.5
Other expenses	14.2	12.1
	27.6	24.5

Note 7 – Non-recurring net loss

Year ended March 31	2014 $m	2013 $m
Arbitration award (i)	–	9.5
Impairment reserve (ii) and (iii)	(6.8)	(22.2)
	(6.8)	(12.7)

(i) During the year ended March 31, 2013 the Company received a final award in favor of BBL from the London Court of International Arbitration ("LCIA") relating to arbitration proceedings for a loan note due from GOB (note 14(i)). As a result of the final award the Company recorded additional income of $9.5 million reflecting the net increase between the value of this new receivable and the previous receivable recorded under the loan note.

(ii) In July 2013, the Caribbean Court of Justice declined to enforce an award previously granted to the Company by the LCIA relating to damages for breach of contractual warranties given by the GOB. Management has decided to fully impair the asset and has recorded an impairment reserve of $22.2 million against the receivable from GOB (note 14(ii)). Management is reviewing with its legal advisors what course of account should be pursued next.

(iii) During fiscal 2014, a charge of $6.8 million was recorded as an impairment reserve on an asset held for sale in order to reduce it to estimated realizable value (note 15(i)).

Note 8 – Loss per ordinary share

Basic and diluted loss per ordinary share have been calculated on the net loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue (net of treasury shares) in each year.

Year ended March 31	2014 $m	2013 $m
Net loss	(12.0)	(21.6)
Weighted average number of shares (basic and diluted)	99,902,085	100,007,291

During the year ended March 31, 2014 and 2013 the weighted average effect of share options and warrants has been excluded from the calculation of diluted earnings per ordinary share, since they were anti-dilutive under the treasury method of earnings per share calculation (note 18).

Note 9 - Cash, cash equivalents and due from banks

At March 31	2014 $m	2013 $m
Cash in hand	9.3	8.5
Balances with the Central Bank of Belize (i)	51.2	37.8
Balances with other financial institutions	108.2	74.8
Amounts in the course of collection	1.8	4.1
	170.5	125.2

(i) BBL is required to maintain an average minimum non-interest bearing deposit balance with the Central Bank of Belize equal to 8.5 percent of the average deposit liabilities of BBL. At March 31, 2014, the actual amount was 12.4 percent. In addition, BBL must maintain an average aggregate of approved liquid assets (which include the average minimum non-interest bearing deposit balance maintained with the Central Bank of Belize) equal to 23 percent of the average deposit liabilities of BBL. At March 31, 2014, the actual amount was 31.9 percent.

Notes to consolidated financial statements

Note 10 - Investment Securities

At March 31	2014 $m	2013 $m
Securities available for sale	**21.3**	12.4
Securities held to maturity	**16.0**	69.4
	37.3	81.8

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

At March 31, 2014	Gross Amortized Cost $m	Gross Unrealized Gains $m	Gross Unrealized Losses $m	Fair Value $m
Government sponsored entities and agencies	3.2	–	–	3.2
Corporate bonds	18.0	0.1	–	18.1
	21.2	0.1	–	21.3

At March 31, 2013	Gross Amortized Cost $m	Gross Unrealized Gains $m	Gross Unrealized Losses $m	Fair Value $m
Government sponsored entities and agencies	2.1	–	(0.3)	1.8
Corporate bonds	10.5	0.1	–	10.6
	12.6	0.1	(0.3)	12.4

A summary of securities as of March 31, 2014, by contractual maturity, is presented below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

At March 31	2014 $m	2013 $m
Due in one year or less	**12.0**	68.4
Due in one to five years	**16.6**	11.6
Due from five to ten years	**8.7**	0.9
Due after ten years	**–**	0.9
	37.3	81.8

Management has the positive intent and ability to hold the securities classified as held to maturity to their respective maturities, so they are carried at amortized cost which approximates market value.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Note 11 - Government of Belize Securities

In April 2011, the Central Bank of Belize instituted a new liquid asset requirement for banks to maintain holdings of GOB treasury bills equivalent to not less than 3.0 percent of BBL's average deposit liabilities for the reporting period, January 2011. Effective October 1, 2011 this requirement was reduced to nil. As at March 31, 2014 BBL's holdings in GOB treasury bills were equivalent to 4.8 percent of its average deposit liabilities. GOB treasury bills represent bills issued by the Central Bank of Belize. These bills mature within 90 days. BBL has the positive intent and ability to hold its securities to maturity, so they are carried at cost which approximates fair market value.

Note 12 - Loans - net

At March 31	2014 $m	2013 $m
Loans (net of unearned income):		
Residential mortgage	**47.4**	32.6
Credit card	**8.3**	8.3
Other consumer	**50.2**	46.9
Commercial - real estate	**189.8**	70.2
Commercial - other	**61.6**	229.0
	357.3	387.0
Allowance for loan losses:		
Residential mortgage	**(3.9)**	(0.4)
Credit card	**(0.2)**	(0.3)
Other consumer	**(1.7)**	(1.8)
Commercial - real estate	**(20.5)**	(6.4)
Commercial - other	**(4.8)**	(27.4)
	(31.1)	(36.3)
Loans (net of unearned income and allowance for loan losses):		
Residential mortgage	**43.5**	32.2
Credit card	**8.1**	8.0
Other consumer	**48.5**	45.1
Commercial - real estate	**169.3**	63.8
Commercial - other	**56.8**	201.6
Loans (net of unearned income and allowance for loan losses)	**326.2**	350.7

The maturity range of loans outstanding at March 31, 2014 is shown in the table below. All loans, other than consumer loans, are legally repayable on demand; however, they are disclosed below as if they run to their full maturity.

	Due in one year or less $m	Due after one year through five years $m	Due after five years $m	Total $m
Residential mortgage	4.7	2.4	40.3	47.4
Credit card	8.3	–	–	8.3
Other consumer	7.5	34.9	7.8	50.2
Commercial - real estate	55.0	33.0	101.8	189.8
Commercial - other	11.8	25.2	24.6	61.6
	87.3	95.5	174.5	357.3

The table below reflects outstanding loans by industry classifications.

At March 31	**2014 $m**	2013 $m
Utilities	**9.0**	10.5
Government	**2.3**	0.1
Agriculture	**40.7**	41.2
Marine Products	**10.6**	14.0
Forestry	**0.4**	0.3
Manufacturing	**1.5**	1.7
Tourism	**44.9**	58.8
Building and Construction	**45.9**	49.8
Real Estate	**93.2**	100.4
Financial Institutions	**0.1**	0.2
Distribution	**32.3**	35.3
Professional Services	**3.7**	4.2
Transportation	**5.8**	7.2
Entertainment	**0.6**	0.7
Mining and Exploration	**7.8**	7.4
Credit Card	**8.2**	8.3
Other Consumer loans	**50.3**	46.9
Total Loans	**357.3**	387.0

The Group categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Group analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Group uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are those loans that are over three and up to six months in arrears or overdraft accounts where interest charges have not been covered by deposits for three to less than six months.

Doubtful: Loans classified as doubtful are those loans that are over six and up to twelve months in arrears or overdraft accounts where interest charges have not been covered by deposits for six to less than twelve months.

Loss: Loans classified as loss are those loans that are over twelve months in arrears or overdraft accounts where interest charges have not been covered by deposits for twelve months or more.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass related loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

At March 31, 2014	Pass $m	Special Mention $m	Sub - Standard $m	Doubtful $m	Loss $m	Total $m
Residential mortgage	46.5	–	0.9	–	0.1	47.5
Credit card	7.9	–	–	0.1	0.2	8.2
Other consumer	46.8	–	1.8	0.8	0.9	50.3
Commercial - real estate	122.8	–	56.4	4.2	6.4	189.8
Commercial - other	45.5	–	16.0	–	–	61.5
	269.5	–	75.1	5.1	7.6	357.3

At March 31, 2013	Pass $m	Special Mention $m	Sub - Standard $m	Doubtful $m	Loss $m	Total $m
Residential mortgage	27.2	–	5.3	–	0.1	32.6
Credit card	7.7	–	–	0.2	0.4	8.3
Other consumer	42.7	–	2.1	0.8	1.3	46.9
Commercial - real estate	43.2	3.1	23.1	–	0.8	70.2
Commercial - other	135.4	–	80.4	3.6	9.6	229.0
	256.2	3.1	110.9	4.6	12.2	387.0

Individually impaired loans with allocated allowances were as follows:

At March 31	**2014 $m**	2013 $m
Year end loans on non-accrual	**87.8**	127.7
Other performing loans classified as impaired	**–**	–
Total impaired loans	**87.8**	127.7

The Group considers all non-accrual loans as individually classified impaired loans.

The following table presents the recorded investment in non-accrual by class of loans:

At March 31	2014 $m	2013 $m
Residential mortgage	1.0	5.4
Credit card	0.3	0.6
Other consumer	3.5	4.2
Commercial - real estate	67.0	23.9
Commercial - other	16.0	93.6
	87.8	127.7

The interest income which would have been recorded during the year ended March 31, 2014 had all non-accrual loans been current in accordance with their terms was approximately $13.3 million (2013 - $15.4 million).

At March 31, 2014, the amount of impaired loans outstanding in which the Group considers that there was a probability of a loss totaled $51.7 million (2013 - $31.8 million), with related allowances, after taking into consideration related collateral, of $31.1 million (2013 - $36.3 million). There were no impaired loans without specific allowances. The average amount of loans outstanding, in which the Group considers there was a probability of a loss during the year ended March 31, 2014, was $54.0 million (2013 – $56.3 million). Interest is not recognized on any loan classified as non-accrual.

As a result of the nature of these financial instruments, the estimated fair market value of the loan portfolio is considered by the Group to approximate its carrying value. Loan loss provisioning is based on management's estimate of the recoverability of non-performing loans after allowing for the estimated net realizable value of collateral held. In addition, a general allowance of 1 percent of all performing loans is required by the Banking and Financial Institutions Act to be maintained by commercial banks operating in Belize. This allowance does not represent future losses or serve as a substitute for specific allowances.

At March 31, 2014, the Group had total loans outstanding to certain officers and employees of $8.5 million (2013 - $8.5 million) at preferential rates of interest varying between 0.0 percent and 8.0 percent per annum, repayable over varying periods not exceeding 25 years. At March 31, 2014, these loans included nil (2013 - nil) classified within commercial - other loans. The transfer value loss on these loans had not been considered material and therefore had not been included in these financial statements.

Changes in the allowance for loan losses were as follows:

Year ended March 31	2014 $m	2013 $m
At beginning of year	36.3	38.2
Provision charged to income	19.8	19.9
Charge-offs	(25.0)	(21.8)
Net movement in year	(5.2)	(1.9)
At end of year	31.1	36.3

Recoveries from loan losses have been immaterial to date. At March 31, 2014, the allowance for loan losses included a general loan loss allowance of $5.3 million (2013 - $4.5 million).

Note 13 – Property, plant and equipment – net

At March 31	2014 $m	2013 $m
Cost:		
Land	1.5	1.5
Premises	14.8	13.0
Furniture and fixtures and other equipment	5.4	5.6
Computer and office equipment	5.5	5.2
Motor vehicles	2.1	2.2
Construction work in progress	–	0.1
Total cost	29.3	27.6
Less: total accumulated depreciation	(12.1)	(11.8)
	17.2	15.8

Total capital expenditures for the years ended March 31, 2014 and 2013 were $4.8 million and $3.8 million, respectively. Total depreciation expense for the years ended March 31, 2014 and 2013 was $1.7 million and $1.7 million, respectively.

For the purpose of impairment testing for the year ended March 31, 2014, the Group's management has combined all the subsidiaries into one reporting unit. As a result no impairment was determined as at March 31, 2014.

Note 14 – Government of Belize receivable

At March 31	2014 $m	2013 $m
Amounts receivable from GOB - 2007 Loan Note arbitration award (i)	24.6	20.9
Amounts receivable from GOB - Tax arbitration award (ii)	–	–
	24.6	20.9

(i) On March 23, 2007, a loan note was issued to BBL by GOB under the terms of a settlement deed entered into by BBL and GOB on the same date ("2007 Loan Note"). The 2007 Loan Note had been rendered by the GOB in order to satisfy the GOB's liability under a 2004 guarantee for debts and liabilities owed to BBL by Universal Health Services Company Limited.

Management's opinion that it was probable that BBL would recover the receivable was based at the time on the progress of the various legal proceedings it had pursued for the recovery of sums due under the 2007 Loan Note that had been issued by the GOB to BBL. At the time of the preparation of the financial statements for March 31, 2012, BBL was claiming the sums due under the Loan Note in the London Court of

International Arbitration ("LCIA") arbitration proceedings ("2007 Arbitration"). Consequently, included in other assets at March 31, 2012 was an amount of $9.1 million relating to this claim.

On January 16, 2013 an LCIA tribunal issued a Final Award in the 2007 Arbitration in favor of BBL. It declared that the 2007 Loan Note was valid and binding and ordered the GOB to pay BBL the sum of $18.4 million plus interest and costs. Included in the other assets of BBL is an amount of $20.9 million which relates to this Final Award.

In order to increase the enforcement options open to BBL, BBL applied to the English High Court for an order that the award be enforceable in the same manner as a judgment of an English court and that an English judgment be entered into in the same terms as the Final Award. That order was granted and judgment made on February 20, 2013 and served on the GOB on May 15, 2013. Having failed to apply to set aside the order and judgment within two months of service on them, BBL may now enforce the English judgment.

(ii) In August 2009 BCBH (the parent company of BBL) and BBL successfully obtained an arbitral award against the GOB of approximately $22.2 million in respect of damages for breaches of undertakings by the GOB, plus costs (the "Award"). The Award, amongst other things, took account of a prior receivable from the GOB concerning the overpayment of business tax by BBL. Included in the other assets of the Company is an amount of $22.2 million which relates to the Award.

The Award was made following an arbitration which took place under the London Court of International Arbitration ("LCIA") Rules. It was commenced by BCBH and BBL which claimed damages for the breach of undertakings by the GOB in a Settlement Deed, as amended, which inter alia purported to afford certain tax treatment to BBL. BCBH and the BBL sought enforcement of the Award in the Belize Supreme Court and, in December 2010, the Supreme Court determined that the Award may be enforced in Belize. The GOB appealed this decision to the Court of Appeal and, in August 2012, the Court of Appeal handed down its judgment. In this judgment the majority of the Court upheld the GOB's appeal on the basis that Part IV of the Belize Arbitration Act, pursuant to which BBL had sought to enforce the Award, was void. However, there was a strong dissenting judgment by Justice of Appeal Mendes. BBL appealed this decision and, on July 26, 2013, the Caribbean Court of Justice ("CCJ") ruled that the Arbitration Act was constitutional; however, the CCJ also declined to enforce the Award on grounds of public policy. In order to increase the enforcement options open to BCBH and BBL, they applied to the English High Court for an order that the Award be enforceable in the same manner as a judgement or order of an English court to the same effect. That order was granted and judgement was entered against the GOB by the English High Court on February 26, 2013.

On July 1, 2014, BCBH and BBL commenced court proceedings in the United States to confirm the Award or alternatively to recognize and enforce the UK judgement. Pending the outcome of these proceedings, Management has fully impaired the asset and has recorded an impairment reserve of $22.2 million.

Note 15 - Other assets

At March 31	2014 $m	2013 $m
Investment in asset held for sale (i)	**23.0**	29.8
Accrued interest receivable	**1.7**	1.5
Other assets	**6.5**	6.6
	31.2	37.9

(i) The investment in asset held for sale of $23.0 million (2013 - $29.8 million) relates to a private island in Belize.

The asset held for sale is carried at Management's estimate of realizable value which is based on recent written offers to purchase from third party purchasers. During fiscal 2014, a charge of $6.8 million was recorded in the income statement to reflect the current market conditions.

Note 16 – Deposits

At March 31	2014 $m	2013 $m
Certificates of deposit	**253.4**	280.9
Demand deposits	**272.7**	231.4
Savings deposits	**67.0**	68.6
	593.1	580.9

The maturity distribution of certificates of deposit of $0.1 million or more was as follows:

At March 31	2014 $m	2013 $m
3 months or less	**78.6**	110.2
Over 3 and to 6 months	**31.1**	39.6
Over 6 and to 12 months	**88.1**	93.0
Over 12 months	**–**	–
Deposits less than $0.1 million	**55.6**	38.1
	253.4	280.9

Included in certificates of deposit at March 31, 2014 were $18.6 million (2013 - $37.6 million) of certificates of deposit denominated in US dollars and $0.9 million (2013 - $0.8 million) denominated in UK pounds sterling. Included in demand deposits at March 31, 2014 were $150.5 million (2013 - $133.0 million) of demand deposits denominated in US dollars and $5.8 million (2013 - $4.4 million) denominated in UK pounds sterling.

As a result of the short-term maturity of these financial instruments, their carrying value is considered by the Group to approximately equal their fair market value.

Note 17 - Commitments, contingencies and regulatory matters

(i) The Group's loans due from customers primarily result from its core business and reflect a broad customer base, although there are certain concentrations by economic activity. Credit limit, ongoing credit evaluations and account monitoring procedures are utilized to minimize the risk of loss. Substantially all of the Group's loan portfolio is fully collateralized. As a consequence, concentrations of credit risk are considered to be limited.

The Group has foreign exchange risk which arises from accepting foreign currency deposits, primarily with respect to UK pound sterling. To manage its foreign exchange risk related to UK pounds sterling deposits, the Group closely monitors the performance of UK pounds sterling and relies on its treasury management to eliminate any UK pounds sterling exposure at short notice if necessary.

(ii) The Group is a party to financial instruments with off-balance-sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Group grants short-term credit facilities to customers for periods of up to twelve months generally to meet customers' working capital requirements. These facilities are repayable on demand and are subject to review at any time. In practice, such reviews are carried out at periodic intervals agreed with the customer. Outstanding commitments to extend credit at March 31, 2014 amounted to $21.2 million (2013 - $23.8 million).

Since many of the commitments are expected to expire without being drawn upon in full, and because of the fluctuating aspect of the facilities, the total commitment amounts do not necessarily represent future cash requirements. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral required by the Group for the extension of credit is based on the Group's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties and assets.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The terms of such guarantees do not normally exceed more than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The terms and conditions reflected in letters of credit and guarantees provided by the Group, in so far as they may impact the fair market value of these instruments, are market sensitive and are not materially different from those that would have been negotiated at March 31, 2014. The Group holds similar collateral to that held for the short-term facilities described above and such commitments are generally fully collateralized. Outstanding standby letters of credit and financial guarantees written at March 31, 2014 amounted to $0.4 million (2013 - $2.3 million).

The nature, terms and maximum potential amount of future payments BBL could be required to make under the stand-by letters of credit and guarantees are detailed as follows:

At March 31	**2014** **$m**	2013 $m
Up to one year	**0.4**	2.3
Over one year	–	–
	0.4	2.3

(iii) The net operating lease rental charge for the years ended March 31, 2014 and 2013 included in the consolidated statements of income was $0.1 million and $0.2 million, respectively.

(iv) At March 31, 2014, the Group is a defendant in a number of pending legal and other proceedings incidental to present and former operations, acquisitions and dispositions. The Group does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on the consolidated financial position of the Group.

(v) As explained in note 14, BCBH and BBL are engaged in arbitration proceedings in which they are pursuing certain claims against the GOB. The information required by ASC 450 Contingencies is not disclosed because BCBH believes that to do so would materially prejudice the proceedings. BCBH and BBL, having received the advice of external advisers, expect to fully recover amounts recorded as part of other assets in note 14. Therefore no provision against recovery has been made. Legal costs are expensed as incurred.

(vi) In the ordinary course of business, the Company's subsidiaries are subject to regulatory examinations, information gathering requests and enquiries. As a regulatory matter develops that may have a material effect, the Company and the relevant subsidiaries, in conjunction with outside counsel, evaluate the matter on an ongoing basis in light of potentially relevant factual and legal developments. These may include settlement discussions and rulings by courts, arbitrators or others. Based on current knowledge and discussions with independent legal counsel, management does not believe that the outcome of any regulatory matter that is unresolved at March 31, 2014 would have a material adverse effect on the financial position or liquidity of the Company or its subsidiaries as of March 31, 2014.

(vii) BBL and BBIL, as fully authorized banking entities, are subject to detailed regulatory requirements in Belize. These requirements are principally set by the Central Bank of Belize. As of March 31, 2014 and for the year then ended, BBL and BBIL substantially met all of its obligations and requirements under such regulations. These regulations may, in the future, change or be amended. At such time, BBL and BBIL will make all endeavors to follow, as soon as reasonably practicable, all such revised regulations.

Note 18 - Share capital

At March 31	2014 $m	2013 $m
Authorized		
Ordinary shares:		
200,000,000 shares of no par value	2.0	2.0
Preference shares:		
14,000,000 shares of $1.00 each	14.0	14.0
Total authorized	16.0	16.0
Issued and outstanding		
Ordinary shares:		
103,642,984 shares of no par value (2013 - 103,642,984)	0.6	0.6

During the two years ended March 31, 2014, there has been no movement in issued and outstanding shares.

Treasury Shares

The movement in treasury shares, at cost, held since April 1, 2012 has been as follows:

	Number	$m
At April 1, 2012	3,635,120	21.6
Purchase	105,769	0.1
At March 31, 2013	3,740,889	21.7
At March 31, 2014	3,740,889	21.7

Share Options

BCBH has granted employee share options which are issued under its share option plan which reserves ordinary shares for issuance to the Company's executives, officers and key employees. The options have been granted under the Long-Term Incentive Plans (the "Incentive Plans"). The Incentive Plans are administrated by a committee of the board of directors of BCBH. Options are generally granted to purchase BCBH ordinary shares at prices which equate to or are above the market price of the ordinary shares on the date the option is granted. Conditions of vesting are determined at the time of grant but options are generally vested and become exercisable for a period of between three and ten years from the date of grant and all have a maximum term of ten years.

	Number of share options	Weighted average exercise price
Outstanding at April 1, 2012	7,250,000	$1.95
Outstanding at March 31, 2013	7,250,000	$1.95
Outstanding at March 31, 2014	7,250,000	$1.95

At March 31, 2014, no outstanding options were exercisable.

In August 2008, BCBH granted options over 7,000,000 ordinary shares at an exercise price of $6.50 per share which vest and are exercisable in three equal installments on August 1, 2012, August 1, 2013 and August 1, 2014. These options lapse on August 1, 2015.

In May 2009, BCBH granted options over a further 250,000 ordinary shares at the exercise price of $6.50 per share which vest and are exercisable in three installments on the same dates.

The exercise price of these options was adjusted to $1.95 following the demerger of Waterloo Investment Holdings Limited from the Group in 2011.

ASC 718-10, Stock compensation, allows companies to measure compensation cost in connection with share option plans and schemes using a fair value based method. Using the fair value based method consistent with the provisions of ASC 718-10, the Group took a charge of $1.2 million in the consolidated statement of comprehensive income during the year ended March 31, 2014 (2013 - $1.2 million).

The fair value of each option grant in 2008 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected stock price volatility	20 percent
Risk free interest rate	3.7 percent
Expected dividend yield	Nil percent
Expected life of option	5.0 years

In April 2007, BCBH issued 7,692,308 warrants to subscribe for new ordinary shares of the Company at an exercise price of $6.50 per new ordinary share, until March 23, 2013. These options have lapsed in accordance with their terms. In November 2007, BCBH issued a further 11,094,442 warrants to subscribe for new ordinary shares of the Company at an exercise price of $6.50 per new ordinary share, until August 2, 2014. The exercise price of these warrants was adjusted to $1.95 following the demerger of Waterloo Investment Holdings Limited from the Group in 2011.

Note 19 – Regulatory Capital Requirements

The regulatory capital guidelines measure capital in relation to the credit and market risks of both off- and on-balance sheet items by applying various risk weighting. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on individual banks' financial position, results of operations, or liquidity. The following table sets forth the capital requirements and the actual ratios of BBL and BBIL.

	Minimum Required	Actual 2014	Actual 2013
The Belize Bank Limited	9.0%	14.0%	13.6%
Belize Bank International Limited	10.0%	14.7%	15.3%

Note 20 - Pensions and other plans

The Group operates various defined contribution pension plans in Belize which cover a number of salaried employees. In general, the plans provide benefits at normal retirement age based on a participant's individual accumulated fund including any additional voluntary contributions. The Group's pension contribution expense for the years ended March 31, 2014 and 2013 amounted to $138,013 and $111,121 respectively.

Note 21 - Related party transactions

Lord Ashcroft, KCMG, PC is a controlling shareholder in BCBH and Waterloo Investment Holdings Limited ("WIHL").

Consultancy services

During the year ended March 31, 2014 and the year ended March 31, 2013 the Group provided administrative services to WIHL. The aggregate fees paid by WIHL to the Group amounted to $1.3 million (2013 - $1.2 million). The amount owed by WIHL to BCBHL at March 31, 2014 was $3.5 million (2013 - $2.2 million). The balance is non-interest bearing and unsecured.

Note 22 – Fair value of financial instruments

Fair value is the exchange price receivable for an asset or payable for transferring a liability in the most advantageous market for the asset or liability in an arms-length transaction between market participants on the measurement date using any of the following three levels of input:

Level 1 – Quoted prices for identical assets or liabilities in active markets that the Bank has the ability to access on the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect the Group's evaluation of the assumptions that market participants would use in pricing an asset or liability.

The amounts reported in the balance sheets for cash and due from banks and interest-bearing deposits approximate fair value due to the short term maturity of these instruments. The Group places its cash and cash equivalent deposits only with financial institutions with a high internationally accepted credit rating.

The carrying amounts of securities are estimated to approximate fair value given the market-sensitive interest rates, maturity terms, and market price of these instruments.

The carrying amounts of loans receivable, net of valuation allowances, is estimated to approximate fair value based on their respective interest rates, risk-related rate spreads and collateral consideration. These facilities are generally payable on demand and are subject to review at the discretion of the Group.

The fair value of the Group's deposit liabilities approximates carrying values based on comparative rates offered by other banks for deposits of similar remaining maturities.

Accrued expenses and other liabilities reflect current market conditions.

With regards to financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of future financing commitments. However, the terms and conditions reflected in acceptances and commitments for financing assistance are market-sensitive and are not materially different from those that would have been negotiated as of March 31, 2014.

In the opinion of the Group's management, all other financial instruments reflect current market conditions and their fair value is not expected to differ materially from carrying amounts.

Note 23 – Risk and uncertainties

Financial risk management

Overview

The Board has ultimate responsibility for the establishment and oversight of the Group's risk management framework.

In view of the operational structure of the Group, the implementation and execution of the risk management framework rests with the operating entities which comprise the Group.

The Board monitors this through regular meetings with the key operational subsidiary personnel and through the receipt of regular and detailed reports from them.

BBL and BBIL (together the "BBL group")

The Group has established a Group Risk Unit, a completely independent unit, separate from the business development aspect of both BBL and BBIL's operations, and has delegated the responsibility for the overall management of risk within BBL and BBIL to this unit.

The Group Risk Unit, headed by a Chief Risk Officer, provides central oversight of risk management across the BBL group to ensure that the full spectrum of risks facing the BBL group are properly identified, measured, monitored, and controlled to minimize adverse outcomes.

Policies, procedures, and management systems have been implemented by the BBL group capable of managing, assessing, and developing risk responses to mitigate risks, which are unacceptable or outside of its risk tolerances.

The Group Risk Unit reports to the BBL, BBIL and BCBH boards periodically with an independent assurance of the BBL and BBIL's overall risk positions, its view on emerging risks and mitigating alternatives.

Credit risk

Credit Risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The objective of BBL's and BBIL's credit risk management function is to maximize their respective risk-adjusted rates of return by maintaining credit risk exposure within acceptable parameters.

The BBL and BBIL boards have delegated overall responsibility for the management of their respective credit risk to the Group Risk Unit, which include:

(i) Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk rating and reporting, legal and documentary procedures, as well as compliance with regulatory and statutory requirements.

(ii) Establishing the authorization structure for the approval and renewal of credit facilities. The BBL and BBIL boards have delegated limits of authority to the Principal Board Risk Committee (PBRC); the Executive Risk Committee (ERC); and the Risk Unit (GRU).

(iii) Reviewing and assessing credit risk. The Risk Unit assesses all credit exposures in excess of the established limits, prior to facilities being committed. Renewals and reviews are subject to the same review process.

(iv) Limiting concentrations of exposure to counterparties, industries, credit risk buckets (Borrower's Risk Rating), and market liquidity.

(v) Developing and maintaining BBL's and BBIL's risk rating system (Borrower's Risk Rating), categorizing exposures according to the degree of risk of financial loss faced and to focus the management on the inherent risks.

(vi) Provide advice, guidance, and specialist skills to business units to promote the best practices by BBL and BBIL in the management of credit risk.

Each business unit is responsible to implement BBL's and BBIL's credit policies and procedures, with credit approval authorities delegated from the Group Risk Unit. Each business unit is also responsible for the quality and performance of its credit portfolio and for monitoring all credit risks in its portfolio. BBL and BBIL use a risk rating system which groups retail, commercial, and corporate accounts into various risk categories (Borrower's Risk Rating) to facilitate the management of risk on both an individual account and portfolio basis. The evaluation of the risk and trend informs the credit decision and determines the intensity of the monitoring process. The current risk rating system consists of seven classifications reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk ratings lies with the final approving unit or committee. Risk ratings are subject to annual reviews.

BBL's and BBIL's credit control process promotes early detection of deterioration and prompt implementation of remedial action and where necessary, or as required once conditions set by the regulator are met, accounts are transferred from performing to non-performing status.

At March 31, 2014, BBL's maximum exposure to credit risk amounted to $468.1 million and that of BBIL's amounted to $184.0 million.

Credit concentration risk

BBL and BBIL are potentially subject to financial instrument concentration of credit risk through their cash equivalents and credit extensions. BBL and BBIL perform periodic evaluations of the relative credit standing of financial institutions they transact with and place their cash and cash equivalents only with financial institutions with a high credit rating.

BBL and BBIL have a credit risk concentrated in the tourism, real estate and agriculture industries but do not foresee a material credit risk associated with individual credit extensions in these industries beyond what has already been prudently recognised and provided for in the financial statements.

BBL and BBIL monitor their risk concentration associated with credit extensions on a continuous basis in an effort to mitigate their exposure.

At March 31, 2014, BBL's total loan portfolio amounted to $295.8 million. Of that total, 43 loans totalling $145.6 million were over $1.0 million in value. This concentration of $145.6 million represented approximately 49 per cent of the total exposure of BBL.

At March 31, 2014, BBIL's total loan portfolio amounted to $61.5 million. Of that total, 19 loans totalling $39.0 million were over $1.0 million in value. This concentration of $39.0 million represented approximately 63 per cent of the total exposure of BBIL.

Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices which includes interest rate risk and foreign currency risk.

BBL's and BBIL's market risk management seeks to limit the amount of possible losses on owned positions incurred by them within a fixed period due to currency fluctuations, changes of securities and interest rates by establishing a system of limits on transactions and conducting other procedures below.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Belize operates a fixed exchange rate, which is fixed at 2:1 with the US Dollar. BBL and BBIL do not engage in speculative foreign exchange activity, since their primary focus is to profitably supply customers' foreign exchange requirements, with the US dollar dominating trading. BBL, for example, estimates that a 5% appreciation of the US dollar against the Belize dollar would result in a loss to BBL of $10.9 million, while the same appreciation in the other currencies against the Belize dollar would on aggregate result in a loss of $0.4 million.

Liquidity risk

Liquidity risk is the risk arising from BBL's and BBIL's potential inability to meet all potential obligations when they come due or only being able to meet those obligations at an excessive cost.

BBL's and BBIL's liquidity management framework is designed to ensure that there are adequate reserves of cash and other liquid securities to satisfy current prospective commitments. BBL and BBIL manage liquidity risk by preserving a large base of core deposits from retail and institutional customers, and by maintaining a liquid pool of marketable securities. Contingent funding sources include but are not limited to domestic interbank credit and foreign correspondent bank short-term facilities.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because BBL and BBIL do not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

BBL and BBIL believe that despite the fact that a substantial portion of customer deposit accounts are on demand and less than one month, diversification of these deposits by number and type of client and the past experience of BBL and BBIL would indicate that deposits provide a long-term and stable source of funding.

In respect of BBL, Belize dollar deposits are substantially locked into the Belizean monetary system due to the Fixed Exchange Rate Regime currently in effect and the fact that there is also exchange control thereby reducing the risk of funds leaving the Belize bank deposit market.

The liquidity risk is further mitigated by the fact that the loan portfolio of both BBL and BBIL are primarily "on-demand" loans which the bank is legally entitled to call in the event that liquidity conditions tightened.

The table below presents the maturity gap as of March 31 2014 for BBL.

	On demand $m	Due within 3 months $m	3 months to 1 year $m	Over 1 year/ No-maturity $m
Assets				
Cash and due from banks	64.7	3.2	–	–
Mandatory balances with CBB	51.1	–	–	–
GOB securities	–	20.0	–	–
Loans to customers	31.3	19.0	24.9	196.9
Securities	15.4	–	–	1.9
Other assets and receivables	20.5	–	–	–
Due from GOB net of reserve	24.6	–	–	–
Investment in subsidiary	–	–	–	10.0
Total assets	**207.6**	**42.2**	**24.9**	**208.8**
Liabilities				
Customer accounts	125.5	93.7	150.4	57.5
Other liabilities and payables	9.1	–	–	–
Total liabilities	134.6	93.7	150.4	57.5
Liquidity gap	73.0	(51.5)	(125.5)	151.3
Cumulative liquidity gap	73.0	21.5	(104.0)	47.3

The table below presents the maturity gap as of March 31 2014 for BBIL.

	On demand $m	Due within 3 months $m	3 months to 1 year $m	Over 1 year/ No-maturity $m
Assets				
Cash and due from banks	106.1	–	–	–
Mandatory balances with CBB	0.1	–	–	–
Loans to customers	–	1.8	8.8	46.2
Securities	–	–	8.8	11.2
Other assets and receivables	1.0	–	–	1.9
Asset held for sale net of reserve	–	–	–	23.0
Total assets	**107.2**	**1.8**	**17.6**	**82.3**
Liabilities				
Customer accounts	147.6	15.0	2.2	4.9
Other liabilities and payables	0.5	–	–	–
Total liabilities	148.1	15.0	2.2	4.9
Liquidity gap	(40.9)	(13.2)	15.4	77.4
Cumulative liquidity gap	(40.9)	(54.1)	(38.7)	38.7

Interest rate risk

Interest rate risk arises from the possibility that changes in market interest rates will affect the future cash flows or fair values of financial instruments. BBL's and BBIL's objective in the management of interest rate risk is to reduce the sensitivity of its earnings and overall portfolio value to variations in interest rates. The strategy employed to achieve this involves active pricing of loan and deposit products, increasing market share of loans and funding and changing the mix of products in accordance with market trends.

BBL's and BBIL's Asset Liability Committee periodically monitors interest rate gaps to estimate potential impact of changes in net interest income.

At March 31, 2014, BBL had assets of $382.4 million which are interest rate sensitive.

At March 31, 2014, BBL had liabilities of $427.1 million which are interest rate sensitive.

At March 31, 2014, BBIL had assets of $171.9 million, which are interest rate sensitive.

At March 31, 2014, BBIL had liabilities of $169.6 million which are interest rate sensitive.

Operational risk management

Operational risk is defined as the risk of losses arising as a result of failures in data processing systems or internal control systems and procedures for banking and other transactions, including losses arising as a result of mistakes or intentional violation by BBL's and BBIL's employees or other persons and force-majeure circumstances.

Control failures with respect to operational risks generally result in damage to BBL's and BBIL's reputation, generate litigation against BBL and cause financial losses.

Operational risk is managed in accordance with internal policies developed by BBL that establish the responsibilities of the governing bodies of BBL and BBIL (and subunits) and procedures for identification, evaluation, monitoring and control of operational risks at all level of BBL's and BBIL's business-processes.

To minimise exposure to operational risk BBL and BBIL use the following procedures:

(i) Segregation of responsibilities.

(ii) Appointment of separate departments to manage different aspects of operational risk.

(iii) Security of informational systems.

(iv) Regulation of business processes and the control over them.

(v) Examination of new products and services, including initial implementation of new services on a limited scope.

(vi) Regular training for personnel.

(vii) Gathering and analysing information about incurred about losses incurred by BBL due to operational risk.

(viii) Establishing reserves for operational losses – amounts transferred by mistake, accounts receivable, losses from fraudulent operations, etc.

To evaluate operational risk BBL and BBIL use the basic indicator approach. BBL and BBIL maintain their equity at a level sufficient to cover the risk using the gross profit of the last three years as an indicator.

Legal risk management

Legal risk is the risk of losses arising due to potential non-compliance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which BBL and BBIL operate.

To decrease legal risk, it is the policy of BBL and BBIL to comply with all requirements of the relevant supervising bodies including non-mandatory recommendations. BBL and BBIL employ a team of lawyers and have a system of coordinated internal and external policies which are set out in appropriate documentation.

Note 24 – Subsequent events

Subsequent events have been evaluated through September 29, 2014, which is the date the financial statements of the Group were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

BCB Holdings Limited