

BCB Holdings Limited
Consolidated Financial Statements
March 31, 2010



Report of independent auditors

To the Board of Directors and Shareholders of BCB Holdings Limited

We have audited the accompanying consolidated balance sheets of BCB Holdings Limited and its subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits of these consolidated financial statements in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BCB Holdings Limited and its subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Horwath Belize LLP

Horwath Belize, LLP
Belize City, Belize
Central America
July 30, 2010

Consolidated statements of income

Year ended March 31	Notes	2010 \$m	2009 \$m
Financial Services			
Interest income		92.7	94.7
Interest expense	4	(45.2)	(43.2)
Net interest income		47.5	51.5
Provision for loan losses	9	(44.5)	(7.0)
Non-interest income	5	29.5	20.6
Non-interest expense	6	(19.8)	(19.5)
Operating income – Financial Services		12.7	45.6
Corporate expenses		(5.4)	(6.3)
Total operating income		7.3	39.3
Associates	12	18.6	23.1
Net income		25.9	62.4
Earnings per ordinary share (basic and diluted)	7	\$0.27	\$1.06

Consolidated statements of changes in shareholders' equity

	Share capital \$m	Additional paid in capital \$m	Treasury shares \$m	Retained earnings \$m	Total \$m
At March 31, 2008	0.6	–	(21.5)	309.3	288.4
Purchase of treasury shares	–	–	(0.8)	–	(0.8)
Net income	–	–	–	62.4	62.4
At March 31, 2009	0.6	–	(22.3)	371.7	350.0
Sale of treasury shares	–	–	0.7	(0.4)	0.3
Additional paid in capital	–	52.4	–	–	52.4
Net income	–	–	–	25.9	25.9
At March 31, 2010	0.6	52.4	(21.6)	397.2	428.6

At March 31, 2010, retained earnings included non-distributable statutory reserves in The Belize Bank Limited and its fellow subsidiaries of \$15.2 million (2009 – \$15.2 million).

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

Consolidated balance sheets

At March 31	Notes	2010 \$m	2009 \$m
Assets			
Financial Services			
Cash, cash equivalents and due from banks	8	58.4	47.5
Interest-bearing deposits with correspondent banks		84.0	84.5
Loans – net	9	826.3	876.5
Property, plant and equipment – net	10	16.2	16.8
Other assets	11	92.1	47.2
Total Financial Services assets		1,077.0	1,072.5
Corporate			
Cash and cash equivalents		0.3	0.2
Other current assets		0.4	0.5
Property, plant and equipment – net		0.1	0.1
Associates	12	108.6	97.0
Total assets		1,186.4	1,170.3
Liabilities and shareholders' equity			
Financial Services			
Deposits	13	611.9	646.9
Interest payable		8.8	8.9
Other liabilities		10.5	11.6
Long-term debt	14	121.4	146.7
Total Financial Services liabilities		752.6	814.1
Corporate			
Current liabilities		4.0	5.0
Long-term liabilities		1.2	1.2
Total liabilities		757.8	820.3
Shareholders' equity:			
Share capital (ordinary shares of no par value – 2010 – 103,642,974 and 2009 – 62,554,040)	16	0.6	0.6
Additional paid-in capital	16	52.4	–
Treasury shares	16	(21.6)	(22.3)
Retained earnings		397.2	371.7
Total shareholders' equity		428.6	350.0
Total liabilities and shareholders' equity		1,186.4	1,170.3

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

Consolidated statements of cash flows

Year ended March 31	2010 \$m	2009 \$m
Cash flows from operating activities		
Net income	25.9	62.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1.4	1.5
Provision for loan losses	44.5	7.0
Undistributed earnings of associates	(11.6)	(17.8)
Changes in assets and liabilities:		
(Decrease) increase in interest payable	(0.1)	1.0
Increase in other assets	(45.1)	(13.2)
(Decrease) increase in other liabilities	(2.1)	1.7
Net cash provided by operating activities	12.9	42.6
Cash flows from investing activities		
Purchase of property, plant and equipment	(0.8)	(1.3)
Decrease in interest-bearing deposits with correspondent banks	0.5	42.6
Decrease in Government securities	0.3	4.7
Decrease (increase) in loans to customers	5.7	(122.4)
Net cash provided by (utilized by) investing activities	5.7	(76.4)
Cash flows from financing activities		
(Decrease) increase in long-term debt	(25.3)	32.4
Additional paid in capital	52.4	–
(Decrease) increase in deposits	(35.0)	5.8
Sale (purchase) of treasury shares	0.3	(0.8)
Net cash (utilized by) provided by financing activities	(7.6)	37.4
Net change in cash, cash equivalents and due from banks	11.0	3.6
Cash, cash equivalents and due from banks at beginning of year	47.7	44.1
Cash, cash equivalents and due from banks at end of year	58.7	47.7
Cash – financial services	58.4	47.5
Cash – corporate	0.3	0.2
	58.7	47.7

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

Notes to the consolidated financial statements

Note 1 – Description of business

Introduction

BCB Holdings Limited (formally BB Holdings Limited) (“BCBH” or “the Company”) is a company incorporated in Belize. BCBH is a holding company with no independent business operations or assets other than its investment in its subsidiaries, associates, intercompany balances and holdings of cash and cash equivalents. BCBH’s businesses are conducted through its subsidiaries. In February 2009, Belize Bank (Turks and Caicos) Limited changed its name to British Caribbean Bank Limited. In May 2009 the Company changed its name from BB Holdings Limited to BCB Holdings Limited with immediate effect. In June 2009 Belize Bank International Limited changed its name to British Caribbean Bank International Limited.

In May 2009, the Company completed the acquisition of the entire issued share capital of Cockleshell Limited (“Cockleshell”), a company listed on the Alternative Investment Market of the London Stock Exchange (“AIM”) and whose sole asset was approximately \$52.4 million in cash. By way of consideration for the merger, Cockleshell shareholders were allotted and issued new BCBH Shares on the basis of 0.916 BCBH Shares for every Cockleshell share registered in their name on the record date. In connection with the acquisition the Company issued 41,088,934 ordinary shares to the shareholders of Cockleshell.

Financial services

The principal activity of BCBH and its subsidiaries (“the Group”) is the provision of financial services in Belize and the Turks and Caicos Islands. Financial services are provided principally through The Belize Bank Limited and British Caribbean Bank International Limited (both incorporated and operating in Belize) and British Caribbean Bank Limited (a company incorporated in the Turks and Caicos Islands).

Associates

The Group’s equity investment comprises approximately 24.8 percent of Grupo Agroindustrial CB, S.A. and related companies (“Numar”), which have interests in agro-processing and distribution operations principally in Costa Rica.

Note 2 – Summary of significant accounting policies

Basis of consolidated financial statements

The consolidated financial statements have been prepared in United States dollars in accordance with generally accepted accounting principles in the United States (“GAAP”) and as described below. The preparation of consolidated financial statements in accordance with 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. Actual results could differ materially from those estimates.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Group. BCBH consolidates companies in which it owns or controls more than fifty percent of the voting shares. 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.

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.

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 Statement of Financial Accounting Standards No. 114 – Accounting by Creditors for Impairment of a Loan, as amended by Statement of Financial Accounting Standards No. 118 – Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures. 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. 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 Company considers that the loan will remain performing.

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.

Gains and losses arising from currency transactions are included in the consolidated statements of income.

Notes to the consolidated financial statements

Associates

For investments in which the Group owns or controls more than twenty percent of the voting shares, and over which it exerts significant influence over operating and financial policies, the equity method of accounting is used in the consolidated financial statements. The investment in associates is shown in the consolidated balance sheets as the Group's proportion of the underlying net assets of these companies plus any goodwill attributable to the acquisitions less any write-off required for a permanent diminution in value. The consolidated statements of income include the Group's share of net income of associates.

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 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.

Stock-based compensation

Stock-based employee compensation is accounted for under the fair value based method of accounting (note 16).

Financial risk management

Financial instruments which potentially subject the Group to concentrations of credit risk principally consist of cash, cash equivalents and due from banks and extensions of credit to customers. The Group places its cash, cash equivalents and due from banks only with financial institutions with a high internationally accepted credit rating.

The Group's portfolio credit risk is evaluated on a regular basis to ensure that concentrations of credit exposure do not result in unacceptable levels of risk. Credit limits, ongoing credit evaluations, and account-monitoring procedures are utilized to minimize the risk of loss.

New accounting standards

In fiscal 2010 consideration was given to the implications, if any, of the following new and revised standards:

In September 2006, the FASB issued guidance that defines fair value, fair value measurement and disclosures about fair value measurements. This guidance provides a hierarchy of assumptions used to measure fair value and clarifies about risk and the effect of a restriction on the sale or use of an asset. The guidance was effective for fiscal years beginning after November 15, 2007. The impact of the adoption was not material.

In December 2007, the FASB issued guidance that changes the accounting and reporting for noncontrolling interests carried as a component of equity within the consolidated balance sheets. The guidance was effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The impact of the adoption was not material.

In March 2008, the FASB issued guidance amending the disclosure requirements for derivative instruments and hedging activities; requiring disclosures about objectives and strategies for using derivative and hedging instruments, and of fair value amounts of the instruments, gains and losses on the instruments, and credit-risk features in derivative agreements. The guidance was effective for financial statements issued for fiscal years after November 15, 2008, with early application encouraged. The impact of the adoption was not material.

In May 2009, the FASB issued guidance which requires subsequent events to be evaluated through the date the financial statements are either issued or available to be issued. The guidance requires disclosure of the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The effects of subsequent events that provide additional evidence about conditions at the balance-sheet date need to be included in the financial statements. This guidance was effective for financial periods ending after June 15, 2009 with prospective application.

In June 2009, the FASB replaced The Hierarchy of Generally Accepted Accounting Principles, with the FASB Accounting Standards Codification TM (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

In April 2009, the FASB amended the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance was effective for reporting periods ending after June 15, 2009, with early adoption permitted. The impact of the adoption was not material.

Notes to the consolidated financial statements

In August 2009, the FASB amended existing guidance for the fair value measurement of liabilities. If a quoted price in an active market for the identical liability is not available, fair value is measured using a valuation technique that uses the quoted price of the identical liability when traded as an asset, or a technique that is consistent with existing fair value guidance. The guidance was effective for the first reporting period beginning after issuance. This adoption did not have a material effect on the Company's financial statements.

In April 2009, the FASB issued guidance that emphasizes that the objective of measuring fair value does not change when market activity has decreased significantly. Fair value is the price determined for an asset or liability in an orderly transaction (not a forced liquidation or distressed sale) at the measurement date under current market conditions. Little if any weight should be assigned to transactions or quoted prices that are not considered orderly. The guidance is effective for reporting periods ending after June 15, 2009. The effect of adoption was not material.

Subsequent events

The Group evaluates subsequent events for recognition and disclosure through to the date of the signing of the financial statements which is the date the financial statements are available to be issued.

Note 3 – Segmental analysis

The Group is currently engaged in the provision of financial services principally in Belize and the Turks and Caicos Islands.

Year ended March 31	2010 \$m	2009 \$m
Depreciation		
Financial Services	1.4	1.4
Corporate	–	0.1
	1.4	1.5

Year ended March 31	2010 \$m	2009 \$m
Capital expenditures		
Financial Services	0.8	1.3
	0.8	1.3

At March 31	2010 \$m	2009 \$m
Total assets		
Financial Services	1,077.0	1,072.5
Associates	108.6	97.0
Corporate	0.8	0.8
	1,186.4	1,170.3

Note 4 – Interest expense

Year ended March 31	2010 \$m	2009 \$m
Interest on customer deposits	30.7	30.4
Interest on short-term debt	–	0.3
Interest on long-term debt	3.2	2.1
Interest on Series 1 Loan Notes	5.4	5.1
Interest on Series 2 Loan Notes	5.9	5.3
	45.2	43.2

Note 5 – Non-interest income

Year ended March 31	2010 \$m	2009 \$m
Foreign exchange income and commissions	5.7	6.4
Customer service and letter of credit fees	2.4	2.3
Credit card fees	3.2	3.2
Other financial and related services	2.6	2.7
Other income (Note 11 (iv))	15.6	6.0
	29.5	20.6

Note 6 – Non-interest expense

Year ended March 31	2010 \$m	2009 \$m
Salaries and benefits	7.8	8.7
Premises and equipment	3.1	3.0
Other expenses	8.9	7.8
	19.8	19.5

Note 7 – Earnings per ordinary share

Basic and diluted earnings per ordinary share have been calculated on the net income 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	2010 \$m	2009 \$m
Net income	25.9	62.4
Weighted average number of shares (basic and diluted)	95,889,339	59,038,192

During the year ended March 31, 2010 and 2009 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 16).

Notes to the consolidated financial statements

Note 8 – Cash, cash equivalents and due from banks

At March 31	2010 \$m	2009 \$m
Cash in hand	6.6	6.1
Balances with Central Bank of Belize	47.8	38.1
Amounts in the course of collection	4.0	3.3
	58.4	47.5

The Belize Bank Limited (the “Bank”) is required to maintain an average minimum non-interest bearing deposit balance with the Central Bank of Belize equal to 10 percent of the average deposit liabilities of the Bank. At March 31, 2010, the actual amount was 12.0 percent. In addition, the Bank 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 the Bank. At March 31, 2010, the actual amount was 26.1 percent.

Note 9 – Loans – net

At March 31	2010 \$m	2009 \$m
Loans (net of unearned income):		
Residential mortgage	56.7	54.6
Credit card	8.3	7.9
Other consumer	35.9	17.5
Commercial – real estate	341.9	436.9
Commercial – other	448.2	380.4
	891.0	897.3
Allowance for loan losses:		
Residential mortgage	(2.1)	(1.4)
Credit card	(0.2)	(0.2)
Other consumer	(2.3)	(2.2)
Commercial – real estate	(44.0)	(4.5)
Commercial – other	(16.1)	(12.5)
	(64.7)	(20.8)
Loans (net of unearned income and allowance for loan losses):		
Residential mortgage	54.6	53.2
Credit card	8.1	7.7
Other consumer	33.6	15.3
Commercial – real estate	297.9	432.4
Commercial – other	432.1	367.9
Loans (net of unearned income and allowance for loan losses)	826.3	876.5

Unearned income at March 31, 2010 amounted to \$6.4 million (2009 – \$4.8 million).

The maturity ranges of loans outstanding at March 31, 2010 are 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	10.4	12.7	33.6	56.7
Credit card	8.3	–	–	8.3
Other consumer	9.3	18.2	8.4	35.9
Commercial – real estate	83.4	49.4	209.1	341.9
Commercial – other	148.6	207.7	91.9	448.2
	260.0	288.0	343.0	891.0

Non-accrual loans at March 31, 2010 amounted to \$224.0 million (2009 – \$130.9 million). The interest income which would have been recorded during the year ended March 31, 2010 had all non-accrual loans been current in accordance with their terms was approximately \$25.4 million (2009 – \$10.0 million).

At March 31, 2010, the amount of impaired loans outstanding in which the Group considers that there was a probability of a loss totaled \$196.0 million (2009 – \$47.9 million), with related allowances, after taking into consideration related collateral, of \$57.0 million (2009 – \$11.7 million). There were no impaired loans without 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, 2010, was \$93.3 million (2009 – 29.4 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 extends to the Bank’s fellow subsidiary, British Caribbean Bank Limited, in TCI. This allowance does not represent future losses or serve as a substitute for specific allowances.

At March 31, 2010, the Group had total loans outstanding to certain officers and employees of \$8.9 million (2009 – \$8.4 million) at preferential rates of interest varying between 4.0 percent and 10.9 percent per annum, repayable over varying periods not exceeding 25 years. At March 31, 2010, these loans included \$0.4 million (2009 – \$0.4 million) classified within commercial – other loans.

At March 31, 2010, the Group held 564,228 ordinary shares of BCBH as collateral for certain loans provided.

Notes to the consolidated financial statements

Changes in the allowance for loan losses were as follows:

Year ended March 31	2010 \$m	2009 \$m
At beginning of year	20.8	17.1
Provision charged to income	44.5	7.0
Charge-offs	(0.6)	(3.3)
Net movement in year	43.9	3.7
At end of year	64.7	20.8

Recoveries from loan losses have been immaterial to date. At March 31, 2010, the allowance for loan losses included a general loan loss allowance of \$7.7 million (2009 – \$9.1 million).

Note 10 – Property, plant and equipment – net

At March 31	2010 \$m	2009 \$m
Cost:		
Land and buildings	15.1	15.1
Fixtures, fittings and office equipment	10.2	10.2
Total cost	25.3	25.3
Less: total accumulated depreciation	(9.1)	(8.5)
	16.2	16.8

Total capital expenditures for the years ended March 31, 2010 and 2009 were \$0.8 million and \$1.3 million, respectively. Total depreciation expense for the years ended March 31, 2010 and 2009 was \$1.4 million and \$1.5 million, respectively.

Note 11 – Other assets

At March 31	2010 \$m	2009 \$m
Short-term investments (i)	9.2	10.3
Investment in associate (ii)	6.0	7.4
Amounts recoverable from		
Government of Belize (iii & iv)	32.2	18.3
Accrued interest receivable	4.6	4.3
Other assets (v)	40.1	6.9
	92.1	47.2

(i) At 31 March 2010, BCBH held investments of \$2.5 million in annuities issued by CLICO Trinidad which matured in December 2011. CLICO's investment portfolios became materially impaired as a result of the global financial crisis which began in 2008 and continued into 2009 resulting in some of its branches being placed under court supervision. Based on assurances given in public announcements on the financial position of CLICO by the Government of Trinidad and Tobago in which it was stated CLICO's obligations would be met in full, the Company expects to recover the investment and no provision against recovery has been made.

Included in other assets are the following securities:

At March 31	2010 \$m	2009 \$m
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	2.0	5.2
Corporate debt obligations	5.4	2.9
Other debt obligations	1.8	0.6
Visa Inc. – 36,896 Class C Common Stock	–	1.6
	9.2	10.3

A summary of securities as of March 31, 2010, 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	2010 \$m	2009 \$m
Due in one year or less	6.1	9.8
Due in one to five years	3.1	0.5
	9.2	10.3

Management has the positive intent and ability to hold these securities to maturity, 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.

(ii) The Group owns a non-controlling, 50.0 percent interest in the equity of Belize International Services Limited ("BISL"). BISL is a holding company incorporated in the British Virgin Islands which provides financial and other services. The share of net income amounted to \$1.8 million for the year ended March 31, 2010 (2009 – \$1.7 million) and is included in Non-interest income – other income (note 5).

(iii) BBL has a claim against the Government of Belize ("GOB") for approximately \$10 million arising out of a settlement of the GOB's guarantee of loans entered into between BBL and Universal Health Services Limited. These claims are being pursued in arbitration in London under the LCIA Rules, which is currently stayed pending the outcome of the an appeal being brought by BBL in the Privy Council in relation to a challenge to the validity of the settlement by a third party, the Association of Concerned Belizeans. The Bank is vigorously pursuing its claims against the Government through the Appeals Board in Belize and through arbitration in London and, having received the advice of external advisers, expects to recover its claims in full.

Notes to the consolidated financial statements

(iv) In August 2009 BCBH and BBL successfully obtained an arbitral award against the GOB of approximately US\$22.2 million in respect of damages and costs for breaches of warranties given by GOB. The award, amongst other things, took account of a prior year receivable from the GOB concerning the overpayment of business tax by BBL. The overall impact in the current fiscal year income statement is a credit of \$12.4 million included in Non-interest income – other income (note 5).

This arbitration, which took place under the LCIA Rules, had been commenced by BCBH and BBL in which they sought damages for the breach of undertakings by the GOB in a Settlement Deed, as amended, to afford certain tax treatment to BBL. BCBH and BBL have sought the enforcement of the LCIA Arbitral Award in the Belize Supreme Court and a decision on this application is pending. The Company expects to recover this award in full.

(v) Pursuant to legislation passed in August and December 2009, the GOB purported to compulsorily acquire the British Caribbean Bank Limited (BCB)'s rights under the following loan agreements:

- (a) a Term Loan Facility dated 6 July 2007 granted by BCB to Telemedia;
- (b) a Mortgage Debenture between BCB and Telemedia dated 31 December 2007;
- (c) a Syndicated Loan Agreement dated 19 September 2005 executed between BCB, BBL, Caedman Limited and Sunshine Holdings Limited (Sunshine);
- (d) a Security Agreement dated 19 September 2005 executed between BCB and Sunshine; and
- (e) a Facility Agreement dated 19 May 2006 executed between the Claimant, Sunshine and the Trustees of the Belize Telecommunications Ltd. Employees Trust.

BCB has challenged the legislation as being unconstitutional and seeks declaratory relief that it is void as a consequence. BCB has also commenced arbitration proceedings against the GOB for breach of its rights under the 1982 agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the GOB for the promotion and protection of investments. Without prejudice to both these claims, BCB has also sought compensation for the loss of its assets in accordance with the legislation.

The aggregate amount included in other assets at March 31, 2010 that are subject to the above actions amounts to \$24.7 million (2009 – nil).

Note 12 – Associates

	2010 \$m	2009 \$m
At March 31		
Investments in associates		
Numar	108.6	97.0
Year ended March 31	2010 \$m	2009 \$m
Share of associates' earnings:		
Numar	18.6	23.1
Total dividends receivable during the year	7.0	5.3

Associates comprise companies in respect of which fair market values are not readily available, but they are considered by the Group to exceed the carrying amounts.

At March 31, 2010, the accumulated undistributed earnings of associates included in the consolidated retained earnings of the Group amounted to \$90.3 million (2009 – \$78.7 million).

Summarized combined unaudited financial information for Numar was as follows:

	2010 \$m	2009 \$m
Year ended March 31		
Net sales	545.5	518.5
Gross profit	136.0	156.8
Income from continuing operations	83.5	108.6
Net income	74.6	95.6
At March 31	2010 \$m	2009 \$m
Cash and liquid securities	113.6	111.8
Current assets	203.1	150.7
Non-current assets	253.8	223.3
Current liabilities	109.4	68.8
Non-current liabilities	14.9	31.5

Note 13 – Deposits

	2010 \$m	2009 \$m
At March 31		
Certificates of deposit	379.0	433.1
Demand deposits	174.2	155.7
Savings deposits	58.7	58.1
	611.9	646.9

Notes to the consolidated financial statements

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

At March 31	2010 \$m	2009 \$m
3 months or less	104.3	220.4
Over 3 and to 6 months	61.1	40.0
Over 6 and to 12 months	167.2	107.0
Over 12 months	2.0	–
Deposits less than \$0.1 million	44.4	65.7
	379.0	433.1

Included in certificates of deposit at March 31, 2010 were \$117.2 million (2009 – \$196.4 million) of certificates of deposit denominated in US dollars and \$14.7 million (2009 – \$39.6 million) denominated in UK pounds sterling. Included in demand deposits at March 31, 2010 were \$127.3 million (2009 – \$107.3 million) of demand deposits denominated in US dollars and \$3.7 million (2009 – \$5.5 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 14 – Long-term debt

At March 31	2010 \$m	2009 \$m
Series 1 Loan Notes (i)	0.3	54.6
Series 2 Loan Notes (ii)	3.5	57.1
Series 3 Loan Notes (ii)	57.0	–
Series 4 Loan Notes (ii)	60.0	–
Other Long-Term Notes (iii)	0.6	35.0
	121.4	146.7

(i) In April 2007 BCBH carried out a placement of US\$50,000,000 10 percent fixed rate, unsecured, loan notes with a maturity date of April 23, 2013 (the "Series 1 Loan Notes"), together with 7,692,308 warrants to subscribe for new ordinary shares of the Company at an exercise price of US\$6.50 per new ordinary share, until April 23, 2013 (the "Series 1 Warrants").

(ii) In November 2007 BCBH carried out a further placement of US\$50,000,000 10 percent fixed rate, unsecured, loan notes with a maturity date of November 2, 2014 (the "Series 2 Loan Notes"), together with 11,094,442 warrants to subscribe for new ordinary shares of the Company at an exercise price of US\$6.50 per new ordinary share, until November 2, 2014 (the "Series 2 Warrants").

The Series 1 and Series 2 Loan Notes and Warrants were offered to placees, each of whom was an existing investor in BCBH. Both placings were fully subscribed and raised in aggregate US\$100,000,000, gross of fees and expenses. The entire proceeds of the placings were used by the Company to further capitalize British Caribbean Bank Limited in order to increase the capital base and strength of that bank.

Prior to both placings, Lord Ashcroft, who at the time owned or controlled approximately 71.8 percent of the Company's issued ordinary shares, agreed to subscribe for, or procure others to subscribe for, any loan notes and warrants not taken up by placees.

Agrigento Holdings Limited ("Agrigento"), a company beneficially owned by Lord Ashcroft participated in the placing of the Series 1 Loan Notes and the Series 2 Loan Notes. As a consequence, Agrigento became the beneficial owner of \$46,724,000 Series 1 Loan Notes and 7,188,308 related warrants and the beneficial owner of \$47,200,000 Series 2 Loan Notes and 10,473,155 related warrants.

Interest on the Series 1 Loan Notes accrues daily at the rate of 10 percent per annum and is payable semi-annually on April 1 and October 1 in each year.

Interest on the Series 2 Loan Notes accrues daily at the rate of 10 percent per annum and is compounded semi-annually on May 1 and November 1 in each year and added to the principal amount.

On March 31, 2008, the Board of Directors of the Company approved the purchase of Agrigento's 10 percent fixed rate unsecured Series 1 Loan Notes, which was for a nominal amount of \$46,724,000. Following the purchase of these Series 1 Loan Notes by the Company on April 1, 2008, Agrigento agreed to immediately re-lend the proceeds to the Company in consideration of the issue by the Company to Agrigento of a new loan note on the same terms and conditions with the exception of the interest payable (the "New Series 1 Loan Note"). With effect from April 1, 2008, interest on the New Series 1 Loan Note held by Agrigento accrued daily at the rate of 10 percent per annum and was compounded semi annually on April 1 and October 1 in each year and added to the principal amount.

At March 31, 2010, Agrigento Holdings Limited owned New Series 1 Loan Note as described above with a nominal value of \$46,724,000 and value including unpaid interest of \$56,793,312 and Series 2 Loan Notes with a nominal value of \$47,200,000 and value including unpaid interest of \$59,417,844.

On March 31, 2010, pursuant to the conditions of these notes, the Company agreed to purchase New Series 1 Loan Note and the Series 2 Loan Notes owned by Agrigento and to reissue new notes (the "Series 3 Note" and the "Series 4 Note") immediately on substantially the same terms except for the repayment dates, which are now later in both cases, and the granting to the Company of the ability to repay the Series 3 Note and the Series 4 Note at any time after April 1, 2011.

The Series 3 Note is due for repayment on June 30, 2015 and the Series 4 Note is due for repayment on April 2, 2016 (together the "New Notes"). The New Notes provide the Company with an additional 30 months to repay the replaced New Series 1 Loan Note and an additional 17 months to repay the replaced Series 2 Loan Notes.

Interest on the New Notes is payable at maturity. The New Notes have a nominal value of \$57,000,000 in respect of the Series 3 Note and \$60,000,000 in respect of the Series 4 Note. These amounts exceed the aggregate proceeds of the replaced notes by \$788,843 and consequently the Company received an additional sum in cash of \$788,843 on the issuance of the New Notes.

Notes to the consolidated financial statements

The remaining Series 1 Loan Notes and Series 2 Loan Notes, the Series 3 Note and the Series 4 Note are included in Financial Services division long-term debt as the entire proceeds of the original \$100.0 million were used to fund the operations of the Financial Services division.

(iii) At March 31, 2008 the Bank issued new unsecured loan notes in the amount of \$35.0 million bearing interest at 10 percent per annum payable annually in arrears with a maturity date of 2013. During the year ended March 31, 2010 the majority of these notes were redeemed or repurchased.

Note 15 – Commitments and contingencies

(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 pounds 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, 2010 amounted to \$22.8 million (2009 – \$25.0 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 Bank'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, 2010. 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, 2010 amounted to \$10.5 million (2009 – \$24.8 million).

(iii) The net operating lease rental charge for the years ended March 31, 2010 and 2009 included in the consolidated statements of income was \$0.2 million and \$0.2 million, respectively.

(iv) At March 31, 2010, 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 11, BCBH and the Bank are engaged in arbitration proceedings in which they are vigorously pursuing certain claims against the Government. The information required by SFAS No. 5 Accounting for Contingencies is not disclosed because BCBH believes that to do so would materially prejudice the proceedings. BCBH and the Bank, having received the advice of external advisers, expect to fully recover amounts recorded as part of other assets in note 11. Therefore no provision against recovery has been made. Legal costs are expensed as incurred.

Note 16 – Share capital

At March 31	2010 \$m	2009 \$m
Authorized		
Ordinary shares:		
100,000,000 shares of no par value	-	-
Preference shares:		
14,000,000 shares of \$1.00 each	14.0	14.0
Total authorized	14.0	14.0
Issued and outstanding		
Ordinary shares:		
103,642,974 shares of no par value (2009 – 62,554,040)	0.6	0.6

Notes to the consolidated financial statements

During the two years ended March 31, 2010, the movement in authorized and issued and outstanding shares was as follows:

	Number
At April 1, 2008	62,554,040
At March 31, 2009	62,554,040
Issued	41,088,934
At March 31, 2010	103,642,974

On April 6, 2009, the Company agreed the terms of the acquisition by BCBH of the entire issued share capital of Cockleshell Limited ("Cockleshell"), a company listed on the Alternative Investment Market of the London Stock Exchange ("AIM") and whose sole asset was approximately \$52.4 million in cash. The acquisition of Cockleshell was implemented pursuant to the terms of a merger of BCBH and Cockleshell in accordance with Part VII of the International Business Companies Act of Belize. By way of consideration for the merger, Cockleshell shareholders were allotted and issued new BCBH Shares on the basis of 0.916 BCBH Shares for every Cockleshell share registered in their name on the record date. In connection with the acquisition of Cockleshell the company issued 41,088,934 ordinary shares to the shareholders of Cockleshell.

All BCBH Shares were issued credited as fully paid to Cockleshell shareholders and rank pari passu in all respects with the BCBH Shares in issue at the time that the new BCBH Shares were allotted and issued; including the right to receive and retain dividends and other distributions declared made or paid after the effective date of the merger. The new BCBH Shares were admitted to trading on AIM on May 8, 2009 and dealings in the new BCBH Shares commenced on that date.

Treasury shares

The movement in treasury shares, at cost, held since April 1, 2008 has been as follows:

	Number	\$m
At April 1, 2008	3,484,204	21.5
Purchase	262,500	0.8
At March 31, 2009	3,746,704	22.3
Sold	(111,018)	(0.7)
At March 31, 2010	3,635,686	21.6

Share consolidation and purchase of Treasury Shares

In December 2008, the Company approved a consolidation and reorganization of its share capital whereby holders of less than 250 ordinary shares in the Company were made a cash payment equal to the current market value of their shares for their entire shareholding. The consolidation was implemented on February 6, 2009 at which time every 250 ordinary shares of no par value was consolidated into one consolidated ordinary share of no par value (each a "Consolidated Ordinary Share"). Following the consolidation, resulting fractions of the Consolidated Ordinary Shares were aggregated and purchased by the Company with the proceeds being remitted to the relevant shareholders. After the consolidation and the purchase of the fractions of shares arising, every Consolidated Ordinary Share was then subdivided into 250 new ordinary shares of no par value (each a "New Ordinary Share"). The shares purchased into Treasury as a result of the consolidation amounted to 262,500 ordinary shares at an average purchase price of \$2.86 per share.

Share options

BCBH has granted employee share options which are issued under a number of fixed share option plans and schemes which reserve ordinary shares for issuance to the Company's executives, officers and key employees. The majority of options have been granted under the Long-Term Incentive Plans (the "Incentive Plans"). The Incentive Plans are administered 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, 2008	2,000,000	\$6.50
Cancelled – fiscal 2009	(2,000,000)	\$6.50
Issued – fiscal 2009	7,000,000	\$6.50
Outstanding at March 31, 2009	7,000,000	\$6.50
Outstanding at March 31, 2010	7,000,000	\$6.50

At March 31, 2010, no outstanding options were exercisable.

In May 2006, BCBH granted options over 2,000,000 ordinary shares at an exercise price of \$6.50 per share which vest in two tranches as to 500,000 on or after February 2010 and 1,500,000 shares on or after March 2011. These options were cancelled in August 2008.

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

Notes to the consolidated financial statements

Statement of Financial Accounting Standards No. 123 – Accounting for Stock-Based Compensation (“SFAS 123”), as amended by SFAS 148, 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 SFAS 123, the Group has taken a charge of \$1.2 million in the consolidated income statement during the year ended March 31, 2010 (2009 – \$1.0).

The fair value of each option grant in 2006 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected stock price volatility	18 percent
Risk free interest rate	5.1 percent
Expected dividend yield	Nil percent
Expected life of option	4.5 years

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

Note 17 – 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 the Bank’s financial position, results of operations, or liquidity. The following table set forth the capital requirements and the actual ratios of the Group.

	Minimum required	Actual 2010	Actual 2009
The Belize Bank Limited	9.0%	23.0%	19.9%
British Caribbean Bank International Limited	10.0%	17.9%	17.8%
British Caribbean Bank Limited	11.0%	45.1%	37.8%

Note 18 – 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, 2010 and 2009 amounted to \$72,515 and \$69,705 respectively.

Note 19 – Related party transactions

Consultancy services

During the year the Group utilized the consultancy services of Bearwood Services Limited (“Bearwood”), a United Kingdom company in which Lord Ashcroft has an interest. The aggregate fees paid to Bearwood by the Company for the year ended March 31, 2010 amounted to \$0.4 million (2009 – \$0.3 million).

Note 20 – Fair value of financial instruments

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.

The carrying amount of long-term debt is a reasonable estimate of fair value based on the Group’s incremental rates for equivalent types of financing arrangements.

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, 2010.

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.



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