

HERITAGE BANK LIMITED
FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

HERITAGE BANK LIMITED

FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

INDEX

	Page
Report of the auditor to the Board of Directors and Shareholders	1
Statements of financial position	2
Statements of comprehensive income	3
Statements of stockholders' equity	4
Statements of cash flows	5 & 6
Notes to the financial statements	7 - 19

**REPORT OF THE AUDITOR
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
HERITAGE BANK LIMITED**

We have audited the accompanying statements of financial position of HERITAGE BANK LIMITED as of 31st December 2012 and 2011, and the related statements of comprehensive income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HERITAGE BANK LIMITED as at 31st December 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards and the Domestic Bank and Financial Institutions Act.



CHARTERED ACCOUNTANT
23rd April 2013

Belize City,
Belize, C.A.

STATEMENTS OF FINANCIAL POSITION
31ST DECEMBER 2012 AND 2011All amounts expressed in Belize Dollars

	Notes	2012	2011
Assets:			
Cash and balances with central bank	2, 3	110,226,624	50,719,575
Treasury bills	2, 4	-	10,000,000
Loans and advances	2, 5	136,180,414	125,934,725
Less: specific loan loss reserve	2, 5	(18,638,276)	(17,837,272)
Other assets	2, 6	3,192,900	1,654,299
Investments	2, 7	12,497,022	12,615,487
Bank premises and equipment	2, 8	1,164,803	1,476,241
Total assets		<u>244,623,487</u>	<u>184,563,055</u>
Liabilities:			
Deposits	2, 9	227,706,755	163,238,724
Due to other banks	2, 10	772,163	767,734
Other liabilities	2, 11	3,245,477	8,415,651
Contingent liabilities	2, 12	-	-
Total liabilities		<u>231,724,395</u>	<u>172,422,109</u>
NET ASSETS		<u>12,899,092</u>	<u>12,140,946</u>
Equity:			
Share capital		<u>32,054,078</u>	<u>32,054,078</u>
Share premium		<u>490,000</u>	<u>490,000</u>
General loan loss reserve		<u>1,059,579</u>	<u>951,661</u>
Retained earnings:			
Statutory Reserves		845,020	696,682
Unappropriated (accumulated deficit)		(21,549,585)	(22,051,475)
Total		<u>(20,704,565)</u>	<u>(21,354,793)</u>
SHAREHOLDERS' INTERESTS		<u>12,899,092</u>	<u>12,140,946</u>

Approved on behalf of the Board

 Director Director

Dated:

Auditor's report page 1.

The notes on pages 7 to 19 form an integral part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED 31ST DECEMBER 2012 AND 2011All amounts expressed in Belize Dollars

	Notes	2012	2011
Interest income	14		
Interest expense	14	13,402,790	14,365,594
Net interest income		<u>(5,988,911)</u>	<u>(8,692,489)</u>
		7,413,879	5,673,105
Fee and commission income	15		
Fee and commission expense	15	2,204,970	1,722,862
Net fee and commission income		<u>(820,379)</u>	<u>(787,299)</u>
		1,384,591	935,563
Net trading income	16		
		1,227,956	1,212,075
Other operating income	17		
		809,600	897,389
OPERATING INCOME		<u>10,836,026</u>	<u>8,718,132</u>
Provision for credit losses	18	(107,918)	(2,251,175)
Personnel expense	19	(3,096,412)	(2,801,085)
Other operating expenses	20	<u>(3,697,118)</u>	<u>(3,657,094)</u>
NET INCOME BEFORE EXTRAORDINARY INCOME AND TAXATION		3,934,578	8,778
EXTRAORDINARY INCOME		-	1,970,330
NET INCOME AFTER EXTRAORDINARY INCOME		3,934,578	1,979,108
LESS: BUSINESS TAX	21	(1,736,178)	(1,385,759)
NET INCOME AFTER TAXATION		<u>2,198,400</u>	<u>593,349</u>
Earnings per share		0.0755	0.0204

The notes on pages 7 to 19 form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
31ST DECEMBER 2012 AND 2011

All amounts expressed in Belize Dollars

	Notes	2012	2011
SHARE CAPITAL:			
Common shares - issued and fully paid 29,100,000 of \$1.00 par		29,054,078	29,054,078
Preferred shares - issued and fully paid 3,000,000 of \$1.00 par		3,000,000	3,000,000
TOTAL		<u>32,054,078</u>	<u>32,054,078</u>
SHARE PREMIUM:			
Premium on ordinary shares issued		<u>490,000</u>	<u>490,000</u>
GENERAL LOAN LOSS RESERVE:			
At the beginning of the year		951,661	827,171
Provision for the year		107,918	124,490
At the end of the year		<u>1,059,579</u>	<u>951,661</u>
<i>The General loan loss reserve is maintained for unidentified future losses which are inherent in any financial institution. Under the Bank and Financial Institutions Act (Revised 2003), the General loan loss reserve must be equivalent to one percent of all loans not adversely classified.</i>			
RETAINED EARNINGS:			
<u>Statutory reserves</u>			
At beginning of the year		696,682	696,682
Transfer from retained earnings		148,338	-
At end of the year		<u>845,020</u>	<u>696,682</u>
<u>Unappropriated (retained deficit):</u>			
At beginning of the year		(22,051,475)	(10,130,896)
Net income for the year		2,198,400	593,349
Prior year adjustment	22	15,827	40,150
Transfer to specific reserves		(1,564,000)	(12,554,078)
Transfer to statutory reserves		(148,338)	-
Rounding		1	-
Total accumulated deficit		<u>(21,549,585)</u>	<u>(22,051,475)</u>
		<u>(20,704,565)</u>	<u>(21,354,793)</u>
TOTAL STOCKHOLDERS' EQUITY		<u>12,899,092</u>	<u>12,140,946</u>

The notes on pages 7 to 19 form an integral part of these financial statements

STATEMENTS OF CASH FLOWS
YEARS ENDED 31ST DECEMBER 2012 AND 2011

All amounts expressed in Belize Dollars

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received		
Interest paid	12,989,704	14,498,078
Net fee and commission income	(7,830,820)	(9,607,880)
Net trading income	1,384,591	935,563
Other operating income	1,227,956	1,212,075
Cash paid for accounts payable, personnel and operating expenses	809,600	897,389
	(8,752,763)	(7,870,193)
Net increase in demand deposits, savings accounts, certificates of deposit and other	64,468,031	9,156,421
Increase / (decrease) in liabilities to other banks	4,429	(14,113,470)
(Decrease) in net drafts payable	(3,043,558)	(158,838)
Extraordinary income	-	1,970,330
Prior period adjustment	15,827	40,150
Net cash provided by / (used by) operating activities	<u>61,272,997</u>	<u>(3,040,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in treasury bills	10,000,000	2,418,761
Investments redeemed	118,465	-
Purchase of property and equipment	(135,815)	(128,245)
Adjustments to property and equipment	901	-
(Decrease) in customer loans	(10,245,689)	(10,880,315)
Net (increase) / decrease in other assets	(1,125,515)	4,808,523
Net (decrease) / increase in other liabilities	(378,295)	778,050
Net cash (used) in investing activities	<u>(1,765,948)</u>	<u>(3,003,226)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of shares	-	13,054,078
Net cash flow provided by financing activities	<u>-</u>	<u>13,054,078</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	59,507,049	7,010,477
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	50,719,575	43,709,098
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>110,226,624</u>	<u>50,719,575</u>

- continues

STATEMENTS OF CASH FLOWS (CONTINUED)
 YEARS ENDED 31ST DECEMBER 2012 AND 2011

All amounts expressed in Belize Dollars

	2012	2011
Reconciliation of net income to net cash provided by operating activities:		
Net income	<u>2,198,400</u>	<u>593,349</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for probable credit losses	107,918	2,251,175
Bad debts written off from reserves	(762,996)	(584,570)
Depreciation	442,186	526,560
Disposal of fixed assets	4,167	351,625
Increase / (decrease) in accounts payable and accrued expense	93,588	(319,870)
(Decrease) / increase in interest receivable	(413,086)	132,484
(Decrease) in accrued interest payable	(1,841,909)	(915,391)
Net increase in demand deposits, savings accounts, certificates of deposit and other	64,468,031	9,156,421
Increase / (decrease) in liabilities to other banks	4,429	(14,113,470)
(Decrease) in net drafts payable	(3,043,558)	(158,838)
Prior year adjustment	15,827	40,150
Total adjustments	<u>59,074,597</u>	<u>(3,633,724)</u>
Total cash provided by / (used by) operating activities	<u><u>61,272,997</u></u>	<u><u>(3,040,375)</u></u>

The notes on pages 7 to 19 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

1. STATUS - ORGANIZATION OF THE BANK

Heritage Bank Limited was incorporated as Alliance Bank of Belize Limited ("the Bank") in December 1999 as a limited liability company under the Laws of Belize Chapter 250 (Revised 2003). The Bank was issued a banking license in November 2000 under the Domestic Banks and Financial Institutions Act (DBFIA).

On 1st January 2010, Alliance Bank of Belize Limited legally changed its name to *Heritage Bank Limited*. The Bank's parent also legally changed its name from Provident Bank & Trust of Belize Limited to *Heritage International Bank & Trust Limited*. Main offices and operating locations remain the same.

The Bank's main office is located in Belize City. Heritage International Bank & Trust Limited is the Bank's parent company with 94.09% ownership (2011 = 94.09%; 2010 = 87.685%).

The Bank is involved in retail and corporate banking - consisting of private banking services, investment accounts, debit facilities, current accounts, savings, deposits, overdrafts, investment savings, credit cards, consumer loans, commercial loans, other credit facilities, mortgages and foreign currency transactions.

At 31st December 2012, the bank had 8 branches and approximately 98 employees.

2. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

Basis of preparation

The financial statements are presented in Belize dollars. They are prepared under the historical cost convention. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. These accounting policies have been applied consistently by the Bank.

Subsidiaries

The Bank is a subsidiary of Heritage International Bank & Trust Limited, which controls 94.09% of the issued ordinary share capital (2011 = 94.09%); and 80% of the issued preferred shares at 31 December

Consolidated financial statements are prepared separately.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits held with various financial institutions. Balances held by the Central Bank of Belize, inclusive of the statutory deposit, are also considered cash.

-continues

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The exchange rate for the US dollar is fixed at US \$1.00 equals BZE \$2.00. For all other currencies, the Bank follows the practice of valuing its foreign exchange daily at the rates in force for that date.

The valuation is done using the mid-rate of the foreign currency to be valued. Gains or losses resulting from valuations are recognized in the statement of income.

Treasury Bills

Treasury Bills are Government of Belize Treasury Bills and Treasury Notes that are carried at redeemable value which approximates market. Government of Belize securities are issued in primary trading by the Central Bank of Belize. Treasury Bills are issued at a discount normally with ninety days maturity. Interest income is recognized using the accrual interest method during the period to maturity.

Loans and advances

Loans and advances are stated at principal outstanding, net of unearned interest. Interest income is recorded on the accrual basis. All loans and advances are recognized when cash is advanced to borrowers. In the event that either principal or interest is ninety days or more in arrears, and collection is considered doubtful, loans and advances are classified to a non-accrual status and previously accrued but unpaid interest is charged against current interest income.

Loan loss reserves

Loan loss reserves are charged to income in the year identified. The Specific Reserve is maintained cover identified doubtful debts as specified by Central Bank of Belize regulations. The General loan loss reserve is maintained for unidentified future losses which are inherent in any finance facility.

Under the Domestic Bank and Financial Institutions Act, the General loan loss reserve must be equivalent to one percent of all loans not adversely classified.

Other assets

Other assets consist of miscellaneous amounts receivable, prepaid expenses and utility deposits. Other assets are recorded at the original transaction price less provision for impairment. A provision for impairment is established when there is objective evidence that the bank will be unable to collect all amounts due.

Investments

Trading securities are either acquired for generating a profit from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are recognized at cost less any impairment. When the securities are disposed of or impaired, the related gains and losses are recognized in trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are reported as dividend income.

-continues

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Investment securities are recognized at cost. Equity securities for which fair value cannot be measured reliably, are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

All purchases and sales of trading and investment securities are recognized at settlement date, which is the date the bank completes the transaction.

Bank premises and equipment

Bank premises and equipment are carried at cost and are depreciated using the straight line method at the following rates:

Buildings and improvements	2 1/2%
Vehicles and equipment	10, 20 & 25%
Furniture and fixtures	10%

Maintenance, repairs and minor renewals are charged against revenue in the year incurred; major renewals and improvements are capitalized.

When property and equipment are disposed of by sale or scrapping, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of comprehensive income.

Borrowings

Borrowings are recognized initially at cost, being the issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Deposits

Interest expense is calculated daily and recorded on the accrual basis to a memorandum account. Earned interest is paid to the depositor against the accrued interest liability account semi-annually for regular savings and at maturity for fixed term deposits.

Dividends

Dividends on shares are recognized in equity in the period in which they are declared.

Interest income and expense

Interest income and expense for all interest bearing instruments are recognized in the statement of comprehensive income on the accrual basis using the effective yield method based on the actual purchase price. Interest income includes interest earned on fixed income investments, trading securities, accrued discount and premium on treasury bills and other discounted instruments.

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Interest income and expense (continued)

When loans become doubtful of collection, accrued and uncollected interest is charged off against interest income. Interest income is thereafter recognized on a cash basis, when collected, until the facility is completely updated.

Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan fees are recognized when cash is advanced to borrowers.

Leases

The Bank is a lessee.

Leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

FINANCIAL RISK MANAGEMENT

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at fixed rates for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that may fall due.

The Bank also raises its interest margins by obtaining above average margins, net of provisions through lending to retail borrowers. Such exposures involve not only on-balance sheet loans and advances, but also guarantees and letters of credit.

Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures its credit risk by placing limits on the risk accepted in relation to one borrower or group. This is monitored on a revolving basis and subject to annual review. Limits are also regulated by the Domestic Banks and Financial Institutions Act.

-continues

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

The Bank's risk management policies are designed to achieve a balance between risk and return and minimize potential adverse effects of its' financial performance. The Bank therefore identifies and analyzes these risks, designs internal controls to set appropriate limits, and to monitor these limits through reliable and up to date information systems and reports.

Exposure to credit risk is managed through regular analysis of the borrowers ability to repay and by changing limits when appropriate. Exposure is also managed in part by obtaining marketable collateral and personal guarantees.

Credit Related Commitments

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same risks as loans. Documentary and commercial letters of credit are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions.

Geographical concentrations of assets, liabilities and off-balance sheet items

As at 31st December 2012	Total Assets	Total Liabilities	Credit commitments
Belize	180,816,513	231,724,395	12,047,608
USA	48,780,308	-	-
Antigua W.I.	2,544,645	-	-
Trinidad & Tobago	12,497,021	-	-
	<u>244,638,487</u>	<u>231,724,395</u>	<u>12,047,608</u>

Belize is the home country of the Bank, this is therefore the main area of operation. Amounts held in other countries are cash deposits and short-term investment instruments.

Market risk

Market risk for the Bank arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank's Board of Directors sets limits on the amount of risk that may be accepted, which is monitored on a daily basis and reviewed by the Board monthly.

Interest rate risk

The Bank takes on interest rate risk in that it pays interest on deposits and borrowings and that fluctuations in interest rates may affect its capacity to on-lend at competitive rates. The Bank manages this risk by maintaining an adequate interest rate spread between interest paid and interest received.

- continues

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank's liquidity management process includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow,
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements
- Managing the concentration and profile of debt maturities.

Fraud risk

The Bank is exposed to fraud risks from customers as well as employees. The Bank seeks to minimize these risks by internal controls, checks and balances as well as software controls aimed at identifying irregular transactions.

Foreign currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

3. CASH AND DUE FROM BANKS

Cash and due from banks are detailed as follows:

Cash:	2012	2011
Belize currency		
Foreign currency	20,819,217	21,055,355
Total cash and due from banks	<u>89,407,407</u>	<u>29,664,220</u>
	<u>110,226,624</u>	<u>50,719,575</u>

The Bank is required to maintain with the Central Bank of Belize an aggregate of approved liquid assets equal to 23% of the average deposit liabilities of the bank. The cash reserve requirement is 8.5% of average deposit liabilities. At 31st December 2012, deposits held with the Central Bank amounted to \$ 14,888,683; (2011 - \$ 15,693,970).

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

	2012	2011
4. TREASURY BILLS		
Government of Belize short-term Treasury Bills	<u>-</u>	<u>10,000,000</u>

5. LOANS AND ADVANCES

Loans and advances consist of the following:

Total loans	136,180,414	125,934,725
Less: specific loan loss reserve	<u>(18,638,276)</u>	<u>(17,837,272)</u>
Loans and advances - net	<u>117,542,138</u>	<u>108,097,453</u>

SPECIFIC RESERVE

Specific loan loss reserve is charged to income in the year identified, and maintained to cover identified doubtful debts as specified by the Domestic Bank and Financial Institutions Act. Movements in the specific reserve are as follows:

Balance at the beginning of the year	17,837,272	3,741,079
Provision for the year	-	2,126,685
Transfer from General Reserve	1,564,000	12,554,078
Write offs	<u>(762,996)</u>	<u>(584,570)</u>
Balance at the end of the year	<u>18,638,276</u>	<u>17,837,272</u>

DISTRIBUTION

The distribution of loans by maturity and loan type is as follows:

<u>Loan type</u>	<u>Total</u>	<u>Due one year or less</u>	<u>Due after one year through five years</u>	<u>Due over five years</u>
Commercial	55,634,079	1,999,245	7,717,891	45,916,943
Demand	37,863,822	4,791,537	6,657,286	26,414,999
Residential	14,793,413	151,297	1,665,150	12,976,966
Consumer	5,214,587	1,236,921	3,167,544	810,022
Staff	2,890,911	222,656	548,675	2,119,580
Overdraft	17,247,755	17,247,755	-	-
Credit Card	2,535,847	2,535,847	-	-
<u>31st December 2012</u>	<u>136,180,414</u>	<u>28,185,258</u>	<u>19,756,546</u>	<u>88,238,510</u>
31st December 2011	125,934,725	30,234,315	19,432,981	76,267,429

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

	2012	2011
6. OTHER ASSETS		
Other assets consist of the following:		
Accrued interest	1,256,230	843,144
Accounts receivable	118,898	85,691
Interbank receivable	1,277,261	186,735
Miscellaneous	272,598	275,605
Prepaid expenses and deposits	267,913	263,124
	<u>3,192,900</u>	<u>1,654,299</u>

7. INVESTMENTS

Government of Trinidad & Tobago Bonds

GORTT Zero Coupon Bond issued by the Government the Republic of Trinidad and Tobago to replace CLICO FTDs.

<u>12,497,022</u>	<u>12,615,487</u>
-------------------	-------------------

8. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

2012	Leasehold Improvements	Office and Computer Equipment, Vehicle	Furniture & Fixtures	Total
COST				
Cost at 31st December 2011	1,495,508	2,801,306	2,074,972	6,372,786
Additions	10,995	73,855	50,965	135,815
Disposals	-	(81,000)	-	(81,000)
Transfers / adjustments	-	-	(901)	(901)
	<u>1,506,503</u>	<u>2,794,161</u>	<u>2,125,036</u>	<u>6,426,700</u>
Cost at 31st December 2012				
DEPRECIATION				
Balance at 31st December 2011	926,654	2,467,090	1,501,801	4,896,545
Additions	127,254	165,000	149,932	442,186
Disposals	-	(76,833)	-	(76,833)
Transfers / adjustments	(1)	-	-	(1)
	<u>1,053,907</u>	<u>2,555,257</u>	<u>1,651,733</u>	<u>5,261,897</u>
Balance at 31st December 2012				
Net book value at 31st December 2012	<u>452,596</u>	<u>238,904</u>	<u>473,303</u>	<u>1,164,803</u>
Net book value at 31st December 2011	<u>568,854</u>	<u>334,216</u>	<u>573,171</u>	<u>1,476,241</u>

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

	2012	2011
9. DEPOSITS		
Deposits consist of the following:		
Demand		
Savings	89,184,596	25,809,673
Time	23,149,596	15,117,097
	<u>115,372,563</u>	<u>122,311,954</u>
	<u>227,706,755</u>	<u>163,238,724</u>
The maturity distribution of the deposits is as follows:		
Within 3 months		
4 to 6 months	183,468,328	103,082,470
7 to 12 months	24,009,886	33,896,589
Over 12 months	20,086,150	25,883,112
	142,391	376,553
	<u>227,706,755</u>	<u>163,238,724</u>
10. DUE TO OTHER BANKS		
Due to other banks represents amounts held in deposit accounts for other financial institutions		
	<u>772,163</u>	<u>767,734</u>
11. OTHER LIABILITIES		
Other liabilities consist of the following:		
Accrued interest on deposits	1,358,874	3,200,783
Accounts payable and accruals	768,276	619,311
Credit card liabilities	35,594	90,971
Drafts payable	562,974	3,606,532
Loan administration	208,260	170,265
Inter-bank liability	311,499	727,789
	<u>3,245,477</u>	<u>8,415,651</u>
12. CONTINGENT LIABILITIES		
The Bank is a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees.		
Unused credit facilities	8,345,259	6,032,303
Loan commitments	3,675,299	17,389,121
Guarantees	27,050	232,050
	<u>12,047,608</u>	<u>23,653,474</u>

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

13. FIDUCIARY ACTIVITY

The Bank manages and administers loans for the Social Security Board. These loans were issued by the St. James National Building Society and sold to Social Security Board. The Bank is responsible for collecting payments and submitting these payments to the Social Security Board and receives fee income for this service.

At 31st December 2011, 11 accounts were active during the year. The value of the active portfolio was \$319,567 (2010 = \$344,124; 2009 = \$377,779).

As of 11th July 2012, the Government of Belize, with the approval of the National Assembly paid off the Social Security Board for all outstanding balances for the accounts being managed by Heritage Bank Limited. As a result, the value of the portfolio at the end of the year is nil.

14. NET INTEREST INCOME

<u>Interest income</u>	2012	2011
Cash and short-term funds	-	128,442
Loans and advances	12,320,074	13,248,248
Other	<u>1,082,716</u>	<u>988,904</u>
	<u>13,402,790</u>	<u>14,365,594</u>
 <u>Interest expense</u>		
Customer deposits	5,988,911	8,585,207
Banks	-	107,282
	<u>5,988,911</u>	<u>8,692,489</u>
 Net interest income	 <u>7,413,879</u>	 <u>5,673,105</u>

15. NET FEE AND COMMISSION INCOME

Credit card fees and commission	635,299	612,991
Loan facilities fees and commission	1,336,144	680,787
Other	<u>233,527</u>	<u>429,084</u>
	<u>2,204,970</u>	<u>1,722,862</u>
 Fees and Commission Expense	 <u>(820,379)</u>	 <u>(787,299)</u>
 Net Fees and Commissions Income	 <u>1,384,591</u>	 <u>935,563</u>

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

	2012	2011
16. NET TRADING INCOME		
Net trading income consists of the following:		
Foreign exchange gains	1,227,956	1,212,075
Foreign exchange losses	-	-
Net trading income	<u>1,227,956</u>	<u>1,212,075</u>

Foreign exchange trading income is the result of translated foreign currency assets and liabilities.

17. OTHER OPERATING INCOME

Other operating income consists of the following:

Credit card miscellaneous	89,246	107,235
Gain on disposals	13,333	-
Service charges	442,642	505,494
Insurance administration	167,382	177,722
Other	96,997	106,938
	<u>809,600</u>	<u>897,389</u>

18. PROVISIONS

Specific reserve (see note 5)
General reserve (Page 4)

	-	2,126,685
	107,918	124,490
	<u>107,918</u>	<u>2,251,175</u>

Under the Domestic Banks and Financial Institutions Act, banks must maintain a specific reserve to cover identified classified debts and a general loan loss reserve that must equal a minimum of 1% of loans not adversely classified.

19. PERSONNEL EXPENSE

Personnel expense consists of the following:

Directors fees and expenses	39	-
Insurance and pension	219,893	191,378
Salaries and remuneration	2,699,571	2,496,081
Training	6,350	12,642
Traveling, subsistence and accomodation	60,758	49,464
Other	109,801	51,520
	<u>3,096,412</u>	<u>2,801,085</u>

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

	2012	2011
20. OTHER OPERATING EXPENSE		
Other operating expense consists of the following:		
Advertising		
Bank charges	112,270	75,186
Depreciation	93,396	95,137
Donations	442,186	526,561
Insurance	7,061	15,776
Legal and professional fees	88,936	81,175
License - bank	86,586	70,370
License - other	108,137	94,400
Other losses	-	1,350
Office supplies and expenses	42,812	155,948
Rental expense	342,434	290,654
Repairs and maintenance	571,398	563,399
Stamp duty	350,271	362,796
Security and courier	-	-
Telephone, communication and utilities	666,670	562,117
Postage and delivery	720,942	703,245
Miscellaneous	56,837	54,588
	7,182	4,392
	<u>3,697,118</u>	<u>3,657,094</u>
21. TAXATION		
Business tax		
	<u>1,736,178</u>	<u>1,385,759</u>
<p>Effective 1st July 1998, an amendment to the Income Tax Act eliminated taxation based on profits and replaced this with a method of taxation of gross revenue, Business Tax, payable quarterly. Banks and financial institutions pay Business Tax at 15% of gross revenue, except interest, which is calculated on interest income net of interest expense.</p>		
22. PRIOR PERIOD ADJUSTMENTS		
Adjustment to interest receivable	16,728	(199,220)
Adjustment to interest payable	-	239,370
Adjustment to property plant and equipment	(901)	-
	<u>15,827</u>	<u>40,150</u>

NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 2012 AND 2011

All amounts in the following notes are shown in Belize Dollars

23. RELATED PARTY TRANSACTIONS

The Bank is a subsidiary of Heritage International Bank & Trust Limited, formerly Provident Bank & Trust of Belize Limited. These financial statements are the separate financial statements of the Bank. Consolidated financial statements are prepared separately.

A number of banking transactions were conducted with related parties, directors and shareholders during the year in the normal course of business. These include loans, deposits and other transaction. The balances at the year are as follows:

	2012	2011
<u>Cash</u>		
- Heritage International Bank & Trust Limited (parent)	37,755,542	24,535,478
- Antigua Overseas Bank	2,544,645	2,413,645
<u>Loans and overdrafts receivable</u>		
- Employee loans		
- Aquarius Limited	2,890,912	2,991,177
- Heritage Real Estate Investment Limited	4,792	-
	16,718	-
<u>Deposit liabilities</u>		
- Aquarius Limited		8,626
- Director and director related parties	-	1,107,495
- Heritage International Bank & Trust Limited (parent)	1,248,737	490,584
- Heritage Real Estate Investment Limited	254,032	102,278
	-	-
<u>Income earned</u>		
- Heritage International Bank & Trust Limited (parent)		789,898
- Antigua Overseas Bank - interest	873,044	122,949
- Directors and director related parties - interest	130,558	-
- Employee loans - interest	-	239,191
- Aquarius Limited - bank charges	270,973	453
- Heritage Real Estate Investment Limited	266	821
	544	-
<u>Expenses paid</u>		
- Aquarius Limited - rent		7,200
- Heritage International Bank & Trust Limited (parent) - rental	7,200	116,400
- Directors and director related parties - interest	116,400	66,075
	73,790	-