

BANK OF THE BAHAMAS LIMITED
Unaudited Condensed Consolidated Interim Financial Statements
For the Year Ended June 30, 2017

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at June 30, 2017 with comparative figures as at June 30, 2016

(Expressed in Bahamian Dollars)

	2017	2016
ASSETS		
Cash and account with The Central Bank	\$ 97,969,652	\$ 150,891,387
Due from banks	47,981,770	42,486,741
Investment securities	41,392,519	31,198,018
Loans and advances to customers, net	449,983,747	509,884,153
Non-current assets held for sale	925,000	-
Investment property	6,463,000	4,340,000
Other assets	8,873,414	6,296,220
Property and equipment	3,056,343	6,828,712
Intangible assets, net	1,026,580	1,498,596
Notes receivable	100,000,000	100,000,000
TOTAL	\$ 757,672,025	\$ 853,423,827
LIABILITIES		
Deposits from customers and banks	\$ 663,903,707	\$ 764,352,914
Other liabilities	21,364,626	18,830,998
Deferred loan fees	5,833,983	6,149,779
Total liabilities	691,102,316	789,333,691
EQUITY		
Share capital	64,010,505	45,838,935
Share premium	81,950,383	54,004,621
Treasury shares	(1,318,224)	(1,318,224)
Reserves	5,140,730	4,946,230
Special retained earnings	54,622,532	54,622,532
Accumulated deficit	(137,836,217)	(94,003,958)
Total equity	66,569,709	64,090,136
TOTAL	\$ 757,672,025	\$ 853,423,827

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the twelve months ended June 30, 2017

with comparatives for the twelve months ended June 30, 2016

(Expressed in Bahamian Dollars)

	Three Months		Twelve Months	
	2017	2016	2017	2016
Interest and similar income	\$ 9,774,734	\$ 9,197,769	\$ 38,830,908	\$ 40,009,145
Interest and similar expenses	2,274,068	3,976,366	12,294,233	15,672,224
Net interest income	<u>7,500,666</u>	<u>5,221,403</u>	<u>26,536,675</u>	<u>24,336,921</u>
Fees and commission income	1,942,290	1,574,617	6,919,145	5,886,655
Fees and commission expense	269,507	57,888	515,661	656,970
Net fees and commission income	<u>1,672,783</u>	<u>1,516,729</u>	<u>6,403,484</u>	<u>5,229,685</u>
Other operating income	1,603,718	688,015	3,650,175	4,059,390
Total operating income	10,777,167	7,426,147	36,590,334	33,625,996
Credit loss expense, net	(35,387,406)	(15,278,978)	(49,245,688)	(24,499,006)
Net operating income/(loss)	<u>(24,610,239)</u>	<u>(7,852,831)</u>	<u>(12,655,354)</u>	<u>9,126,990</u>
Operating expenses	8,196,921	8,700,259	31,176,905	32,533,625
Net loss	<u>(32,807,160)</u>	<u>\$ (16,553,090)</u>	<u>\$ (43,832,259)</u>	<u>\$ (23,406,635)</u>
Other comprehensive income				
Net gain/(loss) on available-for-sale financial assets	(37,172)	(36,406)	194,500	110,634
Total comprehensive loss for the year	<u>\$ (32,844,332)</u>	<u>\$ (16,589,496)</u>	<u>\$ (43,637,759)</u>	<u>\$ (23,296,001)</u>
EARNINGS PER SHARE CALCULATION:				
NET LOSS	\$ (32,807,160)	\$ (16,553,090)	\$ (43,832,259)	\$ (23,406,635)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<u>32,527,693</u>	<u>21,387,924</u>	<u>32,527,693</u>	<u>21,387,924</u>
LOSS PER SHARE	<u>\$ (1.01)</u>	<u>\$ (0.77)</u>	<u>\$ (1.35)</u>	<u>\$ (1.09)</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the twelve months ended June 30, 2017

with comparatives for the twelve months ended June 30, 2016

(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total
Balance at June 30, 2015	\$ 49,238,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,835,596	\$ 54,622,532	\$ (70,597,323)	\$ 90,786,137
<i>Total comprehensive loss:</i>							
Net loss for the year	-	-	-	-	-	(23,406,635)	(23,406,635)
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	110,634	-	-	110,634
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares	(3,400,000)	-	-	-	-	-	(3,400,000)
Balance at June 30, 2016	\$ 45,838,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,946,230	\$ 54,622,532	\$ (94,003,958)	\$ 64,090,136
Balance at June 30, 2016	\$ 45,838,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,946,230	\$ 54,622,532	\$ (94,003,958)	\$ 64,090,136
<i>Total comprehensive loss:</i>							
Net loss for the year	-	-	-	-	-	(43,832,259)	(43,832,259)
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	194,500	-	-	194,500
<i>Transactions with owners of the Bank:</i>							
Issuance of ordinary shares	21,571,570	27,945,762	-	-	-	-	49,517,332
Redemption of preference shares	(3,400,000)	-	-	-	-	-	(3,400,000)
Balance at June 30, 2017	\$ 64,010,505	\$ 81,950,383	\$ (1,318,224)	\$ 5,140,730	\$ 54,622,532	\$ (137,836,217)	\$ 66,569,709

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the twelve months ended June 30, 2017
with comparatives for the twelve months ended June 30, 2016
(Expressed in Bahamian Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (43,832,259)	\$ (23,406,635)
Adjustments for:		
Depreciation and amortization	2,278,007	2,576,199
Impairment losses	273,568	806,113
Gain on revaluation of investment property	(739,545)	-
Loss on disposal of fixed assets	-	(5,752)
Net provision for loan losses	49,245,688	24,499,006
	<u>7,225,459</u>	<u>4,468,931</u>
Change in operating assets and liabilities	1,977,698	5,382,591
Decrease in loans and advances to customers, net	10,654,718	35,027,826
(Decrease)/increase in deposits from customers and banks	<u>(100,449,207)</u>	<u>66,970,403</u>
Net cash (used in)/provided by operating activities	<u>(80,591,332)</u>	<u>111,849,751</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(583,366)	(67,241)
Acquisition of intangible assets	(32,280)	(743,240)
Purchase of investment securities	(10,000,000)	-
Proceeds from disposal of property and equipment	-	18,000
Proceeds from maturity of investment securities	-	459,900
Net cash used in investing activities	<u>(10,615,646)</u>	<u>(332,581)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of ordinary shares	49,517,332	-
Redemption of preference shares	<u>(3,400,000)</u>	<u>(3,400,000)</u>
Net cash provided by/(used in) financing activities	<u>46,117,332</u>	<u>(3,400,000)</u>
Net (decrease)/increase in cash and cash equivalents	(45,089,646)	108,117,170
Cash and cash equivalents, beginning of year	166,554,048	58,436,878
Cash and cash equivalents, end of period	<u>\$ 121,464,402</u>	<u>\$ 166,554,048</u>

SUPPLEMENTAL INFORMATION:

Interest received	\$ 37,943,229	\$ 39,344,474
Interest paid	13,067,350	15,698,668

BANK OF THE BAHAMAS LIMITED
Selected Explanatory Notes to the Unaudited Condensed Consolidated Interim
Financial Statements

For the year ended June 30, 2017
(Expressed in Bahamian Dollars)

1. General Information

Bank of The Bahamas Limited (the “Bank”), trading as Bank of The Bahamas International, is incorporated under the laws of The Commonwealth of The Bahamas. The Bank is licensed under the provisions of the Bank and Trust Companies Regulations Act 2000. The Bank is also licensed as an authorized dealer pursuant to the Exchange Control Regulations Act. The Bank is the holder of a broker dealer license from the Securities Commission.

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange. During the period from September 6 - 12, 2016, the Bank entered into an ordinary shares rights offering for an aggregate amount of \$40 million for 14,814,814 ordinary voting shares. For each 1.44 ordinary shares held as at record date of September 5, 2016, shareholders had the right to purchase an additional 1 share. At the end of the offer period, the major shareholder subscribed for the majority of the offering and the Bank issued a total of \$39,517,333 in voting shares to its shareholders at a price of \$2.70 per share. Costs totaling \$482,667 related to this ordinary share offering were netted against the proceeds.

During the period December 31, 2016 to February 28, 2017, the Bank offered a private placement of \$30 million at 3.125% Fixed Rate Perpetual Contingent Convertible Bonds to accredited investors only. This private placement was offered in three tranches of \$10 million each. As at December 31, 2016, the first tranche was subscribed by and issued to the Government of The Commonwealth of The Bahamas (the “Government”). Effective June 30, 2017, the bond in the amount of \$10 million was converted to 6,756,756 ordinary voting shares at a price of \$1.48 per share. As a result, the Government and The National Insurance Board, as the major shareholders, now own approximately 83% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

The Bank’s head office is located at Cloughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, The Bahamas.

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2. Significant Accounting Policies

The significant accounting policies and methods of computation followed in the preparation of these interim consolidated financial statements are the same as those followed in the preparation of the annual consolidated financial statements of the Bank for the year ended June 30, 2017 with the exception of those noted below. The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and under the historical cost basis, except for available-for-sale financial assets and investment property which have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies.

3. Dividends

Dividends to the Bank’s shareholders are recognized as a liability in the period in which they are declared by the Board of Directors and approved by the Bank’s Regulator. Due to the Bank’s accumulated deficit position, on July 15, 2016 the Government in its capacity as the major shareholder of the Bank agreed to deploy a part of its treasury deposits directly to the paying agent for disbursement to the preference shareholders as at June 30, 2016 in the amount of \$816,000. There is no obligation for the Bank to repay the amount remitted. Subsequently, no further dividend payments were made to the preference shareholders. During the period, the Bank paid no dividends to ordinary shareholders.

4. Provision for Loan Losses

	2017	2016
Provision at beginning of year	\$ 94,836,742	\$ 72,441,789
Amount written-off	(3,484,440)	(2,104,053)
Net provision charged to expense	49,245,688	24,499,006
Provision at end of year	\$ 140,597,990	\$ 94,836,742

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5. Commitments and Contingencies

Commitment

The commitment for loans and advances at June 30, 2017 was \$7,455,948 (2016: \$8,745,926).

Contingencies

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has legal counsels for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Various legal proceedings are pending that challenge certain actions of the Bank. Most of these proceedings are loan-related and are reactions to steps taken by the Bank to collect delinquent loans and enforce its rights against collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

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6. Regulatory Capital

Regulatory capital consists of Tier 1 and Tier 2 capital. Total Tier 1 capital comprises of Common Equity Tier 1 and Additional Tier 1 capital.

(in \$'000s)	2017	2016
Tier 1 capital	\$ 39,587	\$ 33,430
Tier 2 capital	27,072	31,292
Total capital	<u>\$ 66,659</u>	<u>\$ 64,722</u>
Risk weighted assets	<u>\$ 463,751</u>	<u>\$ 554,923</u>

Ratios

CET1 must be at least 9.6% of total Risk Weighted Assets	8.5%	6.0%
Total Tier 1 Capital must be at least 12.8% of Total Risk Weighted Assets	8.5%	6.0%
Total Capital must be at least 18.0% of Total Risk Weighted Assets (2015: 17.0%)	14.4%	11.7%
CET1 must be at least 75% of Total Tier 1 Capital	100.0%	100.0%
Total Tier 1 Capital must be a minimum of 75% of Total Capital	59.4%	51.7%

Effective September 30, 2016, the minimum capital requirement for the ratio on Total Capital of Total Risk Weighted Assets increased from 17.0% to 18.0% for the Bank.

In accordance with Basel III, since December 2014, the Bank redeems annually \$3,400,000 of preference shares.

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7. Cash and Cash Equivalents

	2017	2016
Cash	\$ 10,623,566	\$ 10,045,505
Deposits with the Central Bank- non-interest bearing	87,346,086	140,845,882
Due from Banks	47,981,770	42,486,741
Cash and due from Banks	145,951,422	193,378,128
Less: Mandatory reserve deposits with the Central Bank	(24,487,020)	(26,824,080)
Total cash and cash equivalents	\$ 121,464,402	\$ 166,554,048

As at June 30, 2017 the Bank's statutory reserve deposits with The Central Bank of The Bahamas were above Central Bank's regulatory requirements.

8. Subsequent Events

Subsequent to June 30, 2017, the Government has agreed to purchase certain loans, primarily impaired, by Bahamas Resolve Limited ("Resolve") at a price equivalent to the gross book value of these loans, which is estimated to be \$167.7 million. The consideration for this purchase would be the issuance of a promissory note. In addition, the Government has agreed to redeem the entire \$100 million of the promissory notes from the first Resolve transaction in 2014 between August 2017 and May 2018. It is expected that this transaction will restore all of the Bank's regulatory capital ratios to compliance.