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Consolidated Financial Statements

# BANK OF THE BAHAMAS LIMITED

Year ended June 30, 2017

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Year ended June 30, 2017


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KPMG
PO Box N-123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

Telephone +1 242 393 2007
Fax +1 242 393 1772
Internet www.kpmg.com.bs

# INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Bank of The Bahamas Limited

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the consolidated financial statements of Bank of The Bahamas Limited and its subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at June 30, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at June 30, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Material uncertainty related to going concern*

We draw your attention to Notes 2(a) and 30 in the consolidated financial statements. The Bank has experienced continuing operating losses for the last several years and was also non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2017 and 2016. These events and conditions, along with other matters as set forth in Notes 2(a) and 30, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Management does not expect that the continued operating losses or regulatory capital deficiencies will impact the Bank's continuing ability to operate as a going concern. Our opinion is not modified in respect of this matter.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Provision for loan losses ($142,599,409, see note 7)* | |
|---|---|
| ***The risk*** | ***Our response*** |
| Significant estimates are made in valuing the Bank's loan portfolio and determining the adequacy of the provision for loan losses.<br><br>The valuation of the loan portfolio and determination of the amount of the provision for loan losses is considered a significant risk because inadequate estimates of the required provisions could have a material financial impact on the consolidated financial statements should a material loan loss occur without adequate provisions. | In this area, our audit procedures included:<br><br>• Reviewing the internal controls and testing the key controls;<br><br>• Re-performance of the calculation of the allowance for loan losses and challenging management's judgment and assumptions used in calculating the provision for loan losses; and<br><br>• Assessment of the methodology used to determine the allowance for loan losses |

| *Regulatory capital (see note 30)* | |
|---|---|
| ***The risk*** | ***Our response*** |
| The Bank is subject to a variety of laws and regulations and operates in a highly regulated environment. The Bank is also subject to a number of reporting requirements by the Central Bank of the Bahamas.<br><br>Management of regulatory capital is considered a significant risk because failure to comply with Central Bank guidelines and regulations may result in penalties, revocation of license, and/or serious reputational damage to the Bank. | In this area, our audit procedures included:<br><br>• Reviewing all correspondence between the Bank and the Central Bank to identify instances of non-compliance with the Central Bank's guidelines and to determine the impact thereof during the year and to identify any specific regulatory stipulations imposed on the Bank.<br><br>• We inspected the annual corporate governance certification sent by the Board of Directors to the Central Bank and obtained confirmation of compliance from the Central Bank and The Securities Commission of The Bahamas.<br><br>• We inquired of the Acting Managing Director and the Director of Compliance as to any issues relating to compliance with existing and new regulations and considered the adequacy of the Bank's disclosures in respect of regulatory capital. |

| *Interest income ($38,830,908, see note 19)* | |
|---|---|
| ***The risk*** | ***Our response*** |
| Interest income is the Bank's primary source of revenues.<br><br>The existence and accuracy of interest income are considered to be a key audit area due to the material financial impact of this account on the Bank's consolidated financial statements. | In this area, our audit procedures included:<br><br>• Reviewing the internal controls and testing the key controls;<br><br>• Confirmation of principal balances and terms of interest bearing assets and vouching interest bearing assets to supporting documentation evidencing amounts, interest rates and payment terms; and<br><br>• Substantive analytical procedures and re-performance of the calculation of interest accruals to test the accuracy of interest income. |

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

***Other information***

We expect to receive other information from the Bank on November 30, 2017, which will comprise the information to be included in the Bank's annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not and will not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether there are indications that the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we determine that there is a material misstatement of this other information, we would be required to report that fact.

The engagement partner on the audit resulting in this independent auditors' report is Lambert D. Longley.

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Nassau, Bahamas
October 30, 2017

## BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Financial Position

June 30, 2017, with corresponding figures for 2016
(Expressed in Bahamian Dollars)

| | Notes | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and account with The Central Bank | 5, 25 | $ | 97,969,652 | $ | 150,891,387 |
| Due from banks | 5 | | 47,981,770 | | 42,486,741 |
| Investment securities | 6, 25 | | 41,392,518 | | 31,198,018 |
| Loans and advances to customers, net | 7, 25 | | 448,124,914 | | 509,884,153 |
| Non-current assets held for sale | 8 | | 925,000 | | - |
| Investment property | 9 | | 6,463,000 | | 4,340,000 |
| Other assets | 10, 25 | | 8,873,414 | | 6,296,220 |
| Property and equipment, net | 11 | | 3,056,345 | | 6,828,712 |
| Computer software, net | 12 | | 1,026,580 | | 1,498,596 |
| Notes receivable | 13, 25 | | 100,000,000 | | 100,000,000 |
| **TOTAL ASSETS** | | $ | **755,813,193** | $ | **853,423,827** |
| **LIABILITIES** | | | | | |
| Deposits from customers and banks | 14, 25 | $ | 663,903,707 | $ | 764,352,914 |
| Other liabilities | 15, 25 | | 22,167,898 | | 18,830,998 |
| Deferred loan fees | 3 | | 5,833,983 | | 6,149,779 |
| **Total liabilities** | | | **691,905,588** | | **789,333,691** |
| **EQUITY** | | | | | |
| Share capital | 16 | | 64,010,505 | | 45,838,935 |
| Share premium | 16 | | 81,950,384 | | 54,004,621 |
| Treasury shares | 17 | | (1,318,224) | | (1,318,224) |
| Reserves | 18 | | 5,140,730 | | 4,946,230 |
| Special retained earnings | 13 | | 54,622,532 | | 54,622,532 |
| Accumulated deficit | | | (140,498,322) | | (94,003,958) |
| **Total equity** | | | **63,907,605** | | **64,090,136** |
| **TOTAL LIABILITIES AND EQUITY** | | $ | **755,813,193** | $ | **853,423,827** |

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on October 27, 2017 and are signed on its behalf by:

Director

Director

# BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Comprehensive Income

Year ended June 30, 2017, with corresponding figures for 2016
(Expressed in Bahamian Dollars)

| | Notes | | 2017 | | 2016 |
|---|---|---|---|---|---|
| Interest and similar income | 19, 25 | $ | 38,830,908 | $ | 40,009,145 |
| Interest and similar expense | 19, 25 | | (12,294,233) | | (15,672,224) |
| Net interest income | | | 26,536,675 | | 24,336,921 |
| Fees and commission income | 20 | | 6,919,145 | | 5,886,655 |
| Fees and commission expense | 20 | | (515,661) | | (656,970) |
| Net fees and commission income | | | 6,403,484 | | 5,229,685 |
| Other operating income | 21 | | 3,650,175 | | 4,059,390 |
| Total operating income | | | 36,590,334 | | 33,625,996 |
| Credit loss expense, net | 7 | | (51,957,793) | | (24,499,006) |
| Net operating income/(loss) | | | (15,367,459) | | 9,126,990 |
| Operating expenses | 22, 25 | | (31,244,588) | | (32,533,625) |
| Government subsidy | 25 | | 117,683 | | - |
| **Net loss** | | | **(46,494,364)** | | **(23,406,635)** |
| **Other comprehensive income** | | | | | |
| Net gain on available-for-sale financial assets | 6, 18 | | 194,500 | | 110,634 |
| **Total comprehensive loss for the year** | | **$** | **(46,299,864)** | **$** | **(23,296,001)** |
| Earnings/(loss) per share | | | | | |
| Basic loss per ordinary share | 28 | $ | (1.43) | $ | (1.09) |

See accompanying notes to consolidated financial statements.

**BANK OF THE BAHAMAS LIMITED**
Consolidated Statement of Changes in Equity

Year ended June 30, 2017, with corresponding figures for 2016
(Expressed in Bahamian Dollars)

| | Share Capital | Share Premium | Treasury Shares | Reserves | Special Retained Earnings | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance, June 30, 2015** | **$ 49,238,935** | **$ 54,004,621** | **$ (1,318,224)** | **$ 4,835,596** | **$ 54,622,532** | **$ (70,597,323)** | **$ 90,786,137** |
| *Total comprehensive loss:* | | | | | | | |
| Net loss for the year | - | - | - | - | - | (23,406,635) | (23,406,635) |
| *Other comprehensive income:* | | | | | | | |
| Net gain on available-for-sale financial assets (Note 18) | - | - | - | 110,634 | - | - | 110,634 |
| *Transactions with owners of the Bank:* | | | | | | | |
| Redemption of preference shares (Note 16) | (3,400,000) | - | - | - | - | - | (3,400,000) |
| **Balance, June 30, 2016** | **45,838,935** | **54,004,621** | **(1,318,224)** | **4,946,230** | **54,622,532** | **(94,003,958)** | **64,090,136** |
| *Total comprehensive loss:* | | | | | | | |
| Net loss for the year | - | - | - | - | - | (46,494,364) | (46,494,364) |
| *Other comprehensive income:* | | | | | | | |
| Net gain on available-for-sale financial assets (Note 18) | - | - | - | 194,500 | - | - | 194,500 |
| *Transactions with owners of the Bank:* | | | | | | | |
| Issuance of ordinary shares (Note 16) | 21,571,570 | 27,945,763 | - | - | - | - | 49,517,333 |
| Redemption of preference shares (Note 16) | (3,400,000) | - | - | - | - | - | (3,400,000) |
| **Balance, June 30, 2017** | **$ 64,010,505** | **$ 81,950,384** | **$ (1,318,224)** | **$ 5,140,730** | **$ 54,622,532** | **$ (140,498,322)** | **$ 63,907,605** |

See accompanying notes to consolidated financial statements.

# BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Cash Flows

Year ended June 30, 2017, with corresponding figures for 2016
(Expressed in Bahamian Dollars)

| | Notes | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Net loss | | $ | (46,494,364) | $ | (23,406,635) |
| Adjustments for: | | | | | |
| Depreciation and amortisation | 22 | | 2,278,007 | | 2,576,199 |
| Impairment losses | 22 | | 273,568 | | 806,113 |
| Gain on revaluation of investment property | 21 | | (739,545) | | - |
| Gain on disposal of fixed assets | | | - | | (5,752) |
| Net provision for loan losses | 7 | | 51,957,793 | | 24,499,006 |
| | | | 7,275,459 | | 4,468,931 |
| Change in operating assets and liabilities | | | 2,780,970 | | 5,382,591 |
| Decrease in loans and advances to customers, net | | | 9,801,446 | | 35,027,826 |
| (Decrease)/increase in deposits from customers and banks | | | (100,449,207) | | 66,970,403 |
| Net cash (used in)/provided by operating activities | | | (80,591,332) | | 111,849,751 |
| **Cash flows from investing activities:** | | | | | |
| Acquisition of property and equipment | 11 | | (583,367) | | (67,241) |
| Acquisition of intangible assets | 12 | | (32,280) | | (743,240) |
| Purchase of investment securities | 6 | | (10,000,000) | | - |
| Proceeds from disposal of property and equipment | | | - | | 18,000 |
| Proceeds from maturity of investment securities | 6 | | - | | 459,900 |
| Net cash used in investing activities | | | (10,615,647) | | (332,581) |
| **Cash flows from financing activities:** | | | | | |
| Issuance of ordinary shares | 16 | | 49,517,333 | | - |
| Redemption of preference shares | 16 | | (3,400,000) | | (3,400,000) |
| Net cash provided by/(used in) financing activities | | | 46,117,333 | | (3,400,000) |
| 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 year | 5 | $ | 121,464,402 | $ | 166,554,048 |
| **Supplemental information:** | | | | | |
| Interest received | | $ | 37,943,229 | $ | 39,344,474 |
| Interest paid | | | 13,067,350 | | 15,698,668 |
| **Non-cash transaction:** | | | | | |
| Reclassification to non-current assets held for sale | 8 | $ | 1,198,568 | $ | - |
| Reclassification to investment property | 9 | | 1,383,455 | | - |
| Reclassification from fixed assets | 11 | | 2,582,023 | | - |

See accompanying notes to consolidated financial statements.

## 1. Corporate information

Bank of The Bahamas Limited (the "Bank"), incorporated under the laws of The Commonwealth of The Bahamas, 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 of The Bahamas.

The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange.

During the year, pursuant to a rights offering in September 2016, the Government of The Commonwealth of The Bahamas (the "Government") acquired the majority of an additional 14,814,814 ordinary voting shares issued by the Bank (Note 16). The Government also purchased $10 million of convertible bonds pursuant to the Bank's private placement in December, 2016. Effective June 30, 2017, this bond was converted to 6,756,756 ordinary voting shares (Note 16). As a result of these transactions, the ownership interest of the Government and NIB in the Bank increased. As at June 30, 2017, the Government and The National Insurance Board ("NIB") owned approximately 82.6% (2016 - 65%) 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 Claughton House, corner of Shirley Street and Charlotte Street, Nassau, Bahamas. The registered office is located at Sassoon House, corner of Shirley Street and Victoria Avenue, Nassau, The Bahamas.

The Bank's services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded stored value, prepaid and credit cards. As at June 30, 2017, the Bank has thirteen branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua, one in Cat Island and one in Eleuthera. Subsequently, the Bank opened a new branch in Bimini in August 2017 and closed one of the Grand Bahama branches in September 2017, while the Exuma branch is planned to be closed by December 31, 2017.

The Bank is an agent for American Express and for MoneyGram.

## 2. Basis of preparation

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

## 2. Basis of preparation *(continued)*

### (a) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern. The Bank has experienced continuing operating losses for the last several years and has an accumulated deficit at June 30, 2017 of $140,498,322 (2016 - $94,003,958).

As disclosed in Note 30, the Bank was non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2017 and 2016.

Management has developed a strategic plan intended to improve the operations and financial viability of the Bank that will support the Bank's continuing ability to operate as a going concern.

The Government, as majority shareholder, has confirmed that it remains firmly committed to supporting the continuing operations of the Bank, including the implementation of the strategic plan approved by the Board to address these deficiencies, and will ensure that adequate resources are provided to enable the Bank to satisfy its financial obligations and its regulatory capital requirements for at least the next twelve months and, in fact, for the foreseeable future.

As discussed in Note 33, subsequent to year end, the Bank transferred to Resolve (Note 13) loans with outstanding principal and accrued interest of $162 million, and a net book value of $49 million, in exchange for a $162 million promissory note and recognized the difference of approximately $113 million as special retained earnings. This transaction is expected to restore the Bank's regulatory capital ratios to compliance.

### (b) New and amended standards and interpretations

The accounting policies adopted are consistent with those used in the previous financial year. The Bank has adopted the following amendments to the standards during the year. Adoption of these amendments did not have any effect on the financial performance or position of the Bank.

- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 16 and IAS 38 – Classification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

***Standards issued but not yet effective***

Up to the date of issue of these consolidated financial statements, the IASB has issued several amendments, new standards and interpretations that are not yet effective for the year ended June 30, 2017 and that have not been adopted in these consolidated financial statements. Those which may be relevant to the Bank but which have not been early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2017:

- Amendments to IAS 7 - Disclosure Initiative

## 2. Basis of preparation *(continued)*

### *(b)* New and amended standards and interpretations *(continued)*

***Standards issued but not yet effective (continued)***

Effective for annual periods beginning on or after January 1, 2018:

- IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009) and IFRS 9 Financial Instruments (2013) (together IFRS 9)
- IFRS 15 Revenue from Contracts with Customers

The Bank is currently assessing the impact of the new and revised standards.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 32) as at June 30, 2017 and 2016. Subsidiaries are entities controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee, namely, existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank's voting rights and potential voting rights

The Bank re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation. The financial statements of subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies.

### (d) Change in accounting policy

During the prior year, the Bank made a change in accounting policy to align the general ledger classification of overdraft accounts with overdue interest of 90 days or more to the Bank's credit policy on causes of non-accrual, stating that they are to be classified as non-current overdrafts. This change had no effect on the consolidated financial position or results of operations for the current or corresponding reporting period.

## 3. Critical accounting judgments and key sources of estimation uncertainty

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions that cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one that is both important to the presentation of the Bank's financial position and results of operations and requires management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Management evaluates such estimates on an ongoing basis based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances.

*Property and equipment*

Property and equipment are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods. During the year ended June 30, 2017, the Bank recognized impairment losses of $273,568 (Note 11) (2016: $Nil).

*Depreciation and amortisation*

Depreciation and amortisation are based on management estimates of the future useful lives of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful lives and in the amortisation or depreciation charges. The Bank reviews the future useful lives of property and equipment and intangible assets periodically taking into consideration the factors mentioned above and all other important factors.

Estimated useful lives for similar types of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, and climate, among others. In case of significant changes in the estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

*Impairment losses on loans and advances to customers and banks*

Loans receivable are assessed for impairment on a monthly basis. Management's process for this assessment is presented in Note 4(d). Loans receivable are closely monitored, and adjustments made in future periods if the performance of the portfolio declines due to circumstances which arise during those periods.

*Investments*

Investment holdings are primarily Bahamas Government Registered Stock and are assessed for impairment on an ongoing basis. Management's process for this assessment is presented in Note 4(d). Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods.

## 3. Critical accounting judgments and key sources of estimation uncertainty *(continued)*

*Deferred loan fees*

Commitment fees received to originate a loan or fees that are an integral part of the effective interest rate of a financial instrument, together with the related transaction cost, are deferred and recognised as an adjustment of the effective interest rate. Management manually amortises the loan commitment fees using the effective interest rate method over the average loan terms.

## 4. Summary of significant accounting policies

The following accounting policies have been consistently applied by the Bank:

### (a) Revenue and expense recognition

*Interest and similar income and expense*

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate. The calculation of amortised costs takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expenses.

*Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions are generally recognised on an accrual basis when the service has been provided.

*Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

*Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### (b) Cash and cash equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash with The Central Bank of The Bahamas, amounts due from other banks, and short-term government securities.

## 4. Summary of significant accounting policies *(continued)*

### (c) Financial instruments

All financial assets and liabilities are initially recognised on the trade date, that is, the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

*Financial assets*

The Bank classifies its financial assets in the following categories: Loans and receivables; held-to-maturity investments; and available-for-sale investments. Management determines the classification of its investments at initial recognition.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank upon initial recognition designates as available-for-sale; or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment.

*(ii) Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR method, less impairment. Gains and losses are recognised in the consolidated statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

*(iii) Available-for-sale financial assets*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the consolidated statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the consolidated statement of comprehensive income.

## 4. Summary of significant accounting policies *(continued)*

### (c) Financial instruments *(continued)*

*Financial liabilities*

The Bank's financial liabilities include deposits from customers and banks and other liabilities. Deposits from customers and banks represent demand and time deposits held by the Bank for the benefit of third parties, except as disclosed in Note 25. The deposits are carried at amortised cost.

### (d) Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level; and
- Economic conditions in The Bahamas.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

**4. Summary of significant accounting policies** *(continued)*

**(d) Impairment of financial assets** *(continued)*

Non-accrual loans and overdrafts are identified as impaired and placed on a cash (non-accrual) basis when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principal is past due 90 days or more, except for loans that are fully secured and in the process of collection, and loans to or guaranteed by The Government. A loan is fully secured when the net realizable value of the collateral equals or exceeds the principal and outstanding interest. A loan is considered to be in the process of collection if the collection efforts are reasonably expected to result in repayment of principal and interest, or restoration to current status.

When a loan is identified as non-accrual, the accrual of interest is discontinued and any previously accrued but unpaid interest for the prior 90 day period is charged against current earnings. Thereafter, interest is included in earnings only to the extent actually received in cash. While accrued interest is tracked for non-accrual loans, it is not added to the principal nor recognised as income, but rather is suspended.

Cash basis loans are returned to accrual status when all contractual principal and interest amounts have been brought current, are reasonably assured of repayment and/or there is a sustained period of repayment performance in accordance with contractual terms.

*Provision for loan losses*

Provision for loan losses represents management's estimate of probable losses inherent in the loan portfolio. The provision for loan losses is increased by charges to operating expenses net of recoveries. Provision for loan losses is comprised of specific and a collective assessment.

The specific provision is maintained to reflect anticipated losses related to specific loans, or in the case of consumer loans that are not secured by real estate, on the aggregate portfolio. This specific provision is established for non-consumer loans and consumer loans secured by real estate individually when, in management's view, collection of interest and/or principal is doubtful. The amount of specific provision is based on the extent to which the principal is judged to be uncollectible.

The specific provision for an impaired collateral-dependent loan, where repayment is expected to be provided solely by the sale of the underlying collateral, is set at an amount equal to the difference between the principal balance and the estimated net realizable value of the collateral. Net realizable value represents the discounted fair value of the collateral less all costs associated with its disposition. For unsecured loans, the Bank calculates the provision by applying factors based on the past due status of the loans. Because of current economic conditions in The Bahamas, secured loans are further assessed for provision by applying additional factors based on the past due status of the loans.

## 4. Summary of significant accounting policies *(continued)*

### (d) Impairment of financial assets *(continued)*

*Provision for loan losses (continued)*

For the purposes of a collective assessment of impairment, loans are grouped based on the type of loans. Future cash flows for loans that are collectively evaluated for impairment are estimated based on the contractual cash flows of the loans with the Bank considering its historical loss experience, that is, average of actual write-offs in prior years for each type of loans and current observable data (e.g. unemployment rate) to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based. The Bank assigns certain weight factors in the historical loss experience and current observable data.

Consumer loans that are unsecured are fully provided for when they are contractually in arrears more than 360 days. All other loans are provided for when the following conditions exist: i) contractually in arrears; ii) underlying collateral has been exhausted; and iii) payment is past due. Where a loan is being provided for, the specific provision is increased to the principal amount and accrued interest of the loan.

*Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms, and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

*Available-for-sale (“AFS”) financial assets*

For AFS financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as AFS, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment. When an AFS financial asset is considered impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

## 4. Summary of significant accounting policies *(continued)*

### (d) Impairment of financial assets *(continued)*

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of net gain on AFS financial assets.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Held-to-maturity financial assets*

The Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses). Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss.

### (e) Derecognition of financial assets and financial liabilities

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
    - The Bank has transferred substantially all the risks and rewards of the asset, or
    - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 4. Summary of significant accounting policies *(continued)*

### (e) Derecognition of financial assets and financial liabilities *(continued)*

*Financial assets (continued)*

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### (f) Foreign currency

The reporting and functional currency of the Bank is the Bahamian dollar (B$). Transactions in foreign currencies are converted to B$ at the rates of exchange prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are converted into B$ at rates of exchange prevailing on the reporting date. Realized and unrealized foreign exchange gains and losses are included in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost or amortised cost are recorded at the exchange rate ruling at the date of transaction.

### (g) Property and equipment

Property and equipment (excluding one of the buildings) are stated at historical cost excluding day to day servicing, less accumulated depreciation and any accumulated impairment in value. The other building is stated at estimated salvage value of $384,951, with subsequent additions at cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

**4. Summary of significant accounting policies** *(continued)*

**(g) Property and equipment** *(continued)*

Depreciation and amortisation are calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

| | |
|---|---|
| Building | 50 years |
| Leasehold improvements | 3-5 years |
| Furniture, fixtures and equipment | 3-10 years |

Leasehold improvements are amortised over the shorter of the economic useful life of the asset or the lease term and taking into consideration any extension of the lease term if there is reasonable expectation of renewal. The amortisation term, however, does not exceed five years. Land is not depreciated.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of comprehensive income.

**(h) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

**(j) Related parties**

Related parties include all Ministries and Departments of the Government, Government Corporations, Subsidiaries and Agencies as well as directors and key management personnel of the Bank. All transactions with related parties are based on rates and terms used in the normal course of business, except for reduced rates for borrowings by the Bank's personnel.

## 4. Summary of significant accounting policies *(continued)*

### (k) Employee benefits

The Bank operates a defined contribution plan (the "Plan") where the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive payment obligations once contributions have been paid. The Plan allows eligible employees (those who have attained 18 years of age and confirmed in their positions) to contribute a minimum of 3.50% of their annual salaries and the Bank contributes 6.50%. Employees become fully vested after 5 years of plan membership. The Plan's costs are charged to general and administrative expenses and are funded as accrued.

The Bank operates an Employee Share Ownership Plan ("ESOP") where the Bank matches employees' share purchases up to 25%. The matching contributions vest over 5 years. The costs of the ESOP are charged to general administrative expenses.

### (l) Earnings/(Loss) per share

Basic earnings/(loss) per share is computed by dividing the net income/(loss) attributable to common shareholders by the weighted average number of shares outstanding during the year.

### (m) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Bank.

### (n) Taxes

Effective January 1, 2015, the Government implemented a value-added tax ("VAT") in the Commonwealth of The Bahamas. VAT is a broad-based consumption tax that would be applied to most goods and services bought locally or imported into the country or a consumption tax charged on goods and services locally bought or rendered. The standard rate for VAT is 7.5% and it is charged on all goods and services that are not zero-rated or exempt. Under the VAT Act, a business is required to register for and charge VAT if the past or future 12 months of taxable activity exceeds the $100,000 threshold. Businesses below the $100,000 threshold can choose to register voluntarily and will be required to fulfill all of the obligations of a Mandatory Registrant. All VAT registrants, including voluntary registrants, must display their VAT Certificates prominently, display VAT inclusive prices at the retail level, issue valid invoices and receipts, maintain proper accounts and records, file accurate and timely VAT returns, and remit the net VAT collected (output minus input VAT) to the government within the stipulated deadlines. The Bank is a VAT registrant and has remitted all VAT collected during the year to the Government within the stipulated deadlines.

### (o) Investment property

Investment property, which is property that management intends to develop for rental purposes, is measured initially at cost, including transaction costs and thereafter it is stated at fair value based on an appraisal by a local real estate appraiser. Additions to

## 4. Summary of significant accounting policies *(continued)*

### (o) Investment property *(continued)*

investment property are also recorded at cost. On an annual basis, the investment property is assessed for impairment with gains and losses arising from changes in the fair value of the investment property included in the consolidated statement of comprehensive income for the period in which they arise. The impairment assessment is based on fair values as determined by an independent appraisal performed every three years, and as determined by management in intervening years.

### (p) Computer software

Acquired computer software costs and licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line basis of accounting over the expected useful life. Software has a maximum expected useful life of 10 years.

### (q) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

### (r) Share capital

*(i) Share issue costs*

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

*(ii) Dividends on shares*

Dividends on common and preferred shares are recognised in equity in the period in which they are approved by the Bank's Directors and regulator.

*(iii) Treasury shares*

Where the Bank has purchased its own equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

### (s) Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and included in 'operating expenses', in the consolidated statement of comprehensive income.

### (t) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently

(Expressed in Bahamian Dollars)

## 4. Summary of significant accounting policies *(continued)*

### (t) Offsetting of financial instruments *(continued)*

enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. As at June 30, 2017 and 2016, there was no master netting agreements outstanding. Therefore, any related assets and liabilities are presented gross in the consolidated statement of financial position.

### (u) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within ‘Other liabilities’) at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the consolidated statement of comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated statement of comprehensive income. The premium received is recognised in the consolidated statement of comprehensive income in ‘Net fees and commission income’ on a straight-line basis over the life of the guarantee.

## 5. Cash and cash equivalents

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas (“the Central Bank”) of $24,487,020 (2016: $26,824,080). Mandatory reserve deposits represent the Bank’s regulatory requirement to maintain a percentage of deposit liabilities as cash or deposits with the Central Bank. These funds are not available to finance the Bank’s day-to-day operations. All balances with The Central Bank of The Bahamas are non-interest bearing.

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Cash | $ | 10,623,566 | $ | 10,045,505 |
| Deposits with the Central Bank non-interest bearing (Note 25) | | 87,346,086 | | 140,845,882 |
| Due from banks | | 47,981,770 | | 42,486,741 |
| Cash and due from banks (Note 31) | | 145,951,422 | | 193,378,128 |
| Less: mandatory reserve deposits with the Central Bank | | 24,487,020 | | 26,824,080 |
| Cash and cash equivalents | $ | 121,464,402 | $ | 166,554,048 |

(Expressed in Bahamian Dollars)

## 6. Investment securities

Investment securities comprise equity and debt securities classified into the following categories:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Available-For-Sale** | | | | |
| Bahamas Registered Stock (Note 25) | $ | 23,079,946 | $ | 13,194,500 |
| Equity Securities | | 1,477,972 | | 1,168,918 |
| Debt Securities | | 3,000,000 | | 3,000,000 |
| | | 27,557,918 | | 17,363,418 |
| **Held-To-Maturity** | | | | |
| Bahamas Registered Stock (Note 25) | | 13,698,100 | | 13,698,100 |
| Bridge Authority Bond (Note 25) | | 136,500 | | 136,500 |
| | | 13,834,600 | | 13,834,600 |
| **Total investment securities** | **$** | **41,392,518** | **$** | **31,198,018** |

As at year end, government securities mainly comprise of Bahamas Registered Stock which are variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.30% to 5.50% per annum (2016: from 4.80% to 6.00% per annum) and scheduled maturities between 2017 and 2035 (2016: between 2016 and 2035).

The movements in the categories of investment securities are as follows:

| | | Available-for-sale | | Held-to-maturity | | Total |
|---|---|---|---|---|---|---|
| At July 1, 2015 | $ | 17,252,784 | $ | 14,294,500 | $ | 31,547,284 |
| Maturities | | - | | (459,900) | | (459,900) |
| Net fair value gain (Note 18) | | 110,634 | | - | | 110,634 |
| **At June 30, 2016** | **$** | **17,363,418** | **$** | **13,834,600** | **$** | **31,198,018** |
| At July 1, 2016 | $ | 17,363,418 | $ | 13,834,600 | $ | 31,198,018 |
| Additions | | 10,000,000 | | - | | 10,000,000 |
| Net fair value gain (Note 18) | | 194,500 | | - | | 194,500 |
| **At June 30, 2017** | **$** | **27,557,918** | **$** | **13,834,600** | **$** | **41,392,518** |

(Expressed in Bahamian Dollars)

## 7. Loans and advances to customers, net

Loans and advances to customers are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Mortgage residential loans | $ | 270,943,623 | $ | 285,660,778 |
| Mortgage commercial loans | | 55,487,291 | | 67,634,900 |
| Commercial loans | | 174,005,998 | | 178,064,579 |
| Consumer loans | | 68,629,640 | | 50,302,933 |
| Credit cards | | 1,295,620 | | 2,009,501 |
| Business overdrafts | | 5,094,803 | | 6,344,992 |
| Personal overdrafts | | 494,311 | | 597,978 |
| Government guaranteed student loans | | 6,885,517 | | 6,988,774 |
| | $ | 582,836,803 | $ | 597,604,435 |

Loan loss provisions are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Less: Provision for loan losses** | | | | |
| At beginning of year | $ | 94,836,742 | $ | 72,441,789 |
| Amount written-off | | (4,195,126) | | (2,104,053) |
| Net provision charged to expense | | 51,957,793 | | 24,499,006 |
| At end of year | | 142,599,409 | | 94,836,742 |
| Accrued interest receivable | | 7,887,520 | | 7,116,460 |
| Loans and advances to customers, net | $ | 448,124,914 | $ | 509,884,153 |

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Specific Provisions** | | | | |
| Mortgage residential loans | $ | 42,566,985 | $ | 28,410,287 |
| Mortgage commercial loans | | 13,457,873 | | 21,250,696 |
| Commercial loans | | 73,428,754 | | 28,483,255 |
| Consumer loans | | 10,048,558 | | 11,201,888 |
| Credit and prepaid cards | | 145,356 | | 590,952 |
| | | 139,647,526 | | 89,937,078 |
| Portfolio assessment | | 2,951,883 | | 4,899,664 |
| | $ | 142,599,409 | $ | 94,836,742 |

(Expressed in Bahamian Dollars)

## 7. Loans and advances to customers, net *(continued)*

Included in the specific provisions on mortgage, commercial and consumer loans are specific provisions for certain business and personal overdrafts.

| | 2017 | 2016 |
|---|---|---|
| Provisions as a percentage of the net loan portfolio | 31.82% | 18.60% |
| Provisions and equity reserves as a percentage of the net loan portfolio | 32.71% | 19.38% |
| Provisions and equity reserves as a percentage of non-accrual loans | 59.36% | 42.08% |

Non-accrual (impaired) loans are as follows:

| | 2017 | 2016 |
|---|---|---|
| Mortgage residential loans | $ 84,794,684 | $ 82,222,789 |
| Mortgage commercial loans | 44,037,880 | 41,259,737 |
| Commercial loans and overdrafts | 103,494,244 | 92,869,464 |
| Consumer loans and overdrafts | 14,519,099 | 17,913,456 |
| Credit cards | 127,492 | 620,955 |
| | $ 246,973,399 | $ 234,886,401 |
| Percentage of loan portfolio (net) | 55.11% | 46.07% |
| Percentage of total assets | 32.68% | 27.52% |

During June 2016, the Bank termed out certain non-performing overdrafts to non-performing mortgage, commercial or consumer loans amounting to $38 million.

The following is an analysis of the concentration of loans and advances to customers by outstanding balances:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Value | No. of Loans and Overdrafts | Value | No. of Loans and Overdrafts |
| $0 - $ 10,000 | $ 6,238,443 | 5,199 | $ 7,431,095 | 5,572 |
| $10,001 - $ 25,000 | 17,343,941 | 1,031 | 18,435,222 | 1,104 |
| $25,001 - $ 50,000 | 26,856,894 | 738 | 23,788,118 | 668 |
| $50,001 - $ 100,000 | 59,025,175 | 827 | 43,021,789 | 585 |
| Over $ 100,000 | 473,372,350 | 1,430 | 504,928,211 | 1,508 |
| | $ 582,836,803 | 9,225 | $ 597,604,435 | 9,437 |

**7. Loans and advances to customers, net** *(continued)*

The following is an analysis of loans and advances by credit quality:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| In ($000s) | | | | |
| **Mortgage residential loans** | | | | |
| Neither past due or impaired | $ | 160,862 | $ | 176,848 |
| Past due but not impaired | | 25,287 | | 26,590 |
| Impaired | | 84,795 | | 82,223 |
| | $ | 270,944 | | 285,661 |
| **Mortgage commercial loans** | | | | |
| Neither past due or impaired | $ | 2,105 | $ | 16,380 |
| Past due but not impaired | | 9,344 | | 9,995 |
| Impaired | | 44,038 | | 41,260 |
| | $ | 55,487 | | 67,635 |
| **Commercial loans and overdrafts** | | | | |
| Neither past due or impaired | $ | 51,493 | $ | 70,980 |
| Past due but not impaired | | 24,114 | | 20,560 |
| Impaired | | 103,494 | | 92,869 |
| | $ | 179,101 | $ | 184,409 |
| **Consumer, GG student loans and overdrafts** | | | | |
| Neither past due or impaired | $ | 54,589 | $ | 35,769 |
| Past due but not impaired | | 6,901 | | 4,208 |
| Impaired | | 14,519 | | 17,913 |
| | $ | 76,009 | $ | 57,890 |
| **Credit cards** | | | | |
| Neither past due or impaired | $ | 1,036 | $ | 1,138 |
| Past due but not impaired | | 133 | | 250 |
| Impaired | | 127 | | 621 |
| | $ | 1,296 | $ | 2,009 |

In the opinion of management, the credit quality of the majority of loans and advances to customers that are neither past due or impaired is satisfactory.

## 7. Loans and advances to customers, net *(continued)*

| 2017, In ($000s) | | Principal | | Restructured | | Total |
|---|---|---|---|---|---|---|
| Mortgage residential loans | $ | 215,193 | $ | 55,751 | $ | 270,944 |
| Mortgage commercial loans | | 37,504 | | 17,983 | | 55,487 |
| Commercial loans and overdrafts | | 85,480 | | 93,621 | | 179,101 |
| Consumer loans, GG student loans and overdrafts | | 71,846 | | 4,163 | | 76,009 |
| Credit cards | | 1,296 | | - | | 1,296 |
| | $ | 411,319 | $ | 171,518 | $ | 582,837 |

| 2016, In ($000s) | | Principal | | Restructured | | Total |
|---|---|---|---|---|---|---|
| Mortgage residential loans | $ | 235,607 | $ | 50,054 | $ | 285,661 |
| Mortgage commercial loans | | 46,929 | | 20,706 | | 67,635 |
| Commercial loans and overdrafts | | 93,394 | | 91,015 | | 184,409 |
| Consumer loans, GG student loans and overdrafts | | 54,370 | | 3,520 | | 57,890 |
| Credit cards | | 2,009 | | - | | 2,009 |
| | $ | 432,309 | $ | 165,295 | $ | 597,604 |

The analysis of the age of loans and advances to customers that were past due but not impaired is as follows:

| | | | | | | **2017** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In ($000s) | | Mortgage Residential | | Mortgage Commercial | | Commercial | | Consumer | | Credit Card | | Total |
| Past due up to 29 days | $ | 13,100 | $ | 373 | $ | 17,375 | $ | 3,540 | $ | - | $ | 34,388 |
| Past due 30 - 59 days | | 9,037 | | 251 | | 5,590 | | 1,917 | | 112 | | 16,907 |
| Past due 60 - 89 days | | 3,150 | | 8,720 | | 1,149 | | 1,444 | | 21 | | 14,484 |
| | $ | 25,287 | $ | 9,344 | $ | 24,114 | $ | 6,901 | $ | 133 | $ | 65,779 |

| | | | | | | **2016** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In ($000s) | | Mortgage Residential | | Mortgage Commercial | | Commercial | | Consumer | | Credit Card | | Total |
| Past due up to 29 days | $ | 16,439 | $ | 699 | $ | 7,121 | $ | 1,574 | $ | - | $ | 25,833 |
| Past due 30 - 59 days | | 7,504 | | 551 | | 12,071 | | 1,371 | | 180 | | 21,677 |
| Past due 60 - 89 days | | 2,647 | | 8,745 | | 1,368 | | 1,263 | | 70 | | 14,093 |
| | $ | 26,590 | $ | 9,995 | $ | 20,560 | $ | 4,208 | $ | 250 | $ | 61,603 |

(Expressed in Bahamian Dollars)

## 8. Non-current assets held for sale

During June 2017, management determined that land and building which were conveyed to the Bank's subsidiary, BOB Property Holdings Ltd., in December 2013 will be recovered principally through a sale transaction rather than through continuing use. Accordingly, this land and building have been reclassified from property and equipment to non-current assets held for sale in the consolidated statement of financial position as at June 30, 2017. Management committed to a plan to sell the assets and a sales agreement was signed on June 22, 2017. Impairment losses of $273,568 for write-down of the assets to the lower of its carrying amount and its fair value less costs to sell have been included in other expenses (Note 22). The impairment loss has been applied to reduce the carrying amount of property, plant and equipment within the disposal group. At June 30, 2017, non-current assets held for sale were stated at fair value less costs to sell of $925,000 and have been classified as Level 3 in the fair value measurement hierarchy. There is no cumulative income or expenses included in other comprehensive income relating to the assets held for sale.

## 9. Investment property

The Bank owns land which is located at West Bay Street, Nassau.

During the prior year, it was management's intention to construct a commercial office complex on this land: 30% of the complex to be used to house the Bank's headquarters and a retail branch, and the remaining 70% to be used for commercial rental. As a result, management had classified the portion of land that had been allocated for use as its headquarters as fixed assets in accordance with IAS 16: Property, Plant and Equipment and the portion of land that had been allocated for commercial rental as investment property in accordance with IAS 40: Investment Property.

During the current year, management has determined that the Bank no longer plans to construct on the 30% portion of this land for its headquarters and that having this land for capital appreciation is more in line with the Bank's strategic goals. As a result, this portion of land was reclassified from property and equipment to investment property, and as at June 30, 2017, the entire land property is accounted for in accordance with IAS 40: Investment Property.

During June 2017, the Bank engaged the services of an independent real estate and valuation expert who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. The appraised value of $6,463,000 was allocated to the investment property.

The movement of Investment property during the year is as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Balance as at June 30, 2016 | $ | 4,340,000 | $ | 4,340,000 |
| Reclassification (Note 11) | | 1,383,455 | | - |
| Revaluation gains (Note 21) | | 739,545 | | - |
| **Balance as at June 30, 2017** | **$** | **6,463,000** | **$** | **4,340,000** |

(Expressed in Bahamian Dollars)

## 9. Investment property *(continued)*

This investment property has been classified as Level 3 in the fair value measurement hierarchy and there were no transfers from or to Level 3 during the period. The fair value of the investment property is based on the appraisal value using the sales comparison approach where the average sales price approximated $1,150,000 per acre.

Under the sales comparison approach, fair value is estimated using the assumption that title to the property is good and marketable and clear of any or all liens or encumbrances. All engineering is assumed to be correct and that there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. It is assumed that all applicable zoning, regulations and restrictions have been complied with and that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no trespass or encroachment.

## 10. Other assets

Other assets are comprised of the following:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Prepaid assets | $ | 5,117,758 | $ | 4,438,386 |
| Accrued interest receivable (Notes 6 and 13) | | 1,203,235 | | 1,109,385 |
| Accounts receivables | | 1,004,605 | | 328,187 |
| Clearing in transit | | 870,847 | | 117,705 |
| Other assets | | 676,969 | | 302,557 |
| | **$** | **8,873,414** | **$** | **6,296,220** |

Included in other assets is the Bank’s investment in the Bahamas Automated Clearing House Limited in the amount of $209,215 (2016: $209,403).

Included in Clearing in transit is a debit balance for USD cheque clearing of $ 1,076,517 (2016: $920,677) with a provision for impairment loss of $675,306 (2016: $806,113).

(Expressed in Bahamian Dollars)

## 11. Property and equipment, net

The movement in property and equipment during the year is as follows:

| | | Land and Building | | Leasehold Improvements | | Furniture, Fixtures and Equipment | | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as at June 30, 2015 | $ | 5,011,815 | $ | 6,560,683 | $ | 10,669,886 | $ | 22,242,384 |
| Additions | | - | | - | | 67,241 | | 67,241 |
| Disposal | | - | | (225,080) | | (59,257) | | (284,337) |
| Transfers | | - | | 204,308 | | (441,095) | | (236,787) |
| Balance as at June 30, 2016 | | 5,011,815 | | 6,539,911 | | 10,236,775 | | 21,788,501 |
| Additions | | - | | 39,969 | | 543,398 | | 583,367 |
| Reclassification (Note 8) | | (2,464,000) | | - | | - | | (2,464,000) |
| Reclassification (Note 9) | | (1,383,455) | | - | | - | | (1,383,455) |
| Balance as at June 30, 2017 | $ | 1,164,360 | $ | 6,579,880 | $ | 10,780,173 | $ | 18,524,413 |
| **Accumulated Depreciation** | | | | | | | | |
| Balance as at June 30, 2015 | $ | 818,807 | $ | 4,760,082 | $ | 6,493,771 | $ | 12,072,660 |
| Depreciation (Note 22) | | 35,276 | | 713,447 | | 1,296,642 | | 2,045,365 |
| Disposal | | - | | (225,080) | | (47,009) | | (272,089) |
| Balance as at June 30, 2016 | | 854,083 | | 5,248,449 | | 7,743,404 | | 13,845,936 |
| Depreciation (Note 22) | | 32,336 | | 689,747 | | 1,051,628 | | 1,773,711 |
| Disposal | | - | | - | | - | | - |
| Reclassification (Note 8) | | (151,579) | | - | | - | | (151,579) |
| Balance as at June 30, 2017 | $ | 734,840 | $ | 5,938,196 | $ | 8,795,032 | $ | 15,468,068 |
| **Accumulated Impairment** | | | | | | | | |
| Balance as at June 30, 2016 and 2015 | $ | 1,113,853 | | - | | - | $ | 1,113,853 |
| Impairment loss (Note 22) | | 273,568 | | - | | - | | 273,568 |
| Reclassification (Note 8) | | (1,387,421) | | - | | - | | (1,387,421) |
| Balance as at June 30, 2017 | $ | - | $ | - | $ | - | $ | - |
| **Net book value:** | | | | | | | | |
| Balance as at June 30, 2017 | $ | 429,520 | $ | 641,684 | $ | 1,985,141 | $ | 3,056,345 |
| Balance as at June 30, 2016 | $ | 3,043,879 | $ | 1,291,462 | $ | 2,493,371 | $ | 6,828,712 |

Land in the amount of $44,565 (2016: $1,997,495) is included in land and building.

Included as a part of property and equipment is work in progress and on which no depreciation has been charged in the amount of $803,252 (2016: $491,750).

(Expressed in Bahamian Dollars)

## 12. Computer software, net

| | | 2017 | | 2016 |
|---|---|---|---|---|
| At beginning of year | $ | 1,498,596 | $ | 1,049,403 |
| Additions | | 32,280 | | 743,240 |
| Amortisation (Note 22) | | (504,296) | | (530,834) |
| Transfers | | - | | 236,787 |
| At end of year | $ | 1,026,580 | $ | 1,498,596 |

## 13. Notes receivable and special retained earnings

During October 2014, the Government created a special purpose vehicle, Bahamas Resolve Limited ("Resolve"), that is owned and controlled by the Government. At that time, the Bank sold certain of its non-performing loans to Resolve, resulting in the following:

- Non-performing loans with a face value of $100 million and a net book value of approximately $45 million were derecognized.
- $100 million in unsecured promissory notes (the "Notes") were received for the non-performing loans and was recognized as an asset.
- The net difference of approximately $55 million between the Notes received and the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank's regulatory capital.
- The Bank has transferred all of its rights relating to the non-performing loans to Resolve and the Bank will have no rights to future cash flows from the non-performing loans. Resolve and not the Bank will bear all the risks and rewards of the non-performing loans subsequent to the transaction and Resolve and not the Bank will control the non-performing loans. The Bank will not have any continuing involvement in servicing the non-performing loans and the Bank's only rights will relate to the cash flows associated with the Notes. Further, the Bank will not be providing any form of future direct or indirect financing to the customers and loans transferred to Resolve and these customers will no longer be customers of the Bank.
- As a part of the transaction, the Bank received an irrevocable Letter of Support from the Government. The Letter of Support pledged the Government's support of Resolve to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.

(Expressed in Bahamian Dollars)

## 13. Notes receivable and special retained earnings *(continued)*

The Notes may not be redeemed prior to October 30, 2016. After such date, redemption may be made at any time prior to maturity in whole or from time to time in part at Resolve's option. The notes have a final maturity date of October 30, 2024. No redemptions were made in 2016 or 2017. As more fully described in Note 33, the notes became subject to early retirement between August 2017 and May 2018.

The Notes bear interest at the Bahamian Prime rate -0.50%, with interest payable semi-annually on the 30th day of April and the 30th day of October, commencing in 2015.

As at June 30, 2017, accrued interest receivable amount to $625,000 (2016: $708,333).

## 14. Deposits from customers and banks

Deposits from customers and banks are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Term deposits | $ | 349,008,544 | $ | 488,829,556 |
| Demand deposits | | 229,270,391 | | 202,988,625 |
| Savings accounts | | 82,919,241 | | 69,056,085 |
| | | 661,198,176 | | 760,874,266 |
| Accrued interest payable | | 2,705,531 | | 3,478,648 |
| | $ | 663,903,707 | $ | 764,352,914 |

The following is an analysis of the concentration of deposits from customers and banks by size of deposits:

| | | | 2017 | | | 2016 | |
|---|---|---|---|---|---|---|---|
| | | | Value | No. of Deposits | | Value | No. of Deposits |
| $0 | - $ 10,000 | $ | 32,608,505 | 58,970 | $ | 27,763,617 | 50,101 |
| $10,001 | - $ 25,000 | | 23,165,786 | 1,515 | | 20,802,842 | 1,344 |
| $25,001 | - $ 50,000 | | 23,121,634 | 655 | | 20,489,385 | 588 |
| $50,001 | - $100,000 | | 28,768,068 | 424 | | 27,474,158 | 404 |
| Over | $100,000 | | 553,534,183 | 626 | | 664,344,264 | 620 |
| | | $ | 661,198,176 | 62,190 | $ | 760,874,266 | 53,057 |

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $164,685 (2016: $188,495) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

(Expressed in Bahamian Dollars)

## 15. Other liabilities

Other liabilities consist of the following:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Accounts Payable | $ | 6,944,257 | $ | 2,017,806 |
| Other Liabilities | | 4,024,017 | | 4,171,070 |
| Clearing in transit | | 1,052,750 | | 837,893 |
| Cardholders Liability | | 5,094,899 | | 6,726,407 |
| Cheques and other items in transit | | 5,051,975 | | 5,077,822 |
| | $ | 22,167,898 | $ | 18,830,998 |

## 16. Share capital

Share capital at par value consists of the following:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Authorized: | | | | |
| 45,000 preference shares of B$1,000 each (2016: 45,000) | $ | 45,000,000 | $ | 45,000,000 |
| 105,000,000 Ordinary shares (voting) of B$1 each (2016: 105,000,000) | | 105,000,000 | | 105,000,000 |
| 10,000,000 Ordinary shares (non-voting) of B$1 each (2016: 10,000,000) | | 10,000,000 | | 10,000,000 |
| | $ | 160,000,000 | $ | 160,000,000 |
| Issued and fully paid: | | | | |
| 20,815.99 preference shares of B$1,000 each (2016: 24,215.99) | $ | 20,815,990 | $ | 24,215,990 |
| 36,936,549 Ordinary shares (voting) of B$1 each (2016: 15,364,979) | | 36,936,549 | | 15,364,979 |
| 6,022,945 Ordinary shares (non-voting) of B$1 each (2016: 6,022,945) | | 6,022,945 | | 6,022,945 |
| Treasury shares | | | | |
| 235,021 issued previously at B$1 each (2016: 235,021) | | 235,021 | | 235,021 |
| | $ | 64,010,505 | $ | 45,838,935 |

## 16. Share capital *(continued)*

*Ordinary shares*

Effective January 2006, the Bank had a rights offering resulting in the increase in ordinary shares from $12,000,000 to $15,600,000 and share premium from $7,589,064 to $28,587,866. During 2013, Class B ordinary shares (non-voting) were issued which resulted in a further increase of additional share capital and share premium.

On April 15, 2016, the Bank's shareholders approved the reclassification of the authorized and unissued preference shares of the Bank comprising 80,000 shares having a par value of $1,000 per share into 80,000,000 ordinary voting shares having a par value of $1.00 per share. The total authorized capital of the Bank remained unchanged at $160,000,000.

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 Government 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 and resulted in additional share premium of $24,702,519.

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. Effective June 30, 2017, this bond in the amount of $10 million was converted to 6,756,756 ordinary voting shares at a price of $1.48 per share which resulted in additional share premium of $3,243,244.

*Preference shares*

The Bank's shareholders approved resolutions to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares, redeemable at the discretion of the Board of Directors. On June 30, 2006 and during May 7, 2009 the Bank issued a total of B$15,000,000 and B$20,000,000 in redeemable preference shares at a rate of 2.00% and 2.50% above the Bahamian dollar prime rate which yields an effective interest rate of 6.75% and 7.25% respectively per annum. In accordance with International Financial Reporting Standards, as the preference shares are classified as equity, the dividends on these shares are paid out of retained earnings. Costs totaling $235,010 and $349,000 related to the preference share offering respectively were netted against the proceeds.

During the year, $3,400,000 (2016: $3,400,000) of preference shares were redeemed.

(Expressed in Bahamian Dollars)

## 16. Share capital *(continued)*

*Class B Ordinary shares*

During 2013, the Bank's shareholders approved resolutions to increase the authorized share capital of the Bank and allow for the issuance of a separate class of B$10,000,000 non-voting common shares. On June 28, 2013 the Bank issued a total of 6,022,945 Class B non-voting ordinary shares to its major shareholder at a share price of $5.23. Costs totaling $60,300 related to this common share offering were netted against the proceeds and resulted in additional share premium of $25,416,755.

## 17. Treasury shares

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at that time was 3,855 for $30,244, maintained until June 30, 2010. During 2011 and 2013, the Bank's Board of Directors approved the repurchase of $750,000 and $750,000 respectively of the Bank's own shares. The implementation of the share repurchase plan is a strategy to enhance the shareholder value to existing shareholders. There were no repurchase of shares during fiscal 2017 and 2016.

The balance in treasury shares at year end is as follows:

| | No. of Shares | | Value |
|---|---|---|---|
| Balance as at June 30, 2017 and 2016 | 235,021 | $ | 1,318,224 |

## 18. Reserves

Reserves are comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date and regulatory credit reserves for loan loss provisions. In circumstances where the Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is accounted for as an appropriation of retained earnings and is included in a non-distributable regulatory credit reserve in retained earnings. Banking regulations of the Central Bank require a general provision in respect of the Bank's loans of at least 1%. As of June 30, 2017, the regulatory credit reserves amount to $4,000,000 (2016: $4,000,000).

Reserves were comprised of:

| | | **2017** | | **2016** |
|---|---|---|---|---|
| Net gain on remeasurement of available-for-sale securities | $ | 1,140,730 | $ | 946,230 |
| Regulatory credit reserves allocated from retained earnings | | 4,000,000 | | 4,000,000 |
| | $ | 5,140,730 | $ | 4,946,230 |

(Expressed in Bahamian Dollars)

## 18. Reserves *(continued)*

Movement in reserves for the year was as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 4,946,230 | $ | 4,835,596 |
| Fair value gains, net during the year (Note 6) | | 194,500 | | 110,634 |
| **Balance, end of year** | $ | 5,140,730 | $ | 4,946,230 |

## 19. Net interest income

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Interest and similar income** | | | | |
| Cash and short term investments | $ | 123,869 | $ | 73,324 |
| Investment securities | | 1,764,457 | | 1,423,733 |
| Notes receivable | | 4,000,000 | | 4,250,000 |
| Loans and advances to customers | | 32,942,582 | | 34,262,088 |
| | | 38,830,908 | | 40,009,145 |
| **Interest and similar expense** | | | | |
| Banks and customers | | (12,294,233) | | (15,672,224) |
| Total net interest income | $ | 26,536,675 | $ | 24,336,921 |

## 20. Fees and commission income and expense

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Card services fees and commissions | $ | 2,890,773 | $ | 2,627,865 |
| Deposit services fees and commissions | | 2,832,583 | | 2,636,528 |
| Credit services fees and commissions | | 690,938 | | 193,783 |
| Other fees and commissions | | 504,851 | | 428,479 |
| Total fee and commission income | $ | 6,919,145 | $ | 5,886,655 |

Included in total fee and commission expense are fines and penalties paid to the Central Bank of The Bahamas for administrative monetary penalties and secondary reserve breaches of $228,829 (2016: $273,847).

(Expressed in Bahamian Dollars)

## 21. Other operating income

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Foreign exchange | $ | 2,161,066 | $ | 2,016,364 |
| Other | | 749,564 | | 2,043,026 |
| Revaluation gain on investment property (Note 9) | | 739,545 | | - |
| Total other operating income | $ | 3,650,175 | $ | 4,059,390 |

Other income during prior year includes a $1.3 million gain resulting from the reversal of rent expense accrual for a branch that closed during the prior year.

## 22. Operating expenses

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Staff costs | $ | 16,279,377 | $ | 16,739,267 |
| Licenses and other fees | | 4,567,787 | | 4,263,702 |
| Occupancy | | 3,506,103 | | 3,596,804 |
| Information technology | | 1,999,630 | | 1,854,408 |
| Other administrative expenses | | 1,311,771 | | 1,516,400 |
| Advertising, marketing and donations | | 481,894 | | 505,047 |
| Telecommunication and postage | | 367,342 | | 420,957 |
| Travel and entertainment | | 179,109 | | 254,728 |
| Impairment losses (Note 11) | | 273,568 | | 806,113 |
| Operating expenses | $ | 28,966,581 | $ | 29,957,426 |
| | | | | |
| Depreciation of property and equipment (Note 11) | $ | 1,773,711 | $ | 2,045,365 |
| Amortisation of software (Note 12) | | 504,296 | | 530,834 |
| Depreciation and amortisation | | 2,278,007 | | 2,576,199 |
| | | | | |
| Total operating expenses | $ | 31,244,588 | $ | 32,533,625 |

## 23. Contingencies

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act.

(Expressed in Bahamian Dollars)

## 23. Contingencies *(continued)*

*Legal claims*

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 that have not been accrued for in these consolidated financial statements will not be material.

## 24. Commitments

The approximate minimum rental commitments (exclusive of the effect of escalation clauses as to taxes, maintenance, etc.) under operating leases for the years ended June 30, 2017 and 2016 are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| No later than 1 year | $ | 502,430 | $ | 735,951 |
| Later than 1 year and no later than 5 years | | 670,865 | | 1,224,976 |
| Total | $ | 1,173,295 | $ | 1,960,927 |

Rental expense (including service charges) totaled $1,825,470 (2016: $1,833,239) and is included in occupancy costs within operating expenses (Note 22).

Certain leases contain renewal options for the next 5 years as well as escalation clauses. There are no contingent rent payables or any additional restrictions placed on these lease arrangements.

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

The Bank has a commitment for future capital expenditure of $53,556 (2016: $97,198).

The Bank has letters of credit and guarantees outstanding of $1,215,503 (2016: $1,095,900).

## 25. Transactions and balances with related parties

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2017 (2016: Nil). No provision expense has been recognised in these consolidated financial statements on loans to related parties.

(Expressed in Bahamian Dollars)

## 25. Transactions and balances with related parties *(continued)*

| | | Government | | Other Government Entities | | Key Management | | Total 2017 | | Total 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Deposits with the Central Bank (Note 5) | $ | - | $ | 87,346,086 | $ | - | $ | 87,346,086 | $ | 140,845,882 |
| Investment securities (Note 6) | | 36,914,546 | | - | | - | | 36,914,546 | | 27,029,100 |
| Loans and advances to customers | | 50,557 | | 3,168,151 | | $1,535,224 | | 4,753,932 | | 5,754,336 |
| Notes receivable (Note 13) | | | | 100,000,000 | | - | | 100,000,000 | | 100,000,000 |
| Other assets | | 576,484 | | 625,000 | | - | | 1,201,484 | | 1,107,885 |
| **Liabilities** | | | | | | | | | | |
| Deposits from customers and banks | $ | 73,943,336 | $ | 174,060,409 | $ | 522,496 | $ | 248,526,241 | $ | 403,931,534 |
| Other liabilities | | - | | 3,210,721 | | - | | 3,210,721 | | 3,349,533 |
| **Revenues** | | | | | | | | | | |
| Interest Income | $ | 1,728,247 | $ | 4,323,079 | $ | 70,640 | $ | 6,121,966 | $ | 5,920,214 |
| Total | $ | 1,728,247 | $ | 4,323,079 | $ | 70,640 | $ | 6,121,966 | $ | 5,920,214 |
| **Expenses** | | | | | | | | | | |
| Interest Expense | $ | 1,824,652 | $ | 4,659,834 | | $36,446 | $ | 6,520,932 | $ | 9,021,328 |
| Directors fees | | - | | - | | 208,544 | | 208,544 | | 275,000 |
| Other operating expenses | | 3,620,529 | | - | | - | | 3,620,529 | | 3,685,627 |
| Short-term employee benefits | | - | | - | | 1,546,007 | | 1,546,007 | | 1,896,127 |
| Pension expense | | - | | - | | 81,594 | | 81,594 | | 97,089 |
| Termination benefits | | - | | - | | 26,012 | | 26,012 | | 69,686 |
| Total | $ | 5,445,181 | $ | 4,659,834 | $ | 1,898,603 | $ | 12,003,618 | $ | 15,044,857 |

The Government paid $117,683 in director fees.

## 26. Employee benefits

The Bank has a defined contribution plan (the "Plan") in which eligible employees (those having attained 18 years of age and employed on a full-time basis for a continuous period of twelve months) contribute a minimum of 3.50% of their annual salaries and the Bank contributes 6.50%. Employees become fully vested after 5 years of plan membership. The plan assets are managed by an independent third party investment manager. Contributions for the year ended June 30, 2017 totaled $645,373 (2016: $681,680).

As at June 30, 2017, the Plan owns 152,986 (2016: 154,986) shares of the Bank. The holdings represent approximately 2.55% (2016: 8.72%) of the Plan's net assets.

As at June 30, 2017, the Plan has deposits totaling $215,759 (2016: $341,417) with the Bank.

The assets of the Plan are managed by Trustees that are independent from the Bank.

(Expressed in Bahamian Dollars)

## 27. Assets under administration

The Bank has assets under administration for clients in the Bank's fiduciary capacity as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Government guaranteed student education loans | $ | 67,875,134 | $ | 70,771,304 |
| Government guaranteed hurricane relief loans | $ | 41,785,536 | $ | - |
| Trust assets | $ | 102,364,827 | $ | 122,255,987 |

During the period, the Bank recognised fees totaling $165,092 (2016: $171,364) for the administration of the Government Guaranteed Student Loans program and $510,900 (2016: $Nil) for the administration of the Government Guaranteed Hurricane Relief Loans program.

## 28. Dividends and loss per share

Dividends to the Bank's shareholders are recognised as a liability in the period in which they are declared by the Board of Directors and approved by the Bank's Regulator. The Bank paid no dividends to ordinary shareholders during the reporting years.

Due to the Bank's accumulated deficit position, commencing July 2014 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 semi-annual disbursements to the preference shareholders. During the year ended June 30, 2016, a total of $1,846,000 was paid in respect of the preference dividends. There is no obligation for the Bank to repay the amount remitted. For the year ended June 30, 2017 the Government discontinued the semi-annual disbursements to the preference shareholders.

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Net loss attributable to ordinary shareholders | $ | (46,494,364) | $ | (23,406,635) |
| Weighted average number of ordinary shares outstanding | | 32,527,693 | | 21,387,924 |
| Basic loss per ordinary share | $ | (1.43) | $ | (1.09) |

## 29. Fair value of financial assets and liabilities

The fair values presented represent values at which financial instruments could be exchanged in a current transaction between willing parties. Where there is no available trading market, fair values are estimated using appropriate valuation techniques. The fair values of non-financial instruments, such as property and equipment and investment property, are explained in previous notes.

**29. Fair value of financial assets and liabilities** *(continued)*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes investment property, equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

As of June 30, 2017 the Bank held equity securities classified as available-for-sale totaling $1,477,972 (2016: $1,168,918) which have been valued as a Level 1 investment. All other available-for-sale investments totaling $26,079,946 (2016: $16,194,500) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy. Non-currents asset held for sale and investment property has been classified as Level 3 (Notes 8 and 9).

The following methods and assumptions have been used in determining fair value:

**Cash and cash equivalents, other assets and other liabilities**

Due to their short-term maturity, the carrying values of these financial instruments approximate their fair values.

**Investment securities**

The estimated fair values of investments are based on quoted market prices, when available. If quoted market prices are not available, management's best estimate of the fair value is based on significant market observable inputs.

**Loan and advances to customers**

For floating rate loans and advances to customers that are subject to re-pricing within a short period of time, fair values are assumed to be equal to their carrying values.

**Deposits**

The estimated fair values of deposits are assumed to be equal to their carrying values due to their short-term nature.

**Non-currents asset held for sale**

The estimated fair value of non-currents assets held for sale is based on a sales transaction. The fair value of non-currents assets held for sale reflects the market conditions at the date of the consolidated statement of financial position.

## 29. Fair value of financial assets and liabilities *(continued)*

### Investment property

The estimated fair value of investment property is based on an appraisal by a local real estate appraiser. The fair value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

## 30. Regulatory capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank. As at June 30, 2017 and 2016, as a result of the significant loan loss provisions recognised since prior and during the current fiscal years and the subsequent effects on retained earnings and the Bank's equity, the Bank was non-compliant with certain of its externally imposed capital ratio requirements.

### Capital risk management

The primary objectives of the Bank's capital management are to comply with externally imposed capital requirements, maintain strong capital ratios to support its business and to maximize shareholders' value.

The Bank typically manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The capital structure is designed to provide optimal risk absorption consistent with the risk profile of the Bank's consolidated statement of financial position. The capital mix is intended to maximize the return for shareholders. The Bank utilizes a balance of equity and debt issuances to achieve an ideal capital structure.

At June 30, 2017 and 2016, the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares, special retained earnings and accumulated deficit. Ongoing capital management includes the payment of dividends, common share issuances, redemption of preferences shares, maintenance of reserves and special retained earnings.

## 30. Regulatory capital *(continued)*

### Capital risk management *(continued)*

| (in $'000s) | | 2017 | | 2016 |
|---|---|---|---|---|
| Tier 1 capital | $ | 36,925 | $ | 33,430 |
| Tier 2 capital | | 27,038 | | 31,292 |
| Total capital | $ | 63,963 | $ | 64,722 |
| Risk weighted assets | $ | 461,789 | $ | 554,813 |
| CET1 must be at least 9.6% (2016: 9.6%) of Total Risk Weighted Assets | | 8.0% | | 6.0% |
| Total Tier 1 Capital must be at least 12.8% (2016: 12.8%) of Total Risk Weighted Assets | | 8.0% | | 6.0% |
| Total Capital must be at least 18.0% (2016: 17.0%) of Total Risk Weighted Assets | | 13.9% | | 11.7% |
| CET1 must be at least 75% (2016: 75%) of Total Tier 1 Capital | | 100.0% | | 100.0% |
| Total Tier 1 Capital must be a minimum of 75% (2016: 75%) of Total Tier 1 Capital | | 57.7% | | 51.7% |

Regulatory capital consists of Tier 1 capital, which comprises share capital, reserves less intangible assets, special retained earnings and accumulated deficit including current year's financial results. The other component of regulatory capital is Tier 2 capital, which comprises long term debt, revaluation reserves on available-for-sale securities and general provisions. Common Equity Tier 1 (CET1) comprises of common share capital, share premium, special retained earnings, accumulated deficit, accumulated other comprehensive income and other disclosed reserves.

Effective January 1, 2015, Basel III capital requirements were fully implemented which requires the Bank to maintain certain portions of capital with respect to components of Tier1 capital and Tier II capital in relation to capital ratios set by the Central Bank.

As of June 30, 2017 and 2016, the Bank was not in compliance with regulatory minimum requirements for the following ratios primarily due to the significant net losses recorded by the Bank and the consequential accumulated deficit position:

- CET1 to Total Risk Weighted Assets;
- Total Tier 1 Capital to Total Risk Weighted Assets;
- Total Capital to Total Risk Weighted Assets; and
- Total Tier 1 Capital to Total Capital

The Central Bank is aware of these regulatory deficiencies and has imposed certain supervisory interventions on the Bank. The Bank continues to report to the Central Bank on its progress.

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

## 31. Risk management

There are a number of risks inherent in banking that the Bank manages on an ongoing basis. Among these risks, the more significant are credit, operational, currency, liquidity, capital and interest rate risks.

### Credit risk

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. From this perspective, the Bank's significant exposure to credit risk is primarily concentrated in cash and due from banks, investments, notes receivable and loans. Cash, due from banks and investments are predominantly in Bahamian and United States dollars and have been placed with high quality institutions. The Bank maintains deposits in foreign currencies with top rated correspondent banks in the United States, Canada and the United Kingdom.

The Bank evaluates the concentration of risk with respect to the notes receivable as low, as the interest and principal sum is payable by Bahamas Resolve Limited ("Resolve"), which is a company wholly owned and controlled by the Government. An impairment analysis is performed at each reporting date by assessing the Government's ability to make the interest payments due on the Note, given that the Government has undertaken to support Resolve as more fully described in Note 13.

Credit risk arising from loans is mitigated through the employment of a credit risk management regime that sets limits for sector concentration, as well as single and related party exposure. The Board of Directors approves credit granting limits. In addition, the credit policies provide for credit facilities to be reviewed regularly by the Bank's credit risk management department, internal audit department and annual review by credit officers. Most of the Bank's loans are collateralized and guaranteed, thus providing further mitigation of credit risk.

The Bank assesses credit exposure on loans by utilizing risk ratings. The ratings are categorized into a variety of segments such as minimal risk, moderate risk, high risk and non-performing. The purpose of credit rating is to provide a simple, but effective and ongoing system of credit risk gradation by which relative credit worthiness of borrowers may be identified and accordingly the level of credit enhancements, degree of monitoring, frequency of reviews, level of provisioning, and pricing can be determined. The credit rating would reflect both the likelihood of default and the potential extent of loss given default.

The credit worthiness of most borrowers is not constant over time. For this reason, changes in ratings must reflect changes in the relative strength of the borrowers and in their obligations. Appropriate credit ratings must be assigned to every borrowing relationship. A rating must be assigned at the time of credit extension and reviewed and updated in each periodic review or if the situation warrants a change at any other time. A rating change highlights a change in the credit worthiness, or corrects a previous rating that did not fully reflect the quality of the credit. Because of their very nature, changes are to be expected more frequently among credits with lower ratings than among credits of higher ratings. Typically loans within the retail credit portfolio which are performing are not assessed for changes in ratings, unless the customer approaches the Bank for additional credit.

## 31. Risk management *(continued)*

### Credit risk *(continued)*

The assigning of a risk rating calls for professional judgment and can involve subjective elements. When a credit rating is assigned, all relevant information concerning the risk profile of the borrower is considered including, but not limited to, industry trends, economic climate, business environment and earnings track record. Consideration is given to such less quantifiable items such as opinion of management, perception of trustworthiness and character, hidden reserves and other factors.

The Bank conducts an impairment assessment on each of its loans. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment on an individual and portfolio basis. In managing credit risk, the Bank takes a holistic approach in assessing its impact and implications from a regulatory standpoint and potential consequences for liquidity and its capital.

Concentration of risks and financial assets with credit risk exposure are as follows:

| In ($000s) | | 2017 | | 2016 |
|---|---|---|---|---|
| **Cash and due from banks** | | | | |
| Neither past due or impaired | $ | 145,951 | $ | 193,378 |
| **Investment securities** | | | | |
| Neither past due or impaired | $ | 41,393 | $ | 31,198 |
| **Loans and advances to customers** | | | | |
| Neither past due or impaired | $ | 270,085 | $ | 301,115 |
| Past due but not impaired | | 65,779 | | 61,603 |
| Impaired | | 246,973 | | 234,886 |
| | $ | 582,837 | $ | 597,604 |
| **Notes receivable** | | | | |
| Neither past due or impaired | $ | 100,000 | $ | 100,000 |

Financial assets are past due when a counterparty has failed to make a payment when contractually due.

### Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently, the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies

## 31. Risk management *(continued)*

### Foreign exchange risk *(continued)*

will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarizes the Bank's exposure to foreign currency exchange risk at June 30, 2017 and 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

### Concentrations of currency risk

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| **(in $000s)** | **B$** | **US$** | **CAD$** | **GBP£** | **Other** | **Total** |
| **Assets** | | | | | | |
| Cash and central bank balances | $ 93,486 | $ 51,166 | $ 310 | $ 2 | $ 987 | $ 145,951 |
| Financial assets - available for sale | 23,080 | 4,478 | - | - | - | 27,558 |
| Financial assets - held to maturity | 13,835 | - | - | - | - | 13,835 |
| Loans and advances, net | 435,578 | 12,547 | - | - | - | 448,125 |
| Notes receivable | 100,000 | - | - | - | - | 100,000 |
| Total financial assets | $ 665,979 | $ 68,191 | $ 310 | $ 2 | $ 987 | $ 735,469 |
| **Liabilities** | | | | | | |
| Deposits from customers and banks | $ 629,704 | $ 33,363 | $ 427 | $ 35 | $ 375 | $ 663,904 |
| Cheques and other items in transit | 3,384 | 1,462 | 116 | 88 | 2 | 5,052 |
| Total financial liabilities | $ 633,088 | $ 34,825 | $ 543 | $ 123 | $ 377 | $ 668,956 |
| Net financial position | **$ 32,891** | **$ 33,366** | **$ (233)** | **$ (121)** | **$ 610** | **$ 66,513** |

| | | 2016 | | | | |
|---|---|---|---|---|---|---|
| **(in $000s)** | **B$** | **US$** | **CAD$** | **GBP£** | **Other** | **Total** |
| Total financial assets | $ 769,046 | $ 63,367 | $ 701 | $ 81 | $ 1,265 | $ 834,460 |
| Total financial liabilities | 738,703 | 29,638 | 608 | 125 | 357 | 769,431 |
| **Net financial position** | **$ 30,343** | **$ 33,729** | **$ 93** | **$ (44)** | **$ 908** | **$ 65,029** |

### Operational risk

Operational risk relates to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It is mitigated by documented policies and procedures, staff training and a risk-based internal audit regime.

## 31. Risk management *(continued)*

### Interest rate risk

Interest rate sensitivity or interest rate risk results from differences in the maturities or re-pricing dates of earning assets and paying liabilities. Interest rate risk exposures may produce favorable or unfavorable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. Interest rate gaps are carefully monitored and scenario tests performed to determine the potential impact of various gap exposures.

The Bank analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration changes in interest rates. Based on these scenarios, the Bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders' equity of a 100 basis point shift would be a maximum increase or decrease of $0.7 million (2016: $1.3 million).

### Liquidity risk

Liquidity risk reflects the risk that the Bank will not be able to meet an obligation when it becomes due or honor a deposit withdrawal request or service loans. The Bank maintains a portion of its deposits in cash and other liquid assets to mitigate this risk. On a daily basis, the Bank monitors its cash and other liquid assets to check that they sufficiently meet the Bank's requirements. In addition, the Bank performs regular gap analyses showing the maturity exposure arising from the different maturity of assets and liabilities. As is the case throughout the sector, those gap analyses show that the Bank is liability-sensitive in the short term. Regular scenario tests are performed to determine the extent to which the Bank can withstand unforeseen withdrawals and the cost associated with meeting such demands should they arise.

The following tables summarize the carrying amount of consolidated financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The actual maturity dates could be significantly different from the amounts in the table.

## 31. Risk management *(continued)*

### Liquidity risk *(continued)*

| (in $000s) | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | | | **2017** | | |
| Cash and cash equivalents | $ 142,640 | $ 3,311 | $ - | $ - | $ 145,951 |
| Investment securities | 65 | 3,244 | 9,952 | 28,132 | 41,393 |
| Loans and advances to customers, net | 3,355 | 7,236 | 48,112 | 389,422 | 448,125 |
| Notes receivable | - | - | - | 100,000 | 100,000 |
| Total financial assets | $ 146,060 | $ 13,791 | $ 58,064 | $ 517,554 | $ 735,469 |

| (in $000s) | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | | | **2017** | | |
| Deposits from customers and banks | $ 475,631 | $ 145,815 | $ 26,625 | $ 15,833 | $ 663,904 |
| Cheques and other items in transit | 5,052 | - | - | - | 5,052 |
| Total financial liabilities | $ 480,683 | $ 145,815 | $ 26,625 | $ 15,833 | $ 668,956 |
| Net position | $ (334,623) | $ (132,024) | $ 31,439 | $ 501,721 | $ 66,513 |

| (in $000s) | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | | | **2016** | | |
| Total financial assets | $ 249,023 | $ 6,431 | $ 66,896 | $ 512,110 | $ 834,460 |
| Total financial liabilities | 565,917 | 156,062 | 30,520 | 16,932 | 769,431 |
| Net position | $ (316,894) | $ (149,631) | $ 36,376 | $ 495,178 | $ 65,029 |

(Expressed in Bahamian Dollars)

## 32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2017 are as follows:

| Name | Place of Incorporation | Shareholding | Nature of business |
|---|---|---|---|
| Multi-Card Services Ltd. | Commonwealth of The Bahamas | 100% | Card processing and services |
| West Bay Property Holdings Ltd. | Commonwealth of The Bahamas | 100% | Investment Property |
| Bank of The Bahamas Trust Ltd. | Commonwealth of The Bahamas | 100% | Trust Company |
| BAHTCO Holdings Ltd. | Commonwealth of The Bahamas | 100% | Nominee Holding Company |
| BOB Property Holdings | Commonwealth of The Bahamas | 100% | Property Holding |

## 33. Subsequent events

On August 31, 2017, Resolve purchased loans from the Bank at a price equivalent to the gross book value of those loans before provisions. This transaction consists of three tranches, with the first tranche effective August 31, 2017, the second tranche effective September 18, 2017 and the third tranche to be completed during November 2017. The results of tranches 1 and 2 are as follows:

- A portfolio of non-performing loans with principal amount of $131 million and accrued interest receivable of $31 million, with a total net book value of approximately $49 million were derecognized.
- $162 million in unsecured promissory notes (the "Notes") was received for these loans and was recognized as an asset. The remaining $5.7 million from the total $167.7 million notes will be recognised during the third tranche.
- The net difference of approximately $113 million between the Notes received and the net book value of the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank's regulatory capital.
- The Bank has transferred all of its rights and obligations relating to the non-performing loans to Resolve without recourse and will have no rights to future cash flows from the non-performing loans.
- As a part of the transaction, the Bank received an irrevocable Letter of Support from the Government. The Letter of Support pledged the Government's support of Resolve to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.
- The Notes bear fixed interest at 3.5%, payable semi-annually on the 28th day of February and the 31st day of August, commencing in 2018.
- It is expected that this transaction will restore all of the Bank's regulatory capital ratios to compliance.

In addition, the Government has agreed to redeem the entire $100 million of the promissory notes from the first Resolve transaction (Note 13) between August 2017 to May 2018. The first $50 million principal redemption was made on August 31, 2017.