

BANK OF THE BAHAMAS LIMITED
Unaudited Condensed Consolidated Financial Statements
For the Period Ended September 30, 2018

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2018 with comparative figures as at June 30, 2018

(Expressed in Bahamian Dollars)

	September 30, 2018	June 30, 2018
ASSETS		
Cash and account with The Central Bank	\$ 83,031,634	\$ 123,537,932
Cash equivalents - Treasury Bills	92,972,180	56,726,814
Due from banks	55,228,824	43,678,603
Investment securities, net	67,007,629	64,521,278
Loans and advances to customers, net	331,314,917	351,489,088
Investment property	6,463,000	6,463,000
Other assets	10,432,311	16,093,374
Property and equipment, net	4,639,907	3,086,108
Computer software, net	823,879	898,026
Notes receivable, net	167,626,500	167,700,000
TOTAL	\$ 819,540,781	\$ 834,194,223
LIABILITIES		
Deposits from customers and banks	\$ 610,315,385	\$ 628,405,812
Other liabilities	28,888,930	22,482,469
Deferred loan fees	5,421,259	5,456,923
Total liabilities	644,625,574	656,345,204
EQUITY		
Share capital	57,610,505	57,860,505
Share premium	81,950,384	81,950,384
Treasury shares	(1,318,224)	(1,318,224)
Reserves	2,142,729	6,133,678
Special retained earnings	172,122,932	172,122,932
Accumulated deficit	(137,593,119)	(138,900,256)
Total equity	174,915,207	177,849,019
TOTAL	\$ 819,540,781	\$ 834,194,223

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended September 30, 2018

with comparatives for the three months ended September 30, 2017

(Expressed in Bahamian Dollars)

	Three Months	
	2018	2017
Interest and similar income	\$ 8,918,660	\$ 9,105,229
Interest and similar expenses	2,156,956	2,418,768
Net interest income	<u>\$ 6,761,704</u>	<u>6,686,461</u>
Fees and commission income	1,869,401	1,961,740
Fees and commission expense	93,572	115,106
Net fees and commission income	<u>1,775,829</u>	<u>1,846,634</u>
Other operating income	1,264,433	905,906
Total operating income	9,801,966	9,439,001
Credit loss expense, net	(1,118,198)	(1,590,426)
Net operating income	<u>8,683,768</u>	<u>7,848,575</u>
Operating expenses	6,717,397	7,190,924
Net income	<u>1,966,371</u>	<u>\$ 657,651</u>
Other comprehensive income		
Net gain on available-for-sale financial assets	9,051	180,610
Total comprehensive income for the year	<u>\$ 1,975,422</u>	<u>\$ 838,261</u>
EARNINGS PER SHARE CALCULATION:		
NET INCOME	\$ 1,966,371	\$ 657,651
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<u>42,959,494</u>	<u>42,959,494</u>
INCOME PER SHARE	<u>\$ 0.05</u>	<u>\$ 0.02</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended September 30, 2018
with comparatives for the three months ended September 30, 2017
(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total
Balance at June 30, 2017	\$ 64,010,505	\$ 81,950,384	\$ (1,318,224)	\$ 5,140,730	\$ 54,622,532	\$ (140,498,322)	\$ 63,907,605
<i>Total comprehensive income:</i>							
Net income for the year	-	-	-	-	-	657,651	657,651
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	180,610	-	-	180,610
<i>Transactions with owners of the Bank:</i>							
Special retained earnings	-	-	-	-	112,637,804	-	112,637,804
Balance at September 30, 2017	\$ 64,010,505	\$ 81,950,384	\$ (1,318,224)	\$ 5,321,340	\$ 167,260,336	\$ (139,840,671)	\$ 177,383,670
Balance at June 30, 2018	\$ 57,860,505	\$ 81,950,384	\$ (1,318,224)	\$ 6,133,678	\$ 172,122,932	\$ (138,900,256)	\$ 177,849,019
IFRS 9 Adjustments	-	-	-	(4,000,000)	-	(659,234)	(4,659,234)
<i>Total comprehensive income:</i>							
Net income for the year	-	-	-	-	-	1,966,371	1,966,371
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	9,051	-	-	9,051
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares	(250,000)	-	-	-	-	-	(250,000)
Balance at September 30, 2018	\$ 57,610,505	\$ 81,950,384	\$ (1,318,224)	\$ 2,142,729	\$ 172,122,932	\$ (137,593,119)	\$ 174,915,207

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended September 30, 2018

with comparatives for the three months ended September 30, 2017

(Expressed in Bahamian Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,966,371	\$ 657,651
Adjustments for:		
Depreciation and amortization	171,494	391,592
Loss on disposal of fixed assets	-	883
Net provision for loan losses	1,118,198	1,590,426
	<u>3,256,062</u>	<u>2,640,552</u>
Change in operating assets and liabilities	12,252,747	530,693
Decrease in loans and advances to customers, net	14,496,739	7,177,152
Decrease in deposits from customers and banks	(18,090,427)	(17,886,451)
Net cash provided by/(used in) operating activities	<u>11,915,122</u>	<u>(7,538,054)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,651,146)	(95,600)
Purchase of investment securities	(2,503,800)	-
Proceeds from disposal of property and equipment	-	25,800
Proceeds from maturity of investment securities	-	65,000
Net cash used in investing activities	<u>(4,154,946)</u>	<u>(4,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of preference shares	(250,000)	-
Redemption of notes receivable	-	50,000,000
Net cash (used in)/provided by financing activities	<u>(250,000)</u>	<u>50,000,000</u>
Net increase in cash and cash equivalents	7,510,176	42,457,146
Cash and cash equivalents, beginning of year	198,201,124	121,464,402
Cash and cash equivalents, end of year	<u>\$ 205,711,300</u>	<u>\$ 163,921,548</u>
SUPPLEMENTAL INFORMATION:		
Interest received	\$ 17,014,497	\$ 8,434,588
Interest paid	2,451,028	3,013,589

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

For the period ended September 30, 2018
(Expressed in Bahamian Dollars)

1. General 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 Banks and Trust Companies Regulations Act 2000. The Bank is also licensed as an authorized dealer pursuant to the Exchange Control Regulations Act and is the holder of a broker dealer license from the Securities Commission.

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange. 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 voting common shares issued by the Bank. 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 voting common shares. As a result of these transactions, the ownership interest of the Government and The National Insurance Board (“NIB”) in the Bank increased. As at September 30, 2018, the Government and NIB owned approximately 82.6% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

The Bank’s head office is located at Cloughton House, 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, Bahamas.

As at September 30, 2018, the Bank has twelve branches: four in New Providence, one in Grand Bahama (previously 2 branches, the other branch closed during September 2017), two in Andros, one in San Salvador, one in Inagua, one in Cat Island, one in Eleuthera and the newest branch in Bimini opened in August 2017. The branch in Exuma closed in December 2017.

2. Significant Accounting Policies

The significant accounting policies and methods of computation followed in the preparation of these interim consolidated financial statements are the same as those followed in the preparation of the annual consolidated financial statements of the Bank for the year ended June 30, 2018. These consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

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

For the period ended September 30, 2018
(Expressed in Bahamian Dollars)

2. Significant Accounting Policies *(continued)*

The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and under the historical cost basis, except for available-for-sale financial assets and investment property which have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies.

Change in Accounting Policy - IFRS 9

IFRS 9 Financial Instruments (“IFRS 9”) replaces IAS 39 Financial Instruments: Recognition and Measurement, and is effective for annual periods beginning on or after January 1, 2018, which for the Bank is effective on July 1, 2018. IFRS 9 is required to be applied on a retrospective basis, with certain exceptions, and as permitted by this new standard, the Bank did not restate its prior period comparative financial statements when it adopted the requirements of IFRS 9. The most significant impact on the Bank’s financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (“ECL”) model. This requires considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 are recognized in the opening retained earnings. The application of IFRS 9 reduced the Bank’s equity by approximately \$4.7 million as at July 1, 2018.

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

For the period ended September 30, 2018

(Expressed in Bahamian Dollars)

3. Dividends

Dividends to the Bank's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors and approved by the Bank's Regulator. Due to the Bank's accumulated deficit position since July 2014, the Government in its capacity as the major shareholder of the Bank deployed a part of its treasury deposits directly to the paying agent for semi-annual disbursements to the preference shareholders. There is no obligation for the Bank to repay the amount remitted. Subsequently, in December 2016, the Government discontinued the semi-annual disbursements to the preference shareholders. The Bank paid no dividends to common shareholders during the period.

4. Cash and Cash Equivalents

	September 30, 2018	June 30, 2018
Cash	\$ 19,511,898	\$ 21,146,294
Deposits with the Central Bank- non-interest bearing	63,519,736	102,391,638
Cash and account with the Central Bank	83,031,634	123,537,932
Cash equivalents - Treasury Bills	92,972,180	56,726,814
Due from Banks	55,228,824	43,678,603
Cash and due from Banks	231,232,638	223,943,349
Less: Mandatory reserve deposits with the Central Bank	(25,521,338)	(25,742,225)
Total cash and cash equivalents	\$ 205,711,300	\$ 198,201,124

As at September 30, 2018 the Bank's statutory reserve deposits with The Central Bank of The Bahamas were above Central Bank's regulatory requirement.

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

For the period ended September 30, 2018

(Expressed in Bahamian Dollars)

5. Loans and advances to customers, net

	September 30, 2018	June 30, 2018
Mortgage residential loans	\$ 240,136,945	\$ 244,481,245
Mortgage commercial loans	13,594,003	13,937,392
Commercial loans	74,796,393	77,540,327
Consumer loans	61,532,410	62,989,797
Credit cards	1,328,978	1,338,235
Business overdrafts	2,025,101	1,713,715
Personal overdrafts	455,992	477,329
Government guaranteed student loans	3,321,769	6,553,367
	397,191,591	409,031,407
Less: Provision for loan losses		
Provision at beginning of year	\$ 65,649,984	\$ 142,599,409
IFRS 9 Adjustment	4,559,234	-
Amount written-off	(483,912)	(570,607)
Amount written back (Note 8)	-	(83,947,003)
Net provision charged to expense	1,118,198	7,568,185
Provision at end of year	70,843,504	65,649,984
Accrued interest receivable	4,966,830	8,107,665
Loans and advances to customers, net	\$ 331,314,917	\$ 351,489,088
Provisions as a percentage of the net loan portfolio	21.38%	18.68%
Non-accrual loans as a percentage of the net loan portfolio	29.62%	28.92%

BANK OF THE BAHAMAS LIMITED

Selected Explanatory Notes to the Unaudited Condensed Consolidated Financial Statements

For the period ended September 30, 2018

(Expressed in Bahamian Dollars)

6. Notes Receivable and Special Retained Earnings

On August 31, 2017, Bahamas Resolve Limited (“Resolve”), a special purpose vehicle owned and controlled by the Government, purchased another portfolio of loans from the Bank at a price equivalent to the gross book value of those loans before provisions. This transaction consisted of three tranches effective August 31, 2017, September 18, 2017 and November 14, 2017. The results are as follows:

- A portfolio of non-performing loans principal amount of \$134.5 million, with a total net book value of approximately \$50.6 million and accrued interest receivable of \$33.2 million were derecognized.
- \$167.7 million in unsecured promissory note was received for these loans and was recognized as an asset.
- The net difference of approximately \$117.1 million between the promissory note 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. An additional \$0.4 million in fees and charges were recognized in Special Retained Earnings.
- 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 August 2018. The Bank received the accrued interest of \$5,716,085 on September 10, 2018. Accrued interest receivable as at September 30, 2018 amounted to \$489,125.
- Provision for impairment losses amounted to \$73,500.

In addition, the Government redeemed the entire \$100.0 million of the promissory notes from the first Resolve transaction between August 2017 and May 2018. The scheduled redemptions of \$50 million, \$19 million, \$19 million and \$12 million were made on August 31, 2017, November 30, 2017, February 28, 2018 and May 18, 2018, respectively.

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

For the period ended September 30, 2018

(Expressed in Bahamian Dollars)

7. Regulatory Capital

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

(in \$'000s)	September 30, 2018	June 30, 2018
Tier 1 capital	\$ 157,762	\$ 156,040
Tier 2 capital	16,558	20,522
Total capital	<u>\$ 174,320</u>	<u>\$ 176,562</u>
 Risk weighted assets	 <u>\$ 371,017</u>	 <u>\$ 391,468</u>

Ratios

CET1 must be at least 9.6% of total Risk Weighted Assets	42.5%	39.9%
Total Tier 1 Capital must be at least 12.8% of Total Risk Weighted Assets	42.5%	39.9%
Total Capital must be at least 18.0% of Total Risk Weighted Assets	47.0%	45.1%
CET1 must be at least 75% of Total Tier 1 Capital	100.0%	100.0%
Total Tier 1 Capital must be a minimum of 75% of Total Capital	90.5%	88.4%

Commencing December 2014 through to December 2016, the Bank redeemed \$3,400,000 of preference shares annually. On December 31, 2017 and September 30, 2018, the Bank redeemed \$6,150,000 and \$250,000 of preference shares respectively.

8. Commitments and Contingencies*Commitments*

The commitment for loans and advances at September 30, 2018 was \$5,514,792 (June 30, 2018: \$4,670,352).

BANK OF THE BAHAMAS LIMITED

Selected Explanatory Notes to the Unaudited Condensed Consolidated Financial Statements

For the period ended September 30, 2018

(Expressed in Bahamian Dollars)

8. Commitments and Contingencies *(continued)*

Contingencies

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has legal counsel 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 the interim financial statements will not be material.