

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

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018 with comparative figures as at June 30, 2017
(Expressed in Bahamian Dollars)

	June 30, 2018	June 30, 2017
ASSETS		
Cash and account with The Central Bank	\$ 123,537,932	\$ 97,969,652
Cash equivalents - Treasury Bills	56,618,043	-
Due from banks	43,678,603	47,981,770
Investment securities	64,521,278	41,392,518
Loans and advances to customers, net	351,489,088	448,124,914
Non-current assets held for sale	-	925,000
Investment property	6,463,000	6,463,000
Other assets	14,968,127	8,873,414
Property and equipment, net	3,086,109	3,056,345
Computer software, net	898,026	1,026,580
Notes receivable	167,700,000	100,000,000
TOTAL	\$ 832,960,206	\$ 755,813,193
LIABILITIES		
Deposits from customers and banks	\$ 628,405,754	\$ 663,903,707
Other liabilities	21,307,684	22,167,898
Deferred loan fees	5,826,104	5,833,983
Total liabilities	655,539,542	691,905,588
EQUITY		
Share capital	57,860,505	64,010,505
Share premium	81,950,384	81,950,384
Treasury shares	(1,318,224)	(1,318,224)
General reserve	4,000,000	4,000,000
Valuation reserve	2,133,678	1,140,730
Special retained earnings	171,753,357	54,622,532
Accumulated deficit	(138,959,036)	(140,498,322)
Total equity	177,420,664	63,907,605
TOTAL	\$ 832,960,206	\$ 755,813,193

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Three Months		Twelve Months	
	2018	2017	2018	2017
Interest and similar income	\$ 8,837,401	\$ 9,774,734	\$ 36,791,031	\$ 38,830,908
Interest and similar expenses	2,214,169	2,274,068	9,206,684	12,294,233
Net interest income	<u>\$ 6,623,232</u>	<u>7,500,666</u>	<u>27,584,347</u>	<u>26,536,675</u>
Fees and commission income	2,168,358	1,942,290	8,152,375	6,919,145
Fees and commission expense	105,573	269,507	447,115	515,661
Net fees and commission income	<u>2,062,785</u>	<u>1,672,783</u>	<u>7,705,260</u>	<u>6,403,484</u>
Other operating income	795,514	1,603,718	3,578,652	3,650,175
Total operating income	9,481,531	10,777,167	38,868,259	36,590,334
Credit loss expense, net	(1,553,745)	(38,099,511)	(7,568,185)	(51,957,793)
Net operating income	<u>7,927,786</u>	<u>(27,322,344)</u>	<u>31,300,074</u>	<u>(15,367,459)</u>
Operating expenses	7,462,169	8,264,605	29,760,788	31,244,588
Government Subsidy	-	117,683	-	117,683
Net income/(loss)	<u>465,617</u>	<u>\$ (35,469,266)</u>	<u>1,539,286</u>	<u>\$ (46,494,364)</u>
Other comprehensive income				
Net gain/(loss) on available-for-sale financial assets	329,046	(37,172)	992,948	194,500
Total comprehensive income/(loss) for the year	<u>\$ 794,663</u>	<u>\$ (35,506,438)</u>	<u>\$ 2,532,234</u>	<u>\$ (46,299,864)</u>
EARNINGS PER SHARE CALCULATION:				
NET INCOME/(LOSS)	\$ 465,617	\$ (35,469,266)	\$ 1,539,286	\$ (46,494,364)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<u>42,959,494</u>	<u>32,527,693</u>	<u>42,959,494</u>	<u>32,527,693</u>
INCOME/(LOSS) PER SHARE	<u>\$ 0.01</u>	<u>\$ (1.09)</u>	<u>\$ 0.04</u>	<u>\$ (1.43)</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total
Balance at June 30, 2016	\$ 45,838,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,946,230	\$ 54,622,532	\$ (94,003,958)	\$ 64,090,136
<i>Total comprehensive loss:</i>							
Net loss for the year	-	-	-	-	-	(46,494,364)	(46,494,364)
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	194,500	-	-	194,500
<i>Transactions with owners of the Bank:</i>							
Issuance of ordinary shares	21,571,570	27,945,763	-	-	-	-	49,517,333
Redemption of preference shares	(3,400,000)	-	-	-	-	-	(3,400,000)
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
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	-	-	-	-	-	1,539,286	1,539,286
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	992,948	-	-	992,948
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares	(6,150,000)	-	-	-	-	-	(6,150,000)
Special retained earnings	-	-	-	-	117,130,825	-	117,130,825
Balance at June 30, 2018	\$ 57,860,505	\$ 81,950,384	\$ (1,318,224)	\$ 6,133,678	\$ 171,753,357	\$ (138,959,036)	\$ 177,420,664

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 1,539,286	\$ (46,494,364)
Adjustments for:		
Depreciation and amortization	1,382,088	2,278,007
Impairment losses	-	273,568
Gain on revaluation of investment property	-	(739,545)
Loss on disposal of fixed assets	(1,617)	-
Net provision for loan losses	7,568,185	51,957,793
	<u>10,487,942</u>	<u>7,275,459</u>
Change in operating assets and liabilities	(8,218,012)	2,780,970
Decrease in loans and advances to customers, net	38,498,466	9,801,446
Decrease in deposits from customers and banks	(35,497,953)	(100,449,207)
Net cash provided by/(used in) operating activities	<u>5,270,443</u>	<u>(80,591,332)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,170,165)	(583,367)
Acquisition of computer software	(139,816)	(32,280)
Purchase of investment securities	(25,200,812)	(10,000,000)
Proceeds from sale of non current asset, net	925,000	-
Proceeds from disposal of property and equipment	28,300	-
Proceeds from maturity of investment securities	3,065,000	-
Net cash used in investing activities	<u>(22,492,493)</u>	<u>(10,615,647)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of notes receivable	100,000,000	-
Redemption of preference shares	(6,150,000)	(3,400,000)
Issuance of ordinary shares	-	49,517,333
Net cash provided by financing activities	<u>93,850,000</u>	<u>46,117,333</u>
Net increase/(decrease) in cash and cash equivalents	<u>76,627,950</u>	<u>(45,089,646)</u>
Cash and cash equivalents, beginning of year	121,464,402	166,554,048
Cash and cash equivalents, end of year	<u>\$ 198,092,352</u>	<u>\$ 121,464,402</u>
SUPPLEMENTAL INFORMATION:		
Interest received	\$ 36,619,929	\$ 37,943,229
Interest paid	9,587,634	13,067,350
NON-CASH TRANSACTION:		
Non-cash transaction:		
Reclassification to non-current assets held for sale	\$ -	\$ 1,198,568
Reclassification to investment property	-	1,383,455
Reclassification from fixed assets	-	2,582,023
Derecognition of loans and advances, net	50,569,175	-
Recognition of notes receivable	167,700,000	-
Special retained earnings	117,130,825	-

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

For the year ended June 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 ordinary voting 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 ordinary voting shares. As a result of these transactions, the ownership interest of the Government and The National Insurance Board (“NIB”) in the Bank increased. The Government and NIB own 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 June 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, 2017. 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 year ended June 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.

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.

4. Cash and Cash Equivalents

	June 30, 2018	June 30, 2017
Cash	\$ 21,146,294	\$ 10,623,566
Deposits with the Central Bank- non-interest bearing	102,391,638	87,346,086
Cash equivalents - Treasury Bills	56,618,042	-
Due from Banks	43,678,603	47,981,770
Cash and due from Banks	223,834,577	145,951,422
Less: Mandatory reserve deposits with the Central Bank	(25,742,225)	(24,487,020)
Total cash and cash equivalents	\$ 198,092,352	\$ 121,464,402

As at June 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 year ended June 30, 2018
(Expressed in Bahamian Dollars)

5. Loans and advances to customers, net

	June 30, 2018	June 30, 2017
Mortgage residential loans	\$ 244,481,245	\$ 270,943,623
Mortgage commercial loans	13,937,392	55,487,291
Commercial loans	77,540,327	174,005,998
Consumer loans	62,989,797	68,629,640
Credit cards	1,338,235	1,295,620
Business overdrafts	1,713,715	5,094,803
Personal overdrafts	477,329	494,311
Government guaranteed student loans	6,553,367	6,885,517
	<u>409,031,406</u>	<u>582,836,803</u>
Less: Provision for loan losses		
Provision at beginning of year	\$ 142,599,409	\$ 94,836,742
Amount written-off	(570,609)	(4,195,126)
Amount written back (Note 8)	(83,947,003)	-
Net provision charged to expense	7,568,185	51,957,793
Provision at end of year	<u>65,649,982</u>	<u>142,599,409</u>
Accrued interest receivable	8,107,664	7,887,520
Loans and advances to customers, net	<u>\$ 351,489,088</u>	<u>\$ 448,124,914</u>

6. Commitments and Contingencies

Commitment

The commitment for loans and advances at June 30, 2018 was \$4,670,352 (June 30, 2017: \$7,455,948).

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.

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

For the year ended June 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 and Additional Tier 1 capital.

(in \$'000s)	June 30, 2018	June 30, 2017
Tier 1 capital	\$ 156,100	\$ 36,925
Tier 2 capital	20,522	27,038
Total capital	<u>\$ 176,622</u>	<u>\$ 63,963</u>
 Risk weighted assets	 <u>\$ 390,117</u>	 <u>\$ 461,789</u>

Ratios

CET1 must be at least 9.6% of total Risk Weighted Assets	40.0%	8.0%
Total Tier 1 Capital must be at least 12.8% of Total Risk Weighted Assets	40.0%	8.0%
Total Capital must be at least 18.0% of Total Risk Weighted Assets	45.3%	13.9%
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	88.4%	57.7%

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

8. 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 consists 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 \$33.7 million were derecognized.

BANK OF THE BAHAMAS LIMITED

Selected Explanatory Notes to the Unaudited Condensed Consolidated Financial Statements

For the year ended June 30, 2018

(Expressed in Bahamian Dollars)

8. Notes Receivable and Special Retained Earnings *(continued)*

- \$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.
- 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.

In addition, the Government has 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.