

**BANK OF THE BAHAMAS LIMITED**  
**Unaudited Condensed Consolidated Financial Statements**  
**For the Period Ended December 31, 2018**

# BANK OF THE BAHAMAS LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018 with comparative figures as at June 30, 2018

(Expressed in Bahamian Dollars)

|  | December 31,<br>2018  | June 30,<br>2018      |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>                          |                       |                       |
| Cash and account with The Central Bank | \$ 97,705,865         | \$ 123,537,932        |
| Cash equivalents - Treasury Bills      | 59,910,830            | 56,726,814            |
| Due from banks                         | 61,296,393            | 43,678,603            |
| Investment securities, net             | 66,707,999            | 64,521,278            |
| Loans and advances to customers, net   | 326,580,918           | 351,489,088           |
| Investment property                    | 6,463,000             | 6,463,000             |
| Other assets                           | 10,851,962            | 16,093,374            |
| Property and equipment, net            | 5,131,588             | 3,086,108             |
| Computer software, net                 | 892,837               | 898,026               |
| Notes receivable, net                  | 167,626,500           | 167,700,000           |
| <b>TOTAL</b>                           | <b>\$ 803,167,892</b> | <b>\$ 834,194,223</b> |
| <b>LIABILITIES</b>                     |                       |                       |
| Deposits from customers and banks      | \$ 618,403,850        | \$ 628,405,812        |
| Other liabilities                      | 19,579,425            | 22,482,469            |
| Deferred loan fees                     | 5,238,536             | 5,456,923             |
| <b>Total liabilities</b>               | <b>643,221,811</b>    | <b>656,345,204</b>    |
| <b>EQUITY</b>                          |                       |                       |
| Share capital                          | 42,610,505            | 57,860,505            |
| Share premium                          | 81,950,384            | 81,950,384            |
| Treasury shares                        | (1,318,224)           | (1,318,224)           |
| Reserves                               | 1,856,685             | 6,133,678             |
| Special retained earnings              | 172,122,932           | 172,122,932           |
| Accumulated deficit                    | (137,276,201)         | (138,900,256)         |
| <b>Total equity</b>                    | <b>159,946,081</b>    | <b>177,849,019</b>    |
| <b>TOTAL</b>                           | <b>\$ 803,167,892</b> | <b>\$ 834,194,223</b> |

# BANK OF THE BAHAMAS LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended December 31, 2018  
with comparatives for the six month period ended December 31, 2017  
(Expressed in Bahamian Dollars)

|  | Three Months        |                     | Six Months          |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 2018                | 2017                | 2018                | 2017                |
| Interest and similar income                            | \$ 8,916,321        | \$ 9,692,337        | \$ 17,834,982       | \$ 18,797,565       |
| Interest and similar expenses                          | 2,124,764           | 2,335,335           | 4,281,721           | 4,754,102           |
| Net interest income                                    | <u>\$ 6,791,557</u> | <u>7,357,002</u>    | <u>13,553,261</u>   | <u>14,043,463</u>   |
| Fees and commission income                             | 2,075,615           | 2,015,499           | 3,945,016           | 3,977,239           |
| Fees and commission expense                            | 121,937             | 71,249              | 215,509             | 186,355             |
| Net fees and commission income                         | <u>1,953,678</u>    | <u>1,944,250</u>    | <u>3,729,507</u>    | <u>3,790,884</u>    |
| Other operating income                                 | 930,834             | 841,491             | 2,195,267           | 1,747,397           |
| Total operating income                                 | 9,676,069           | 10,142,743          | 19,478,035          | 19,581,744          |
| Credit loss expense, net                               | (993,059)           | (1,701,874)         | (2,111,257)         | (3,292,300)         |
| Net operating income                                   | <u>8,683,010</u>    | <u>8,440,869</u>    | <u>17,366,778</u>   | <u>16,289,444</u>   |
| Operating expenses                                     | 6,819,842           | 7,647,714           | 13,537,239          | 14,838,638          |
| Net income   | <u>1,863,168</u>    | <u>\$ 793,155</u>   | <u>3,829,539</u>    | <u>\$ 1,450,806</u> |
| <b>Other comprehensive income</b>                      |                     |                     |                     |                     |
| Net (loss)/gain on available-for-sale financial assets | (286,044)           | 256,541             | (276,993)           | 437,151             |
| Total comprehensive income for the period              | <u>\$ 1,577,124</u> | <u>\$ 1,049,696</u> | <u>\$ 3,552,546</u> | <u>\$ 1,887,957</u> |
| <b>EARNINGS PER SHARE CALCULATION:</b>                 |                     |                     |                     |                     |
| NET INCOME   | \$ 1,863,168        | \$ 793,155          | \$ 3,829,539        | \$ 1,450,806        |
| WEIGHTED AVERAGE NUMBER OF<br>COMMON SHARES            | <u>42,959,494</u>   | <u>42,959,494</u>   | <u>42,959,494</u>   | <u>42,959,494</u>   |
| INCOME PER SHARE                                       | <u>\$ 0.04</u>      | <u>\$ 0.02</u>      | <u>\$ 0.09</u>      | <u>\$ 0.03</u>      |

# BANK OF THE BAHAMAS LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended December 31, 2018  
with comparatives for the six month period ended December 31, 2017  
(Expressed in Bahamian Dollars)

|  | Share<br>Capital     | Share<br>Premium     | Treasury<br>Shares    | Reserves            | Special<br>Retained<br>Earnings | Accumulated<br>Deficit  | Total                 |
|--|----------------------|----------------------|-----------------------|---------------------|---------------------------------|-------------------------|-----------------------|
| <b>Balance at June 30, 2017</b>                    | \$ 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 period                          | -                    | -                    | -                     | -                   | -                               | 1,450,806               | 1,450,806             |
| <i>Other comprehensive income:</i>                 |                      |                      |                       |                     |                                 |                         |                       |
| Net gain on available-for-sale<br>financial assets | -                    | -                    | -                     | 437,151             | -                               | -                       | 437,151               |
| <i>Transactions with owners of the Bank:</i>       |                      |                      |                       |                     |                                 |                         |                       |
| Special retained earnings                          | -                    | -                    | -                     | -                   | 117,130,825                     | -                       | 117,130,825           |
| Redemption of preference shares                    | (6,098,000)          | -                    | -                     | -                   | -                               | -                       | (6,098,000)           |
| <b>Balance at December 31, 2017</b>                | <b>\$ 57,912,505</b> | <b>\$ 81,950,384</b> | <b>\$ (1,318,224)</b> | <b>\$ 5,577,881</b> | <b>\$ 171,753,357</b>           | <b>\$ (139,047,516)</b> | <b>\$ 176,828,387</b> |
| <br>   |                      |                      |                       |                     |                                 |                         |                       |
| <b>Balance at June 30, 2018</b>                    | \$ 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 period                          | -                    | -                    | -                     | -                   | -                               | 3,829,539               | 3,829,539             |
| <i>Other comprehensive income:</i>                 |                      |                      |                       |                     |                                 |                         |                       |
| Net loss on available-for-sale<br>financial assets | -                    | -                    | -                     | (276,993)           | -                               | -                       | (276,993)             |
| <i>Transactions with owners of the Bank:</i>       |                      |                      |                       |                     |                                 |                         |                       |
| Redemption of preference shares                    | (15,250,000)         | -                    | -                     | -                   | -                               | -                       | (15,250,000)          |
| Dividends on preference shares                     | -                    | -                    | -                     | -                   | -                               | (1,546,250)             | (1,546,250)           |
| <b>Balance at December 31, 2018</b>                | <b>\$ 42,610,505</b> | <b>\$ 81,950,384</b> | <b>\$ (1,318,224)</b> | <b>\$ 1,856,685</b> | <b>\$ 172,122,932</b>           | <b>\$ (137,276,201)</b> | <b>\$ 159,946,081</b> |

# BANK OF THE BAHAMAS LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended December 31, 2018

with comparatives for the six month period ended December 31, 2017

(Expressed in Bahamian Dollars)

|  | 2018                         | 2017                         |
|--|------------------------------|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>         |                              |                              |
| Net income   | \$ 3,829,539                 | \$ 1,450,806                 |
| Adjustments for:                                     |                              |                              |
| Depreciation and amortization                        | 325,697                      | 785,627                      |
| Loss on disposal of fixed assets                     | -                            | 883                          |
| Net provision for loan losses                        | 2,111,257                    | 3,292,300                    |
|  | <u>6,266,493</u>             | <u>5,529,616</u>             |
| Change in operating assets and liabilities           | 3,004,516                    | (795,042)                    |
| Decrease in loans and advances to customers, net     | 18,237,680                   | 12,471,635                   |
| Decrease in deposits from customers and banks        | (10,001,962)                 | (28,529,021)                 |
| Net cash provided by/(used in) operating activities  | <u>17,506,727</u>            | <u>(11,322,812)</u>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>         |                              |                              |
| Acquisition of property and equipment                | (2,243,435)                  | (130,923)                    |
| Acquisition of computer software                     | (122,553)                    | -                            |
| Purchase of investment securities                    | (2,503,800)                  | (25,147,575)                 |
| Proceeds from disposal of property and equipment     | -                            | 25,800                       |
| Proceeds from maturity of investment securities      | -                            | 3,065,000                    |
| Net cash used in investing activities                | <u>(4,869,788)</u>           | <u>(22,187,698)</u>          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>         |                              |                              |
| Redemption of preference shares                      | (15,250,000)                 | (6,098,000)                  |
| Redemption of notes receivable                       | -                            | 69,000,000                   |
| Dividends on preference shares                       | (1,546,250)                  | -                            |
| Net cash (used in)/provided by financing activities  | <u>(16,796,250)</u>          | <u>62,902,000</u>            |
| Net (decrease)/increase in cash and cash equivalents | (4,159,311)                  | 29,391,490                   |
| Cash and cash equivalents, beginning of period       | 198,201,124                  | 121,464,402                  |
| <b>Cash and cash equivalents, end of period</b>      | <u><b>\$ 194,041,813</b></u> | <u><b>\$ 150,855,892</b></u> |
| <b>SUPPLEMENTAL INFORMATION:</b>                     |                              |                              |
| Interest received                                    | \$ 27,080,838                | \$ 16,944,261                |
| Interest paid  | 4,232,006                    | 4,898,202                    |
| Dividends paid                                       | 1,546,250                    | -                            |
| <b>NON-CASH TRANSACTIONS:</b>                        |                              |                              |
| 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 period ended December 31, 2018  
(Expressed in Bahamian Dollars)

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**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 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, Bahamas.

As at December 31, 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 December 31, 2018  
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**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 December 31, 2018  
(Expressed in Bahamian Dollars)

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**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. In December 2018, the first tranche of preference shares dividends of \$1,546,250 was declared and paid out of the fiscal year ended June 30, 2018 net income. The Bank paid no dividends to common shareholders during the period.

**4. Cash and Cash Equivalents**

|  | December 31,<br>2018         | June 30,<br>2018             |
|--|------------------------------|------------------------------|
| Cash   | \$ 23,330,111                | \$ 21,146,294                |
| Deposits with the Central Bank- non-interest bearing   | 74,375,754                   | 102,391,638                  |
| Cash and account with the Central Bank                 | <u>97,705,865</u>            | <u>123,537,932</u>           |
| Cash equivalents - Treasury Bills                      | 59,910,830                   | 56,726,814                   |
| Due from Banks   | <u>61,296,393</u>            | <u>43,678,603</u>            |
| Cash and due from Banks                                | 218,913,088                  | 223,943,349                  |
| Less: Mandatory reserve deposits with the Central Bank | <u>(24,871,275)</u>          | <u>(25,742,225)</u>          |
| <b>Total cash and cash equivalents</b>                 | <b><u>\$ 194,041,813</u></b> | <b><u>\$ 198,201,124</u></b> |

As at December 31, 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 December 31, 2018  
(Expressed in Bahamian Dollars)

**5. Loans and advances to customers, net**

|   | December 31,<br>2018         | June 30,<br>2018             |
|---|------------------------------|------------------------------|
| Mortgage residential loans                                  | \$ 236,266,364               | \$ 244,481,245               |
| Mortgage commercial loans                                   | 14,121,457                   | 13,937,392                   |
| Commercial loans  | 72,602,482                   | 77,540,327                   |
| Consumer loans  | 67,889,635                   | 62,989,797                   |
| Credit cards  | 1,269,546                    | 1,338,235                    |
| Business overdrafts   | 1,371,852                    | 1,713,715                    |
| Personal overdrafts   | 441,372                      | 477,329                      |
| Government guaranteed student loans                         | -                            | 6,553,367                    |
|   | <u>393,962,708</u>           | <u>409,031,407</u>           |
| <b>Less: Provision for loan losses</b>                      |                              |                              |
| Provision at beginning of year                              | \$ 65,649,984                | \$ 142,599,409               |
| IFRS 9 Adjustment   | 4,559,234                    | -                            |
| Amount written-off  | (3,081,470)                  | (570,607)                    |
| Amount written back (Note 6)                                | -                            | (83,947,003)                 |
| Net provision charged to expense                            | 2,111,257                    | 7,568,185                    |
| <b>Provision at end of year</b>                             | <u>69,239,005</u>            | <u>65,649,984</u>            |
| Accrued interest receivable                                 | 1,857,217                    | 8,107,665                    |
| <b>Loans and advances to customers, net</b>                 | <u><u>\$ 326,580,919</u></u> | <u><u>\$ 351,489,088</u></u> |
| Provisions as a percentage of the net loan portfolio        | 21.20%                       | 18.68%                       |
| Non-accrual loans as a percentage of the net loan portfolio | 29.77%                       | 28.92%                       |

Pursuant to the Government's commitment to settle on its government guaranteed obligations, during August to October 2018, the Bank received from the Government full payment of its government guaranteed student and hurricane loans in the amount of \$16.6 million.

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

For the period ended December 31, 2018  
(Expressed in Bahamian Dollars)

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**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 February 28 and August 31, commencing in August 2018. The Bank received the accrued interest of \$5,716,085 on September 10, 2018. Accrued interest receivable as at December 31, 2018 amounted to \$1,956,500.
- Provision for impairment losses amounted to \$73,500.

In addition, the Government redeemed the entire \$100 million of the promissory notes from the first Resolve transaction as follows: \$50 million, \$19 million, \$19 million and \$12 million 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**

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 (Expressed in Bahamian Dollars)

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**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)         | December 31,<br>2018 | June 30,<br>2018  |
|----------------------|----------------------|-------------------|
| Tier 1 capital       | \$ 157,870           | \$ 156,040        |
| Tier 2 capital       | 1,857                | 20,522            |
| Total capital        | <u>\$ 159,727</u>    | <u>\$ 176,562</u> |
| Risk weighted assets | <u>\$ 364,212</u>    | <u>\$ 391,468</u> |

Ratios

|   |        |        |
|---|--------|--------|
| CET1 must be at least 9.6% of total Risk Weighted Assets                  | 43.3%  | 39.9%  |
| Total Tier 1 Capital must be at least 12.8% of Total Risk Weighted Assets | 43.3%  | 39.9%  |
| Total Capital must be at least 18.0% of Total Risk Weighted Assets        | 43.9%  | 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            | 98.8%  | 88.4%  |

Commencing December 2013 through to December 2016, the Bank redeemed \$3,400,000 of preference shares annually. On December 2017 and September 2018, the Bank redeemed \$6,150,000 and \$250,000 of preference shares, respectively. Effective December 31, 2018, the remaining \$15,000,000 outstanding preference shares has been fully redeemed.

**8. Commitments and Contingencies**

*Commitments*

The commitment for loans and advances at December 31, 2018 was \$5,963,533 (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 December 31, 2018

(Expressed in Bahamian Dollars)

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**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.