

BANK OF THE BAHAMAS LIMITED
Unaudited Condensed Consolidated Financial Statements
For the Year Ended June 30, 2019

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019 with comparative figures as at June 30, 2018

(Expressed in Bahamian Dollars)

	June 30, 2019	June 30, 2018
ASSETS		
Cash and account with The Central Bank	\$ 69,524,170	\$ 123,537,932
Cash equivalents - Treasury Bills	49,917,360	56,726,814
Due from banks	61,686,033	43,678,603
Investment securities, net	100,809,968	64,521,278
Loans and advances to customers, net	341,233,078	351,489,088
Investment property	6,463,000	6,463,000
Other assets	10,626,693	16,093,374
Property and equipment, net	6,513,303	3,086,108
Computer software, net	717,552	898,026
Notes receivable, net	167,626,500	167,700,000
TOTAL	<u>\$ 815,117,657</u>	<u>\$ 834,194,223</u>
LIABILITIES		
Deposits from customers and banks	\$ 615,786,488	\$ 628,405,812
Other liabilities	35,723,383	22,482,469
Deferred loan fees	5,480,315	5,456,923
Total liabilities	<u>656,990,187</u>	<u>656,345,204</u>
EQUITY		
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	2,512,459	6,133,678
Special retained earnings	172,122,932	172,122,932
Accumulated deficit	(139,750,586)	(138,900,256)
Total equity	<u>158,127,470</u>	<u>177,849,019</u>
TOTAL	<u>\$ 815,117,657</u>	<u>\$ 834,194,223</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2019
with comparatives for the year ended June 30, 2018
(Expressed in Bahamian Dollars)

	Three Months		Twelve Months	
	2019	2018	2019	2018
Interest and similar income	\$ 9,935,894	\$ 9,174,290	\$ 36,321,639	\$ 37,127,920
Interest and similar expenses	1,918,778	2,214,170	8,125,743	9,206,684
Net interest income	<u>\$ 8,017,116</u>	<u>6,960,120</u>	<u>28,195,896</u>	<u>27,921,236</u>
Fees and commission income	2,152,946	2,142,995	8,363,634	8,152,375
Fees and commission expense	174,580	105,573	474,111	447,115
Net fees and commission income	<u>1,978,366</u>	<u>2,037,422</u>	<u>7,889,523</u>	<u>7,705,260</u>
Other operating income	1,155,997	548,915	4,593,818	3,225,543
Total operating income	11,151,479	9,546,457	40,679,237	38,852,039
Credit loss expense, net	394,463	1,553,745	1,184,069	7,568,185
Net operating income	<u>10,757,016</u>	<u>7,992,712</u>	<u>39,495,168</u>	<u>31,283,854</u>
Operating expenses	7,557,456	7,468,315	36,505,212	29,685,788
Net income	<u>3,199,560</u>	<u>\$ 524,397</u>	<u>2,989,956</u>	<u>\$ 1,598,066</u>
Other comprehensive income				
Movement in fair value: equity investments at FVOCI	273,594	329,045	378,781	992,948
Total comprehensive income for the period	<u>\$ 3,473,154</u>	<u>\$ 853,442</u>	<u>\$ 3,368,737</u>	<u>\$ 2,591,014</u>
EARNINGS PER SHARE CALCULATION:				
NET INCOME	\$ 3,199,560	\$ 524,397	\$ 2,989,956	\$ 1,598,066
WEIGHTED AVERAGE NUMBER OF 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>\$ 0.07</u>	<u>\$ 0.01</u>	<u>\$ 0.07</u>	<u>\$ 0.04</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2019

with comparatives for the year ended June 30, 2018

(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	-	-	-	-	-	1,598,066	1,598,066
Special retained earnings	-	-	-	-	117,500,400	-	117,500,400
<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)
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
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	-	-	-	-	-	2,989,956	2,989,956
<i>Other comprehensive income:</i>							
Movement in fair value: equity investments at FVOCI	-	-	-	378,781	-	-	378,781
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares	(15,250,000)	-	-	-	-	-	(15,250,000)
Dividends on preference shares	-	-	-	-	-	(3,181,052)	(3,181,052)
Balance at June 30, 2019	\$ 42,610,505	\$ 81,950,384	\$ (1,318,224)	\$ 2,512,459	\$ 172,122,932	\$ (139,750,586)	\$ 158,127,470

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2019
with comparatives for the year ended June 30, 2018
(Expressed in Bahamian Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,989,956	\$ 1,598,066
Adjustments for:		
Depreciation and amortization	703,314	1,382,088
Loss/(gain) on disposal of fixed assets	3,936	(1,617)
Loss on disposal of computer software	11,164	-
Net provision for loan losses	1,184,069	7,568,185
	<u>4,892,439</u>	<u>10,546,722</u>
Change in operating assets and liabilities	20,865,294	(8,537,653)
Decrease in loans and advances to customers, net	4,512,707	38,868,041
Decrease in deposits from customers and banks	(12,619,324)	(35,497,895)
Net cash provided by operating activities	<u>17,651,116</u>	<u>5,379,215</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(3,822,650)	(1,170,165)
Acquisition of computer software	(142,485)	(139,816)
Purchase of investment securities	(48,503,800)	(25,444,812)
Proceeds from sale of non current asset held for sale	-	925,000
Proceeds from disposal of property and equipment	-	28,300
Proceeds from maturity of investment securities	12,659,500	3,309,000
Net cash used in investing activities	<u>(39,809,435)</u>	<u>(22,492,493)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of preference shares	(15,250,000)	(6,150,000)
Redemption of notes receivable	-	100,000,000
Dividends on preference shares	(3,181,052)	-
Net cash (used in)/provided by financing activities	<u>(18,431,052)</u>	<u>93,850,000</u>
Net (decrease)/increase in cash and cash equivalents	(40,589,371)	76,736,722
Cash and cash equivalents, beginning of year	198,201,124	121,464,402
Cash and cash equivalents, end of year	<u><u>\$ 157,611,753</u></u>	<u><u>\$ 198,201,124</u></u>
SUPPLEMENTAL INFORMATION:		
Interest received	\$ 44,991,132	\$ 32,569,699
Interest paid	8,114,784	9,587,634
NON-CASH TRANSACTIONS:		
Derecognition of loans and advances, net	\$ -	\$ 50,199,600
Recognition of notes receivable	-	167,700,000
Special retained earnings	-	117,500,400

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

For the year ended June 30, 2019
(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 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 June 30, 2019, 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, with the exception of those impacted by new and amended standards as discussed below. 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, 2019
(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.

Significant Changes in Accounting Policies

Effective July 1, 2018, the Bank adopted IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”). The adoption of IFRS 15 did not have a material impact on the Bank’s consolidated financial statements. Due to the transition methods chosen by the Bank in applying these standards, comparative information throughout these statements has not been restated.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and became effective for annual periods beginning on or after January 1, 2018, which for the Bank was 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. 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.

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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 second tranche of preference shares dividends of \$1,634,802 was declared as at March 31, 2019 and paid in May 2019. The Bank paid no dividends to common shareholders during the year.

4. Cash and Cash Equivalents

	June 30, 2019	June 30, 2018
Cash	\$ 13,438,650	\$ 21,146,294
Deposits with the Central Bank- non-interest bearing	56,085,520	102,391,638
Cash and account with the Central Bank	69,524,170	123,537,932
Cash equivalents - Treasury Bills	49,917,360	56,726,814
Due from Banks	61,686,033	43,678,603
Cash and due from Banks	181,127,563	223,943,349
Less: Mandatory reserve deposits with the Central Bank	(23,515,810)	(25,742,225)
Total cash and cash equivalents	\$ 157,611,753	\$ 198,201,124

As at June 30, 2019 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
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For the year ended June 30, 2019
(Expressed in Bahamian Dollars)

5. Loans and advances to customers, net

	June 30, 2019	June 30, 2018
Mortgage residential loans	\$ 227,896,943	\$ 244,481,245
Mortgage commercial loans	13,377,196	13,937,392
Commercial loans	75,384,501	77,540,327
Consumer loans	84,441,412	62,989,797
Credit cards	1,227,755	1,338,235
Business overdrafts	1,359,321	1,713,715
Personal overdrafts	504,990	477,329
Government guaranteed student loans	-	6,553,367
	<u>404,192,118</u>	<u>409,031,407</u>
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	(6,959,002)	(570,607)
Amount written back (Note 6)	-	(83,947,003)
Net provision charged to expense	<u>1,184,069</u>	<u>7,568,185</u>
Provision at end of year	<u>64,434,285</u>	<u>65,649,984</u>
Accrued interest receivable	<u>1,475,244</u>	<u>8,107,665</u>
Loans and advances to customers, net	<u><u>\$ 341,233,077</u></u>	<u><u>\$ 351,489,088</u></u>
Provisions as a percentage of the net loan portfolio	18.88%	18.68%
Non-accrual loans as a percentage of the net loan portfolio	26.22%	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.

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Selected Explanatory Notes to the Unaudited Condensed Consolidated Financial Statements

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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 with 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 semi-annual interest payments of \$5.7 million and \$2.9 million in September 2018 and March 2019, respectively. Accrued interest receivable as at June 30, 2019 amounted to \$1,956,500 (June 30, 2018: \$4,878,391).
- 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.

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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)	June 30, 2019	June 30, 2018
Tier 1 capital	\$ 155,591	\$ 156,040
Tier 2 capital	2,512	20,522
Total capital	<u>\$ 158,103</u>	<u>\$ 176,562</u>
Risk weighted assets	<u>\$ 379,807</u>	<u>\$ 391,468</u>

Ratios

CET1 must be at least 9.6% of total Risk Weighted Assets	41.0%	39.9%
Total Tier 1 Capital must be at least 12.8% of Total Risk Weighted Assets	41.0%	39.9%
Total Capital must be at least 18.0% of Total Risk Weighted Assets	41.6%	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	98.4%	88.4%

Commenced in 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 issued and outstanding preference shares had been fully redeemed.

8. Commitments and Contingencies

Commitments

The commitment for loans and advances at June 30, 2019 was \$4,598,154 (June 30, 2018: \$4,670,352).

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

For the year ended June 30, 2019
(Expressed in Bahamian Dollars)

8. Commitments and Contingencies *(continued)*

Contingencies and Provision

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Bank is involved in various litigation proceedings in the ordinary course of its business. The Bank has internal and external legal counsel, and formal controls and policies for managing legal claims. With the benefit of professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies.

As at year end, the Bank had several unresolved legal claims. 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. During the last quarter of the fiscal year, the Bank was made aware of a significant legal claim against the Bank in respect of a judgment in default and related damages of approximately \$6 million plus interest and cost. The Bank has filed the necessary applications to set aside the default judgment and to set aside the said damages. The Bank has also filed papers to stay the enforcement of damages and in certain circumstances to strike out enforcement steps. Management considers that adequate provision has been made in these financial statements for any loss that might ultimately be determined.