Consolidated Financial Statements

BANK OF THE BAHAMAS LIMITED

Year ended June 30, 2019

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Consolidated Financial Statements

Year ended June 30, 2019

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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, 2019, 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, 2019, 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 Note 2(a) in the consolidated financial statements. The Bank experienced significant operating losses for the several years prior to the fiscal year ended June 30, 2018 and has an accumulated deficit at June 30, 2019 of $136,362,716 (2018: $138,900,256). Although the Bank has experienced operating profits for the fiscal years ended June 30, 2018 and June 30, 2019, the accumulated deficit and the lack of a consistent, sustained period of profitability indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Management has implemented a strategic plan to sustain the operations and financial viability of the Bank that will support the Bank's continuing ability to operate as a going concern. As such, management does not expect that the accumulated deficit 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.

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Application of IFRS 9 in the calculation of impairment of Loans and advances to customer ($61,505,934, see notes 2d, 7)	
The risk	***Our response***
On January 1, 2018 a new accounting standard for financial instruments ("IFRS 9") became effective, which requires impairment to be calculated based on expected credit losses ("ECLs"), rather than the incurred loss model previously applied under IAS 39. As at June 30, 2019, Loans comprise a major portion of the Group's assets. Impairment of Loans was considered to be a key audit area primarily for the following reasons: • IFRS 9 is a new and complex accounting standard which requires significant judgment to determine both the timing and measurement of impairment losses. • The determination of expected credit loss allowances is highly subjective and judgmental. Small changes in key assumptions may result in material differences in the Group's consolidated financial statements. Key judgments and estimates in respect of the timing and measurement of ECLs include: - The interpretation of the requirements to determine impairment under IFRS 9, which are reflected in the Bank's ECL model; - The identification of exposures with a significant deterioration in credit quality; - The allocation of Loans to stages 1, 2 and 3 using criteria in accordance with IFRS 9; - Modelling assumptions used to build the ECL model; - Completeness and accuracy of data used to calculate the ECL; and - Accuracy and adequacy of related financial statement disclosures.	In assessing the impairment losses on Loans, we performed the following procedures: • Obtained an overall understanding of the Bank's methodology to determine the impairment allowance under the newly implemented IFRS 9. • Obtained an understanding of the Bank's key credit processes and related controls, including granting, recording, monitoring and ECL provisioning. • Assessed and tested key modeling assumptions used in the ECL model used by management to calculate the impairment allowance; • Involved our internal specialists in testing the assumptions, inputs and formulas used in the ECL model. This included assessing the model's arithmetic accuracy and consistency with the requirements of IFRS 9. • Tested the completeness and accuracy of key data inputs sourced from underlying systems that are applied in the calculation of the impairment allowance. We tested the reconciliation of Loans between the underlying source systems and the ECL models. • Recalculated the risk ratings for a sample of Loans to assess if they were appropriately allocated to the relevant stage, (i.e. stages 1, 2 and 3). • As IFRS 9 was adopted at the start of the 2019 fiscal year, we evaluated related opening balances to gain assurance on the transition to IFRS 9. This included testing related adjustments and disclosures made on the transition in compliance with IFRSs.

Interest income ($36,321,639, see note 18)	
The risk	***Our response***
Interest income is the Bank's primary source of revenues. 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: • Reviewing the internal controls and testing the key controls; • 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 • Substantive analytical procedures and re-performance of the calculation of interest accruals to test the accuracy of interest income.

Other information

We expect to receive other information from the Bank on October 23, 2019, 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.

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.

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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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Bank 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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

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Nassau, Bahamas
October 22, 2019

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Financial Position

June 30, 2019, with corresponding figures for 2018
(Expressed in Bahamian Dollars)

	Notes		2019		2018
ASSETS					
Cash and account with the Central Bank	5, 24	$	69,524,170	$	123,537,932
Cash equivalent - Treasury Bills	5, 24		49,917,360		56,726,814
Due from banks	5		61,686,033		43,678,603
Investment securities	6, 24		100,809,968		64,521,278
Loans and advances to customers, net	7, 24		344,181,094		351,489,088
Investment property	8		6,463,000		6,463,000
Other assets	9, 24		10,682,478		16,093,374
Property and equipment, net	10		4,768,982		3,086,108
Computer software, net	11		2,453,615		898,026
Note receivable	12, 24		167,626,500		167,700,000
TOTAL ASSETS		**$**	**818,113,200**	**$**	**834,194,223**
LIABILITIES					
Deposits from customers and banks	13, 24	$	615,852,515	$	628,405,812
Other liabilities	14, 24		35,265,030		22,482,469
Deferred loan fees	24		5,480,315		5,456,923
Total liabilities			**656,597,860**		**656,345,204**
EQUITY					
Share capital	15		42,610,505		57,860,505
Share premium	15		81,950,384		81,950,384
Treasury shares	16		(1,318,224)		(1,318,224)
Reserves	17		2,512,459		6,133,678
Special retained earnings	12		172,122,932		172,122,932
Accumulated deficit			(136,362,716)		(138,900,256)
Total equity			**161,515,340**		**177,849,019**
TOTAL LIABILITIES AND EQUITY		**$**	**818,113,200**	**$**	**834,194,223**

The notes on pages 9 – 73 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on October 22, 2019 and are signed on its behalf by:

Director

Director

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Comprehensive Income

Year ended June 30, 2019, with corresponding figures for 2018
(Expressed in Bahamian Dollars)

	Notes		2019		2018
Interest and similar income	18, 24	$	36,321,639	$	37,127,920
Interest and similar expense	18, 24		(8,125,743)		(9,206,684)
Net interest income			28,195,896		27,921,236
Fees and commission income	19, 24		8,397,147		8,152,375
Fees and commission expense			(474,111)		(447,115)
Net fees and commission income			7,923,036		7,705,260
Other operating income	20		4,624,519		3,225,543
Total operating income			40,743,451		38,852,039
Credit loss expense, net	7		(1,723,287)		(7,568,185)
Net operating income			39,020,164		31,283,854
Operating expenses	21, 24		(36,109,905)		(29,685,788)
Net income			**2,910,259**		**1,598,066**
Other comprehensive income					
Movement in fair value: equity investments at FVOCI	6, 17		378,781		992,948
Total comprehensive income for the year		**$**	**3,289,040**	**$**	**2,591,014**
Earnings per share					
Basic (loss)/earnings per ordinary share	27	$	(0.01)	$	0.04

The notes on pages 9 – 73 are an integral part of these consolidated financial statements.

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Changes in Equity

Year ended June 30, 2019, with corresponding figures for 2018
(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total Equity
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**
Total comprehensive income:							
Net income for the year	-	-	-	-	-	1,598,066	1,598,066
Other comprehensive income:							
Net gain on available-for-sale financial assets (Note 17)	-	-	-	992,948	-	-	992,948
Transactions with owners of the Bank:							
Special retained earnings (Note 12)	-	-	-	-	117,500,400	-	117,500,400
Redemption of preference shares (Note 15)	(6,150,000)	-	-	-	-	-	(6,150,000)
Balance, 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)	-	2,808,333	(1,191,667)
Total comprehensive income:							-
Net income for the year	-	-	-	-	-	2,910,259	2,910,259
Other comprehensive income:							
Movement in fair value: equity investments at FVOCI (Note 17)	-	-	-	378,781	-	-	378,781
Transactions with owners of the Bank:							
Redemption of preference shares (Note 15)	(15,250,000)	-	-	-	-	-	(15,250,000)
Dividends on preference shares (Note 27)	-	-	-	-		(3,181,052)	(3,181,052)
Balance, June 30, 2019	**$ 42,610,505**	**$ 81,950,384**	**$ (1,318,224)**	**$ 2,512,459**	**172,122,932**	**$ (136,362,716)**	**$ 161,515,340**

The notes on pages 9 – 73 are an integral part of these consolidated financial statements.

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Cash Flows

Year ended June 30, 2019, with corresponding figures for 2018
(Expressed in Bahamian Dollars)

	Notes		2019		2018
Cash flows from operating activities:					
Net income		$	2,910,259	$	1,598,066
Adjustments for:					
Depreciation and amortisation	21		703,314		1,382,088
Loss/(gain) on disposal of fixed assets	10		3,937		(1,617)
Loss on disposal of computer software	11		11,164		-
Net provision for loan losses	7		1,723,287		7,568,185
			5,351,961		10,546,722
Change in operating assets and liabilities			20,219,276		(8,537,653)
Decrease in loans and advances to customers, net			4,493,039		38,868,041
Decrease in deposits from customers and banks			(12,553,297)		(35,497,895)
Net cash provided by operating activities			17,510,979		5,379,215
Cash flows from investing activities:					
Acquisition of property and equipment	10		(2,078,331)		(1,170,165)
Acquisition of computer software	11		(1,878,547)		(139,816)
Purchase of investment securities	6		(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	10		-		28,300
Proceeds from maturity of investment securities	6		12,659,500		3,309,000
Net cash used in investing activities			(39,801,178)		(22,492,493)
Cash flows from financing activities:					
Redemption of notes receivable	12		-		100,000,000
Redemption of preference shares	15		(15,250,000)		(6,150,000)
Dividends on preference shares	27		(3,181,052)		-
Net cash (used in)/provided by financing activities			(18,431,052)		93,850,000
Net (decrease)/increase in cash and cash equivalents			(40,721,251)		76,736,722
Cash and cash equivalents, beginning of year			198,201,124		121,464,402
Cash and cash equivalents, end of year	5	$	157,479,873	$	198,201,124
Supplemental information:					
Interest received		$	45,792,037	$	32,569,699
Interest paid			8,114,784		9,587,634
Non-cash transactions:					
Derecognition of loans and advances, net	12	$	-	$	50,199,600
Recognition of notes receivable	12		-		167,700,000
Special retained earnings	12		-		117,500,400

The notes on pages 9 – 73 are an integral part of these consolidated financial statements.

1. Corporate information

Bank of The Bahamas Limited (the "Bank"), is incorporated under the laws of The Commonwealth of The Bahamas, and is licensed by the Central Bank of the Bahamas to carry out banking business in The Bahamas 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 of The Bahamas.

The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange. As at June 30, 2019 and 2018, The Government of the Commonwealth of The Bahamas (the "Government") and The National Insurance Board ("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, The 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 (Note 26), private banking and the issuance of Visa branded stored value, prepaid and credit cards. The Bank is an agent for American Express and for MoneyGram. As at June 30, 2019, the Bank had twelve branches (2018: twelve): four in New Providence, one in Grand Bahama, two in Andros, one in San Salvador, one in Inagua, one in Cat Island, one in Eleuthera, and one in Bimini.

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"). This is the first set of the Bank's annual consolidated financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 2(d).

These consolidated financial statements are presented in Bahamian Dollars, which is the Bank's functional currency. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

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. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. 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 experienced significant operating losses for several years prior to the fiscal year ended June 30, 2018 and has an accumulated deficit at June 30, 2019 of $136,362,716 (2018: $138,900,256).

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

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 31) as at June 30, 2019 and 2018.

1. Subsidiaries

'Subsidiaries' are entities controlled by the Bank. The Bank 'controls' an entity if it is exposed to, or has rights, to variable returns from its involvement with the entity 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 has control if there are changes to one or more of the 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.

When the bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any Non-Controlling Interest (NCI) and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

2. Basis of preparation *(continued)*

(c) New standards, amendments and interpretations adopted by the Bank

Standards, amendments and interpretations to published standards that became effective for the Bank's fiscal year beginning on July 1, 2018 are discussed in Note 2(d).

New Standards, amendments and interpretations not yet adopted by the Bank
A number of new standards and amendments to standards are effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted; however, the Bank has not early adopted them in preparing these consolidated financial statements.

With the exception of IFRS 16 *Leases* (IFRS 16) and IFRS 17 *Insurance Contracts* (IFRS 17) the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Bank's accounting policies or consolidated financial statements in the financial period of initial application.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases* (IAS 17). Lessees will recognise a ' right of use' asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Bank has not yet assessed the full impact of adopting IFRS 16, which is effective for the Bank's fiscal year beginning July 1, 2019.

IFRS 17 was issued in May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. The new standard is applicable for annual periods beginning on or after January 1, 2021. The Bank has not yet assessed the full impact of adopting IFRS 17.

2. Basis of preparation *(continued)*

(d) Changes in significant 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"). Due to the transition methods chosen by the Bank in applying these standards, comparative information throughout these consolidated financial statements have not been restated.

i. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of IFRS 9, the Bank also adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures for fiscal 2019, but have not been applied to comparative information.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings.

The impact of the transition to IFRS 9 on opening retained earnings and provision for loan losses is disclosed in the consolidated statement of changes in equity and Note 7, respectively. The impact of the transition amounts to approximately $1.2 million.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost; fair value through profit or loss ("FVTPL"); or fair value through other comprehensive income ("FVOCI"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

(Expressed in Bahamian Dollars)

2. Basis of preparation *(continued)*

(d) Changes in significant accounting policies *(continued)*

i. IFRS 9 Financial Instruments *(continued)*

Classification and measurement of financial assets and financial liabilities *(continued)*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. Although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Reconciliation of financial assets and financial liabilities from IAS 39 to IFRS 9

The table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the applicable classes of the Bank's financial assets and financial liabilities as at July 1, 2018.

	New classification under IFRS 9	New carrying amount under IFRS 9	Original classification under IAS 39	Original carrying amount under IAS 39
Financial Assets				
Cash and account with the Central Bank	Amortised cost	123,537,932	Loans and receivables	123,537,932
Cash equivalent - Treasury Bills	Amortised cost	56,726,814	Loans and receivables	56,726,814
Due from banks	Amortised cost	43,678,603	Loans and receivables	43,678,603
Investment securities	Amortised cost	62,448,500	Held-to-maturity	62,475,000
Investment securities	FVOCI	2,046,278	Available-for-sale	2,046,278
Loans and advances to customers, net	Amortised cost	350,397,421	Loans and receivables	351,489,088
Notes receivable	Amortised cost	167,626,500	Loans and receivables	167,700,000
Financial Liabilities				
Deposits from customers and banks	Other financial liabilities	628,405,812	Other financial liabilities	628,405,812

The remeasurement relative to loans and advances to customers is the remeasurement associated with expected credit loss ("ECL") allowance.

(Expressed in Bahamian Dollars)

2. Basis of preparation *(continued)*

(d) Changes in significant accounting policies *(continued)*

i. IFRS 9 Financial Instruments *(continued)*

Reconciliation of impairment allowance balance IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance balance under IAS 39 to IFRS 9 at July 1, 2018.

	IAS 39 allowance balance	Reclassifications	Remeasurements	IFRS 9 allowance balance
Financial Assets				
Investment securities (Note 6)	-	-	26,500	26,500
Loans and advances to customers (Note 7)	65,649,984	-	1,091,667	66,741,651
Notes receivable (Note 12)	-	-	73,500	73,500

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 9 recognises impairment in three stages as discussed in Note 2 (d). Because movements between stages are expected to be dynamic, and also considering the application of forward-looking information, impairment allowances are expected to be more volatile under IFRS 9 than IAS 39.

2. Basis of preparation *(continued)*

(d) Changes in significant accounting policies *(continued)*

ii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The principal objective of IFRS 15 is to establish the principles that should be applied by an entity in order to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers, reflecting the amount of consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 explicitly excludes from its scope transactions governed by IFRS 9. The following are in scope for the Bank:

- Deposit services fees and commission
- Card services fees and commission
- Cedit services fees and commission
- Other fees and commission

The Bank's non-IFRS 9 related contracts with customers are not complex and meet the criteria for recognition of revenue over time, the application of IFRS 15 had no material impact on the consolidated financial statements.

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.

Applicable to fiscal year 2019:

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payment of principal and interest ("SPPI") on the principal amount outstanding.

Impairment of financial assets
The allowance for loan impairment represents management's estimate of an asset's expected credit loss ("ECL").

The measurement of the ECL allowance for financial assets is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

ECL is defined as the weighted expected probable value of the discounted credit loss (principal and interest) determined by evaluating a range of possible outcomes and future economic conditions. It represents the present value of the difference between the contractual cash flows and the expected cash flows (including principal and interest).

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

Applicable to fiscal year 2019: (continued)

Impairment of financial assets (continued)

The process for determining the allowance involves significant quantitative and qualitative assessments. Particularly, a number of significant judgments is also required in applying the accounting requirements for measuring ECL, such as:

i. Determining criteria for significant increase in credit risk;
ii. Choosing appropriate models and assumptions for the measurement of ECL;
iii. Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
iv. Assessing the risk rating and impaired status of loans;
v. Estimating cash flows and realisable collateral values;
vi. Developing default and loss rates based on historical data;
vii. Estimating the impact on this historical data by changes in policies, processes and credit strategies;
viii. Assessing the current credit quality based on credit quality trends; and
ix. Determining the current position in the economic cycle.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 30.

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

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

Applicable to fiscal years 2019 and 2018:

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, 2019, the Bank recognized impairment losses of Nil (2018: Nil Note 10).

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.

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.

Fair value of financial instruments

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses three-level hierarchy as discussed in Note 28.

Recognition and measurement of provisions and contingencies

Management uses key assumptions about the likelihood and magnitude of an outflow of resources to determine adequate provisions or disclosures in the consolidated financial statements.

4. Summary of significant accounting policies

(a) Revenue and expense recognition

Policy applicable from July 1, 2018

Interest income and expense are recognised in the consolidated statement of comprehensive income using the effective interest method. The ‘effective interest method’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

The calculation of the effective interest rate includes transactions costs and fees received that are an integral part of the effective interest rate. The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaied) or to the amortised cost of the liability.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income is recognized as the related services are performed. Other fee and commission expenses relate mainly to transaction and service fees, which are expenses as the services are received.

Accounting policies applied until June 30, 2018:

Interest and similar income and expense

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

Fees and commission income

The Bank earned fees and commission income from a diverse range of services it provided to its customers. Fees and commissions were generally recognised on an accrual basis when the service was 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 were accrued over that period. Those fees included commission income and asset management, custody and other management and advisory fees. Loan commitment fees and other credit related fees were deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

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

(a) Revenue and expense recognition *(continued)*

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, were recognised on completion of the underlying transaction. Fees or components of fees that were linked to a certain performance were 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 treasury bills.

(c) Financial instruments

Recognition and initial measurement

The Bank initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets – policy applicable from July 1, 2018:

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

(c) Financial instruments *(continued)*

Recognition and initial measurement *(continued)*

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;

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

(c) Financial instruments *(continued)*

Business model assessment *(continued)*

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

(c) Financial instruments *(continued)*

***Assessment of whether contractual cash flows are solely payments of principal and interest** (continued)*

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Modification

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

• fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of the eligible transaction costs are included in the initial measurement of the asset; and

• other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of quantitative evaluation and means that the derecognition criteria are usually not met in such cases.

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

(c) Financial instruments *(continued)*

Accounting policies applied until June 30, 2018:

The Bank classified its financial assets into one of the following categories: Loans and receivables;

- Held-to-maturity;
- Available-for-sale; and
- At FVTPL, and within this category as:
  - Held-for-trading; or
  - Designated as at FVTPL.

All financial assets and liabilities were initially recognised on the trade date, that is, the date that the Bank became a party to the contractual provisions of the instrument. This included ‘regular way trades’: purchases or sales of financial assets that required 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 were 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 classified its financial assets in the following categories: Loans and receivables; held-to-maturity investments; and available-for-sale investments. Management determined the classification of its investments at initial recognition.

(i) *Loans and receivables*

Loans and receivables were non-derivative financial assets that had fixed or determinable payments that were not quoted in an active market, other than those that the Bank upon initial recognition designated as available-for-sale; or those for which the holder may not have recovered substantially all of its initial investment, other than because of credit deterioration. After initial measurement, such financial assets were subsequently measured at amortised cost using the effective interest rate (“EIR”) method, less impairment. Loans and receivables included balances due from banks, loans and advances, notes receivable and other assets.

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

(c) Financial instruments *(continued)*

(ii) Held-to-maturity financial assets

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management had 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 was reclassified as available for sale. After initial measurement, held-to-maturity investments were measured at amortised cost using the EIR method, less impairment. Gains and losses were recognised in the consolidated statement of comprehensive income when the investments were derecognised or impaired, as well as through the amortisation process. Held-to-maturity financial assets included designated investment securities.

(iii) Available-for-sale financial assets

Available-for-sale investments were those intended to be held for an indefinite period of time, which sometimes had the potential of being 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 were measured at fair value with unrealized gains or losses recognised directly in equity until the investment was derecognised, at which time the cumulative gain or loss recorded in equity was recognised in the consolidated statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity was recognised in the consolidated statement of comprehensive income.

Financial liabilities

There were no changes in the classification and measurement of financial liabilities. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. Financial liabilities are classified as either a) FVTPL or b) other 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 placed with the Bank for the benefit of third parties, except as disclosed in Note 24.

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

(d) Impairment of financial assets

Policy applicable from July 1, 2018

The Bank recognises loss allowance for ECL on financial assets measured at amortised cost and measures impairment losses at amount equal to 12-month ECL or lifetime ECL depending on the stage in which the asset is classified. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Impairment of financial assets is recognised in three stages:

Stage 1 – When a financial asset is originated, ECLs resulting from default events that are possible within the next 12 months are recognised and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing financial assets with no significant increase in credit risk since their initial recognition.

Stage 2 **-** If the credit quality subsequently significantly deteriorates for a particular portfolio or transaction, the Bank recognises the full lifetime expected credit losses.

Stage 3 **-** At a later date, once one or more default events have occurred on the transaction or on a counterparty resulting in an adverse effect on the estimated future cash flows, the Bank recognises the full lifetime expected credit losses. At this stage, the financial asset is credit-impaired.

In determining whether a significant increase in credit risk has occurred since initial recognition, and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and forward-looking information.

The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs. Assets that are more than 30 days past due, but not credit-impaired, are classed as stage 2.

Changes in credit loss, including the impact of movements between the first stage (12 month expected credit losses) and the second stage (lifetime expected credit losses), are recorded in the consolidated statement of profit or loss.

IFRS 9 requires the use of more forward-looking information including reasonable and supportable forecasts of future economic conditions. The requirement to consider a range of economic scenarios and their possible impact on impairment allowances is a subjective feature of the IFRS 9 ECL model. The Bank continues to develop its capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes.

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

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

The application of IFRS 9 does not alter the current definition of default currently used to determine whether or not there is objective evidence of impairment of a financial asset.

The Bank considers a financial asset to be in default when:

– The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank through actions such as realising security (if any held);

– The financial asset is more than 90 days past due; or

– The borrower is on principal only repayment terms.

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of assets.

Write-off of loans and advances

A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. Consumer installment and credit card loans are written-off after principal and/or interest payments become 270 days and 180 days contractually in arrears, respectively.

Recovery of previously written-off loans

Recoveries of principal and/or interest on previously written off loans are recognised in provisions for credit losses, net in the consolidated statement of profit or loss and other comprehensive income on a cash basis or when the loan is rewritten on normal terms prevailing at the time of the rewrite.

Renegotiated loans

Loans subject to impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

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

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

Accounting policies applied until June 30, 2018:

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 was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The criteria that the Bank used to determine that there was 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 assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment.

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

The amount of the loss was 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 was reduced through the use of an allowance account and the amount of the loss was 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 reflected the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

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

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

Non-accrual loans and overdrafts were identified as impaired and placed on a cash (non-accrual) basis when it was determined that the payment of interest or principal was doubtful of collection, or when interest or principal was past due 90 days or more, except for loans that were fully secured and were in the process of collection, and loans to or guaranteed by The Government. A loan was fully secured when the net realizable value of the collateral equaled or exceeded the principal and outstanding interest.

A loan was considered to be in the process of collection if the collection efforts were reasonably expected to result in repayment of principal and interest, or restoration to current status.

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

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

Provision for loan losses

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

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

The specific provision for an impaired collateral-dependent loan, where repayment was expected to be provided solely by the sale of the underlying collateral, was 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 calculated the provision by applying various factors, including the past due status of the loans. Because of current economic conditions in The Bahamas, secured loans were 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 were grouped based on the type of loans. Future cash flows for loans that were collectively evaluated for impairment were 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 was based. The Bank assigned certain weight factors in the historical loss experience and current observable data.

Consumer loans that were unsecured were fully provided for when they were contractually in arrears more than 270 days. All other loans were provided for when the following conditions existed: i) contractually in arrears; ii) underlying collateral was exhausted; and iii) payment was past due. Where a loan was being provided for, the specific provision was increased to the principal amount and accrued interest of the loan.

Renegotiated loans

Where possible, the Bank sought to restructure loans rather than to take possession of collateral. This might have involved extending payment arrangements and the agreement of new loan conditions. Once the terms were renegotiated, any impairment was measured using the original effective interest rate as calculated before the modification of terms, and the loan was no longer considered past due. Management continually reviewed renegotiated loans to ensure that all criteria were met and that future payments were 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 assessed at each reporting date whether there was objective evidence that an investment was impaired.

In the case of debt instruments classified as AFS, the Bank assessed individually whether there was objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment was 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 was based on the reduced carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income was 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 was considered objective evidence of impairment. When an AFS financial asset was considered impaired, cumulative gains or losses previously recognised in other comprehensive income were reclassified to profit or loss in the period.

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

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

Available-for-sale ("AFS") financial assets (continued)

In respect of AFS equity securities, impairment losses previously recognised in profit or loss were not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss was 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 were subsequently reversed through profit or loss if an increase in the fair value of the investment could be objectively related to an event occurring after the recognition of the impairment loss.

Held-to-maturity financial assets

The Bank assessed individually whether objective evidence of impairment existed for financial assets that were individually significant, or collectively for financial assets that were not individually significant. If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was, or continued to be, recognised were not included in a collective assessment of impairment. If there was objective evidence that an impairment loss had been incurred, the amount of the loss was 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 was 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 decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through profit or loss.

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

(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 contractual rights to receive cash flows from the financial asset have expired; or
- The Bank has transferred its rights to receive the contractual 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 ownership of the financial asset, or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

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.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit and loss.

Financial liabilities

A financial liability is derecognised when its contractual obligations are 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.

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

(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 to B$ at rates of exchange prevailing on the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the sport exchange rate at the end of the year. 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 rates ruling at the dates of transaction.

(g) Property and equipment

Items of property and equipment (excluding the building) are stated at historical cost excluding day to day servicing, less accumulated depreciation and any accumulated impairment losses. The building is stated at estimated salvage value of $384,951 (Note 10), with subsequent additions at cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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. Repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Any gain or loss on disposal of an item of property and equipment is recognized within the consolidated statement of comprehensive income.

Depreciation and amortisation are calculated using the straight-line method to write down the cost of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in the consolidated statement of comprehensive income. 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.

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

(g) Property and equipment *(continued)*

Property and equipment are derecognised on disposal or when no future economic benefits are expected from their 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

At each date of the Bank reviews the carrying amount of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The 'recoverable amount' is the greater of an asset's fair value less costs to sell and value in use. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For impairment testing, 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.

(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's costs are charged to general and administrative expenses and are funded as accrued.

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

(k) Employee benefits *(continued)*

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. Up to June 30, 2018, the standard rate for VAT was 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.

Effective July 1, 2018, the Government increased the VAT rate from 7.5% to 12%.

(o) Investment property

Investment property is initially measured at cost including transaction costs and subsequently at fair value based on an appraisal by a local real estate appraiser. Additions to 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.

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

(o) Investment property *(continued)*

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the consolidated statement of comprehensive income or loss.

When the use of property changes such that it is reclassified as Property and Equipment, its fair value at the date of classification becomes its cost of subsequent accounting.

(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.

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

(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 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, 2019 and 2018, 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

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 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 consolidated 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.

(v) Comparatives

Certain corresponding figures in the prior year have been reclassified in the current comparative consolidated financial statements to conform with the current year's presentation.

- As of June 30, 2018, the offering costs on the preference shares in the amount of \$584,010 have been reclassified from the preference shares capital to be shown on a separate line within Note 15.
- As of June 30, 2018, a portion of the operating expenses in the amount of \$82,869 has been reclassified from other administrative expenses to the appropriate expense line within Note 21.

(Expressed in Bahamian Dollars)

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 $23,647,690 (2018: $25,742,225). 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. Government issued Treasury Bills have maturity dates extending through to September 2019.

		2019		2018
Cash	$	13,438,650	$	21,146,294
Deposits with the Central Bank non-interest bearing (Note 24)		56,085,520		102,391,638
Cash and account with the Central Bank		69,524,170		123,537,932
Cash equivalent - Treasury Bills (Note 24)		49,917,360		56,726,814
Due from banks		61,686,033		43,678,603
Cash, cash equivalent and due from banks (Note 30)		181,127,563		223,943,349
Less: mandatory reserve deposits with the Central Bank		23,647,690		25,742,225
Cash and cash equivalents	$	157,479,873	$	198,201,124

(Expressed in Bahamian Dollars)

6. Investment securities

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

		Available-for-sale		Held-to-maturity		Total
Bahamas Registered Stock (Note 24)	$	48,884,400	$	13,454,100	$	62,338,500
Bridge Authority Bond (Note 24)		-		136,500		136,500
Equity Securities		2,046,278		-		2,046,278
At June 30, 2018	**$**	**50,930,678**	**$**	**13,590,600**	**$**	**64,521,278**

		FVOCI		Amortised cost		Total
Bahamas Registered Stock (Note 24)	$	-	$	98,101,320	$	98,101,320
Equity Securities		2,735,148		-		2,735,148
Allowance for impairment loss (Note 2)		-		(26,500)		(26,500)
At June 30, 2019	**$**	**2,735,148**	**$**	**98,074,820**	**$**	**100,809,968**

As at year end, government securities mainly comprise Bahamas Registered Stock which are variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 2.39% to 4.81% per annum (2018: from 2.63% to 5.50% per annum) and scheduled maturities between 2019 and 2035 (2018: between 2019 and 2035).

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

		Available-for-sale		Held-to-maturity		Total
At July 1, 2017	$	27,557,918	$	13,834,600	$	41,392,518
Additions		25,444,812		-		25,444,812
Maturities		(3,065,000)		(244,000)		(3,309,000)
Net fair value gain (Note 17)		992,948		-		992,948
At June 30, 2018	**$**	**50,930,678**	**$**	**13,590,600**	**$**	**64,521,278**

		Available-for-sale		Held-to-maturity		Total
At June 30, 2018	$	50,930,678	$	13,590,600	$	64,521,278
IFRS 9 Reclassification		(48,884,400)		48,884,400		-
Allowance for impairment loss (Note 2)		-		(26,500)		(26,500)
		FVOCI		**Amortised cost**		**Total**
At July 1, 2018		2,046,278		62,448,500		64,494,778
Additions		-		48,503,800		48,503,800
Maturities		-		(12,659,500)		(12,659,500)
Movement in fair value: equity investments at FVOCI (Note 17)		688,870		(310,089)		378,781
Premium amortisation		-		92,109		92,109
At June 30, 2019	**$**	**2,735,148**	**$**	**98,074,820**	**$**	**100,809,968**

(Expressed in Bahamian Dollars)

7. Loans and advances to customers, net

Loans and advances to customers are as follows:

		2019		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		75,320,834		62,989,797
Government (Note 24)		9,122,065		-
Credit cards		1,227,754		1,338,235
Business overdrafts		1,377,502		1,713,715
Personal overdrafts		504,990		477,329
Government guaranteed student loans		-		6,553,367
	$	404,211,785	$	409,031,407

Loan loss provisions are as follows:

		2019		2018
Less: Provision for loan losses				
At June 30, 2018	$	65,649,984	$	142,599,409
IFRS 9 Day 1 Loss (Note 2)		1,091,667		-
At July 1, 2018		66,741,651		142,599,409
Amount written-off		(6,959,004)		(570,607)
Amount written-back (Note 12)		-		(83,947,003)
Net provision charged to expense		1,723,287		7,568,185
At June 30, 2019		61,505,934		65,649,984
Accrued interest receivable		1,475,243		8,107,665
Loans and advances to customers, net	$	344,181,094	$	351,489,088

		2019		2018
Specific Provisions				
Mortgage residential loans	$	41,357,543	$	39,681,208
Mortgage commercial loans		2,744,068		2,410,612
Commercial loans		9,978,390		8,816,734
Consumer loans		7,134,448		7,146,968
Credit and prepaid cards		291,485		153,696
		61,505,934		58,209,218
Portfolio assessment		-		7,440,766
	$	61,505,934	$	65,649,984

(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.

	2019	2018
Provisions as a percentage of the net loan portfolio	17.87%	18.68%
Provisions and equity reserves as a percentage of the net loan portfolio	17.87%	19.82%
Provisions and equity reserves as a percentage of non-accrual loans	70.43%	68.52%

Non-accrual (impaired) loans are as follows:

		2019		2018
Mortgage residential loans	$	65,980,501	$	76,325,549
Mortgage commercial loans		3,301,101		4,039,337
Commercial loans and overdrafts		10,848,280		11,816,735
Consumer loans and overdrafts		7,149,096		9,411,895
Credit cards		52,593		54,830
	$	87,331,571	$	101,648,346
Percentage of loan portfolio (net)		25.37%		28.92%
Percentage of total assets		10.67%		12.20%

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

	2019			2018		
		Value	No. of Loans and Overdrafts		Value	No. of Loans and Overdrafts
$0 - $ 10,000	$	5,571,622	3,717	$	5,753,558	6,342
$10,001 - $ 25,000		12,918,823	762		15,769,997	939
$25,001 - $ 50,000		34,944,089	944		25,985,498	708
$50,001 - $ 100,000		55,732,902	813		58,877,408	843
Over $ 100,000		295,044,349	1,152		302,644,946	1,234
	$	404,211,785	7,388	$	409,031,407	10,066

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

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

In ($000s)		2019		2018
Mortgage residential loans				
Neither past due nor impaired	$	140,475	$	134,814
Past due but not impaired		21,441		33,342
Impaired		65,981		76,325
	$	227,897	$	244,481
Mortgage commercial loans				
Neither past due nor impaired	$	1,906	$	1,685
Past due but not impaired		8,170		8,213
Impaired		3,301		4,039
	$	13,377	$	13,937
Commercial loans and overdrafts				
Neither past due nor impaired	$	64,931	$	52,997
Past due but not impaired		983		14,440
Impaired		10,848		11,817
	$	76,762	$	79,254
Consumer, GG student loans and overdrafts				
Neither past due nor impaired	$	63,703	$	52,892
Past due but not impaired		4,974		7,717
Impaired		7,149		9,412
	$	75,826	$	70,021
Government				
Neither past due nor impaired	$	9,122	$	-
Past due but not impaired		-		-
Impaired		-		-
	$	9,122	$	-
Credit cards				
Neither past due nor impaired	$	854	$	954
Past due but not impaired		321		329
Impaired		53		55
	$	1,228	$	1,338

In the opinion of management, the credit quality of the majority of loans and advances to customers that are neither past due nor impaired is satisfactory.

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

2019, In ($000s)		Principal		Restructured		Total
Mortgage residential loans	$	169,424	$	58,473	$	227,897
Mortgage commercial loans		4,178		9,199		13,377
Commercial loans and overdrafts		40,037		36,725		76,762
Consumer loans, GG student loans and overdrafts		72,889		2,937		75,826
Government		9,122		-		9,122
Credit cards		1,228		-		1,228
	$	296,878	$	107,334	$	404,212

2018, In ($000s)		Principal		Restructured		Total
Mortgage residential loans	$	186,786	$	57,695	$	244,481
Mortgage commercial loans		4,547		9,390		13,937
Commercial loans and overdrafts		44,757		34,497		79,254
Consumer loans, GG student loans and overdrafts		66,578		3,443		70,021
Credit cards		1,338		-		1,338
	$	304,006	$	105,025	$	409,031

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

2019 In ($000s)		Mortgage Residential		Mortgage Commercial		Commercial		Consumer		Credit Card		Total
Past due up to 29 days	$	12,746	$	8,070	$	804	$	3,760	$	-	$	25,380
Past due 30 - 59 days		6,698		100		159		755		148	$	7,860
Past due 60 - 89 days		1,997		-		20		459		173	$	2,649
	$	21,441	$	8,170	$	983	$	4,974	$	321	$	35,889

2018 In ($000s)		Mortgage Residential		Mortgage Commercial		Commercial		Consumer		Credit Card		Total
Past due up to 29 days	$	16,199	$	105	$	2,314	$	3,067	$	-	$	21,685
Past due 30 - 59 days		13,514		-		11,440		2,465		308		27,727
Past due 60 - 89 days		3,629		8,108		686		2,185		21		14,629
	$	33,342	$	8,213	$	14,440	$	7,717	$	329	$	64,041

(Expressed in Bahamian Dollars)

8. Investment property

Investment Property comprises of land owned by the Bank. The land is located on West Bay Street, Nassau Bahamas..

In 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. Every three years, the Bank obtains an appraised report for the property. The appraised value of $6,463,000 was allocated to the investment property as at June 30, 2019 and 2018.

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.

9. Other assets

Other assets are comprised of the following:

		2019		**2018**
Accrued interest receivable on securities and note receivable (Notes 6 and 12)	$	2,709,033	$	5,590,353
Prepaid assets		4,893,206		5,083,139
Clearing in transit		870,100		1,900,296
Accounts receivable		1,548,079		3,032,122
Other assets		662,060		487,464
	$	**10,682,478**	**$**	**16,093,374**

Included in other assets is the Bank’s investment in the Bahamas Automated Clearing House Limited in the amount of $212,944 (2018: $216,876).

Included in Clearing in transit is a debit balance for USD cheque clearing of $118,621 (2018: $879,320) with a provision for impairment loss of $11,652 (2018: $675,306).

(Expressed in Bahamian Dollars)

10. 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, 2017	$	1,164,360	$	6,579,880	$	10,780,173	$	18,524,413
Additions		-		78,303		1,091,862		1,170,165
Disposal		-		-		(207,574)		(207,574)
Balance as at June 30, 2018		1,164,360		6,658,183		11,664,461		19,487,004
Additions		-		-		2,078,331		2,078,331
Disposal/write-off		-		(723,120)		(664,074)		(1,387,194)
Balance as at June 30, 2019	$	1,164,360	$	5,935,063	$	13,078,718	$	20,178,141
Accumulated Depreciation								
Balance as at June 30, 2017	$	734,840	$	5,938,196	$	8,795,032	$	15,468,068
Depreciation (Note 21)		-		438,480		675,238		1,113,718
Disposal		-		-		(180,890)		(180,890)
Balance as at June 30, 2018		734,840		6,376,676		9,289,380		16,400,896
Depreciation (Note 21)		-		66,742		324,778		391,520
Disposal/write-off		-		(723,120)		(660,137)		(1,383,257)
Balance as at June 30, 2019	$	734,840	$	5,720,298	$	8,954,021	$	15,409,159
Net book value:								
Balance as at June 30, 2019	$	429,520	$	214,765	$	4,124,697	$	4,768,982
Balance as at June 30, 2018	$	429,520	$	281,507	$	2,375,081	$	3,086,108

Land in the amount of $44,565 (2018: $44,565) is included in land and building.

Leasehold Improvements and Furniture, Fixtures and Equipment include work in progress, on which no depreciation has been charged, in the amount of $3,333,928 (2018: $1,547,081).

(Expressed in Bahamian Dollars)

11. Computer software, net

		2019		2018
At beginning of year	$	898,026	$	1,026,580
Additions		1,878,547		139,816
Disposal/write-off		(11,164)		-
Amortisation (Note 21)		(311,794)		(268,370)
At end of year	$	2,453,615	$	898,026

Computer software includes work in progress, in the amount of $1,736,063 (2018: Nil) on which no amortisation has been charged.

12. 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 $100.0 million and a net book value of approximately $45.4 million were derecognized.
- $100.0 million in unsecured promissory notes (the "Notes") were received for the non-performing loans and were recognized as an asset.
- The net difference of approximately $54.6 million between the Notes received and the derecognised assets was recognized directly in equity as Special Retained Earnings and was considered to be a part of the Bank's regulatory capital.
- The Notes had a final maturity date of October 30, 2024 and bore interest at the Bahamian Prime rate less 0.50%, with interest payable semi-annually on the 30th day of April and the 30th day of October. The Government, however, redeemed $50.0 million, $19.0 million, $19.0 million and $12.0 million on August 31, 2017, November 30, 2017, February 28, 2018, and May 18, 2018, respectively.

On August 31, 2017, Resolve 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 $33.2 million were derecognized.
- $167.7 million in unsecured promissory note was received for these loans and was recognized as an asset.

(Expressed in Bahamian Dollars)

12. Notes receivable and special retained earnings *(continued)*

- 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 promissory note with final maturity date of August 31, 2022 bears fixed interest at 3.5%, payable semi-annually on the 28th day of February and the 31st day of August, commencing in August 2018. As at June 30, 2019, accrued interest receivable amounts to $1,956,500 (2018: $4,878,391).

The Bank has transferred all of its rights relating to the non-performing loans to Resolve and 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 promissory note. 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 promissory note and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.

		2019		2018
Notes receivable	$	167,700,000	$	167,700,000
Allowance for impairment loss (Note 2)		(73,500)		-
	$	**167,626,500**	**$**	**167,700,000**

13. Deposits from customers and banks

Deposits from customers and banks are as follows:

		2019		2018
Term deposits	$	301,233,033	$	330,499,361
Demand deposits		203,197,067		205,350,952
Savings accounts		109,086,875		90,230,918
		613,516,975		626,081,231
Accrued interest payable		2,335,540		2,324,581
	$	615,852,515	$	628,405,812

(Expressed in Bahamian Dollars)

13. Deposits from customers *(continued)*

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

		2019		2018	
			No. of		No. of
		Value	Deposits	Value	Deposits
$0	- $ 10,000	$ 40,170,148	75,064	$ 35,902,802	65,488
$10,001	- $ 25,000	27,953,019	1,822	25,297,001	1,631
$25,001	- $ 50,000	27,213,947	767	23,461,125	669
$50,001	- $100,000	33,647,666	491	31,061,787	459
Over	$100,000	484,532,195	665	510,358,516	634
		$ 613,516,975	78,809	$ 626,081,231	68,881

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $183,425 (2018: $169,335) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

14. Other liabilities

Other liabilities consist of the following:

	2019	2018
Accounts payable (Note 22)	$ 18,762,618	$ 8,725,045
Cardholders liability	5,923,796	6,221,474
Cheques and other items in transit	6,965,678	3,664,879
Clearing in transit	168,572	514,778
Deferred revenue	160,024	-
Other liabilities	3,284,342	3,356,293
	$ 35,265,030	$ 22,482,469

(Expressed in Bahamian Dollars)

15. Share capital

Share capital at par value consists of the following:

		2019		2018
Authorized:				
45,000 Preference shares of B$1,000 each (2018: 45,000)	$	45,000,000	$	45,000,000
105,000,000 Voting common shares of B$1 each (2018: 105,000,000)		105,000,000		105,000,000
10,000,000 Non-voting common shares of B$1 each (2018: 10,000,000)		10,000,000		10,000,000
	$	160,000,000	$	160,000,000
Issued and fully paid:				
Nil Preference shares of B$1,000 each (2018: 15,250)	$	-	$	15,250,000
36,936,549 Voting common shares of B$1 each (2018: 36,936,549)		36,936,549		36,936,549
6,022,945 Non-voting common shares of B$1 each (2018: 6,022,945)		6,022,945		6,022,945
Treasury shares				
235,021 issued previously at B$1 each (2018: 235,021)		235,021		235,021
Less: Cost of preference shares		584,010		584,010
	$	42,610,505	$	57,860,505

15. Share capital *(continued)*

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. In accordance with International Financial Reporting Standards, the preference shares were classified as equity. Costs totaling $235,010 and $349,000 related to the preference share offering respectively were netted against the proceeds.

During the fiscal years ended June 30, 2014 to June 30, 2017, the Bank redeemed $3,400,000 of preference shares annually. During the year, $15,250,000 (2018: $6,150,000) of preference shares were redeemed.

Voting common shares

Effective January 2006, the Bank had a rights offering resulting in the increase in voting common shares from $12,000,000 to $15,600,000 and share premium from $7,589,064 to $28,587,866.

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 voting common 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 a common shares rights offering for an aggregate amount of $40 million for 14,814,814 voting common shares. For each 1.44 common 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 common shares to its shareholders at a price of $2.70 per share. Costs totaling $482,667 related to this common 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 voting common shares at a price of $1.48 per share which resulted in additional share premium of $3,243,244.

(Expressed in Bahamian Dollars)

15. Share capital *(continued)*

Non-voting common 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 common 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.

16. Treasury shares

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 years 2019 and 2018.

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

	No. of Shares		Value
Balance as at June 30, 2019 and 2018	235,021	$	1,318,224

17. Reserves

As at June 30, 2018, reserves were 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. Banking regulations of the Central Bank require a general provision in respect of the Bank's loans of at least 1%. 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 equity.

Effective July 1, 2018, reserves are comprised of the net gain in fair value of equity investments at FVOCI as of the reporting date. With the implementation of IFRS 9, banking regulations of the Central Bank no longer require a general provision and the excess provisions booked to the regulatory credit reserves were restored to retained earnings.

Reserves were comprised of:

		2019		2018
Net gain in fair value of equity investments at FVOCI	$	2,512,459	$	2,133,678
Regulatory credit reserves allocated from retained earnings		-		4,000,000
	$	2,512,459	$	6,133,678

(Expressed in Bahamian Dollars)

17. Reserves *(continued)*

Movement in reserves for the year was as follows:

		2019		2018
Balance at June 30, 2018	$	6,133,678	$	5,140,730
IFRS 9 Adjustment		(4,000,000)		-
Balance at July 1, 2018		2,133,678		5,140,730
Movement in fair value: equity investments at FVOCI (Note 6)		378,781		992,948
Balance at June 30, 2019	$	2,512,459	$	6,133,678

18. Net interest income

		2019		2018
Interest and similar income				
Loans and advances to customers	$	26,143,971	$	28,136,330
Notes receivable		5,728,944		6,360,266
Investment securities		2,384,430		1,878,856
Cash and short term investments		2,064,294		752,468
		36,321,639		37,127,920
Interest and similar expense				
Banks and customers		(8,125,743)		(9,206,684)
Total net interest income	$	28,195,896	$	27,921,236

19. Fees and commission income

		2019		2018
Deposit services fees and commission	$	3,525,744	$	3,174,790
Card services fees and commission		3,257,566		3,036,715
Credit services fees and commission		1,022,638		1,353,567
Other fees and commission		591,199		587,303
Total fees and commission income	$	8,397,147	$	8,152,375

(Expressed in Bahamian Dollars)

20. Other operating income

		2019		2018
Foreign exchange	$	2,400,135	$	2,297,768
Other		2,224,384		927,775
Total other operating income	$	4,624,519	$	3,225,543

21. Operating expenses

		2019		2018
Staff costs (Note 25)	$	15,831,496	$	15,803,695
Other administrative expenses (Note 22)		8,375,290		1,751,126
Licenses and other fees		4,376,251		4,256,921
Occupancy (Note 23)		3,306,995		3,293,841
Information technology		2,550,759		2,246,874
Advertising, marketing and donations		400,921		401,233
Telecommunication and postage		348,601		338,415
Travel and entertainment		216,278		211,595
Operating expenses	$	35,406,591	$	28,303,700
Depreciation of property and equipment (Note 10)	$	391,520	$	1,113,718
Amortisation of software (Note 11)		311,794		268,370
Depreciation and amortisation		703,314		1,382,088
Total operating expenses	$	36,109,905	$	29,685,788

22. 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)

22. Contingencies *(continued)*

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. As a result of the litigation risk inherent in its operations, 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 makes adjustments to account for any adverse effects which the claims may have on its financial standing 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, included in other administrative expenses (Note 21) and accounts payable (Note 14), for any loss that might ultimately be determined.

23. Commitments

The approximate minimum rental commitments (exclusive of the effect of escalation clauses relating to taxes, maintenance, etc.) under operating leases for the years ended June 30, 2019 and 2018 are as follows:

		2019		2018
No later than 1 year	$	566,398	$	213,190
Later than 1 year and no later than 5 years		335,366		492,692
Total	$	901,764	$	705,882

Rental expense (including service charges) totaled $1,617,246 (2018: $1,713,276) and is included in occupancy costs within operating expenses (Note 21).

Certain leases contain renewal options for the next 5 years.

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

The Bank has a commitment for future capital expenditure of $5,351,405 (2018: Nil).

The Bank has letters of credit and guarantees outstanding of $1,260,503 (2018: $1,205,503).

(Expressed in Bahamian Dollars)

24. Transactions and balances with related parties

All loans to related parties are secured in the regular course of business; allowance for impairment loss against any of these balances as at June 30, 2019 amounted to $133,396 (2018: Nil).

	Government	Other Government Entities	Key Management	Total 2019	Total 2018
Assets					
Deposits with the Central Bank (Note 5)	$ -	$ 56,085,520	$ -	$ 56,085,520	$ 102,391,638
Treasury bills (Note 5)	49,917,360	-	-	49,917,360	56,726,814
Investment securities (Note 6)	98,074,820	-	-	98,074,820	62,475,000
Loans and advances to customers	9,122,065	2,475,000	2,776,878	14,373,943	4,456,939
Notes receivable (Note 12)	-	167,626,500	-	167,626,500	167,700,000
Other assets	1,476,469	2,566,500	-	4,042,969	5,590,353
Liabilities					
Deposits from customers and banks	$ 86,812,192	$ 136,461,551	$ 777,196	$ 224,050,939	$ 242,325,099
Other liabilities	11,464,490	2,286,622	25,500	13,776,612	12,693,980
Deferred loan fees	20,268	-	-	20,268	-
Revenues					
Interest Income	$ 3,761,242	$ 5,926,586	$ 117,524	$ 9,805,352	$ 8,888,395
Fees and commission income	1,198,455	162,442	-	1,360,897	1,734,301
Total	$ 4,959,697	$ 6,089,028	$ 117,524	$ 11,166,249	$ 10,622,696
Expenses					
Interest Expense	$ 573,450	$ 2,777,872	$ 10,674	$ 3,361,996	$ 4,039,494
Directors fees	-	-	131,750	131,750	94,833
Other operating expenses	3,209,253	1,765,747	-	4,975,000	3,982,513
Short-term employee benefits	-	-	2,102,180	2,102,180	1,626,507
Pension expense	-	-	84,186	84,186	84,494
Termination benefits	-	-	90,680	90,680	468,453
Total	$ 3,782,703	$ 4,543,619	$ 2,419,470	$ 10,745,792	$ 10,296,294

(Expressed in Bahamian Dollars)

25. 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, 2019 totaled $569,191 (2018: $601,640) recorded as staff costs (Note 21).

During the year, the Plan revised its investment strategy and fully employed a low risk and conservative bond fund.

As at June 30, 2019, the Plan owns Nil (2018: 44,227) shares of the Bank. The holdings represent approximately Nil (2018: 0.73%) of the Plan's net assets.

As at June 30, 2019, the Plan has deposits totaling $104,852 (2018: $169,118) with the Bank.

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

26. Assets under administration

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

		2019		2018
Government guaranteed student education loans (Note 32)	$	56,899,718	$	60,268,669
Government guaranteed hurricane relief loans	$	24,177,971	$	34,215,703
Trust assets (Note 32)	$	102,912,472	$	102,274,759

The Bank recognised fees totaling $162,442 (2018: $167,838) for the administration of the Government Guaranteed Student Loans program and $844,248 (2018: $1,162,757) for the administration of the Government Guaranteed Hurricane Relief Loans program.

27. Dividends and (loss)/earnings 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. In December 2018, outstanding preference shares dividends of $1,546,250 was declared and paid, while the remaining outstanding preference shares dividends of $1,634,802 was declared as at March 31, 2019 and fully paid in May 2019. The Bank paid no dividends to common shareholders during the reporting years.

(Expressed in Bahamian Dollars)

27. Dividends and (loss)/earnings per share *(continued)*

		2019		2018
Net income attributable to equity shareholders	$	2,910,259	$	1,598,066
Preference share dividends		(3,181,052)		-
Net (loss)/income attributable to ordinary shareholders	$	(270,793)	$	1,598,066
Weighted average number of ordinary shares outstanding		42,959,494		42,959,494
Basic (loss)/earnings per ordinary share	$	(0.01)	$	0.04

28. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is quoted price in an active market.

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As of June 30, 2018 the Bank held equity securities as available-for-sale totaling $2,046,278 classified as Level 1 investment. All other available-for-sale investments totaling $48,884,400 were classified as Level 2. As of June 30, 2019 the Bank held equity securities as FVOCI totaling $2,735,148 classified as Level 1 investment. No transfers were made during the year for any investments between the hierarchies. Investment property has been classified as Level 3 (Note 8).

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

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 the Bank's investments are determined 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 disclosed in Note 6.

Loan and advances to customers

Loans and advances to customers bear interest at floating rates tied to the Bahamian dollar prime rate and are therefore subject to re-pricing within a short period of time. As such, fair values are assumed to be equal to their carrying values and are disclosed in Note 7.

Deposits from customers

The estimated fair values of deposits from customers were determined by valuing the deposits based on current market interest rates relative to the Bank's interest rates. The fair values of deposit from customers approximate their carrying values.

Investment property

The fair value of investment property was determined by external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair values of the Bank's investment property portfolio every three years.

The fair value measurements for all of the investment properties have been categorized as Level 3 fair value measurements.The estimated fair value of investment property is based on an appraisal by a local real estate appraiser as at June 30, 2017 and as determined by management at June 30, 2019. The fair value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

The valuation model used the Sales Comparison Approach to estimate the Market Value of the subject site. The model considered three comparable transactions ("Comparables") which were adjusted for the sales price for differences in location and size.

As at June 30, 2017, Management recorded the investment property at the appraised value of $6,463,000 ($1.15 million per acre). Additionally, given that the value as of June 28, 2017 was greater than the carrying value of the investment property,

29. Regulatory capital

The Central Bank requires that the Bank maintains a ratio of total regulatory capital to risk-weighted assets at a minimum of 18% (2018:18%). The Bank's capital ratio for 2019 was 42.4% (2018: 45.1%)

Capital regulatory requirements for subsidiary companies are managed through the Bank. The Bank's strategy is unchanged from 2018. 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, 2019, the Bank was compliant with all of the 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.

29. Regulatory capital *(continued)*

Capital risk management *(continued)*

At June 30, 2019 and 2018, 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.

In ($000s)	2019	2018
Tier 1 capital	$ 158,979	$ 156,040
Tier 2 capital	2,512	20,522
Total capital	$ 161,491	$ 176,562
Risk weighted assets	$ 380,638	$ 391,468
CET1 must be at least 9.6% of total Risk Weighted Assets	41.8%	39.9%
Total Tier 1 Capital must be at least 12.8% of total Risk Weighted Assets	41.8%	39.9%
Total Capital must be at least 18.0% of total Risk Weighted Assets	42.4%	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%

Regulatory capital consists of Tier 1 capital, which comprises share capital, reserves less intangible assets and treasury shares, 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.

30. 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 note 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. Accordingly, the Bank evaluates the concentration of risk with respect to the Government loan as low, as the interest and principal sum is payable 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 12.

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.

30. Risk management *(continued)*

Credit risk *(continued)*

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.

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 much 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)		**2019**		**2018**
Cash, cash equivalent and due from banks				
Neither past due nor impaired	$	181,128	$	223,943
Investment securities				
Neither past due nor impaired	$	100,810	$	64,521
Loans and advances to customers				
Neither past due nor impaired	$	280,991	$	243,342
Past due but not impaired		35,889		64,041
Impaired		87,332		101,648
	$	404,212	$	409,031
Notes receivable				
Neither past due nor impaired	$	167,627	$	167,700

30. Risk management *(continued)*

Credit risk *(continued)*

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

Expected Credit Loss Measurement

ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD, and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

Expected Credit Loss Measurement *(continued)*

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

The Bank uses a Point-in-Time ("PIT") analysis while having regard to historical loss data and forward looking macro-economic data.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank has performed historical analysis and identified the key economic variables impacting credit risk d expected credit losses for each portfolio. The Bank formulates three economic scenarios (base case, best case and worst case). Once an ECL calculation has been developed for each scenario, a weight is applied to each estimate based on the likelihood of occurrence to arrive at a final weighted ECL.

The weighting assigned to each economic scenario as at July 1, 2018 was as follows:

	Base scenario	Upside scenario	Downside scenario
Sovereign exposures (Investments and Notes Receivable)	80.00%	10.00%	10.00%
Loans and advances to customers	80.00%	8.85%	11.15%

The weighting assigned to each economic scenario as at June 30, 2019 was as follows:

	Base scenario	Upside scenario	Downside scenario
Sovereign exposures (Investments and Notes Receivable)	80.00%	10.00%	10.00%
Loans and advances to customers	80.00%	9.78%	10.22%

(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

Maximum Exposure to Credit Risk

For financial assets recognised on the consolidated statement of financial position, the exposure to credit risk equals their carrying amount. For standby letters of credit, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the standby letters of credit are called upon. For mortgage commitments and revolving credit lines that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. The following table contains an analysis of the credit risk exposure of financial assets for which an ECL allowance is recognised. The gross carrying amount of the financial assets represents the Bank's maximum exposure to the credit risk of these assets.

	Stage 1	Stage 2	Stage 3	Total 2019	Total 2018
Loans and accrued interest receivable	$ 259,009,745	$ 57,286,038	$ 86,279,512	$ 402,575,295	$ 413,609,793
Business and personal overdrafts	397,633	486,880	999,466	1,883,979	2,191,044
Credit cards	632,813	542,348	52,593	1,227,754	1,338,235
	260,040,191	58,315,266	87,331,571	405,687,028	417,139,072
Notes receivable	$ 167,700,000	$ -	$ -	$ 167,700,000	$ 167,700,000
Investment securities	$ 98,101,320	$ -	$ -	$ 98,101,320	$ 62,475,000

Transfers between Stages

At each reporting date, the Bank assesses whether the credit risk on its financial assets has increased significantly since initial recognition. The assessment of whether an asset is in Stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument and is not assessed based on the change in the amount of the expected credit losses. This involves setting quantitative tests combined with additional indicators such as credit risk classification and other observable inputs.

Transfers between Stages 1 and 2 are based on the assessment of significant increases in credit risk relative to initial recognition. The impact of moving from 12-month expected credit losses to lifetime expected credit losses, or vice versa, varies by portfolio and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in the Bank's expected credit losses.

Movement in Impairment Allowances by Stage

The impairment allowance recognised in the period is impacted by a variety of factors, including but not limited to:

• Transfers between Stage 1 and 2 or 3 due to financial assets experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;

(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

• Additional allowances for new financial assets recognised during the period, as well as releases for financial assets derecognised in the period;

• Impact on the measurement of ECL due to changes in PDs, EADs, and LGDs in the period, arising from regular refreshing of inputs to the model;

• Impacts on the measurement of ECL due to changes made to models and assumptions; and

• Financial assets derecognised during the period and write-offs of allowances related to the assets that were written off during the period.

The following table explains the changes in the impairment allowance by portfolio between the beginning and the end of the annual period due to these factors.

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2019	Total 2018
Investment securities at amortised cost:					
Gross carrying amount	$ 98,101,320	$ -	$ -	$ 98,101,320	$ 62,475,000
Loss allowance	(26,500)	-	-	(26,500)	-
Carrying amount	$ 98,074,820	$ -	$ -	$ 98,074,820	$ 62,475,000

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2019
Investment securities at amortised cost:				
Loss Allowance as at July 1, 2018	26,500	-	-	26,500
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	16,907	-	-	16,907
Financial assets fully derecognized during the period	(20,436)	-	-	(20,436)
Changes to inputs used in ECL calculation	3,529	-	-	3,529
Foreign exchange adjustment	-	-	-	-
Loss Allowance as at June 30, 2019	$ 26,500	$ -	$ -	$ 26,500

(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2019
Investment securities at amortised cost:				
Gross carrying amount as at July 1, 2018	62,475,000	-	-	62,475,000
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	98,385,330	-	-	98,385,330
Financial assets fully derecognized during the period	(50,779,819)	-	-	(50,779,819)
Changes in principal and interest	(11,979,191)	-	-	(11,979,191)
Foreign exchange adjustment	-	-	-	-
Gross carrying amount as at June 30, 2019	$ 98,101,320	$ -	$ -	$ 98,101,320

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2019	Total 2018
Loans and advances to customers at amortised cost:					
Gross carrying amount	$ 260,040,191	$ 58,315,266	$ 87,331,571	$ 405,687,028	$ 417,139,072
Loss allowance	(4,441,950)	(3,842,090)	(53,221,894)	(61,505,934)	(65,649,984)
Carrying amount	$ 255,598,241	$ 54,473,176	$ 34,109,677	$ 344,181,094	$ 351,489,088

(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2019
Loans and advances to customers at amortised cost:				
Loss Allowance as at July 1, 2018	7,385,853	5,071,637	54,284,161	66,741,651
Transfers:				
Transfer from Stage 1 to Stage 2	(2,594,965)	2,594,965	-	-
Transfer from Stage 1 to Stage 3	(615,976)	-	615,976	-
Transfer from Stage 2 to Stage 1	1,519,848	(1,519,848)	-	-
Transfer from Stage 2 to Stage 3	-	(769,552)	769,552	-
Transfer from Stage 3 to Stage 1	213,213	-	(213,213)	-
Transfer from Stage 3 to Stage 2	-	327,959	(327,959)	-
New financial assets originated or purchased	1,030,864	148,159	98,039	1,277,062
Financial assets fully derecognized during the period	(446,580)	(2,210,335)	(8,751,436)	(11,408,351)
Changes to inputs used in ECL calculation	(2,050,307)	199,105	6,746,774	4,895,572
Foreign exchange adjustment	-	-	-	-
Loss Allowance as at June 30, 2019	$ 4,441,950	$ 3,842,090	$ 53,221,894	$ 61,505,934

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2019
Loans and advances to customers at amortised cost:				
Gross carrying amount as at July 1, 2018	260,865,488	59,266,407	97,007,177	417,139,072
Transfers:				
Transfer from Stage 1 to Stage 2	(33,606,917)	33,606,917	-	-
Transfer from Stage 1 to Stage 3	(5,752,257)	-	5,752,257	-
Transfer from Stage 2 to Stage 1	12,388,517	(12,388,517)	-	-
Transfer from Stage 2 to Stage 3	-	(3,942,086)	3,942,086	-
Transfer from Stage 3 to Stage 1	558,913	-	(558,913)	-
Transfer from Stage 3 to Stage 2	-	941,464	(941,464)	-
New financial assets originated or purchased	59,902,881	9,588,626	522,248	70,013,755
Financial assets fully derecognized during the period	(27,698,092)	(25,597,974)	(15,853,531)	(69,149,597)
Changes in principal and interest	(6,618,342)	(3,159,573)	(2,538,288)	(12,316,202)
Foreign exchange adjustment	-	-	-	-
Gross carrying amount as at June 30, 2019	$ 260,040,191	$ 58,315,265	$ 87,331,572	$ 405,687,028

30. Risk management *(continued)*

Credit risk *(continued)*

ECL sensitivity analysis

Set out below are changes to the Bank's ECL as at June 30, 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used by the Bank as key ECL drivers.

		ECL Impact of	
Collateral haircut	Change in threshold	Increase in ECL allowance	Decrease in ECL allowance
Loans and advances to customers	(+/- 5)%	3,731,660	3,524,943

30. Risk management *(continued)*

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 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, 2019 and 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

				2019			
In ($000s)		**B$**	**US$**	**CAD$**	**GBP£**	**Other**	**Total**
Assets							
Cash, cash equivalent and Central Bank balances	$	112,437	$ 67,092	$ 310	$ 1	$ 1,288	$ 181,128
Financial assets - FVOCI		-	2,735	-	-	-	2,735
Financial assets - held to collect		98,075	-	-	-	-	98,075
Loans and advances, net		339,131	5,050	-	-	-	344,181
Notes receivable		167,627	-	-	-	-	167,627
Total financial assets	$	717,270	$ 74,877	$ 310	$ 1	$ 1,288	$ 793,746
Liabilities							
Deposits from customers and banks	$	588,452	$ 26,803	$ 205	$ 21	$ 372	$ 615,853
Cheques and other items in transit		5,542	1,218	118	86	2	6,966
Total financial liabilities	$	593,994	$ 28,021	$ 323	$ 107	$ 374	$ 622,819
Net financial position	**$**	**123,276**	**$ 46,856**	**$ (13)**	**$ (106)**	**$ 914**	**$ 170,927**

				2018			
In ($000s)		**B$**	**US$**	**CAD$**	**GBP£**	**Other**	**Total**
Total financial assets	$	736,882	$ 69,054	$ 486	$ 3	$ 1,228	$ 807,653
Total financial liabilities		598,592	32,497	492	110	380	632,071
Net financial position	**$**	**138,290**	**$ 36,557**	**$ (6)**	**$ (107)**	**$ 848**	**$ 175,582**

30. Risk management *(continued)*

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.

Interest rate risk

Interest rate risk is the potential for a negative impact on the consolidated statement of financial position and/or consolidated statement of comprehensive income or loss and other comprehensive income arising from adverse changes in the value of financial instruments as a result of changes in interest rates.

Interest rate sensitivity or interest rate risk results from differences in the maturities or re-pricing dates of assets and liabilities. Interest rate risk exposures or "gaps" 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 are performed to determine the potential impact of various gap exposures. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base.

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 $1.7 million (2018: $1.8 million).

Liquidity risk

Liquidity risk is the potential for loss if the Bank is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, pledging and investment commitments. Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

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.

30. Risk management *(continued)*

Liquidity risk *(continued)*

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.

			2019			
In ($000s)		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	$	181,128	$ -	$ -	$ -	$ 181,128
Investment securities		20,247	36,016	20,006	24,541	100,810
Loans and advances to customers, net		20,771	5,135	48,079	270,196	344,181
Notes receivable		-	-	-	167,627	167,627
Total financial assets	$	222,146	$ 41,151	$ 68,085	$ 462,364	$ 793,746

			2019			
In ($000s)		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	$	443,332	$ 117,241	$ 32,713	$ 22,567	$ 615,853
Cheques and other items in transit		6,966	-	-	-	6,966
Total financial liabilities	$	450,298	$ 117,241	$ 32,713	$ 22,567	$ 622,819
Net position	$	(228,152)	$ (76,090)	$ 35,372	$ 439,797	$ 170,927

			2018			
In ($000s)		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	$	256,707	$ 13,313	$ 29,255	$ 508,378	$ 807,653
Total financial liabilities		449,704	116,080	40,906	25,381	632,071
Net position	$	(192,997)	$ (102,767)	$ (11,651)	$ 482,997	$ 175,582

(Expressed in Bahamian Dollars)

31. Subsidiaries

Subsidiaries of the Bank as at June 30, 2019 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

32. Subsequent events

Subsequent to June 30, 2019, the Bank began to discontinue its administration of the government guaranteed student education loans (Note 26).

On July 31, 2019, the Bank signed the agreement for the sale of its Trust portfolio (Note 26).

On September 1 to September 3, 2019, the family islands of Abaco and Grand Bahama were significantly affected by a category 5 hurricane. The Bank has one branch in Grand Bahama.

In the aftermath of the hurricane and to ensure that customers and employees have access to credit for relief purposes, the Central Bank of The Bahamas has temporarily relaxed lending guidelines to all domestic banks as at September 3, 2019. As a result, the Bank launched Hurricane Relief Plans for its customers and employees negatively impacted by the hurricane which commenced September 9, 2019, expiring October 30, 2019. The Bank is assessing the impact of this hurricane to its credit portfolio.