Consolidated Financial Statements

BANK OF THE BAHAMAS LIMITED

Year ended June 30, 2018

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Year ended June 30, 2018

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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, 2018, 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, 2018, 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 current year and has an accumulated deficit at June 30, 2018 of $138,900,256 (2017: $140,498,322). These events and conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Management does not expect that the operating losses or 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.

Key Audit Matters (continued)

Provision for loan losses ($65,649,984, see note 7)	
The risk	***Our response***
Significant estimates are made in valuing the Bank's loan portfolio and determining the adequacy of the provision for loan losses. The valuation of the loan portfolio and determination of the amount of the provision for loan losses is considered a significant risk because inadequate estimates of the required provisions could have a material financial impact on the consolidated financial statements should a material loan loss occur without adequate provisions.	In this area, our audit procedures included: • Reviewing the internal controls and testing the key controls; • Re-performance of the calculation of the allowance for loan losses and challenging management's judgment and assumptions used in calculating the provision for loan losses; and • Assessment of the methodology used to determine the allowance for loan losses

Regulatory capital (see note 30)	
The risk	***Our response***
The Bank is subject to a variety of laws and regulations and operates in a highly regulated environment. The Bank is also subject to a number of reporting requirements by the Central Bank of The Bahamas (the "Central Bank"). Management of regulatory capital is considered a significant risk because failure to comply with Central Bank guidelines and regulations may result in penalties, revocation of license, and/or serious reputational damage to the Bank.	In this area, our audit procedures included: • Reviewing correspondence between the Bank and the Central Bank to identify instances of non-compliance with the Central Bank's guidelines and to determine the impact thereof during the year and to identify any specific regulatory stipulations imposed on the Bank. • We inspected the annual corporate governance certification sent by the Board of Directors to the Central Bank and obtained confirmation of compliance from the Central Bank and The Securities Commission of The Bahamas. • We inquired of management as to any issues relating to compliance with existing and new regulations and considered the adequacy of the Bank's disclosures in respect of regulatory capital.

Key Audit Matters (continued)

Interest income ($37,127,920, see note 19)	
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.

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.

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.

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***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements** (continued)*

- 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.

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.

Other information

We expect to receive other information from the Bank on October 30, 2018, 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.

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

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Nassau, Bahamas
October 23, 2018

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Financial Position

June 30, 2018, with corresponding figures for 2017
(Expressed in Bahamian Dollars)

	Notes		2018		2017
ASSETS					
Cash and account with the Central Bank	5, 25	$	123,537,932	$	97,969,652
Cash equivalent - Treasury Bills	5, 25		56,726,814		-
Due from banks	5		43,678,603		47,981,770
Investment securities	6, 25		64,521,278		41,392,518
Loans and advances to customers, net	7, 25		351,489,088		448,124,914
Non-current assets held for sale	8		-		925,000
Investment property	9		6,463,000		6,463,000
Other assets	10, 25		16,093,374		8,873,414
Property and equipment, net	11		3,086,108		3,056,345
Computer software, net	12		898,026		1,026,580
Notes receivable	13, 25		167,700,000		100,000,000
TOTAL ASSETS		$	**834,194,223**	$	**755,813,193**
LIABILITIES					
Deposits from customers and banks	14, 25	$	628,405,812	$	663,903,707
Other liabilities	15, 25		22,482,469		22,167,898
Deferred loan fees			5,456,923		5,833,983
Total liabilities			**656,345,204**		**691,905,588**
EQUITY					
Share capital	16		57,860,505		64,010,505
Share premium	16		81,950,384		81,950,384
Treasury shares	17		(1,318,224)		(1,318,224)
Reserves	18		6,133,678		5,140,730
Special retained earnings	13		172,122,932		54,622,532
Accumulated deficit			(138,900,256)		(140,498,322)
Total equity			**177,849,019**		**63,907,605**
TOTAL LIABILITIES AND EQUITY		$	**834,194,223**	$	**755,813,193**

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on October 23, 2018 and are signed on its behalf by:

Director

Director

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Comprehensive Income

Year ended June 30, 2018, with corresponding figures for 2017
(Expressed in Bahamian Dollars)

	Notes		2018		2017
Interest and similar income	19, 25	$	37,127,920	$	38,830,908
Interest and similar expense	19, 25		(9,206,684)		(12,294,233)
Net interest income			27,921,236		26,536,675
Fees and commission income	20, 25		8,152,375		6,919,145
Fees and commission expense	20, 25		(447,115)		(515,661)
Net fees and commission income			7,705,260		6,403,484
Other operating income	21		3,225,543		3,650,175
Total operating income			38,852,039		36,590,334
Credit loss expense, net	7		(7,568,185)		(51,957,793)
Net operating income/(loss)			31,283,854		(15,367,459)
Operating expenses	22, 25		(29,685,788)		(31,244,588)
Government subsidy	25		-		117,683
Net income/(loss)			**1,598,066**		**(46,494,364)**
Other comprehensive income					
Net gain on available-for-sale financial assets	6, 18		992,948		194,500
Total comprehensive income/(loss) for the year		**$**	**2,591,014**	**$**	**(46,299,864)**
Earnings/(loss) per share					
Basic earnings/(loss) per ordinary share	28	$	0.04	$	(1.43)

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Changes in Equity

Year ended June 30, 2018, with corresponding figures for 2017
(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total Equity
Balance, June 30, 2016	**$ 45,838,935**	**$ 54,004,621**	**$ (1,318,224)**	**$ 4,946,230**	**$ 54,622,532**	**$ (94,003,958)**	**$ 64,090,136**
Total comprehensive loss:							
Net loss for the year	-	-	-	-	-	(46,494,364)	(46,494,364)
Other comprehensive income:							
Net gain on available-for-sale financial assets (Note 18)	-	-	-	194,500	-	-	194,500
Transactions with owners of the Bank:							
Issuance of ordinary shares (Note 16)	21,571,570	27,945,763	-	-	-	-	49,517,333
Redemption of preference shares (Note 16)	(3,400,000)	-	-	-	-	-	(3,400,000)
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 loss:							
Net income for the year	-	-	-	-	-	1,598,066	1,598,066
Special retained earnings (Note 13)	-	-	-	-	117,500,400	-	117,500,400
Other comprehensive income:							
Net gain on available-for-sale financial assets (Note 18)	-	-	-	992,948	-	-	992,948
Transactions with owners of the Bank:							
Redemption of preference shares (Note 16)	(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**

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Cash Flows

Year ended June 30, 2018, with corresponding figures for 2017
(Expressed in Bahamian Dollars)

	Notes		2018		2017
Cash flows from operating activities:					
Net income (loss)		$	1,598,066	$	(46,494,364)
Adjustments for:					
Depreciation and amortisation	22		1,382,088		2,278,007
Impairment losses	22		-		273,568
Gain on revaluation of investment property	21		-		(739,545)
Gain on disposal of fixed assets	11		(1,617)		-
Net provision for loan losses	7		7,568,185		51,957,793
			10,546,722		7,275,459
Change in operating assets and liabilities			(8,537,653)		2,780,970
Decrease in loans and advances to customers, net			38,868,041		9,801,446
Decrease in deposits from customers and banks			(35,497,895)		(100,449,207)
Net cash provided by/(used in) operating activities			5,379,215		(80,591,332)
Cash flows from investing activities:					
Acquisition of property and equipment	11		(1,170,165)		(583,367)
Acquisition of intangible assets	12		(139,816)		(32,280)
Purchase of investment securities	6		(25,444,812)		(10,000,000)
Proceeds from sale of non current asset held for sale	8		925,000		-
Proceeds from disposal of property and equipment	11		28,300		-
Proceeds from maturity of investment securities	6		3,309,000		-
Net cash used in investing activities			(22,492,493)		(10,615,647)
Cash flows from financing activities:					
Redemption of notes receivable	13		100,000,000		-
Redemption of preference shares	16		(6,150,000)		(3,400,000)
Issuance of ordinary shares	16		-		49,517,333
Net cash provided by financing activities			93,850,000		46,117,333
Net increase/(decrease) in cash and cash equivalents			76,736,722		(45,089,646)
Cash and cash equivalents, beginning of year			121,464,402		166,554,048
Cash and cash equivalents, end of year	5	$	198,201,124	$	121,464,402
Supplemental information:					
Interest received		$	32,569,699	$	37,943,229
Interest paid			9,587,634		13,067,350
Non-cash transactions:					
Derecognition of loans and advances, net	13	$	50,199,600	$	-
Recognition of notes receivable	13		167,700,000		-
Special retained earnings	13		117,500,400		-
Reclassification to non-current assets held for sale	8		-		1,198,568
Reclassification to investment property	9		-		1,383,455
Reclassification from fixed assets	11		-		2,582,023

See accompanying notes to consolidated financial statements.

1. Corporate information

Bank of The Bahamas Limited (the "Bank"), incorporated under the laws of The Commonwealth of The Bahamas, is licensed under the provisions of the Banks and Trust Companies Regulations Act 2000. The Bank is also licensed as an authorized dealer, pursuant to the Exchange Control Regulations Act, and is the holder of a broker dealer license from the Securities Commission of The Bahamas. The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange.

In the prior fiscal year, pursuant to a rights offering in September 2016, the Government of The Commonwealth of The Bahamas (the "Government") acquired the majority of an additional 14,814,814 ordinary voting shares issued by the Bank (Note 16). The Government also purchased $10 million of convertible bonds pursuant to the Bank's private placement in December, 2016. Effective June 30, 2017, this bond was converted to 6,756,756 ordinary voting shares (Note 16). As a result of these transactions, the ownership interest of the Government and The National Insurance Board ("NIB") in the Bank increased. As at June 30, 2018 and 2017, the Government and NIB owned approximately 82.6% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

The Bank's head office is located at Claughton House, corner of Shirley Street and Charlotte Street, Nassau, 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, 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, 2018, the Bank had twelve branches (2017: thirteen): 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, a new branch which opened in August 2017. One of the Grand Bahama branches closed in September 2017, while the Exuma branch closed in December 2017.

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"). The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and investment property which have been measured at fair value. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. 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 current year and has an accumulated deficit at June 30, 2018 of $138,900,256 (2017: $140,498,322).

As disclosed in Note 30, the Bank was non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2017, but these capital ratios were restored to compliance during the year.

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

The Government, as majority shareholder, has confirmed that it remains firmly committed to supporting the continuing operations of the Bank, including the implementation of the strategic plan approved by the Board, and will ensure that adequate resources are provided to enable the Bank to satisfy its financial obligations and its regulatory requirements for at least the next twelve months and, in fact, for the foreseeable future.

(b) New and amended standards and interpretations

The accounting policies adopted are consistent with those used in the previous financial year. The Bank has adopted the following amendments to the standards during the year. Adoption of these amendments did not have any effect on the financial performance or position of the Bank.

- Amendments to IAS 7 - Disclosure Initiative

Standards issued but not yet effective

Up to the date of issue of these consolidated financial statements, the IASB has issued several amendments, new standards and interpretations that are not yet effective for the year ended June 30, 2018 and that have not been adopted in these consolidated financial statements. Those which may be relevant to the Bank but which have not been early adopted are as follows:

2. Basis of preparation *(continued)*

(b) New and amended standards and interpretations *(continued)*

Standards issued but not yet effective (continued)

Effective for annual periods beginning on or after January 1, 2018:

- IFRS 9 *Financial Instruments* (2009), IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2013) (together IFRS 9)
- IFRS 15 *Revenue from Contracts with Customers*

Effective for annual periods beginning on or after January 1, 2019:

- IFRS 16 *Leases*

The Bank is currently assessing the impact of the new and revised standards. The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. IFRS 9 will replace the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Impairment losses on the Bank's existing portfolio will likely increase and become more volatile for financial statements in the scope of the IFRS 9 impairment model.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 32) as at June 30, 2018 and 2017. Subsidiaries are entities controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the 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 controls an investee if facts and circumstances indicate that there are changes to one or more of the three 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. The financial statements of subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies.

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.

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, 2018, the Bank recognized impairment losses of Nil (2017: $273,568 Note 11).

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.

Impairment losses on loans and advances to customers and banks

Loans receivable are assessed for impairment on a monthly basis. Management's process for this assessment is presented in Note 4(d). Loans receivable are closely monitored, and adjustments made in future periods if the performance of the portfolio declines due to circumstances which arise during those periods.

Investments

Investment holdings are primarily Bahamas Government Registered Stock and are assessed for impairment on an ongoing basis. Management's process for this assessment is presented in Note 4(d). Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods.

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

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.

4. Summary of significant accounting policies

The following accounting policies have been consistently applied by the Bank:

(a) Revenue and expense recognition

Interest and similar income and expense

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

Fee and commission income

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

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, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are 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 government securities.

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

(c) Financial instruments

All financial assets and liabilities are initially recognised on the trade date, that is, the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require 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 are 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 classifies its financial assets in the following categories: Loans and receivables; held-to-maturity investments; and available-for-sale investments. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

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

(ii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has 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 would be reclassified as available for sale. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR method, less impairment. Gains and losses are recognised in the consolidated statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process. Held-to-maturity financial assets include designated investment securities, as per Note 6.

(iii) Available-for-sale financial assets

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

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

(c) **Financial instruments** *(continued)*

Financial assets (continued)

(iv) Available-for-sale financial assets (continued)

the cumulative loss recorded in equity is recognised in the consolidated statement of comprehensive income.

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 held by the Bank for the benefit of third parties, except as disclosed in Note 25. The deposits are carried at amortised cost.

(d) **Impairment of financial assets**

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 is impaired and impairment losses are incurred only if there is 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) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is 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 assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

The amount of the loss is 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 is reduced through the use of an allowance account and

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

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

the amount of the loss is 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 reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Non-accrual loans and overdrafts are identified as impaired and placed on a cash (non-accrual) basis when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principal is past due 90 days or more, except for loans that are fully secured and in the process of collection, and loans to or guaranteed by The Government. A loan is fully secured when the net realizable value of the collateral equals or exceeds the principal and outstanding interest. A loan is considered to be in the process of collection if the collection efforts are reasonably expected to result in repayment of principal and interest, or restoration to current status.

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

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

Provision for loan losses

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

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

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

Consumer loans that are unsecured are fully provided for when they are contractually in arrears more than 360 days. All other loans are provided for when the following conditions exist: i) contractually in arrears; ii) underlying collateral has been exhausted; and iii) payment is past due. Where a loan is being provided for, the specific provision is increased to the principal amount and accrued interest of the loan.

Renegotiated loans

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

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

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

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

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

Held-to-maturity financial assets

The Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is 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 is 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 decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss.

(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 rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive 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 the asset, or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(e) Derecognition of financial assets and financial liabilities *(continued)*

Financial assets (continued)

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.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is 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.

(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 into B$ at rates of exchange prevailing on the reporting date. 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

Property and equipment (excluding one of the buildings) are stated at historical cost excluding day to day servicing, less accumulated depreciation and any accumulated impairment in value. The other building is stated at estimated salvage value of $384,951, with subsequent additions at cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items. 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. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

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

(g) Property and equipment *(continued)*

Depreciation and amortisation are calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. 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.

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, 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.

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

(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 allows eligible employees (those who have attained 18 years of age and confirmed in their positions) to 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's costs are charged to general and administrative expenses and are funded as accrued.

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 to 12%.

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

(o) Investment property

Investment property, which is property that management intends to develop for rental purposes, is measured initially at cost, including transaction costs and thereafter it is stated 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.

(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.

(Expressed in Bahamian Dollars)

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, 2018 and 2017, 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

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.

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 $25,742,225 (2017: $24,487,020). 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 of up to October 2018.

		2018		2017
Cash	$	21,146,294	$	10,623,566
Deposits with the Central Bank non-interest bearing (Note 25)		102,391,638		87,346,086
Cash and account with the Central Bank		123,537,932		97,969,652
Cash equivalent - Treasury Bills (Note 25)		56,726,814		-
Due from banks		43,678,603		47,981,770
Cash, cash equivalent and due from banks (Note 31)		223,943,349		145,951,422
Less: mandatory reserve deposits with the Central Bank		25,742,225		24,487,020
Cash and cash equivalents	$	198,201,124	$	121,464,402

(Expressed in Bahamian Dollars)

6. Investment securities

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

		2018		2017
Available-For-Sale				
Bahamas Registered Stock (Note 25)	$	48,884,400	$	23,079,946
Equity Securities		2,046,278		1,477,972
Debt Securities		-		3,000,000
		50,930,678		27,557,918
Held-To-Maturity				
Bahamas Registered Stock (Note 25)		13,454,100		13,698,100
				-
Bridge Authority Bond (Note 25)		136,500		136,500
		13,590,600		13,834,600
Total investment securities	**$**	**64,521,278**	**$**	**41,392,518**

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 2.63% to 5.50% per annum (2017: from 4.30% to 5.50% per annum) and scheduled maturities between 2019 and 2035 (2017: between 2018 and 2035).

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

		Available-for-sale		Held-to-maturity		Total
At July 1, 2016	$	17,363,418	$	13,834,600	$	31,198,018
Additions		10,000,000		-		10,000,000
Net fair value gain (Note 18)		194,500				194,500
At June 30, 2017	**$**	**27,557,918**	**$**	**13,834,600**	**$**	**41,392,518**
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 18)		992,948		-		992,948
At June 30, 2018	**$**	**50,930,678**	**$**	**13,590,600**	**$**	**64,521,278**

(Expressed in Bahamian Dollars)

7. Loans and advances to customers, net

Loans and advances to customers are as follows:

		2018		2017
Mortgage residential loans	$	244,481,245	$	270,943,623
Mortgage commercial loans		13,937,392		55,487,291
Commercial loans		77,540,327		174,005,998
Consumer loans		62,989,797		68,629,640
Credit cards		1,338,235		1,295,620
Business overdrafts		1,713,715		5,094,803
Personal overdrafts		477,329		494,311
Government guaranteed student loans		6,553,367		6,885,517
	$	409,031,407	$	582,836,803

Loan loss provisions are as follows:

		2018		2017
Less: Provision for loan losses				
At beginning of year	$	142,599,409	$	94,836,742
Amount written-off		(570,607)		(4,195,126)
Amount written-back (Note 13)		(83,947,003)		-
Net provision charged to expense		7,568,185		51,957,793
At end of year		65,649,984		142,599,409
Accrued interest receivable		8,107,665		7,887,520
Loans and advances to customers, net	$	351,489,088	$	448,124,914

		2018		2017
Specific Provisions				
Mortgage residential loans	$	39,681,208	$	42,566,985
Mortgage commercial loans		2,410,612		13,457,873
Commercial loans		8,816,734		73,428,754
Consumer loans		7,146,968		10,048,558
Credit and prepaid cards		153,696		145,356
		58,209,218		139,647,526
Portfolio assessment		7,440,766		2,951,883
	$	65,649,984	$	142,599,409

(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.

	2018	2017
Provisions as a percentage of the net loan portfolio	18.68%	31.82%
Provisions and equity reserves as a percentage of the net loan portfolio	19.82%	32.71%
Provisions and equity reserves as a percentage of non-accrual loans	68.52%	59.36%

Non-accrual (impaired) loans are as follows:

		2018		2017
Mortgage residential loans	$	76,325,549	$	84,794,684
Mortgage commercial loans		4,039,337		44,037,880
Commercial loans and overdrafts		11,816,735		103,494,244
Consumer loans and overdrafts		9,411,895		14,519,099
Credit cards		54,830		127,492
	$	101,648,346	$	246,973,399
Percentage of loan portfolio (net)		28.92%		55.11%
Percentage of total assets		12.20%		32.68%

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

		2018			2017	
		Value	No. of Loans and Overdrafts		Value	No. of Loans and Overdrafts
$0 - $ 10,000	$	5,753,558	6,342	$	6,238,443	5,199
$10,001 - $ 25,000		15,769,997	939		17,343,941	1,031
$25,001 - $ 50,000		25,985,498	708		26,856,894	738
$50,001 - $ 100,000		58,877,408	843		59,025,175	827
Over $ 100,000		302,644,946	1,234		473,372,350	1,430
	$	409,031,407	10,066	$	582,836,803	9,225

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

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

In ($000s)		**2018**		**2017**
Mortgage residential loans				
Neither past due nor impaired	$	134,814	$	160,862
Past due but not impaired		33,342		25,287
Impaired		76,325		84,795
	$	244,481		270,944
Mortgage commercial loans				
Neither past due nor impaired	$	1,685	$	2,105
Past due but not impaired		8,213		9,344
Impaired		4,039		44,038
	$	13,937		55,487
Commercial loans and overdrafts				
Neither past due nor impaired	$	52,997	$	51,493
Past due but not impaired		14,440		24,114
Impaired		11,817		103,494
	$	79,254	$	179,101
Consumer, GG student loans and overdrafts				
Neither past due nor impaired	$	52,892	$	54,589
Past due but not impaired		7,717		6,901
Impaired		9,412		14,519
	$	70,021	$	76,009
Credit cards				
Neither past due nor impaired	$	954	$	1,036
Past due but not impaired		329		133
Impaired		55		127
	$	1,338	$	1,296

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)*

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

2017, In ($000s)		Principal		Restructured		Total
Mortgage residential loans	$	215,193	$	55,751	$	270,944
Mortgage commercial loans		37,504		17,983		55,487
Commercial loans and overdrafts		85,480		93,621		179,101
Consumer loans, GG student loans and overdrafts		71,846		4,163		76,009
Credit cards		1,296		-		1,296
	$	411,319	$	171,518	$	582,837

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

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

2017 In ($000s)		Mortgage Residential		Mortgage Commercial		Commercial		Consumer		Credit Card		Total
Past due up to 29 days	$	13,100	$	373	$	17,375	$	3,540	$	-	$	34,388
Past due 30 - 59 days		9,037		251		5,590		1,917		112		16,907
Past due 60 - 89 days		3,150		8,720		1,149		1,444		21		14,484
	$	25,287	$	9,344	$	24,114	$	6,901	$	133	$	65,779

(Expressed in Bahamian Dollars)

8. Non-current assets held for sale

In June 2017, management determined that land and building which were conveyed to the Bank's subsidiary, BOB Property Holdings Ltd., in December 2013 would be recovered principally through a sale transaction rather than through continuing use. Accordingly, this land and building were reclassified from property and equipment to non-current assets held for sale in the consolidated statement of financial position as at June 30, 2017. Management committed to a plan to sell the assets and a sales agreement was signed on June 22, 2017. Impairment losses of $273,568 for write-down of the assets to the lower of the carrying amount and the fair value less costs to sell were included in other expenses (Note 22). The impairment loss was applied to reduce the carrying amount of property, plant and equipment within the disposal group. At June 30, 2017, non-current assets held for sale were stated at fair value less costs to sell of $925,000 and were classified as Level 3 in the fair value measurement hierarchy. There was no cumulative income or expenses included in other comprehensive income relating to the assets held for sale.

In May 2018, the sale transaction was completed, and total proceeds were received by the Bank.

9. Investment property

The Bank owns land which is located at West Bay Street, Nassau.

It was management's intention to construct a commercial office complex on this land: 30% of the complex to be used to house the Bank's headquarters and a retail branch, and the remaining 70% to be used for commercial rental. As a result, management had classified the portion of land that had been allocated for use as its headquarters as fixed assets in accordance with IAS 16: Property, Plant and Equipment and the portion of land that had been allocated for commercial rental as investment property in accordance with IAS 40: Investment Property.

In the prior year, the 30% portion of this land was then reclassified from property and equipment to investment property, as a result of which the property was accounted for in accordance with IAS 40: Investment Property.

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. The appraised value of $6,463,000 was allocated to the investment property.

The movement of investment property during the year is as follows:

		2018		**2017**
Balance as at July 1	$	6,463,000	$	4,340,000
Reclassification (Note 11)		-		1,383,455
Revaluation gains (Note 21)		-		739,545
Balance as at June 30	**$**	**6,463,000**	**$**	**6,463,000**

(Expressed in Bahamian Dollars)

9. Investment property *(continued)*

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.

10. Other assets

Other assets are comprised of the following:

		2018		2017
Accrued interest receivable (Notes 6 and 13)	$	5,590,353	$	1,203,235
Prepaid assets		5,083,139		5,117,758
Clearing in transit		1,900,296		870,847
Accounts receivable		3,032,122		1,004,605
Other assets		487,464		676,969
	$	**16,093,374**	**$**	**8,873,414**

Included in other assets is the Bank’s investment in the Bahamas Automated Clearing House Limited in the amount of $216,876 (2017: $209,215).

Included in Clearing in transit is a debit balance for USD cheque clearing of $879,320 (2017: $1,076,517) with a provision for impairment loss of $675,306 (2017: $675,306).

(Expressed in Bahamian Dollars)

11. 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, 2016	$	5,011,815	$	6,539,911	$	10,236,775	$	21,788,501
Additions		-		39,969		543,398		583,367
Reclassification (Note 8)		(2,464,000)		-		-		(2,464,000)
Reclassification (Note 9)		(1,383,455)		-		-		(1,383,455)
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
Accumulated Depreciation								
Balance as at June 30, 2016	$	854,083	$	5,248,449	$	7,743,404	$	13,845,936
Depreciation (Note 22)		32,336		689,747		1,051,628		1,773,711
Reclassification (Note 8)		(151,579)		-		-		(151,579)
Balance as at June 30, 2017		734,840		5,938,196		8,795,032		15,468,068
Depreciation (Note 22)		-		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
Accumulated Impairment								
Balance as at June 30, 2016	$	1,113,853	$	-	$	-	$	1,113,853
Impairment loss (Note 22)		273,568		-		-		273,568
Reclassification (Note 8)		(1,387,421)		-		-		(1,387,421)
Balance as at June 30, 2018 and 2017	$	-	$	-	$	-	$	-
Net book value:								
Balance as at June 30, 2018	$	429,520	$	281,507	$	2,375,081	$	3,086,108
Balance as at June 30, 2017	$	429,520	$	641,684	$	1,985,141	$	3,056,345

Land in the amount of $44,565 (2017: $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 $1,547,081 (2017: $803,252).

(Expressed in Bahamian Dollars)

12. Computer software, net

		2018		2017
At beginning of year	$	1,026,580	$	1,498,596
Additions		139,816		32,280
Amortisation (Note 22)		(268,370)		(504,296)
At end of year	$	898,026	$	1,026,580

13. 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.
- 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.

(Expressed in Bahamian Dollars)

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

- 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, 2018, accrued interest receivable amounts to $4,878,391 (2017: $625,000).

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.

14. Deposits from customers and banks

Deposits from customers and banks are as follows:

		2018		2017
Term deposits	$	330,499,361	$	349,008,544
Demand deposits		205,350,952		229,270,391
Savings accounts		90,230,918		82,919,241
		626,081,231		661,198,176
Accrued interest payable		2,324,581		2,705,531
	$	628,405,812	$	663,903,707

(Expressed in Bahamian Dollars)

14. Deposits from customers *(continued)*

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

		2018			2017	
		Value	No. of Deposits		Value	No. of Deposits
$0 - $ 10,000	$	35,902,802	65,488	$	32,608,505	58,970
$10,001 - $ 25,000		25,297,001	1,631		23,165,786	1,515
$25,001 - $ 50,000		23,461,125	669		23,121,634	655
$50,001 - $100,000		31,061,787	459		28,768,068	424
Over $100,000		510,358,516	634		553,534,183	626
	$	626,081,231	68,881	$	661,198,176	62,190

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $169,335 (2017: $164,685) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

15. Other liabilities

Other liabilities consist of the following:

		2018		2017
Accounts payable	$	8,725,045	$	6,944,257
Cardholders liability		6,221,474		5,094,899
Cheques and other items in transit		3,664,879		5,051,975
Clearing in transit		514,778		1,052,750
Other liabilities		3,356,293		4,024,017
	$	22,482,469	$	22,167,898

(Expressed in Bahamian Dollars)

16. Share capital

Share capital at par value consists of the following:

		2018		2017
Authorized:				
45,000 Preference shares of B$1,000 each (2017: 45,000)	$	45,000,000	$	45,000,000
105,000,000 Voting common shares of B$1 each (2017: 105,000,000)		105,000,000		105,000,000
10,000,000 Non-voting common shares of B$1 each (2017: 10,000,000)		10,000,000		10,000,000
	$	160,000,000	$	160,000,000
Issued and fully paid:				
14,665.99 Preference shares of B$1,000 each (2017: 20,815.99)	$	14,665,990	$	20,815,990
36,936,549 Voting common shares of B$1 each (2017: 36,936,549)		36,936,549		36,936,549
6,022,945 Non-voting common shares of B$1 each (2017: 6,022,945)		6,022,945		6,022,945
Treasury shares				
235,021 issued previously at B$1 each (2017: 235,021)		235,021		235,021
	$	57,860,505	$	64,010,505

16. 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, as the preference shares are classified as equity, the dividends on these shares are paid out of retained earnings. Costs totaling $235,010 and $349,000 related to the preference share offering respectively were netted against the proceeds.

During the year, $6,150,000 (2017: $3,400,000) 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)

16. 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.

17. Treasury shares

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at that time was 3,855 for $30,244, maintained until June 30, 2010. 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 2018 and 2017.

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

	No. of Shares		Value
Balance as at June 30, 2018 and 2017	235,021	$	1,318,224

18. Reserves

Reserves are 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.

As of June 30, 2018, excess provisions booked to the regulatory credit reserves amount to $4,000,000 (2017: $4,000,000).

Reserves were comprised of:

		2018		2017
Net gain on remeasurement of available-for-sale securities	$	2,133,678	$	1,140,730
Regulatory credit reserves allocated from retained earnings		4,000,000		4,000,000
	$	6,133,678	$	5,140,730

(Expressed in Bahamian Dollars)

18. Reserves *(continued)*

Movement in reserves for the year was as follows:

		2018		2017
Balance, beginning of year	$	5,140,730	$	4,946,230
Fair value gains, net during the year (Note 6)		992,948		194,500
Balance, end of year	$	6,133,678	$	5,140,730

19. Net interest income

		2018		2017
Interest and similar income				
Loans and advances to customers	$	28,136,330	$	32,942,582
Notes receivable		6,360,266		4,000,000
Investment securities		1,878,856		1,764,457
Cash and short term investments		752,468		123,869
		37,127,920		38,830,908
Interest and similar expense				
Banks and customers		(9,206,684)		(12,294,233)
Total net interest income	$	27,921,236	$	26,536,675

20. Fees and commission income and expense

		2018		2017
Deposit services fees and commission	$	3,174,790	$	2,832,583
Card services fees and commission		3,036,715		2,890,773
Credit services fees and commission		1,353,567		690,938
Other fees and commission		587,303		504,851
Total fees and commission income	$	8,152,375	$	6,919,145

Included in total fees and commission expense are fines and penalties paid to the Central Bank for administrative monetary penalties and secondary reserve breaches of $32,201 (2017: $228,829).

(Expressed in Bahamian Dollars)

21. Other operating income

		2018		2017
Foreign exchange	$	2,297,768	$	2,161,066
Other		927,775		749,564
Revaluation gain on investment property (Note 9)		-		739,545
Total other operating income	$	3,225,543	$	3,650,175

22. Operating expenses

		2018		2017
Staff costs	$	15,800,389	$	16,279,377
Licenses and other fees		4,248,133		4,567,787
Occupancy (Note 24)		3,268,519		3,506,103
Information technology		2,246,874		1,999,630
Other administrative expenses		1,814,898		1,311,771
Advertising, marketing and donations		378,184		481,894
Telecommunication and postage		337,313		367,342
Travel and entertainment		209,390		179,109
Impairment losses (Notes 8 and 11)		-		273,568
Operating expenses	$	28,303,700	$	28,966,581
Depreciation of property and equipment (Note 11)	$	1,113,718	$	1,773,711
Amortisation of software (Note 12)		268,370		504,296
Depreciation and amortisation		1,382,088		2,278,007
Total operating expenses	$	29,685,788	$	31,244,588

23. 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)

23. Contingencies *(continued)*

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has legal counsel for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Various legal proceedings are pending that challenge certain actions of the Bank. Most of these proceedings are loan-related and are reactions to steps taken by the Bank to collect delinquent loans and enforce its rights against collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings that have not been accrued for in these consolidated financial statements will not be material.

24. 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, 2018 and 2017 are as follows:

		2018		2017
No later than 1 year	$	213,190	$	502,430
Later than 1 year and no later than 5 years		492,692		670,865
Total	$	705,882	$	1,173,295

Rental expense (including service charges) totaled $1,713,276 (2017: $1,825,470) and is included in occupancy costs within operating expenses (Note 22).

Certain leases contain renewal options for the next 5 years as well as escalation clauses. There are no contingent rent payables or any additional restrictions placed on these lease arrangements.

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

The Bank has a commitment for future capital expenditure of $Nil (2017: $53,556).

The Bank has letters of credit and guarantees outstanding of $1,205,503 (2017: $1,215,503).

25. Transactions and balances with related parties

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2018 (2017: Nil). No provision expense has been recognised in these consolidated financial statements on loans to related parties.

(Expressed in Bahamian Dollars)

25. Transactions and balances with related parties *(continued)*

	Government	Other Government Entities	Key Management	Total 2018	Total 2017
Assets					
Deposits with the Central Bank (Note 5)	$ -	$ 102,391,638	$ -	$ 102,391,638	$ 87,346,086
Treasury bills (Note 5)	56,726,814	-	-	56,726,814	-
Investment securities (Note 6)	62,475,000	-	-	62,475,000	36,914,546
Loans and advances to customers	1,493	2,899,142	1,556,304	4,456,939	4,753,932
Notes receivable (Note 13)	-	167,700,000	-	167,700,000	100,000,000
Other assets	711,962	4,878,391	-	5,590,353	1,201,484
Liabilities					
Deposits from customers and banks	$ 88,706,359	$ 153,424,161	$ 194,579	$ 242,325,099	$ 248,526,241
Other liabilities	10,183,849	2,510,131	-	12,693,980	6,019,737
Revenues					
Interest Income	$ 2,231,982	$ 6,567,955	$ 88,458	$ 8,888,395	$ 6,121,966
Fees and commission income	1,566,463	167,838	-	1,734,301	1,090,237
Total	$ 3,798,445	$ 6,735,793	$ 88,458	$ 10,622,696	$ 7,212,203
Expenses					
Interest Expense	$ 651,969	$ 3,386,692	$ 833	$ 4,039,494	$ 6,520,932
Directors fees	-	-	94,833	94,833	208,544
Other operating expenses	3,477,231	505,282	-	3,982,513	3,620,529
Short-term employee benefits	-	-	1,626,507	1,626,507	1,546,007
Pension expense	-	-	84,494	84,494	81,594
Termination benefits	-	-	468,453	468,453	26,012
Total	$ 4,129,200	$ 3,891,974	$ 2,275,120	$ 10,296,294	$ 12,003,618

In the prior year, the Government paid $117,683 in director fees. This was accounted for in the consolidated statement of comprehensive income as income from Government subsidy.

26. 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, 2018 totaled $601,640 (2017: $645,373).

As at June 30, 2018, the Plan owns 44,227 (2017: 152,986) shares of the Bank. The holdings represent approximately 0.73% (2017: 2.55%) of the Plan's net assets.

(Expressed in Bahamian Dollars)

26. Employee benefits *(continued)*

As at June 30, 2018, the Plan has deposits totaling $169,118 (2017: $215,759) with the Bank.

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

27. Assets under administration

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

		2018		2017
Government guaranteed student education loans	$	60,268,669	$	67,875,134
Government guaranteed hurricane relief loans	$	34,215,703	$	41,785,536
Trust assets	$	102,274,759	$	102,364,827

The Bank recognised fees totaling $167,838 (2017: $165,092) for the administration of the Government Guaranteed Student Loans program and $1,162,757 (2017: $510,900) for the administration of the Government Guaranteed Hurricane Relief Loans program.

28. Dividends and earnings/(loss) 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. The Bank paid no dividends to ordinary shareholders during the reporting years.

Due to the Bank's accumulated deficit position, since July 2014 the Government in its capacity as the major shareholder of the Bank deployed a part of its treasury deposits directly to the paying agent for semi-annual disbursements to the preference shareholders. There is no obligation for the Bank to repay the amount remitted. Subsequently, in December 2016, the Government discontinued the semi-annual disbursements to the preference shareholders.

		2018		2017
Net income/(loss) attributable to ordinary shareholders	$	1,598,066	$	(46,494,364)
Weighted average number of ordinary shares outstanding		42,959,494		32,527,693
Basic earnings/(loss) per ordinary share	$	0.04	$	(1.43)

29. Fair value of financial assets and liabilities

The fair values presented represent values at which financial instruments could be exchanged in a current transaction between willing parties. Where there is no available trading market, fair values are estimated using appropriate valuation techniques. The fair values of non-financial instruments, such as property and equipment and investment property, are explained in previous notes.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes investment property, equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

As of June 30, 2018 the Bank held equity securities classified as available-for-sale totaling $2,046,278 (2017: $1,477,972) which have been valued as Level 1 investment. All other available-for-sale investments totaling $48,884,400 (2017: $26,079,946) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy. Non-current assets held for sale and investment property have been classified as Level 3 (Notes 8 and 9).

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 investments are 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.

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.

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

Deposits

The estimated fair values of deposits are assumed to be equal to their carrying values due to their short-term nature.

Non-current assets held for sale

The estimated fair value of non-current assets held for sale is based on a sale transaction. The fair value of non-current assets held for sale reflects the market conditions at the date of the consolidated statement of financial position.

Investment property

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, 2018. The fair value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

30. Regulatory capital

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, 2018, 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.

At June 30, 2018 and 2017, 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.

30. Regulatory capital *(continued)*

Capital risk management *(continued)*

(in $'000s)		2018		2017
Tier 1 capital	$	156,040	$	36,925
Tier 2 capital		20,522		27,038
Total capital	$	176,562	$	63,963
Risk weighted assets	$	391,468	$	461,789
CET1 must be at least 9.6% of total Risk Weighted Assets		39.9%		8.0%
Total Tier 1 Capital must be at least 12.8% of total Risk Weighted Assets		39.9%		8.0%
Total Capital must be at least 18.0% of total Risk Weighted Assets		45.1%		13.9%
CET1 must be at least 75% of total Tier 1 Capital		100.0%		100.0%
Total Tier 1 Capital must be a minimum of 75% of Total Capital		88.4%		57.7%

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

Effective January 1, 2015, Basel III capital requirements were fully implemented which requires the Bank to maintain certain portions of capital with respect to components of Tier1 capital and Tier II capital in relation to capital ratios set by the Central Bank.

Effective September 30, 2016, the Central Bank increased the minimum capital requirement for the ratio on Total Capital to Total Risk Weighted Assets to 18.0% for the Bank.

As of June 30, 2017, the Bank was not in compliance with regulatory minimum requirements for the following ratios primarily due to the significant net losses recorded by the Bank and the consequential accumulated deficit position:

- CET1 to Total Risk Weighted Assets;
- Total Tier 1 Capital to Total Risk Weighted Assets;
- Total Capital to Total Risk Weighted Assets; and
- Total Tier 1 Capital to Total Capital

30. Regulatory capital *(continued)*

Capital risk management *(continued)*

The Central Bank was aware of these regulatory deficiencies and imposed certain supervisory interventions on the Bank. The Bank continues to report to the Central Bank on its progress.

Since August 2017, the Bank's capital ratios were restored to compliance and continued to be compliant as of June 30, 2018.

31. 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 notes 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. 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 13.

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.

31. Risk management *(continued)*

Credit risk *(continued)*

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. 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 such 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)		**2018**		**2017**
Cash, cash equivalent and due from banks				
Neither past due nor impaired	$	223,943	$	145,951
Investment securities				
Neither past due nor impaired	$	64,521	$	41,393
Loans and advances to customers				
Neither past due nor impaired	$	243,342	$	270,085
Past due but not impaired		64,041		65,779
Impaired		101,648		246,973
	$	409,031	$	582,837
Notes receivable				
Neither past due nor impaired	$	167,700	$	100,000

31. Risk management *(continued)*

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

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, 2018 and 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

2018 (in $000s)	B$	US$	CAD$	GBP£	Other	Total
Assets						
Cash, cash equivalent and Central Bank balances	$ 160,587	$ 61,639	$ 486	$ 3	$ 1,228	$ 223,943
Financial assets - available for sale	48,884	2,046	-	-	-	50,930
Financial assets - held to maturity	13,591	-	-	-	-	13,591
Loans and advances, net	346,120	5,369	-	-	-	351,489
Notes receivable	167,700	-	-	-	-	167,700
Total financial assets	$ 736,882	$ 69,054	$ 486	$ 3	$ 1,228	$ 807,653
Liabilities						
Deposits from customers and banks	$ 596,510	$ 31,132	$ 364	$ 22	$ 378	$ 628,406
Cheques and other items in transit	2,082	1,365	128	88	2	3,665
Total financial liabilities	$ 598,592	$ 32,497	$ 492	$ 110	$ 380	$ 632,071
Net financial position	**$ 138,290**	**$ 36,557**	**$ (6)**	**$ (107)**	**$ 848**	**$ 175,582**

2017 (in $000s)	B$	US$	CAD$	GBP£	Other	Total
Total financial assets	$ 665,979	$ 68,191	$ 310	$ 2	$ 987	$ 735,469
Total financial liabilities	633,088	34,825	543	123	377	668,956
Net financial position	**$ 32,891**	**$ 33,366**	**$ (233)**	**$ (121)**	**$ 610**	**$ 66,513**

31. 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 sensitivity or interest rate risk results from differences in the maturities or re-pricing dates of earning assets and paying liabilities. Interest rate risk exposures 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 performed to determine the potential impact of various gap exposures.

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 $1.8 million (2017: $0.7 million).

Liquidity risk

Liquidity risk reflects the risk that the Bank will not be able to meet an obligation when it becomes due or honor a deposit withdrawal request or service loans. 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.

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.

31. Risk management *(continued)*

Liquidity risk *(continued)*

	2018				
(in $000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	$ 223,943	$ -	$ -	$ -	$ 223,943
Investment securities	-	12,660	24,936	26,925	64,521
Loans and advances to customers, net	32,764	653	4,319	313,753	351,489
Notes receivable	-	-	-	167,700	167,700
Total financial assets	$ 256,707	$ 13,313	$ 29,255	$ 508,378	$ 807,653

	2018				
(in $000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	$ 446,039	$ 116,080	$ 40,906	$ 25,381	$ 628,406
Cheques and other items in transit	3,665	-	-	-	3,665
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

	2017				
(in $000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	$ 146,060	$ 13,791	$ 58,064	$ 517,554	$ 735,469
Total financial liabilities	480,683	145,815	26,625	15,833	668,956
Net position	$ (334,623)	$ (132,024)	$ 31,439	$ 501,721	$ 66,513

(Expressed in Bahamian Dollars)

32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2018 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

33. Subsequent events

Pursuant to the Government's commitment to settle on its government guaranteed obligations, subsequent to June 30, 2018, the Bank received from the Government partial payment of its government guaranteed student loans and hurricane loans in the amount of $12.0 million.

On August 31, 2018, the Bank received from Resolve the accrued interest of $5.8 million from the note receivable.

On September 20, 2018, the Bank redeemed its final preference shares Class E amounting to $250,000.