AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Bank of The Bahamas Limited
Year Ended June 30, 2015
With Independent Auditors' Report

Ernst & Young

Building a better
working world

Bank of The Bahamas Limited

Audited Consolidated Financial Statements

Year ended June 30, 2015

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Building a better working world

Independent Auditors' Report

The Shareholders and Directors
Bank of the Bahamas Limited

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 of June 30, 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

December 29, 2015

Bank of The Bahamas Limited

Consolidated Statement of Financial Position
(Expressed in Bahamian dollars)

June 30, 2015

	Note		2015		2014
ASSETS					
Cash and account with The Central Bank	5	$	47,466,356	$	25,712,146
Due from banks	5		37,429,012		26,628,530
Investment securities	6		31,547,284		35,094,083
Loans and advances to customers, net	7		569,410,985		660,550,561
Investment property	8		4,340,000		3,882,873
Other assets	9		10,853,990		4,954,376
Property and equipment, net	10		9,055,871		11,772,812
Intangible assets, net	11		1,049,403		2,474,056
Notes receivable	12		100,000,000		-
TOTAL ASSETS		**$**	**811,152,901**	**$**	**771,069,437**
LIABILITIES					
Deposits from customers and banks	13	$	697,382,511	$	679,231,606
Other liabilities	14		16,488,911		15,250,689
Deferred loan fees	3		6,495,342		6,849,971
Total liabilities		**$**	**720,366,764**		**701,332,266**
EQUITY					
Share capital	15		49,238,935		52,638,935
Share premium	15		54,004,621		54,004,621
Treasury shares	16		(1,318,224)		(1,318,224)
Reserves	17		4,835,596		4,612,395
Special retained earnings	12		54,622,532		-
Accumulated deficit			(70,597,323)		(40,200,556)
Total equity			**90,786,137**		**69,737,171**
TOTAL		**$**	**811,152,901**	**$**	**771,069,437**

These consolidated financial statements were approved by the Board of Directors on December 29, 2015 and are signed on its behalf by:

Director

Director

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Comprehensive Income

(Expressed in Bahamian dollars)

Year ended June 30, 2015

	Note		2015		2014
Interest and similar income	18	$	42,738,641	$	49,815,961
Interest and similar expense	18		16,528,369		18,328,575
Net interest income	18		26,210,272		31,487,386
Fees and commission income	19		5,129,364		4,442,050
Fees and commission expense	19		1,482,457		650,811
Net fees and commission income			3,646,907		3,791,239
Other operating income	20		3,138,230		2,360,616
Total operating income			32,995,409		37,639,241
Credit loss expense, net	7		(26,124,108)		(69,723,480)
Net operating income/(loss)			6,871,301		(32,084,239)
Operating expenses	21		37,268,068		34,200,170
Net loss			**(30,396,767)**		**(66,284,409)**
Other comprehensive income					
Net gain on available-for-sale financial assets	17		223,201		103,544
Total comprehensive loss for the year		**$**	**(30,173,566)**	**$**	**(66,180,865)**
Net loss			(30,396,767)		(66,284,409)
Preference share dividends	27		-		(2,462,500)
Net loss available to common shareholders		**$**	**(30,396,767)**	**$**	**(68,746,909)**
Earnings per share					
Basic loss per ordinary share	27	$	(1.42)	$	(3.21)

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Changes in Equity
(Expressed in Bahamian dollars)

Year ended June 30, 2015

	Note	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total Equity
Balance, June 30, 2013		$ 56,038,935	$ 54,004,621	$ (930,809)	$ 4,508,851	$ -	$ 28,546,353	$ 142,167,951
Net loss for the year		-	-	-	-	-	(66,284,409)	(66,284,409)
Redemption of preference shares	15	(3,400,000)	-	-	-	-	-	(3,400,000)
Acquisition of treasury shares	16	-	-	(387,415)	-	-	-	(387,415)
Other comprehensive income	17	-	-	-	103,544	-	-	103,544
Dividends on preference shares	27	-	-	-	-	-	(2,462,500)	(2,462,500)
Balance, June 30, 2014		52,638,935	54,004,621	(1,318,224)	4,612,395	-	(40,200,556)	69,737,171
Net loss for the year		-	-	-	-	-	(30,396,767)	(30,396,767)
Redemption of preference shares	15	(3,400,000)	-	-	-	-	-	(3,400,000)
Other comprehensive income	17	-	-	-	223,201	-	-	223,201
Special retained earnings	12	-	-	-	-	54,622,532	-	54,622,532
Balance, June 30, 2015		**$ 49,238,935**	**$ 54,004,621**	**$ (1,318,224)**	**$ 4,835,596**	**$ 54,622,532**	**$ (70,597,323)**	**$ 90,786,137**

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended June 30, 2015

	Note		2015		2014
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss		$	(30,396,767)	$	(66,284,409)
Adjustments for:					
Depreciation and amortisation	21		2,673,582		2,867,495
Impairment losses	21		2,189,612		-
Gain on revaluation of investment property	8		(457,127)		-
Net provision for loan losses	7		26,124,108		69,723,480
			133,408		6,306,566
Change in operating assets and liabilities			(6,062,510)		3,536,792
Decrease in loans and advances to customers, net			19,637,999		4,203,431
Increase/(decrease) in deposits from customers and banks			18,150,905		(44,009,620)
Net cash provided by/(used in) operating activities			31,859,802		(29,962,831)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	10		(489,552)		(3,197,962)
Acquisition of intangible assets	11		(232,048)		(113,015)
Purchase of investment securities	6		-		(4,210,100)
Proceeds from maturity of investment securities	6		3,770,000		30,000,000
Net cash provided by investing activities			3,048,400		22,478,923
CASH FLOWS FROM FINANCING ACTIVITIES:					
Redemption of preference shares	15	$	(3,400,000)	$	(3,400,000)
Dividends on preference shares	27		-		(2,462,500)
Acquisition of treasury shares	16		-		(387,415)
Retirement of debt securities			-		(5,000,000)
Net cash used in financing activities			(3,400,000)		(11,249,915)
Net increase/(decrease) in cash and cash equivalents			31,508,202		(18,733,823)
Cash and cash equivalents, beginning of year			26,928,676		45,662,499
Cash and cash equivalents, end of year	5	$	58,436,878	$	26,928,676
SUPPLEMENTAL INFORMATION:					
Interest received		$	42,321,626	$	55,127,466
Interest paid		$	16,528,369	$	19,885,436
Dividends paid		$	-	$	2,462,500
NON-CASH TRANSACTION:					
Derecognition of loans and advances, net	12	$	45,377,468	$	-
Recognition of notes receivable	12	$	100,000,000	$	-
Special retained earnings	12	$	54,622,532	$	-

See accompanying notes.

1. Corporate Information

Bank of The Bahamas Limited (the “Bank”), trading as Bank of The Bahamas International, is incorporated under the laws of The Commonwealth of The Bahamas. The Bank is licensed under the provisions of the Bank and Trust Companies Regulations Act 2000. The Bank is also licensed as an authorized dealer pursuant to the Exchange Control Regulations Act. The Bank is the holder of a broker dealer license from the Securities Commission.

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange. The Government of The Commonwealth of The Bahamas (the “Government”) and The National Insurance Board own approximately 65% 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, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, 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 has thirteen branches: five in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua and one in Cat Island.

A wholly-owned subsidiary of the Bank (Note 32), BOB Financial Services Inc. was incorporated in Coral Gables, Florida on June 30, 2005 and commenced operations December 10, 2007. The main activities of BOB Financial Services Inc. were the provision of trade financing and other financial services. Effective June 30, 2013, the Bank ceased the operations of BOB Financial Services Inc. This subsidiary was voluntarily dissolved on June 25, 2014.

The Bank is an agent for American Express and MoneyGram.

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.

(a) 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 new and amended standards during the year. Adoption of these standards did not have any effect on the financial performance or position of the Bank.

- Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
- IFRIC 12 Levies
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRS 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

Standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Bank's accounting periods but which the Bank has not early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2016:

- Amendments to IAS 16 and IAS 38 – Classification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

2. Basis of Preparation (Continued)

(a) New and amended standards and interpretations (continued)

Effective for annual periods beginning on or after January 1, 2017:

- IFRS 15 Revenue from Contracts with Customers

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

- IFRS 9 Financial Instruments (issued in 2014)

The Bank is currently assessing the impact of the new and revised standards.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 32) as at June 30, 2015 and 2014. 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 (i.e. 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 or not 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 which cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one which is both important to the presentation of the Bank's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result 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.

Tangible assets
The Bank has made significant investments in physical assets. These 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. As at June 30, 2015, the Bank recorded impairment losses of $1,113,853 (2014: $Nil) (Note 10).

Depreciation and amortisation
Depreciation and amortisation is based on management estimates of the future useful lives of property and equipment. 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 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, climate etc. 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
The Bank has significant investments in loans receivable. These assets are assessed for impairment on a monthly basis. Management's process for this assessment is presented in Note 4d. 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.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

During the prior fiscal year, the Bank revised its expectations on the extent and timing of an anticipated economic recovery and subsequently revised the methodologies used for the recognition of loan loss provisions. As a result of this and significantly reduced collateral values, the Bank recognised significant loan loss provisions during the prior and current period.

Investments
The Bank has significant investment holdings. These investments 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 4d. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods.

Goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The impairment test calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Cash flows are determined by using the projected inflows and adjusting for non-cash transactions primarily depreciation and loan losses, less projected capital outflows.

The impairment charge is determined by taking the difference between the present value of the unit's projected cash flow and its book value. As of June 30, 2015 the Bank recognised an impairment loss of $1,075,759 (2014: $Nil) for the reported period. Further details are presented in Note 11.

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 expenses.

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.

4. Summary of Significant Accounting Policies (Continued)

(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.

(c) Financial instruments

All financial assets and liabilities are initially recognised on the trade date, i.e., 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 the 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.

(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.

4. Summary of Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

(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 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. 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 24. The deposits are carried at amortised cost.

(d) Impairment of financial assets

The Bank assesses at each statement of financial position 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.

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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 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 of The Commonwealth of The Bahamas. 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.

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)
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 expense 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 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 factors based on the past due status of the loans. As a result 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.

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 on the basis of the contractual cash flows of the loans in the Bank considering its historical loss experience (i.e. 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 assigned certain weight factor in the historical loss experience and current observable data.

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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, 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 assess 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 to be objective evidence of impairment. When an AFS financial asset is considered to be 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 investments revaluation reserve.

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 that have not yet been incurred). Interest income continues to be accrued 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 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 to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. Summary of Significant Accounting Policies (Continued)

(e) Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The 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.

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.

4. Summary of Significant Accounting Policies (Continued)

(f) Foreign currency

The reporting and functional currency of the Bank is the Bahamian dollar (B$). Transactions in foreign currencies are converted to B$ at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are converted into B$ at market rates of exchange prevailing on the consolidated statement of financial position 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 rate ruling at the date 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.

Depreciation and amortisation are calculated using the straight-line method to write down 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.

4. Summary of Significant Accounting Policies (Continued)

(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 purposes 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 Bahamas Government, Government Corporations, Subsidiaries and Agencies as well as directors and key management personnel of the Bank. All transactions with related parties are based on rates and terms used in the normal course of business, except for reduced rates for borrowings by the Bank's personnel.

(k) Employee benefits

The Bank operates a defined contribution plan (the "Plan") where the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive payment obligations once contributions have been paid. The Plan 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 percent. The matching contributions vest over 5 years. The costs of ESOP are charged to general administrative expenses.

4. Summary of Significant Accounting Policies (Continued)

(l) Earnings per share

Basic earnings per share is computed by dividing the net income 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 or a consumption tax charged on goods and services locally bought or rendered. The standard rate for VAT is 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.

(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.

4. Summary of Significant Accounting Policies (Continued)

(p) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(q) Computer software

Acquired computer software costs and licenses are capitalized on the basis of 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.

(r) 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.

(s) 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.

4. Summary of Significant Accounting Policies (Continued)

(t) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern. As disclosed in Note 29, the Bank continues to be non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2015 and 2014. The Central Bank is aware of these regulatory capital deficiencies and the Bank does not expect that these regulatory capital deficiencies will impact the Bank's continuing ability to operate as a going concern. The Government of The Bahamas, as majority shareholder, remains firmly committed to supporting the continuing operations of the Bank including the implementation of the strategic plan approved by the Board to address these deficiencies.

(u) 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.

(v) 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, 2015 and 2014, there were no master netting agreements outstanding. Therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

(w) 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 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.

4. Summary of Significant Accounting Policies (Continued)

(x) Comparatives

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

- As of June 30, 2014, the distribution of loans that are neither past due or impaired have been adjusted in Note 7.

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 $26,458,490 (2014: $25,412,000). 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.

		2015		2014
Cash	$	10,223,683	$	9,802,495
Deposits with the Central Bank non-interest bearing (Note 24)		37,242,673		15,909,651
Due from banks		37,429,012		26,628,530
Cash and due from banks		84,895,368		52,340,676
Less: mandatory reserve deposits with the Central Bank		26,458,490		25,412,000
Cash and cash equivalents	**$**	**58,436,878**	**$**	**26,928,676**

6. Investment Securities

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

		2015		2014
Available-For-Sale				
Bahamas Registered Stock (Note 24)	$	13,194,500	$	13,294,500
Equity Securities		1,058,284		835,083
Debt Securities		3,000,000		4,000,000
		17,252,784		18,129,583
Held-To-Maturity				
Bahamas Registered Stock (Note 24)	$	14,158,000	$	16,828,000
Bridge Authority Bond (Note 24)		136,500		136,500
		14,294,500		16,964,500
Total investment securities	**$**	**31,547,284**	**$**	**35,094,083**

As of the year end reporting date, government securities mainly comprise of Bahamas Registered Stock which are variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.80% to 6.00% per annum (2014: from 4.80% to 6.00% per annum) and scheduled maturities between 2015 and 2035 (2014: between 2014 and 2035).

6. Investment Securities (Continued)

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

		Available-for-sale		Held-to-maturity		Total
At July 1, 2013	$	43,815,939	$	16,964,500	$	60,780,439
Additions		4,210,100		-		4,210,100
Maturities/Sales		(30,000,000)		-		(30,000,000)
Net fair value gain (Note 17)		103,544		-		103,544
At June 30, 2014	**$**	**18,129,583**	**$**	**16,964,500**	**$**	**35,094,083**
At July 1, 2014	$	18,129,583	$	16,964,500	$	35,094,083
Maturities		(1,100,000)		(2,670,000)		(3,770,000)
Net fair value gain (Note 17)		223,201		-		223,201
At June 30, 2015	**$**	**17,252,784**	**$**	**14,294,500**	**$**	**31,547,284**

7. Loans and Advances to Customers, Net

Loans and advances to customers are as follows:

		2015		2014
Mortgage loans	$	359,572,342	$	401,271,240
Commercial loans		172,610,519		207,084,296
Consumer loans		46,738,007		53,844,256
Credit cards		1,553,723		1,441,835
Business overdrafts		37,362,611		60,089,692
Personal overdrafts		10,301,589		20,320,113
Government guaranteed student loans		7,115,616		6,366,137
	$	**635,254,407**	**$**	**750,417,569**

7. Loans and Advances to Customers, Net (Continued)

		2015		2014
Less: Provision for loan losses				
At beginning of year	$	96,095,481	$	30,749,745
Amount written-off		(7,161,849)		(4,377,744)
Amount written-back (Note 12)		(42,615,951)		-
Net provision charged to expense		26,124,108		69,723,480
At end of year		72,441,789		96,095,481
Accrued interest receivable		6,598,367		6,228,473
Loans and advances to customers, net	**$**	**569,410,985**	**$**	**660,550,561**

During the year, the Bank wrote-off loans totaling $7,161,849 (2014: $4,377,744) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts. Included in the consolidated statement of comprehensive income are net recoveries of $297,304 (2014: ($147,758)).

Loan loss provisions are as follows:

		2015		2014
Specific Provisions				
Mortgage loans	$	21,360,991	$	15,195,754
Commercial loans		39,731,896		69,222,118
Consumer loans		5,882,353		7,083,020
Credit cards		430,600		311,078
		67,405,840		**91,811,970**
Collective assessment		**5,035,949**		**4,283,511**
TOTAL	**$**	**72,441,789**	**$**	**96,095,481**

Included in the specific provisions on mortgage, commercial and consumer loans are specific provisions for certain business and personal overdrafts.

7. Loans and Advances to Customers, Net (Continued)

	2015	2014
Provisions as a percentage of the net loan portfolio	12.72%	14.55%
Provisions and equity reserves as a percentage of the net loan portfolio	13.42%	15.15%
Provisions and equity reserves as a percentage of non-accrual loans	38.54%	39.34%

Non-accrual (impaired) loans are as follows:

		2015		2014
Mortgage loans	$	109,134,061	$	135,390,299
Commercial loans		78,993,590		107,442,996
Consumer loans		9,792,808		11,300,736
Credit cards		437,504		296,214
TOTAL	**$**	**198,357,963**	**$**	**254,430,245**
Percentage of loan portfolio (net)		34.84%		38.52%
Percentage of total assets		24.45%		33.00%

Business and personal overdrafts of $39,957,899 (2014: $63,935,613) are related to certain non-accrual mortgage and commercial loans and therefore have been subjected to specific provisions.

7. Loans and Advances to Customers, Net (Continued)

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

	2015			2014		
		Value	No. of Loans		Value	No. of Loans
$0 - $ 10,000	$	8,355,781	3,099	$	9,941,055	3,850
$10,001 - $ 25,000		20,137,941	1,208		22,485,324	1,332
$25,001 - $ 50,000		24,771,988	684		25,431,365	704
$50,001 - $ 100,000		45,653,677	621		49,504,421	683
Over $ 100,000		536,335,020	1,590		643,055,404	1,697
	$	**635,254,407**	**7,202**	**$**	**750,417,569**	**8,266**

7. Loans and Advances to Customers, Net (Continued)

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

In ($000s)		**2015**		**2014**
MORTAGES				
Neither past due or impaired	$	198,058	$	210,210
Past due but not impaired		52,380		55,671
Impaired		109,134		135,390
	$	359,572	$	401,271
COMMERCIAL				
Neither past due or impaired	$	65,827	$	66,490
Past due but not impaired		27,790		33,152
Impaired		78,993		107,443
	$	172,610	$	207,085
CONSUMER AND GG STUDENT LOANS				
Neither past due or impaired	$	37,943	$	40,434
Past due but not impaired		6,118		8,475
Impaired		9,793		11,301
	$	53,854	$	60,210
CREDIT CARDS				
Neither past due or impaired	$	924	$	931
Past due but not impaired		192		215
Impaired		438		296
	$	1,554	$	1,442

In the opinion of management, the credit quality of the majority of loans and advances to customers that are neither past due or impaired is satisfactory.

7. Loans and Advances to Customers, Net (Continued)

In ($000s)	2015 PRINCIPAL	2015 RESTRUCTURED	2015 TOTAL	2014 PRINCIPAL	2014 RESTRUCTURED	2014 TOTAL
Mortgages	$ 287,376	$ 72,196	$ 359,572	$ 326,441	$ 74,830	$ 401,271
Commercial	83,906	88,704	172,610	105,480	101,605	207,085
Consumer and GG student loans	50,333	3,521	53,854	56,795	3,415	60,210
Credit cards	1,554	-	1,554	1,442	-	1,442
	$ 423,169	$ 164,421	$ 587,590	$ 490,158	$ 179,850	$ 670,008

As disclosed above, certain business and personal overdrafts are related to non-accrual mortgage and commercial loans and therefore have been subjected to specific provisions.

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

In ($000s)	2015 RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	TOTAL
Past due up to 29 days	$ 29,433	$ 10,326	$ 2,378	$ -	$ 42,137
Past due 30 - 59 days	12,485	11,939	2,259	180	26,863
Past due 60 - 89 days	10,462	5,525	1,481	12	17,480
	$ 52,380	$ 27,790	$ 6,118	$ 192	$ 86,480

In ($000s)	2014 RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	TOTAL
Past due up to 29 days	$ 21,162	$ 14,039	$ 2,680	$ 113	$ 37,994
Past due 30 - 59 days	16,219	2,077	3,627	67	21,990
Past due 60 - 89 days	18,290	17,036	2,168	35	37,529
	$ 55,671	$ 33,152	$ 8,475	$ 215	$ 97,513

8. Investment Property

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

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

During the year, the Bank engaged the services of a 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. 70% of the appraised value of $6,200,000 was allocated to the investment property.

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

		2015		**2014**
Balance as at June 30, 2014	$	3,882,873	$	3,882,873
Revaluation gains (Note 20)		457,127		-
Balance as at June 30, 2015	**$**	**4,340,000**	**$**	**3,882,873**

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 $1,000,000 per acre.

8. Investment Property (Continued)

Under the sales comparison approach, fair value is estimated using the assumption that title to the property is good and marketable and clear of any or all liens or encumbrances. All engineering is assumed to be correct and that there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. It is assumed that all applicable zoning, regulations and restrictions have been complied with and that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no trespass or encroachment

9. Other Assets

Other assets are comprised of the following:

		2015		2014
Prepaid assets	$	4,396,203	$	3,709,247
Accrued interest receivable (Notes 6 and 12)		3,220,067		434,280
Accounts receivables		476,181		231,576
Cheque clearing account		2,329,512		177,541
Other assets		432,027		401,732
	$	**10,853,990**	**$**	**4,954,376**

Included in other assets is the Bank's investment in the Bahamas Automated Clearing House Limited in the amount of $212,113 (2014: $226,925).

10. Property and Equipment, Net

The movement in property and equipment during the year is as follows:

		Land and Building		Leasehold Improvements		Furniture, Fixtures and Equipment		Total
COST								
Balance as at June 30, 2013	$	2,547,815	$	6,351,901	$	9,901,171	$	18,800,887
Additions		2,464,000		251,532		482,430		3,197,962
Disposal		-		(42,750)		(203,267)		(246,017)
Balance as at June 30, 2014		5,011,815		6,560,683		10,180,334		21,752,832
Additions		-		-		489,552		489,552
Balance as at June 30, 2015	**$**	**5,011,815**	**$**	**6,560,683**	**$**	**10,669,886**	**$**	**22,242,384**
ACCUMULATED DEPRECIATION								
Balance as at June 30, 2013	$	734,842	$	3,320,345	$	4,062,330	$	8,117,517
Depreciation (Note 21)		-		774,669		1,333,851		2,108,520
Disposal		-		(42,750)		(203,267)		(246,017)
Balance as at June 30, 2014		734,842		4,052,264		5,192,914		9,980,020
Depreciation (Note 21)		83,965		707,818		1,300,857		2,092,640
Balance as at June 30, 2015	**$**	**818,807**	**$**	**4,760,082**	**$**	**6,493,771**	**$**	**12,072,660**
ACCUMULATED IMPAIRMENT								
Balance as at June 30, 2014	$	-	$	-	$	-	$	-
Impairment loss (Note 21)		1,113,853		-		-		1,113,853
Balance as at June 30, 2015	**$**	**1,113,853**	**$**	**-**	**$**	**-**	**$**	**1,113,853**
NET BOOK VALUE :								
Balance as at June 30, 2015	**$**	**3,079,155**	**$**	**1,800,601**	**$**	**4,176,115**	**$**	**9,055,871**
Balance as at June 30, 2014	**$**	**4,276,973**	**$**	**2,508,419**	**$**	**4,987,420**	**$**	**11,772,812**

10. Property and Equipment, Net (Continued)

Land in the amount of $1,997,495 (2014: $2,489,285) is included in land and building.

During fiscal 2014, the conveyance of properties held by the Bank as collateral on a certain loan to the Bank's subsidiary, BOB Property Holdings, was transferred to land and building. The decrease in land and building during the year is due to impairment of these properties.

Included as a part of property and equipment is work in progress not yet in operation and on which no depreciation has been charged in the amount of $1,365,549 (2014: $1,196,556).

11. Intangible Assets, Net

		Goodwill		Software		Total
Balance as at June 30, 2013	$	1,075,759	$	2,044,257	$	3,120,016
Additions		-		113,015		113,015
Amortisation (Note 21)		-		(758,975)		(758,975)
Closing as at June 30, 2014	**$**	**1,075,759**	**$**	**1,398,297**	**$**	**2,474,056**
Balance as at June 30, 2014	$	1,075,759	$	1,398,297	$	2,474,056
Additions		-		232,048		232,048
Amortisation (Note 21)		-		(580,942)		(580,942)
Impairment loss (Note 21)		(1,075,759)		-		(1,075,759)
Closing as at June 30, 2015	**$**	**-**	**$**	**1,049,403**	**$**	**1,049,403**

Goodwill arose during the Bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the Harrold Road Branch where the book of business is managed. The recoverable amount is based on a value in use calculation using cash flow projections from budgets approved by management covering a five year period. The discount rate applied to the cash flow projections is $Nil (2014: 6.02%). As at June 30, 2015, management determined that goodwill was impaired and recognised an impairment loss of $1,075,759 (2014: $Nil).

12. Notes Receivable and Special Retained Earnings

During October 2014, the Government created a Special Purpose Vehicle (SPV) that is owned and controlled by the Government. The Bank entered into a transaction with the SPV to derecognise from its consolidated statement of financial position certain of its non-performing loans amounting to approximately net $45 million and to recognise as an asset $100 million in unsecured promissory notes (the "Notes") with multiple maturities up to ten years and to pay interest on the principal sum semi-annually on the 30th day of April and the 30th day of October in each and every year commencing in 2015 at Bahamian Prime (-) 0.50% during the term of this Note. The net difference of approximately $55 million between the Notes received and the derecognised assets is accounted for as Special Retained Earnings in the Bank's consolidated statement of financial position and will be included as part of the Bank's regulatory capital. As a part of the transaction, the Bank received a Letter of Support from the Government. As at June 30, 2015, accrued interest receivable amount to $2,833,333 (2014: $Nil), of which $425,000 and $2,125,000 were subsequently paid on July 6, 2015 and November 3, 2015 respectively as per the terms of the Note.

The Bank has transferred all of its rights relating to the non-performing loans to the SPV and the Bank will have no rights to future cash flows from the non-performing loans. The SPV and not the Bank will bear all the risks and rewards of the non-performing loans subsequent to the transaction and the SPV 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 Notes. Further, the Bank will not be providing any form of future direct or indirect financing to the customers and loans transferred to the SPV and these customers will no longer be customers of the Bank.

13. Deposits from Customers and Banks

Deposits from customers and banks are as follows:

	2015	**2014**
Term deposits	$ 494,924,695	$ 522,163,592
Demand deposits	135,395,524	97,059,510
Savings accounts	63,557,200	55,367,086
	693,877,419	674,590,188
Accrued interest payable	3,505,092	4,641,418
	$ 697,382,511	**$ 679,231,606**

13. Deposits from Customers and Banks (Continued)

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

		2015			2014	
		Value	No. of Deposits		Value	No. of Deposits
$0 - $ 10,000	$	25,083,378	42,548	$	24,731,290	39,801
$10,001 - $ 25,000		19,458,366	1,278		19,746,643	1,276
$25,001 - $ 50,000		21,353,216	608		21,453,920	614
$50,001 - $100,000		26,974,050	391		27,273,340	405
Over $100,000		601,008,409	636		581,384,995	689
	$	**693,877,419**	**45,461**	**$**	**674,590,188**	**42,785**

In 1999, The Central Bank established the Deposit Insurance Corporation (the “Corporation”). The Bank paid an annual premium of $231,983 (2014: $239,398) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

14. Other Liabilities

Other liabilities consist of the following:

		2015		2014
Accounts Payable		5,405,468	$	4,688,861
Other Liabilities		4,090,081		4,634,354
Cardholders Liability		1,460,810		1,166,375
Cheques and other items in transit		5,532,552		4,761,099
	$	**16,488,911**	**$**	**15,250,689**

15. Share Capital

Share capital at par value consists of the following:

		2015		2014
Authorized:				
125,000 preference shares of B$1,000 each (2014: 125,000)	$	125,000,000	$	125,000,000
25,000,000 Ordinary shares (voting) of B$1 each (2014: 25,000,000)	$	25,000,000	$	25,000,000
10,000,000 Ordinary shares (non-voting) of B$1 each (2014: 10,000,000)	$	10,000,000	$	10,000,000
Issued and fully paid:				
27,615.99 preference shares of B$1,000 each (2014: 31,015.99)	$	27,615,990	$	31,015,990
15,364,979 Ordinary shares (voting) of B$1 each (2014: 15,364,979)	$	15,364,979	$	15,364,979
6,022,945 Ordinary shares (non-voting) of B$1 each (2014: 6,022,945)	$	6,022,945	$	6,022,945
Treasury shares				
235,021 issued previously at B$1 each (2014: 235,021)	$	235,021	$	235,021
	$	**49,238,935**	**$**	**52,638,935**

Effective January 2006, the Bank had rights offering resulting in the increase in ordinary shares from $12,000,000 to $15,600,000 and shares premium from $7,589,064 to $28,587,866. During 2006 and 2009 the share capital further increased with the issuance of preferred shares. Then during 2013, Class B ordinary shares (non-voting) were issued which resulted in a further increase of additional share capital and share premium.

15. Share Capital (Continued)

Preference shares
The Bank's shareholders approved resolutions to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares redeemable at the discretion of the Board of Directors. On June 30, 2006 and during May 7, 2009 the Bank issued a total of B$15,000,000 and B$20,000,000 in redeemable preference shares at a rate of 2.00% and 2.50% above the Bahamian dollar prime rate which yields an effective interest rate of 6.75% and 7.25% respectively per annum. 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, $3,400,000 (2014: $3,400,000) of preference shares have been redeemed.

Class B Ordinary 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 ordinary shares to its major shareholder at a share price of $5.23. Costs totaling $60,300 related to this common share offering was netted against the proceeds and resulted in additional share premium of $25,416,755. The issuance of these shares will allow the Bank to meet new capital standards resulting from Basel III regulations and directives of The Central Bank of The Bahamas, the Bank's regulator.

16. 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.

16. Treasury Shares (Continued)

The movement in treasury shares during the year is as follows:

	No. of Shares		Value
Balance as at June 2013	160,866	$	930,809
Repurchase during the year	74,155		387,415
Balance as at June 2014	235,021		1,318,224
Balance as at June 2015	**235,021**	**$**	**1,318,224**

17. 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. Previously, the Bank recorded all credit reserves as a valuation allowance against loans and advances to customers. The Bank subsequently established a regulatory credit reserve as an appropriation to retained earnings. 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 retained earnings. Banking regulations of the Central Bank require a general provision in respect of the Bank's loans of at least 1%. As of June 30, 2015, the regulatory credit reserves amount to $4,000,000 (2014: $4,000,000).

		2015		**2014**
Balance, beginning of year	$	4,612,395	$	4,508,851
Fair value gains, net during the year (Note 6)		223,201		103,544
Balance, end of year	**$**	**4,835,596**	**$**	**4,612,395**

18. Net Interest Income

		2015		2014
Interest and similar income				
Cash and short term investments	$	51,992	$	47,237
Investment securities		1,400,393		2,364,729
Notes receivable		2,833,333		-
Loans and advances to customers		38,452,923		47,403,995
		42,738,641		49,815,961
Interest and similar expense				
Banks and customers		16,528,369		18,271,700
Debt securities		-		56,875
		16,528,369		18,328,575
Total net interest income	**$**	**26,210,272**	**$**	**31,487,386**

19. Fee and Commission Income and Expense

		2015		2014
Deposit services fees and commissions	$	2,535,064	$	2,087,605
Credit services fees and commissions		200,004		212,035
Card services fees and commissions		2,128,343		1,830,513
Other fees and commissions		265,953		311,897
Total fee and commission income	**$**	**5,129,364**	**$**	**4,442,050**

Included in total fee and commission expense are fines and penalties for primary and secondary reserve breaches of $872,284 (2014: $128,055).

20. Other Operating Income

		2015		2014
Foreign exchange	$	1,829,527	$	1,388,094
Revaluation gain on investment property (Note 8)		457,127		-
Other		851,576		972,522
Total other operating income	**$**	**3,138,230**	**$**	**2,360,616**

21. Operating Expenses

		2015		2014
Staff costs	$	18,571,212	$	19,192,975
Licenses and other fees		5,010,327		4,014,587
Occupancy		3,733,624		3,576,240
Other administrative expenses		2,251,541		1,637,011
Impairment losses (Notes 10 and 11)		2,189,612		-
Information technology		1,701,966		1,549,282
Advertising, marketing and donations		470,438		705,005
Telecommunication and postage		449,530		411,508
Travel and entertainment		216,236		246,067
Operating expenses	**$**	**34,594,486**	**$**	**31,332,675**
Depreciation of property and equipment (Note 10)	$	2,092,640	$	2,108,520
Amortisation of software (Note 11)		580,942		758,975
Depreciation and amortisation		**2,673,582**		**2,867,495**
Total operating expenses	**$**	**37,268,068**	**$**	**34,200,170**

22. Contingencies

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has an in-house 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 will not be material.

23. Commitments

The approximate minimum rental commitments (exclusive of the effect of escalation clauses as to taxes, maintenance, etc.) under operating leases for the years ended June 30, 2015 and 2014, are as follows:

		2015		2014
No later than 1 year	$	631,939	$	697,000
Later than 1 year and no later than 5 years		752,881		990,095
Total	$	1,384,820	$	1,687,095

Rental expense (including service charges) totaled $1,821,896 (2014: $1,680,105).

All 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.

(a) The commitments for loans at June 30, 2015 were $4,012,095 (2014: $3,689,573).

(b) The Bank has letters of credit and guarantees of $1,337,900 (2014: $2,158,943).

24. 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, 2015 (2014: Nil). No provision expense has been recognised in these consolidated financial statements on loans to related parties.

24. Transactions and Balances with Related Parties (continued)

	Government	Other Government Entities	Key Management	Total 2015	Total 2014
Assets					
Cash and cash equivalents (Note 5)	$ -	$ 37,242,673	$ -	$ 37,242,673	$ 15,909,651
Investment securities (Note 6)	27,489,000	-	-	27,489,000	30,259,000
Loans and advances to customers	912,414	3,500,000	2,542,105	6,954,519	12,419,950
Notes receivable (Note 12)		100,000,000	-	100,000,000	-
Other assets	385,233	2,833,333	-	3,218,566	428,994
Liabilities					
Deposits from customers and banks	$ 151,109,224	$ 163,606,254	$ 1,787,417	$ 316,502,895	$ 206,943,865
Other liabilities	-	3,265,948	-	3,265,948	3,399,682

	Government	Other Government Entities	Key Management	Total 2015	Total 2014
Revenues					
Interest Income	$ 1,401,312	$ 3,106,084	$ 148,700	$ 4,656,096	$ 2,992,555
Total	**$ 1,401,312**	**$ 3,106,084**	**$ 148,700**	**$ 4,656,096**	**$ 2,992,555**
Expenses					
Interest Expense	$ 3,585,489	$ 4,520,229	$ 66,630	$ 8,172,348	$ 5,959,024
Directors fees	-	-	272,802	272,802	389,998
Other operating expenses	3,606,328	-	-	3,606,328	2,695,152
Short-term employee benefits	-	-	2,335,187	2,335,187	2,503,868
Pension expense	-	-	119,714	119,714	138,245
Termination benefits	-	-	1,476,585	1,476,585	530,826
Total	**$ 7,191,817**	**$ 4,520,229**	**$ 4,270,918**	**$ 15,982,964**	**$ 12,217,113**

25. Employee Benefits

The Bank has a defined contribution plan (the "Plan") in which eligible employees (those having attained 18 years of age and employed on a full time basis for a continuous period of twelve months) contribute a minimum of 3.50% of their annual salaries and the Bank contributes 6.50%. Employees become fully vested after 5 years of plan membership. The plan assets are managed by an independent third party investment manager.

Contributions for the year ended June 30, 2015 totaled $772,204 (2014: $819,719).

As at June 30, 2015, the Plan owns 154,986 (2014: 154,977) shares of the Bank. The holdings represent approximately 7.94% (2014: 6.86%) of the Plan's net assets.

As at June 30, 2015, the Plan has deposits totaling $135,389 (2014: $480,686) with the Bank.

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

26. Assets under Administration

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

		2015		**2014**
Government guaranteed student education loans	$	72,048,959	$	74,364,931
Trust assets	$	115,639,155	$	103,971,622

During the period, the Bank recognised fees totaling $175,835 (2014: $192,447), for the administration of the Government Guaranteed Student Loans program.

27. Dividends and Earnings per Share

Dividends to the Bank's shareholders are recognised as a liability in the period in which they are declared by the Board of Directors and approved by the Bank's Regulator. The Bank paid no dividends to ordinary shareholders during the reporting years.

27. Dividends and Earnings per Share (Continued)

Due to the Bank's accumulated deficit position, on July 21, 2014, January 9, 2015 and July 10, 2015 the Government in its capacity as the major shareholder of the Bank agreed to deploy a part of its treasury deposits directly to the paying agent for disbursement to the preference shareholders in the amount of $1.1 million, $1.1 million and $0.985 million respectively. There is no obligation for the Bank to repay the amounts remitted. During the year, the Bank declared and paid preference shares dividends from retained earnings of $Nil (2014: $2,462,500).

		2015		2014
Net loss attributable to equity shareholders	$	(30,396,767)	$	(66,284,409)
Preference share dividends		-		(2,462,500)
Net loss attributable to ordinary shareholders	$	(30,396,767)	$	(68,746,909)
Weighted average number of ordinary shares outstanding		21,387,924		21,402,007
Basic loss per ordinary share	$	(1.42)	$	(3.21)

28. 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).

28. Fair Value of Financial Assets and Liabilities (continued)

• 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, 2015 the Bank held equity securities classified as available-for-sale totaling $1,058,284 (2014: $835,083) which have been valued as a Level 1 investment. All other available-for-sale investments totaling $16,194,500 (2014: $17,294,500) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy. Investment property has been classified as Level 3 (Note 8).

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 are assumed to approximate their fair values.

Investments
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.

Loans
For floating rate loans that are subject to re-pricing within a short period of time, fair values are assumed to be equal to their carrying values.

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

Investment property
The estimated fair value of investment property is based on an appraisal by a local real estate appraiser. The fair value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

29. 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, 2015 and 2014, as a result of the significant loan loss provisions recognised during the fiscal years and its subsequent effects on retained earnings and the Bank's equity, the Bank was non-compliant with certain of its 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 and that the Bank maintains strong capital ratios in order to support its business and to maximize shareholders' value.

The Bank typically manages its capital structure and makes adjustments to 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. Other than as noted in Note 15 (preference shares) in the prior year, no changes were made in the objectives, policies and processes from the previous years.

The capital structure is designed to provide optimal risk absorption consistent with the risk profile of the Bank's 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 as shown in Note 15.

At June 30, 2015 and 2014, 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, new share issuances, redemptions of preferences shares, reserves, special retained earnings and common share issuances.

29. Regulatory Capital (Continued)

(in $'000s)	2015	2014
Tier 1 capital	$ 58,336	$ 33,034
Tier 2 capital	35,043	39,911
Total capital	$ 93,379	$ 72,945
Risk weighted assets	$ 527,425	$ 655,390
Tier 1 capital ratio	6.60%	3.80%
Total capital ratio	10.57%	8.40%
CET1 must be at least 9.60% (2014: 8.50%) of Total Risk Weighted Assets	11.06%	5.20%
Total Tier 1 Capital must be at least 12.80% (2014: 11.70%) of Total Risk Weighted Assets	11.06%	5.04%
Total Capital must be at least 17.00% (2014: 17.00%) of Total Risk Weighted Assets	17.70%	11.13%
CET1 must be at least 75% (2014: 75%) of Total Tier 1 Capital	100.00%	103.26%
Total Tier 1 Capital must be a minimum of 75% (2014: 75%) of Total Capital	62.47%	45.29%

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

As of June 30, 2015, the Bank's ratio on Total Tier 1 Capital of Total Risk Weighted Assets and the ratio on Total Tier 1 Capital to Total Capital were below Central Bank's minimum requirements. As of June 30, 2014, the Bank's ratios on CET1, Total Tier 1 Capital and Total Capital of Total Risk Weighted Assets and the ratio on Total Tier 1 Capital to Total Capital were below Central Bank's minimum requirements primarily due to the significant net loss recorded by the Bank and the consequential deficit position in the prior year.

30. Risk Management

There are a number of risks inherent in banking that the Bank manages on an ongoing basis. Among these risks, the more significant are credit, operational, currency, liquidity, capital and interest rate risks.

Credit risk

Credit risk arises from the failure of 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. The 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 corresponding 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, 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. 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, credits are subject to regular review by the Bank’s credit risk management department, internal audit department and annual review by credit officers. The vast majority 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.

30. Risk Management (Continued)

Credit risk (continued)

The credit worthiness of most borrowers is not constant over a period of time. For this reason changes in ratings must reflect changes in the relative strength of the borrowers and 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 that among credits of higher ratings. Typically loans within a 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 included 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.

30. Risk Management (Continued)

Credit risk (continued)
Concentration of risks and financial assets with credit risk exposure are as follows:

In ($000s)		**2015**		**2014**
CASH AND CASH EQUIVALENTS				
Neither past due or impaired	$	84,895	$	52,341
Past due but not impaired		-		-
Impaired		-		-
	$	84,895	$	52,341
INVESTMENT SECURITIES				
Neither past due or impaired	$	31,547	$	35,094
Past due but not impaired		-		-
Impaired		-		-
	$	31,547	$	35,094
LOANS AND ADVANCES TO CUSTOMERS				
Neither past due or impaired	$	302,752	$	318,065
Past due but not impaired		86,480		97,513
Impaired		198,358		254,430
Business overdrafts		37,363		60,090
Personal overdrafts		10,301		20,320
	$	635,254	$	750,418
NOTES RECEIVABLE				
Neither past due or impaired	$	100,000	$	-
Past due but not impaired		-		-
Impaired		-		-
	$	100,000	$	-

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

30. Risk Management (Continued)

Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarized the Bank's exposure to foreign currency exchange risk at June 30, 2015 and 2014. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

June 30, 2015
(in $000s)

	B$	US$	CAD$	GBP£	Other	Total
Assets						
Cash and central bank balances	$ 44,357	$ 36,853	$ 2,872	$ 137	$ 676	$ 84,895
Financial assets - held to maturity	14,294	-	-	-	-	14,294
Financial assets - available for sale	13,195	4,058	-	-	-	17,253
Loans and advances, net	552,480	16,929	2	-	-	569,411
Notes receivable	100,000	-	-	-	-	100,000
Total financial assets	$ 724,326	$ 57,840	$ 2,874	$ 137	$ 676	$ 785,853
Liabilities						
Deposits from customers and banks	$ 665,956	$ 28,076	$ 2,736	$ 43	$ 572	$ 697,383
Cheques and other items in transit	3,550	1,717	160	103	2	5,532
Total financial liabilities	$ 669,506	$ 29,793	$ 2,896	$ 146	$ 574	$ 702,915
Net financial position	**$ 54,820**	**$ 28,047**	**$ (22)**	**$ (9)**	**$ 102**	**$ 82,938**

June 30, 2014

(in $000s)	B$	US$	CAD$	GBP£	Other	Total
Total financial assets	$ 691,031	$ 52,584	$ 3,395	$ 683	$ 293	$ 747,986
Total financial liabilities	649,929	30,698	2,632	662	72	683,993
Net financial position	**$ 41,102**	**$ 21,886**	**$ 763**	**$ 21**	**$ 221**	**$ 63,993**

30. Risk Management (Continued)

Operational risk
Operational risk relates to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It is mitigated by documented policies and procedures, staff training and a risk-based internal audit regime.

Interest rate risk
Interest rate 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 million (2014: $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 honors 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.

30. Risk Management (Continued)

Liquidity risk (continued)

The following tables summarizes 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.

June 30, 2015 (in $000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	$ 81,624	$ 3,271	$ -	$ -	$ 84,895
Investment Securities	1,058	460	5,848	24,181	31,547
Loans and advances to customers, net	79,051	16,139	53,790	420,431	569,411
Notes receivable	-	-	-	100,000	100,000
Total financial assets	$ 161,733	$ 19,870	$ 59,638	$ 544,612	$ 785,853

June 30, 2015 (in $000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	$ 490,944	$ 172,149	$ 16,877	$ 17,413	$ 697,383
Cheques and other items in transit	5,532	-	-	-	5,532
Total financial liabilities	$ 496,476	$ 172,149	$ 16,877	$ 17,413	$ 702,915
Net position	$ (334,743)	$ (152,279)	$ 42,761	$ 527,199	$ 82,938

June 30, 2014 (in $000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	$ 191,168	$ 59,315	$ 48,367	$ 449,136	$ 747,986
Total financial liabilities	436,631	206,750	24,227	16,385	683,993
Net position	**$ (245,463)**	**$ (147,435)**	**$ 24,140**	**$ 432,751**	**$ 63,993**

31. Liquidation of Subsidiary

During fiscal 2013, the Board of Directors approved a resolution for the liquidation of its subsidiary BOB Financial Services Inc. and effective June 30, 2013, the Bank discontinued the operations of this entity. The entity provided trade financing and other financial services and was voluntarily liquidated on June 25, 2014.

An analysis of the entity's assets and liabilities as at June 30, 2015 is as follows:

	2015	2014
Assets		
Due from Bank	$ -	$ 70,792
Liabilities		
Other liabilities	-	99,477
Net assets disposed of	**$ -**	**$ (28,685)**

32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2015 are as follows:

Name	Place of Incorporation	Shareholding	Nature of business
BOB Financial Services Inc. (Liquidated)	Florida, United States of America	100%	Trade financing and other financial services
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

Subsequent to year end, the Bank closed the Thompson Boulevard branch effective September 30, 2015 and opened a branch in Eleuthera which commenced operations on November 2, 2015.

Payment of preference shareholders

On December 23, 2015, the Government in its capacity as the major shareholder of the Bank agreed to deploy a part of its treasury deposits directly to the paying agent for disbursement to the preference shareholders as at December 31, 2015 in the amount of $984,750. There is no obligation for the Bank to repay the amounts remitted.

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