

BANK OF THE BAHAMAS LIMITED

**Audited Consolidated Financial Statements
Year Ended June 30, 2014
with Independent Auditors' Report**

Ernst & Young



**Building a better
working world**

Bank of The Bahamas Limited
Audited Consolidated Financial Statements
Year ended June 30, 2014

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Report of Independent Auditors

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, 2014, 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 Consolidated 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

October 30, 2014

Bank of The Bahamas Limited

Consolidated Statement of Financial Position
(Expressed in Bahamian dollars)

June 30, 2014

	Note	2014	2013
ASSETS			
Cash and account with The Central Bank	5	\$ 25,712,146	\$ 47,762,093
Due from banks	5	26,628,530	25,573,666
Investment securities	6	35,094,083	60,780,439
Loans and advances to customers, net	7	660,550,561	734,477,472
Investment property	8	3,882,873	3,882,873
Other assets	9	4,954,376	3,761,824
Property and equipment, net	10	11,772,812	10,683,370
Intangible assets, net	11	2,474,056	3,120,016
TOTAL ASSETS		\$ 771,069,437	\$ 890,041,753
LIABILITIES			
Deposits from customers and banks	12	\$ 679,231,606	\$ 723,241,226
Other borrowed funds	13	-	5,000,000
Other liabilities	14	15,250,689	12,088,778
Deferred loan fees	3	6,849,971	7,543,798
Total liabilities		701,332,266	747,873,802
EQUITY			
Share capital	15	52,638,935	56,038,935
Share premium	15	54,004,621	54,004,621
Treasury shares	16	(1,318,224)	(930,809)
Reserves	17	4,612,395	4,508,851
(Accumulated deficit)/Retained earnings		(40,200,556)	28,546,353
Total equity		69,737,171	142,167,951
TOTAL		\$ 771,069,437	\$ 890,041,753

These consolidated financial statements were approved by the Board of Directors on October 30, 2014 and are signed on its behalf by:

Director

See accompanying notes.

Director

Bank of The Bahamas Limited

Consolidated Statement of Comprehensive Income
(Expressed in Bahamian dollars)

Year ended June 30, 2014

	Note	2014	2013
Interest and similar income	18	\$ 49,815,961	\$ 65,700,748
Interest and similar expense	18	<u>18,328,575</u>	<u>22,095,373</u>
Net interest income	18	31,487,386	43,605,375
Fees and commission income	19	4,442,050	4,196,482
Fees and commission expense		<u>650,811</u>	<u>483,208</u>
Net fees and commission income		3,791,239	3,713,274
Other operating income	20	2,360,616	2,658,674
Total operating income		37,639,241	49,977,323
Credit loss expense, net	7	<u>(69,723,480)</u>	<u>(21,816,192)</u>
Net operating (loss)/income		(32,084,239)	28,161,131
Operating expenses	21	<u>34,200,170</u>	<u>32,527,268</u>
Net loss		<u>(66,284,409)</u>	<u>(4,366,137)</u>
Other comprehensive income			
Net gain on available-for-sale financial assets	17	103,544	241,955
Total comprehensive loss for the year		<u>\$ (66,180,865)</u>	<u>\$ (4,124,182)</u>
Net loss		(66,284,409)	(4,366,137)
Preference share dividends	27	<u>(2,462,500)</u>	<u>(2,462,500)</u>
Net loss available to common shareholders		<u>\$ (68,746,909)</u>	<u>\$ (6,828,637)</u>
Earnings per share			
Basic loss per ordinary share	27	\$ (3.21)	\$ (0.43)

See accompanying notes.

Bank of The Bahamas Limited

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

Year ended June 30, 2014

	Note	Share Capital	Share Premium	Treasury Shares	Reserves	Retained Earnings/ (Accumulated Deficit)	Total Equity
Balance, June 30, 2012		\$ 50,015,990	\$ 28,587,866	\$ (531,768)	\$ 4,266,896	\$ 35,374,990	\$ 117,713,974
Net loss for the year		-	-	-	-	(4,366,137)	(4,366,137)
Issuance of Class 'B' Ordinary Shares	15	6,022,945	25,416,755	-	-	-	31,439,700
Acquisition of treasury shares	16	-	-	(399,041)	-	-	(399,041)
Other comprehensive income	17	-	-	-	241,955	-	241,955
Dividends on preference shares	27	-	-	-	-	(2,462,500)	(2,462,500)
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

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended June 30, 2014

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss		\$ (66,284,409)	\$ (4,366,137)
Adjustments for:			
Depreciation and amortization	21	2,867,495	2,362,252
Net provision for loan losses	7	69,723,480	21,816,192
		<u>6,306,566</u>	<u>19,812,307</u>
Change in operating assets and liabilities		3,536,792	(15,606,749)
Decrease/(increase) in loans and advances to customers, net		4,203,431	(68,670,059)
(Decrease)/increase in deposits from customers and banks		(44,009,620)	51,817,866
Net cash used in operating activities		<u>(29,962,831)</u>	<u>(12,646,635)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	10	(3,197,962)	(2,819,090)
Acquisition of intangible assets	11	(113,015)	(235,403)
Purchase of investment securities	6	(4,210,100)	(11,038,900)
Proceeds from maturity/sale of investment securities	6	30,000,000	9,675,000
Net cash provided by/(used in) investing activities		<u>22,478,923</u>	<u>(4,418,393)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of preference shares	15	\$ (3,400,000)	\$ -
Issuance of ordinary shares		-	31,439,700
Dividends on preference shares	27	(2,462,500)	(2,462,500)
Decrease in interest payable on bonds		-	(19,911)
Acquisition of treasury shares	16	(387,415)	(399,041)
Retirement of debt securities	13	(5,000,000)	(32,000,000)
Net cash used in financing activities		<u>(11,249,915)</u>	<u>(3,441,752)</u>
Net decrease in cash and cash equivalents		(18,733,823)	(20,506,780)
Cash and cash equivalents, beginning of year		45,662,499	66,169,279
Cash and cash equivalents, end of year	5	<u>\$ 26,928,676</u>	<u>\$ 45,662,499</u>
SUPPLEMENTAL INFORMATION:			
Interest received		\$ 55,127,466	\$ 63,482,137
Interest paid		\$ 19,885,436	\$ 22,672,550
Dividends paid		\$ 2,462,500	\$ 2,462,500

See accompanying notes.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements

Year ended June 30, 2014

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 Cloughton 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.

One of the Bank’s wholly-owned subsidiaries (Note 32), BOB Property Holdings Ltd. was incorporated in Nassau, Bahamas on October 8, 2012 and its main activity is to act as a property holding company. Another wholly-owned subsidiary of the Bank, 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 is presently in voluntary liquidation and the closure process is estimated to be completed during fiscal 2015.

The Bank is an agent for American Express and MoneyGram.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 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.

- IFRS 10 - Consolidated Financial Statements
- IFRS 11 - Joint Arrangements
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 13 - Fair Value Measurement
- IAS 27 (Revised) - Separate Financial Statements
- IAS 28 (Revised) - Investments in Associates and Joint Ventures
- IAS 19 (Revised) - Employee Benefits
- Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 1 - Government Loans
- Annual Improvements to IFRSs 2009-2011 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 beginning on or after January 1, 2014 or later periods but which the Bank has not early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2014:

- Amendment to IAS 32 - Offsetting Financial Assets and Financial Liabilities

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

2. Basis of Preparation (Continued)

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

Effective for annual periods beginning on or after January 1, 2015:

- IFRS 9 — Financial Instruments (issued in 2010)
- Amendments to IFRS 7 and IFRS 9 - Mandatory Effective Date and Transition Disclosures

The Bank is currently assessing the impact of the new and revised standards, however, does not anticipate any material impact on the results of its operations from the implementation of these new standards when they become effective.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 32) as at June 30, 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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, 2014 and 2013, no impairment losses were recorded for the reporting period.

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

During the current fiscal, 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 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, 2014 no impairment loss was recognised 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 estimated average loan terms.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 for loans that are likely to be drawn down 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. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(b) Cash and cash equivalents

For purposes of the cash flow statement, 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.

(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 effective interest method. 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 and historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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
- 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 the building) are stated at historical cost excluding day to day servicing, less accumulated depreciation and any accumulated impairment in value. The 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

A subsidiary of the Bank is in liquidation (Note 31) and is required to comply with United States Federal and State tax laws. The accounts for the tax effect of the subsidiary are recognised in accordance with IAS 12 Accounting for Taxes on Income. Accordingly deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and Laws) that have been enacted or substantially enacted by the statement of financial condition date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilized. As at June 30, 2013, the subsidiary of the Bank is in liquidation had a deferred tax asset of \$627,978 and will more than likely not realize this amount. The Bank provides a valuation allowance against deferred tax assets, if based on the weight of evidence available, it is more likely than not that some or all of the deferred tax assets will not be realized.

(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 recognised valuation expert. 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 regulators.

(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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(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 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. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position. As at June 30, 2014 and 2013, there were no master netting agreements outstanding.

(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 in 'Credit loss expense'. 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(x) Comparatives

Certain corresponding figures from the prior year have been adjusted in the current comparative consolidated financial statements to correct the following immaterial errors:

- As of June 30, 2013, other assets and retained earnings (both as of June 30, 2013 and 2012) in the consolidated statement of financial position and the consolidated statement of changes in equity were understated by \$596,682.
- For the year ended June 30, 2013, the credit loss expense in the consolidated statement of comprehensive income was understated by \$611,312. The retained earnings ending and loans and advances to customers, net in the consolidated statement of financial position as of June 30, 2013 were overstated by the same amount. Certain comparative disclosures in Notes 7, 29 and 30 were also adjusted as disclosed in Note 7.
- Regulatory capital ratios have been adjusted in Note 29.

5. Cash and Cash Equivalents

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas (“the Central Bank”) of \$25,412,000 (2013: \$27,673,260). 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.

	2014	2013
Cash	\$ 9,802,495	\$ 8,803,365
Deposits with the Central Bank non-interest bearing (Note 24)	15,909,651	38,958,728
Due from banks	26,628,530	25,573,666
Cash and due from banks	<u>52,340,676</u>	<u>73,335,759</u>
Less: mandatory reserve deposits with the Central Bank	25,412,000	27,673,260
Cash and cash equivalents	<u>\$ 26,928,676</u>	<u>\$ 45,662,499</u>

As of June 30, 2014, the Bank’s statutory reserve deposits with The Central Bank were below Central Bank’s regulatory requirements. This temporary non-compliance originated and was subsequently addressed as a result of normal business activity.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

6. Investment Securities

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

	2014	2013
Available-For-Sale		
Bahamas Registered Stock (Note 24)	\$ 13,294,500	\$ 39,084,400
Equity Securities	835,083	731,539
Debt Securities	4,000,000	4,000,000
	<u>18,129,583</u>	<u>43,815,939</u>
Held-To-Maturity		
Bahamas Registered Stock (Note 24)	\$ 16,828,000	\$ 16,828,000
Bridge Authority Bond (Note 24)	136,500	136,500
	<u>16,964,500</u>	<u>16,964,500</u>
Total investment securities	<u><u>\$ 35,094,083</u></u>	<u><u>\$ 60,780,439</u></u>

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 (2013: from 4.03% to 6.00% per annum) and scheduled maturities between 2014 and 2035 (2013: between 2014 and 2035).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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, 2012	\$ 37,535,084	\$ 21,639,500	\$ 59,174,584
Additions	11,038,900	-	11,038,900
Maturities	(5,000,000)	(4,675,000)	(9,675,000)
Net fair value gain (Note 17)	241,955	-	241,955
At June 30, 2013	\$ 43,815,939	\$ 16,964,500	\$ 60,780,439
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

7. Loans and Advances to Customers, Net

Loans and advances to customers are as follows:

	2014	2013
Mortgage loans	\$ 401,271,240	\$ 403,609,163
Commercial loans	207,084,296	200,014,845
Consumer loans	53,844,256	61,646,855
Credit cards	1,441,835	1,243,773
Business overdrafts	60,089,692	61,414,686
Personal overdrafts	20,320,113	18,552,342
Government guaranteed student loans	6,366,137	6,564,974
	\$ 750,417,569	\$ 753,046,638

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

	2014	2013
Less: Provision for loan losses		
At beginning of year	\$ 30,749,745	\$ 26,117,806
Amount written-off	(4,377,744)	(17,184,253)
Net provision charged to expense	69,723,480	21,816,192
At end of year	<u>96,095,481</u>	<u>30,749,745</u>
Accrued interest receivable	6,228,473	12,180,579
Loans and advances to customers, net	<u>\$ 660,550,561</u>	<u>\$ 734,477,472</u>

During the year, the Bank wrote-off loans totaling \$4,377,744 (2013: \$17,184,253) 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 (\$147,758) (2013: \$316,107).

Loan loss provisions are as follows:

	2014	2013
Specific Provisions		
Mortgage loans	\$ 15,195,754	\$ 7,177,510
Commercial loans	69,222,118	14,919,541
Consumer loans	7,083,020	5,076,675
Credit cards	311,078	184,719
	<u>91,811,970</u>	<u>27,358,445</u>
Collective assessment	4,283,511	3,391,300
TOTAL	<u>\$ 96,095,481</u>	<u>\$ 30,749,745</u>

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

During the year the Bank discovered an error in the ageing and classification of certain commercial and mortgage loans, where these certain loans should have been classified as past due. As a result of the loans past due 90 days or more, the Bank's non-accrual mortgage and commercial loans were understated in 2013 by \$23.7 million and \$14.7 million respectively and the provisions and equity reserves as a percentage of these non-accrual loans was overstated by 6.62%. The impact of this ageing and classification error resulted in increased provisions of \$611,312 for the year ended June 30, 2013. These amounts are immaterial to the consolidated financial statements as a whole. The corresponding figures as of June 30, 2013 have been adjusted.

	2014	2013
Provisions as a percentage of the net loan portfolio	14.55%	4.19%
Provisions and equity reserves as a percentage of the net loan portfolio	15.15%	4.73%
Provisions and equity reserves as a percentage of non-accrual loans	39.34%	22.09%
Non-accrual (impaired) loans are as follows:		
	2014	2013
Mortgage loans	\$ 135,390,299	\$ 103,245,542
Commercial loans	107,442,996	44,340,618
Consumer loans	11,300,736	9,548,358
Credit cards	296,214	190,023
TOTAL	\$ 254,430,245	\$ 157,324,541
Percentage of loan portfolio (net)	38.52%	21.42%
Percentage of total assets	33.00%	17.68%

Business and personal overdrafts of \$63,935,613 (2013: \$28,431,950) are related to certain non-accrual mortgage and commercial loans and therefore have been subjected to specific provisions.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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:

	2014		2013	
	Value	No. of Loans	Value	No. of Loans
\$0 - \$ 10,000	\$ 9,941,055	3,850	\$ 12,139,480	5,318
\$10,001 - \$ 25,000	22,485,324	1,332	24,564,744	1,462
\$25,001 - \$ 50,000	25,431,365	704	28,510,995	793
\$50,001 - \$ 100,000	49,504,421	683	53,369,078	739
Over \$ 100,000	643,055,404	1,697	634,462,341	1,695
	\$ 750,417,569	8,266	\$ 753,046,638	10,007

The table below shows the distribution of loans and advances to customers that are neither past due or impaired:

	2014		2013	
Satisfactory Risk	\$ 192,209,415	\$ 230,492,464		
Watch List	113,273,671	103,519,876		
Sub-standard but not impaired	12,581,666	13,860,329		
	\$ 318,064,752	\$ 347,872,669		

The business and personal overdrafts do not have stated maturities and therefore were not included in the above table.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

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

In (\$000s)	2014		2013	
MORTGAGES				
Neither past due or impaired	\$	210,210	\$	231,118
Past due but not impaired		55,671		69,246
Impaired		135,390		103,245
	\$	<u>401,271</u>	\$	<u>403,609</u>
COMMERCIAL				
Neither past due or impaired	\$	66,490	\$	67,397
Past due but not impaired		33,152		88,277
Impaired		107,443		44,341
	\$	<u>207,085</u>	\$	<u>200,015</u>
CONSUMER				
Neither past due or impaired	\$	40,434	\$	48,573
Past due but not impaired		8,475		10,091
Impaired		11,301		9,548
	\$	<u>60,210</u>	\$	<u>68,212</u>
CREDIT CARDS				
Neither past due or impaired	\$	931	\$	785
Past due but not impaired		215		269
Impaired		296		190
	\$	<u>1,442</u>	\$	<u>1,244</u>

In (\$000s)	2014			2013		
	PRINCIPAL	RESTRUCTURED	TOTAL	PRINCIPAL	RESTRUCTURED	TOTAL
Mortgages	\$ 326,441	\$ 74,830	\$ 401,271	\$ 346,163	\$ 57,446	\$ 403,609
Commercial	105,480	101,605	207,085	117,994	82,021	200,015
Consumer	56,795	3,415	60,210	65,466	2,746	68,212
Credit cards	1,442	-	1,442	1,244	-	1,244
	<u>\$ 490,158</u>	<u>\$ 179,850</u>	<u>\$ 670,008</u>	<u>\$ 530,867</u>	<u>\$ 142,213</u>	<u>\$ 673,080</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

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)	2014				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
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
	<u>\$ 55,671</u>	<u>\$ 33,152</u>	<u>\$ 8,475</u>	<u>\$ 215</u>	<u>\$ 97,513</u>

In (\$000s)	2013				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
Past due up to 29 days	\$ 21,106	\$ 21,073	\$ 3,019	\$ 194	\$ 45,392
Past due 30 - 59 days	23,607	10,219	4,432	32	38,290
Past due 60 - 89 days	24,533	56,985	2,640	43	84,201
	<u>\$ 69,246</u>	<u>\$ 88,277</u>	<u>\$ 10,091</u>	<u>\$ 269</u>	<u>\$ 167,883</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 fiscal year 2012, 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. The investment property balance for the year is \$3,882,873 and (2013: \$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.

9. Other Assets

Other assets are comprised of the following:

	2014	2013
Prepaid assets	\$ 3,709,247	\$ 2,171,500
Accrued interest on investment securities	434,280	904,928
Accounts receivables	231,576	255,682
Cheque clearing account	177,541	16,156
Other assets	401,732	413,558
	<u>\$ 4,954,376</u>	<u>\$ 3,761,824</u>

Included in other assets is the Bank's investment in the Bahamas Automated Clearing House Limited in the amount of \$226,925 (2013: \$259,480).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 2012	\$ 2,547,815	\$ 3,904,877	\$ 9,529,105	\$ 15,981,797
Additions	-	2,447,024	372,066	2,819,090
Balance as at June 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 2014	\$ 5,011,815	\$ 6,560,683	\$ 10,180,334	\$ 21,752,832

ACCUMULATED DEPRECIATION

Balance as at June 2012	\$ 734,842	\$ 2,748,056	\$ 3,008,803	\$ 6,491,701
Depreciation (Note 21)	-	572,289	1,053,527	1,625,816
Balance as at June 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 2014	\$ 734,842	\$ 4,052,264	\$ 5,192,914	\$ 9,980,020

NET BOOK VALUE :

Balance as at June 30, 2014	\$ 4,276,973	\$ 2,508,419	\$ 4,987,420	\$ 11,772,812
Balance as at June 30, 2013	\$ 1,812,973	\$ 3,031,556	\$ 5,838,841	\$ 10,683,370

Land in the amount of \$2,489,285 (2013: \$1,428,020) is included in land and building.

The increase in land and building during the year is due to conveyance of properties held by the Bank as collateral on a certain loan to the Bank's subsidiary, BOB Property Holdings.

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 \$1,196,556 (2013: \$990,729).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

11. Intangible Assets, Net

	Goodwill		Software		Total
Balance as at June 30, 2012	\$	1,075,759	\$	2,545,290	\$ 3,621,049
Additions		-		235,403	235,403
Accumulated amortisation (Note 21)		-		(736,436)	(736,436)
Closing as at June 30, 2013	\$	1,075,759	\$	2,044,257	\$ 3,120,016
Balance as at June 30, 2013	\$	1,075,759	\$	2,044,257	\$ 3,120,016
Additions		-		113,015	113,015
Accumulated amortisation (Note 21)		-		(758,975)	(758,975)
Closing as at June 30, 2014	\$	1,075,759	\$	1,398,297	\$ 2,474,056

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 6.02% (2013: 6.65%). As at June 30, 2014, management determined that goodwill was not impaired (2013: Nil).

12. Deposits from Customers and Banks

Deposits from customers and banks are as follows:

	2014		2013	
Term deposits	\$	522,163,592	\$	572,856,274
Demand deposits		97,059,510		88,349,528
Savings accounts		55,367,086		55,837,146
		674,590,188		717,042,948
Accrued interest payable		4,641,418		6,198,278
	\$	679,231,606	\$	723,241,226

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

12. Deposits from Customers and Banks (Continued)

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

	2014		2013	
	<u>Value</u>	<u>No. of Deposits</u>	<u>Value</u>	<u>No. of Deposits</u>
\$0 - \$ 10,000	\$ 24,731,290	39,801	\$ 25,815,281	45,138
\$10,001 - \$ 25,000	19,746,643	1,276	21,006,651	1,359
\$25,001 - \$ 50,000	21,453,920	614	21,775,292	620
\$50,001 - \$100,000	27,273,340	405	30,751,638	450
Over \$100,000	581,384,995	689	617,694,086	767
	<u>\$ 674,590,188</u>	<u>42,785</u>	<u>\$ 717,042,948</u>	<u>48,334</u>

In 1999, The Central Bank established the Deposit Insurance Corporation (the “Corporation”). The Bank paid an annual premium of \$239,398 (2013: \$217,773) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of \$50,000.

13. Other Borrowed Funds

Bonds payable

Bonds payable were issued to National Insurance Board on May 1, 2002 for \$17,000,000, prime bond series A to D with maturity dates of December 31, 2012 to 2015. During 2013, the Bank redeemed all the outstanding bonds payable. Interest expense for the year ended 2013 amounted to \$717,576.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

13. Other Borrowed Funds (Continued)

Mortgage backed bonds

Mortgage backed bonds amounting to \$20,000,000 bearing interest of 1.75% above Bahamian dollar prime rate which yields an effective rate of 6.50% in 2014 and 2013 were issued in a private placement on January 1, 2007. Interest expense on these instruments during the year 2014 totaled \$56,875 (2013: \$750,349). In accordance with the trust agreement, these bonds were secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio. During 2013, the Bank redeemed \$15,000,000 of series F and G and portion of series H. During the current fiscal year, the Bank redeemed the remaining \$5,000,000 outstanding bonds payable.

The amounts and maturity dates were as follows:

Description	Maturity	2014	2013
Mortgage backed bonds Series H	2024 \$	- \$	500,000
Mortgage backed bonds Series I	2025	-	2,000,000
Mortgage backed bonds Series J	2026	-	2,500,000
		<u>\$</u>	<u>\$</u>
		-	5,000,000

14. Other Liabilities

Other liabilities consist of the following:

	2014	2013
Accounts Payable	\$ 4,688,861	\$ 2,839,282
Other Liabilities	4,634,354	4,339,559
Cardholders Liability	1,166,375	1,337,465
Cheques and other items in transit	4,761,099	3,572,472
	<u>\$</u>	<u>\$</u>
	15,250,689	12,088,778

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

15. Share Capital

Share capital at par value consists of the following:

		2014		2013
Authorized:				
125,000 preference shares of B\$1,000 each (2013: 125,000)	\$	125,000,000	\$	125,000,000
25,000,000 Ordinary shares (voting) of B\$1 each (2013: 25,000,000)	\$	25,000,000	\$	25,000,000
10,000,000 Ordinary shares (non-voting) of B\$1 each (2013: 10,000,000)	\$	10,000,000	\$	10,000,000
Issued and fully paid:				
31,015.99 preference shares of B\$1,000 each (2013: 34,415.99)	\$	31,015,990	\$	34,415,990
15,364,979 Ordinary shares (voting) of B\$1 each (2013: 15,439,134)	\$	15,364,979	\$	15,439,134
6,022,945 Ordinary shares (non-voting) of B\$1 each (2013: 6,022,945)	\$	6,022,945	\$	6,022,945
Treasury shares				
235,021 issued previously at B\$1 each (2013: 160,866)	\$	235,021	\$	160,866
		\$ 52,638,935		\$ 56,038,935

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 (2013: Nil) 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. The movement in treasury shares during the year is as follows:

	No. of Shares	Value
Balance as at June 2012	86,586	\$ 531,768
Repurchase during the year	74,280	399,041
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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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, 2014 the regulatory credit reserves amount to \$4,000,000 (2013: \$4,000,000).

	2014	2013
Balance, beginning of year	\$ 4,508,851	\$ 4,266,896
Fair value gains, net during the year (Note 6)	103,544	241,955
Balance, end of year	\$ 4,612,395	\$ 4,508,851

18. Net Interest Income

	2014	2013
Interest and similar income		
Cash and short term investments	\$ 47,237	\$ 31,211
Investment securities	2,364,729	2,996,222
Loans and advances to customers	47,403,995	62,673,315
	<u>49,815,961</u>	<u>65,700,748</u>
Interest and similar expense		
Banks and customers	18,271,700	20,627,448
Debt securities (Note 13)	56,875	1,467,925
	<u>18,328,575</u>	<u>22,095,373</u>
Total net interest income	\$ 31,487,386	\$ 43,605,375

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

19. Fee and Commission Income

	2014	2013
Deposit services fees and commissions	\$ 2,087,605	\$ 2,170,150
Credit services fees and commissions	212,035	237,199
Card services fees and commissions	1,830,513	1,418,178
Other fees and commissions	311,897	370,955
Total fee and commission income	\$ 4,442,050	\$ 4,196,482

20. Other Operating Income

	2014	2013
Foreign exchange	\$ 1,388,094	\$ 1,547,036
Other	972,522	1,111,638
Total other operating income	\$ 2,360,616	\$ 2,658,674

21. Operating Expenses

	2014	2013
Staff costs	\$ 19,192,975	\$ 18,420,384
Occupancy	3,576,240	3,680,608
Licenses and other fees	4,014,587	2,885,449
Other administrative expenses	1,637,011	2,310,598
Information technology	1,549,282	1,381,688
Advertising, marketing and donations	705,005	707,117
Telecommunication and postage	411,508	440,010
Travel and entertainment	246,067	339,162
Operating expenses	\$ 31,332,675	\$ 30,165,016
Depreciation of property and equipment (Note 10)	\$ 2,108,520	\$ 1,625,816
Amortization of software (Note 11)	758,975	736,436
Depreciation and amortisation	2,867,495	2,362,252
Total operating expenses	\$ 34,200,170	\$ 32,527,268

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 formal controls and policies 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

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

	2014	2013
No later than 1 year	\$ 697,000	\$ 364,938
Later than 1 year and no later than 5 years	990,095	940,466
Total	<u>\$ 1,687,095</u>	<u>\$ 1,305,404</u>

Rental expense (including service charges) totaled \$1,680,105 (2013: \$1,784,125).

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 commitment for loans at June 30, 2014 was \$3,689,573 (2013: \$11,767,418).
- (b) The Bank has a commitment for future capital expenditure of Nil (2013: \$63,400).
- (c) The Bank has a commitment with Visa of \$450,000 (2013: \$450,000).
- (d) The Bank has a commitment with Master Card of \$150,000 (2013: \$150,000).
- (e) The Bank has letters of credit and guarantees of \$2,158,943 (2013: \$1,894,349).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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, 2014 (2013: Nil). No provision expense has been recognised in these consolidated financial statements on loans to related parties.

	Government	Other Government Entities	Key Management	Total 2014	Total 2013
Assets					
Cash and cash equivalents (Note 5)	\$ -	\$ 15,909,651	\$ -	\$ 15,909,651	\$ 38,958,728
Investment securities (Note 6)	30,259,000	-	-	30,259,000	56,048,900
Loans and advances to customers	571	8,787,500	3,327,162	12,115,233	13,478,348
Other Assets	428,994	-	-	428,994	891,392

Liabilities					
Deposits from customers and banks	\$ 67,404,172	\$ 137,921,029	\$ 1,318,255	\$ 206,643,456	\$ 188,148,128

	Government	Other Government Entities	Key Management	Total 2014	Total 2013
Revenues					
Interest Income	\$ 2,365,649	\$ 450,295	\$ 173,607	\$ 2,989,551	\$ 3,550,710
Total	\$ 2,365,649	\$ 450,295	\$ 173,607	\$ 2,989,551	\$ 3,550,710
Expenses					
Interest Expense	\$ 1,707,536	\$ 4,197,920	\$ 49,554	\$ 5,955,010	\$ 6,486,181
Directors fees	-	-	389,998	389,998	299,178
Other operating expenses	2,695,152	-	-	2,695,152	1,234,564
Short-term employee benefits	-	-	2,503,868	2,503,868	2,454,401
Pension expense	-	-	138,245	138,245	129,043
Termination benefits	-	-	93,333	93,333	-
Total	\$ 4,402,688	\$ 4,197,920	\$ 3,174,998	\$ 11,775,606	\$ 10,603,367

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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, 2014 totaled \$819,719 (2013: \$779,108).

As at June 30, 2014, the Plan owns 154,977 (2013: 187,166) shares of the Bank. The holdings represent approximately 6.86% (2013: 8.60%) of the Plan’s net assets.

As at June 30, 2014, the Plan has deposits totaling \$480,686 (2013: \$3,298,854) 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:

	2014	2013
Government guaranteed student education loans	\$ 74,364,931	\$ 75,803,282
Trust assets	\$ 103,971,622	\$ 84,717,027

During the period, the Bank recognised fees totaling \$192,447 (2013: \$209,007), 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 Regulators. The Bank paid no dividends to ordinary shareholders during the reporting years.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

27. Dividends and Earnings per Share (Continued)

During the year the Bank paid dividends on its preference shares of \$2,462,500 (2013: \$2,462,500).

	2014	2013
Net loss attributable to equity shareholders	\$ (66,284,409)	\$ (4,366,137)
Preference share dividends	<u>(2,462,500)</u>	<u>(2,462,500)</u>
Net loss attributable to ordinary shareholders	<u>\$ (68,746,909)</u>	<u>\$ (6,828,637)</u>
Weighted average number of ordinary shares outstanding	<u>21,402,007</u>	<u>15,975,692</u>
Basic loss per ordinary share	<u>\$ (3.21)</u>	<u>\$ (0.43)</u>

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).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 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, 2014 the Bank held equity securities classified as available-for-sale totaling \$835,083 (2013: \$731,539) which have been valued as a Level 1 investment. All other available-for-sale and held-to-maturity investments totaling \$34,259,000 (2013: \$60,048,900) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy.

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 recognised valuation expert. The fair value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

29. Regulatory Capital

The Bank maintained 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. During the past year, as a result of the significant loan loss provisions recognised during the last quarter of the current fiscal 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 ensure that the Bank complies 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. Due to the timing of the significant provisions recognised, the Bank was unable to make the adjustments necessary to correct the deficiencies noted in the non-compliant regulatory imposed capital ratios as at the fiscal year end. Subsequent to the year end, the Bank entered into a transaction with a Special Purpose Vehicle that is owned and controlled by the Government to assist in regularising the key non-compliant ratios (See Subsequent Event Note 33). Other than as noted in Note 15 (ordinary 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, 2014 and 2013 the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares and retained earnings/(accumulated deficit). The Bank's Board and Asset/Liability Management Committee monitor the capital structure and review the structure at least quarterly, reviewing the capital mix and the cost of capital for each class of capital. Ongoing capital management includes the payment of dividends, new share issuances, redemptions of preference shares, reserves, retained earnings/(accumulated deficit) and common share issuances.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

29. Regulatory Capital (Continued)

(in \$'000s)	Actual 2014	Actual 2013
Tier 1 capital	\$ 33,034	\$ 102,168
Tier 2 capital	39,911	42,315
Total capital	<u>\$ 72,945</u>	<u>\$ 144,483</u>
 Risk weighted assets	 <u>\$ 655,390</u>	 <u>\$ 643,932</u>
 Tier 1 capital ratio	 3.80%	 11.08%
Total capital ratio	8.40%	15.67%
 CET1 must be at least 8.50% (2013: 7.40%) of Total Risk Weighted Assets	 5.20%	 16.03%
Total Tier 1 Capital must be at least 11.70% (2013: 9.60%) of Total Risk Weighted Assets	5.04%	15.87%
Total Capital must be at least 17.00% (2013: 17.00%) of Total Risk Weighted Assets	11.13%	22.44%
CET1 must be at least 75% (2013: 75%) of Total Tier 1 Capital	103.26%	101.05%
Total Tier 1 Capital must be a minimum of 75% (2013: 75%) of Total Capital	45.29%	70.71%

Regulatory capital consists of Tier 1 capital, which comprises share capital, reserves less goodwill and retained earnings/(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, retained earnings/(accumulated deficit), accumulated other comprehensive income and other disclosed reserves.

The Central Bank's regulation requirements are consistent with international best practice as defined by the Bank of International Settlements Basel 111 Capital Accord.

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 as at year end. This is subsequently addressed by the Bank as disclosed in Note 33.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

30. Risk Management

There are a number of risks inherent in commercial 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 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. Credit risk arising from loans is mitigated through the employment of a comprehensive 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 than 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

30. Risk Management (Continued)

Credit risk (continued)

Concentration of risks and financial assets with credit risk exposure are as follows:

In (\$000s)	2014	2013
CASH AND CASH EQUIVALENTS		
Neither past due or impaired	\$ 52,341	\$ 73,336
Past due but not impaired	-	-
Impaired	-	-
	<u>\$ 52,341</u>	<u>\$ 73,336</u>
INVESTMENT SECURITIES		
Neither past due or impaired	\$ 35,094	\$ 60,780
Past due but not impaired	-	-
Impaired	-	-
	<u>\$ 35,094</u>	<u>\$ 60,780</u>
LOANS AND ADVANCES TO CUSTOMERS		
Neither past due or impaired	\$ 318,065	\$ 347,873
Past due but not impaired	97,513	167,883
Impaired	254,430	157,324
Business overdrafts	60,090	61,415
Personal overdrafts	20,320	18,552
	<u>\$ 750,418</u>	<u>\$ 753,047</u>

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

As discussed in Note 7, the Bank's non-accrual mortgage and commercial loans were understated in 2013 by \$23.7 million and \$14.7 million respectively, and the corresponding figures have been adjusted. Also refer to Note 7 for credit exposure to overdraft balances.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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, 2014 and 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

June 30, 2014

(in \$000s)

	B\$	US\$	CAD\$	GBP£	Other	Total
Assets						
Cash and central bank balances	\$ 23,458	\$ 24,520	\$ 3,389	\$ 681	\$ 293	\$ 52,341
Financial assets - held to maturity	16,964	-	-	-	-	16,964
Financial assets - available for sale	13,295	4,835	-	-	-	18,130
Loans and advances, net	637,314	23,229	6	2	-	660,551
Total financial assets	\$ 691,031	\$ 52,584	\$ 3,395	\$ 683	\$ 293	\$ 747,986
Liabilities						
Deposits from customers and banks	\$ 646,882	\$ 29,244	\$ 2,486	\$ 550	\$ 70	\$ 679,232
Cheques and other items in transit	3,047	1,454	146	112	2	4,761
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

June 30, 2013

(in \$000s)

	B\$	US\$	CAD\$	GBP£	Other	Total
Total financial assets	\$ 812,046	\$ 55,758	\$ 109	\$ 578	\$ 103	\$ 868,594
Total financial liabilities	703,001	28,061	163	550	38	731,813
Net financial position	\$ 109,045	\$ 27,697	\$ (54)	\$ 28	\$ 65	\$ 136,781

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 \$0.7 million (2013: \$1.4 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 ensure 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

30. Risk Management (Continued)

Liquidity risk (continued)

The following tables summarize the carrying amount of consolidated financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The actual maturity dates could be significantly different from the amounts in the table.

June 30, 2014 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	\$ 49,079	\$ 3,262	\$ -	\$ -	52,341
Investment Securities	3,605	4,000	3,017	24,472	35,094
Loans and advances to customers, net	138,484	52,053	45,350	424,664	660,551
Total financial assets	\$ 191,168	\$ 59,315	\$ 48,367	\$ 449,136	\$ 747,986

June 30, 2014 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	\$ 431,870	\$ 206,750	\$ 24,227	\$ 16,385	679,232
Cheques and other items in transit	4,761	-	-	-	4,761
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

June 30, 2013 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	\$ 298,623	\$ 42,999	\$ 58,790	\$ 468,182	868,594
Total financial liabilities	425,187	255,211	29,748	21,667	731,813
Net position	\$ (126,564)	\$ (212,212)	\$ 29,042	\$ 446,515	\$ 136,781

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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 is in liquidation.

An analysis of the entity's assets and liabilities as at June 30, 2014 is as follows:

	2014	2013
Assets		
Cash and current accounts with bank	\$ -	\$ 243,445
Due from Bank	70,792	37,698
	70,792	281,143
Liabilities		
Other liabilities	99,477	280,460
Due to Bank	-	36,868
	99,477	317,328
Net assets disposed of	\$ (28,685)	\$ (36,185)

32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2014 are as follows:

Name	Place of Incorporation	Shareholding	Nature of business
BOB Financial Services Inc. (In liquidation)	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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

33. Subsequent Events

Sale of certain non-performing loans

Subsequent to the year end, 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 annual coupon interest payments of Bahamian Prime (-) 0.50% issued from the SPV. The net difference of approximately \$55 million between the Notes received and the derecognised assets is accounted for as a part of the Bank’s shareholder’s equity in its 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.

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.

The transaction above assisted the Bank in regularising the key non-compliant regulatory capital ratios breached in Note 29.

Payment of preference shareholders

On July 21, 2014, the Government 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.

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