BANK OF THE BAHAMAS LIMITED

Audited Consolidated Financial Statements
Year Ended June 30, 2013
with Independent Auditors' Report

Ernst & Young

Bank of The Bahamas Limited

Audited Consolidated Financial Statements

Year ended June 30, 2013

Contents

Page

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**Independent Auditors' Report to the Shareholders and Directors of**
**Bank of The Bahamas Limited**

We have audited the accompanying 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, 2013, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

August 28, 2013

Bank of The Bahamas Limited

Consolidated Statement of Financial Position
*(Expressed in Bahamian dollars)*

June 30, 2013

| | Note | | 2013 | | 2012 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and account with The Central Bank | 5 | $ | 47,762,093 | $ | 57,827,169 |
| Due from banks | 5 | | 25,573,666 | | 34,756,798 |
| Investment securities | 6 | | 60,780,439 | | 59,174,584 |
| Loans and advances to customers, net | 7 | | 735,088,784 | | 687,623,605 |
| Investment property | 8 | | 3,882,873 | | 3,882,873 |
| Other assets | 9 | | 3,165,142 | | 4,881,860 |
| Property and equipment, net | 10 | | 10,683,370 | | 9,490,096 |
| Intangible assets, net | 11 | | 3,120,016 | | 3,621,049 |
| **TOTAL ASSETS** | | **$** | **890,056,383** | **$** | **861,258,034** |
| **LIABILITIES** | | | | | |
| Deposits from customers and banks | 12 | $ | 723,241,226 | $ | 671,423,360 |
| Other borrowed funds | 13 | | 5,000,000 | | 37,000,000 |
| Other liabilities | 14 | | 12,088,778 | | 28,634,318 |
| Deferred loan fees | | | 7,543,798 | | 7,083,064 |
| **Total liabilities** | | | **747,873,802** | | **744,140,742** |
| **EQUITY** | | | | | |
| Share capital | 15 | | 56,038,935 | | 50,015,990 |
| Share premium | 15 | | 54,004,621 | | 28,587,866 |
| Treasury shares | 16 | | (930,809) | | (531,768) |
| Reserves | 17 | | 4,508,851 | | 4,266,896 |
| Retained earnings | | | 28,560,983 | | 34,778,308 |
| **Total equity** | | | **142,182,581** | | **117,117,292** |
| **TOTAL** | | **$** | **890,056,383** | **$** | **861,258,034** |

These consolidated financial statements were approved by the Board of Directors on August 28, 2013 and are signed on its behalf by:

Director

Director

*See accompanying notes.*

Bank of The Bahamas Limited

## Consolidated Statement of Comprehensive Income
*(Expressed in Bahamian dollars)*

Year ended June 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| Interest and similar income | 18 | $ 65,700,748 | $ 62,031,384 |
| Interest and similar expense | 18 | 22,095,373 | 24,510,596 |
| Net interest income | 18 | 43,605,375 | 37,520,788 |
| Fees and commission income | 19 | 4,196,482 | 3,552,113 |
| Fees and commission expense | | 483,208 | 372,463 |
| Net fees and commission income | | 3,713,274 | 3,179,650 |
| Other operating income | 20 | 2,658,674 | 2,913,720 |
| Total operating income | | 49,977,323 | 43,614,158 |
| Credit loss expense, net | 7 | (21,204,880) | (10,215,382) |
| Net operating income | | 28,772,443 | 33,398,776 |
| Operating expenses | 21 | 32,527,268 | 29,721,714 |
| **Net (loss)/income** | | **(3,754,825)** | **3,677,062** |
| **Other comprehensive income** | | | |
| Net gain on available-for-sale financial assets | 17 | 241,955 | 149,129 |
| **Total comprehensive (loss)/income for the year** | | **(3,512,870)** | **3,826,191** |
| Net (loss)/income | | (3,754,825) | 3,677,062 |
| Preference share dividends | 27 | (2,462,500) | (2,462,498) |
| **Net (loss)/income available to common shareholders** | | **$ (6,217,325)** | **$ 1,214,564** |
| Earnings per share | | | |
| Basic (loss)/earnings per ordinary share | 27 | $ (0.39) | $ 0.08 |

*See accompanying notes.*

Bank of The Bahamas Limited

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

Year ended June 30, 2013

| | Note | Share Capital | Share Premium | Treasury Shares | Reserves | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance, June 30, 2011 (as restated)** | 2 | $ 50,015,990 | $ 28,587,866 | $ (473,822) | $ 4,117,767 | $ 34,339,415 | $ 116,587,216 |
| Net income for the year | | - | - | - | - | 3,677,062 | 3,677,062 |
| Acquisition of treasury shares | 16 | - | - | (57,946) | - | - | (57,946) |
| Other comprehensive income | 17 | - | - | - | 149,129 | - | 149,129 |
| Dividends on preference shares | 27 | - | - | - | - | (2,462,498) | (2,462,498) |
| Dividends paid to ordinary shareholders | 27 | - | - | - | - | (775,671) | (775,671) |
| **Balance, June 30, 2012** | | 50,015,990 | 28,587,866 | (531,768) | 4,266,896 | 34,778,308 | 117,117,292 |
| Net loss for the year | | - | - | - | - | (3,754,825) | (3,754,825) |
| 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** | **$ 28,560,983** | **$ 142,182,581** |

*See accompanying notes.*

Bank of The Bahamas Limited

# Consolidated Statement of Cash Flows

*(Expressed in Bahamian dollars)*

Year ended June 30, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net (loss)/income | | $ (3,754,825) | $ 3,677,062 |
| Adjustments for: | | | |
| Depreciation and amortization | 21 | 2,362,252 | 1,930,094 |
| Gain on disposal of fixed assets | | - | (325) |
| Net provision for loan losses | 7 | 21,204,880 | 10,215,382 |
| Net provision for other impairments | | - | 118,422 |
| | | 19,812,307 | 15,940,635 |
| Change in operating assets and liabilities | | (15,606,749) | 12,549,042 |
| Increase in loans and advances to customers, net | | (68,670,059) | (29,128,148) |
| Increase in deposits from customers and banks | | 51,817,866 | 22,032,609 |
| Net cash (used in)/provided by operating activities | | (12,646,635) | 21,394,138 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Acquisition of property and equipment | 10 | (2,819,090) | (3,841,606) |
| Acquisition of intangible assets | 11 | (235,403) | (269,632) |
| Purchase of investments | 6 | (11,038,900) | (10,156,999) |
| Proceeds from disposal of property and equipment | | - | 548 |
| Proceeds from maturity of investment securities | 6 | 9,675,000 | - |
| Net cash used in investing activities | | (4,418,393) | (14,267,689) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Issuance of ordinary shares | 15 | $ 31,439,700 | $ - |
| Dividends paid on common stock | | - | (775,671) |
| Dividends on preference shares | 27 | (2,462,500) | (2,462,498) |
| (Decrease)/increase in interest payable on bonds | | (19,911) | 4,425 |
| Acquisition of treasury shares | 16 | (399,041) | (57,946) |
| Retirement of debt securities | 13 | (32,000,000) | - |
| Net cash used in financing activities | | (3,441,752) | (3,291,690) |
| Net (decrease)/increase in cash and cash equivalents | | (20,506,780) | 3,834,759 |
| Cash and cash equivalents, beginning of year | | 66,169,279 | 62,334,520 |
| Cash and cash equivalents, end of year | 5 | $ 45,662,499 | $ 66,169,279 |
| **SUPPLEMENTAL INFORMATION:** | | | |
| Interest received | | $ 63,958,675 | $ 58,259,960 |
| Interest paid | | $ 22,672,550 | $ 24,962,701 |
| Dividends paid | | $ 2,462,500 | $ 3,238,169 |

*See accompanying notes.*

## 1. Corporate Information

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

The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange. The Government of The Commonwealth of The Bahamas and The National Insurance Board own approximately 65% of the issued common shares. The remaining common shares are owned by approximately 4,000 Bahamian shareholders. The Bank's head office is located at Claughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, The Bahamas.

The Bank's services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded stored value, prepaid and credit cards. The Bank has thirteen branches: five in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua and one in Cat Island. A wholly-owned subsidiary of the Bank, 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. The subsidiary is presently in voluntary liquidation.

The Bank is an agent for American Express and MoneyGram.

## 2. Basis of Preparation

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and investment property which have been measured at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

**2. Basis of Preparation (Continued)**

**(a) New and amended standards and interpretations**
The accounting policies adopted are consistent with those used in the previous financial year. The following International Accounting Standards (IAS) issued by IASB and IFRS issued by the International Financial Reporting Interpretations Committee (IFRIC) are relevant to the Bank.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 1 Amendments - Presentation of items of Other Comprehensive Income
- IAS 12 Amendments - Deferred Tax: Recovery of Underlying Assets

**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, 2013 or later periods but which the Bank has not early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2013:

- 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

## 2. Basis of Preparation (Continued)

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

- Amendments to IFRS 1 - Government Loans
- Annual Improvements to IFRSs 2009-2011 Cycle

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

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

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date on which control ceases.

The financial statements of subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies. Inter-company balances, transactions, income and expenses are eliminated in full. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

### (c) Correction of Errors

The Bank sold a mortgage indemnity product as an integral part of the mortgage loan facility, previously recorded as other liabilities with income being recognized as other operating income. During fiscal year 2012, the Bank revised its policy and accounted for this product as an additional loan fee with income being recognized using the effective interest rate basis and reclassified the ending liability portion to deferred loan fees. Additionally, the Bank understated its credit loss expense by inappropriately considering the mortgage indemnity product as part of the collateral amount in assessing any shortfall between the security value and the outstanding balance.

## 2. Basis of Preparation (Continued)

### c) Correction of Errors (continued)

The correction of these errors has been accounted for retrospectively. As a result, the opening retained earnings decreased by $782,259 for the year ended June 30, 2011.

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

*Depreciation and amortization*

Depreciation and amortization 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 amortization 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 amortization charges are adjusted prospectively.

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

*Impairment losses on loans and advances to customers and banks*
The Bank has significant investments in loans receivable. These assets are assessed for impairment at least on a quarterly 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.

*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, 2013 no impairment loss was recognized for the reported period. Further details are presented in Note 11.

*Deferred loan fees*
In accordance with International Accounting Standard 18: Revenue Recognition, 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 recognized as an adjustment of the effective interest rate. Any changes in average loan term will be recognized prospectively in interest income in the consolidated statement of comprehensive income. Although management amortizes the loan commitment and loan related fees using the average loan term, an adjustment is made to correct the loan commitment fees for the estimated effective interest rate method. In the opinion of management, the difference between the amortization to income using the average loan term and the effective interest rate is immaterial.

## 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 amortized cost, interest income or expense is recorded at the effective interest rate. The calculation of amortized 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 recognized 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.

**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 recognized in the consolidated statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

**4. Summary of Significant Accounting Policies (Continued)**

**(c) Financial instruments (continued)**
*(iii) Available-for-sale financial assets*
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the consolidated statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized 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. The deposits are carried at amortized cost.

**(d) Impairment of financial assets**
The Bank assesses at each statement of financial condition 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; and
- Downgrading below investment grade level.

## 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 recognized 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 recognized 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 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 recognized as income, but rather is suspended.

## 4. Summary of Significant Accounting Policies (Continued)

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

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

*Provision for loan losses*

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

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

The specific provision for an impaired collateral-dependent loan, where repayment is expected to be provided solely by the sale of the underlying collateral, is set at an amount equal to the difference between the principal balance and the net realizable value of the collateral. Net realizable value represents the discounted fair value of the collateral less all costs associated with its disposition. For unsecured loans, the Bank calculates the provision by applying factors based on the past due status of the loans.

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.

## 4. Summary of Significant Accounting Policies (Continued)

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

Consumer loans that are not fully secured by real estate are fully provided for when they are contractually in arrears more than 180 days. All other loans are provided for when the following conditions exist: i) contractually in arrears; ii) underlying collateral has been exhausted; and iii) no payment has been received within 180 days thereafter. 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 object evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

## 4. Summary of Significant Accounting Policies (Continued)

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Held-to-maturity financial assets*

The Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**4. Summary of Significant Accounting Policies (Continued)**

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

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

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
    - The Bank has transferred substantially all the risks and rewards of the asset, or
    - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

*Financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

## 4. Summary of Significant Accounting Policies (Continued)

### (f) Foreign currency

The reporting and functional currency of the Bank is the Bahamian dollar (B$). Transactions in foreign currencies are converted to B$ at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are converted into B$ at market rates of exchange prevailing on the consolidated statement of financial condition 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 recognized 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 amortization 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 | 2-10 | 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 amortization term however does not exceed five years. Land is not depreciated.

**4. Summary of Significant Accounting Policies (Continued)**

**(g) Property and equipment (continued)**

Property and equipment are derecognized on disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of comprehensive income.

**(h) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 recognized 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 recognized 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.

## 4. Summary of Significant Accounting Policies (Continued)

### (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.

### (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 32) and is required to comply with United States Federal and State tax laws. The accounts for the tax effect of the subsidiary are recognized 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.

**4. Summary of Significant Accounting Policies (Continued)**

**(n) Taxes (continued)**

Deferred tax assets are recognized 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 which 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 appraisals by recognized valuation experts. 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.

**(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 recognized 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 recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

## 4. Summary of Significant Accounting Policies (Continued)

### (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 recognized 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.

### (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 recognized as an expense on a straight line basis over the lease term and included in 'operating expenses', in the consolidated statement of comprehensive income.

## 4. Summary of Significant Accounting Policies (Continued)

### (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.

### (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.

## 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 $27,673,260 (2012: $26,414,688). 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.

## 5. Cash and Cash Equivalents (Continued)

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Cash | $ | 8,803,365 | $ | 7,648,139 |
| Deposits with the Central Bank non-interest bearing (Note 24) | | 38,958,728 | | 50,179,030 |
| Due from banks | | 25,573,666 | | 34,756,798 |
| Cash and due from banks | | 73,335,759 | | 92,583,967 |
| Less: mandatory reserve deposits with the Central Bank | | 27,673,260 | | 26,414,688 |
| **Cash and cash equivalents** | **$** | **45,662,499** | **$** | **66,169,279** |

## 6. Investment Securities

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

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Available-For-Sale** | | | | |
| Bahamas Registered Stock (Note 24) | $ | 39,084,400 | $ | 33,045,500 |
| Equity Securities | | 731,539 | | 489,584 |
| Debt Securities | | 4,000,000 | | 4,000,000 |
| | $ | 43,815,939 | $ | 37,535,084 |
| **Held-To-Maturity** | | | | |
| Bahamas Registered Stock (Note 24) | $ | 16,828,000 | $ | 21,503,000 |
| Bridge Authority Bond (Note 24) | | 136,500 | | 136,500 |
| | $ | 16,964,500 | $ | 21,639,500 |
| **Total investment securities** | **$** | **60,780,439** | **$** | **59,174,584** |

As of the year end reporting date, government securities mainly comprise variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.03% to 6.00% per annum (2012: from 4.83% to 6.00% per annum) and scheduled maturities between 2014 and 2035 (2012: between 2012 and 2033).

## 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, 2011 | $ 27,228,956 | $ 21,639,500 | $ 48,868,456 |
| Additions | 10,156,999 | - | 10,156,999 |
| Net fair value gain (Note 17) | 149,129 | - | 149,129 |
| **At June 30, 2012** | **$ 37,535,084** | **$ 21,639,500** | **$ 59,174,584** |
| 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** |

## 7. Loans and Advances to Customers, Net

Loans and advances to customers are as follows:

| | 2013 | 2012 |
|---|---|---|
| Mortgage loans | $ 403,609,163 | $ 386,950,957 |
| Commercial loans | 200,014,845 | 163,414,609 |
| Consumer loans | 61,646,855 | 48,756,084 |
| Credit cards | 1,243,773 | 1,700,893 |
| Business overdrafts | 61,414,686 | 74,884,939 |
| Personal overdrafts | 18,552,342 | 20,679,751 |
| Government guaranteed student loans | 6,564,974 | 6,814,894 |
| | **$ 753,046,638** | **$ 703,202,127** |

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

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Less: Provision for loan losses** | | | | |
| At beginning of year | $ | 26,117,806 | $ | 18,875,957 |
| Amount written-off | | (17,184,253) | | (2,973,533) |
| Net provision charged to expense | | 21,204,880 | | 10,215,382 |
| At end of year | | 30,138,433 | | 26,117,806 |
| Accrued interest receivable | | 12,180,579 | | 10,539,284 |
| **Loans and advances to customers, net** | **$** | **735,088,784** | **$** | **687,623,605** |

During the year, the Bank wrote-off loans totaling $17,184,253 (2012: $2,973,533) 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 $316,107 and (2012: ($48,177)).

Loan loss provisions are as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Specific Provisions** | | | | |
| Mortgage loans | $ | 6,866,908 | $ | 4,891,334 |
| Commercial loans | | 14,618,831 | | 13,601,277 |
| Consumer loans | | 5,076,675 | | 3,667,967 |
| Credit cards | | 184,719 | | 823,734 |
| | | **26,747,133** | | **22,984,312** |
| Collective assessment | | **3,391,300** | | **3,133,494** |
| **TOTAL** | **$** | **30,138,433** | **$** | **26,117,806** |

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

| | 2013 | 2012 |
|---|---|---|
| Provisions as a percentage of the net loan portfolio | 4.10% | 3.80% |
| Provisions and equity reserves as a percentage of the net loan portfolio. | 4.64% | 4.38% |
| Provisions and equity reserves coverage as a percentage of non-accrual loans. | 28.71% | 35.25% |

Non-accrual loans are as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Mortgage loans | $ | 79,578,589 | $ | 49,670,692 |
| Commercial loans | | 29,608,648 | | 27,341,574 |
| Consumer loans | | 9,548,358 | | 8,010,207 |
| Credit cards | | 190,023 | | 426,048 |
| **TOTAL** | **$** | **118,925,618** | **$** | **85,448,521** |

| | 2013 | 2012 |
|---|---|---|
| Percentage of loan portfolio (net) | 16.18% | 12.43% |
| Percentage of total assets | 13.36% | 9.92% |

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

| | | 2013 | | | 2012 | |
|---|---|---|---|---|---|---|
| | | Value | No. of Loans | | Value | No. of Loans |
| $0 - $ 10,000 | $ | 12,139,480 | 5,318 | $ | 13,299,498 | 4320 |
| $10,001 - $ 25,000 | | 24,564,744 | 1,462 | | 22,562,862 | 1347 |
| $25,001 - $ 50,000 | | 28,510,995 | 793 | | 23,997,852 | 664 |
| $50,001 - $ 100,000 | | 53,369,078 | 739 | | 45,218,061 | 621 |
| Over $ 100,000 | | 634,462,341 | 1,695 | | 598,123,854 | 1666 |
| | **$** | **753,046,638** | **10,007** | **$** | **703,202,127** | **8618** |

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

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

| | 2013 | 2012 |
|---|---|---|
| Satisfactory Risk | $ 152,435,783 | $ 331,400,684 |
| Watch List | 170,217,582 | 86,063,192 |
| Sub-standard but not impaired | 146,427,081 | 75,840,124 |
| | **$ 469,080,446** | **$ 493,304,000** |

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

| In ($000s) | 2013 PRINCIPAL BALANCE | 2013 RESTRUCTURED | 2013 TOTAL | 2012 PRINCIPAL BALANCE | 2012 RESTRUCTURED | 2012 TOTAL |
|---|---|---|---|---|---|---|
| **MORTAGES** | | | | | | |
| Neither past due or impaired | $ 228,067 | $ 29,560 | $ 257,627 | $ 247,188 | $ 16,621 | $ 263,809 |
| Past due but not impaired | 55,601 | 10,802 | 66,403 | 66,104 | 7,366 | 73,470 |
| Impaired | 62,495 | 17,084 | 79,579 | 47,286 | 2,385 | 49,671 |
| | $ 346,163 | $ 57,446 | $ 403,609 | $ 360,578 | $ 26,372 | $ 386,950 |
| **COMMERCIAL** | | | | | | |
| Neither past due or impaired | $ 51,064 | $ 31,065 | $ 82,129 | $ 42,281 | $ 51,602 | $ 93,883 |
| Past due but not impaired | 40,877 | 47,400 | 88,277 | 33,209 | 8,981 | 42,190 |
| Impaired | 26,053 | 3,556 | 29,609 | 24,542 | 2,800 | 27,342 |
| | $ 117,994 | $ 82,021 | $ 200,015 | $ 100,032 | $ 63,383 | $ 163,415 |
| **CONSUMER** | | | | | | |
| Neither past due or impaired | $ 47,379 | $ 1,193 | $ 48,572 | $ 38,395 | $ 562 | $ 38,957 |
| Past due but not impaired | 9,724 | 367 | 10,091 | 8,277 | 327 | 8,604 |
| Impaired | 8,362 | 1,186 | 9,548 | 7,731 | 279 | 8,010 |
| | $ 65,465 | $ 2,746 | $ 68,211 | $ 54,403 | $ 1,168 | $ 55,571 |
| **CREDIT CARDS** | | | | | | |
| Neither past due or impaired | $ 785 | $ - | $ 785 | $ 1,090 | $ - | $ 1,090 |
| Past due but not impaired | 269 | - | 269 | 185 | - | 185 |
| Impaired | 190 | - | 190 | 426 | - | 426 |
| | $ 1,244 | $ - | $ 1,244 | $ 1,701 | $ - | $ 1,701 |
| **BUSINESS OVERDRAFTS** | | | | | | |
| Neither past due or impaired | $ 61,415 | $ - | $ 61,415 | $ 74,885 | $ - | $ 74,885 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 61,415 | $ - | $ 61,415 | $ 74,885 | $ - | $ 74,885 |
| **PERSONAL OVERDRAFTS** | | | | | | |
| Neither past due or impaired | $ 18,552 | $ - | $ 18,552 | $ 20,680 | $ - | $ 20,680 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 18,552 | $ - | $ 18,552 | $ 20,680 | $ - | $ 20,680 |

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

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

| | 2013 | | | | |
|---|---|---|---|---|---|
| In ($000s) | RESIDENTIAL MORTGAGE | COMMERCIAL | CONSUMER | CREDIT CARD | TOTAL |
| 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 | 21,690 | 56,985 | 2,640 | 43 | 81,358 |
| | $ 66,403 | $ 88,277 | $ 10,091 | $ 269 | $ 165,040 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| In ($000s) | RESIDENTIAL MORTGAGE | COMMERCIAL | CONSUMER | CREDIT CARD | TOTAL |
| Past due up to 29 days | $ 17,757 | $ 8,300 | $ 2,100 | $ 146 | $ 28,303 |
| Past due 30 - 59 days | 35,214 | 7,472 | 2,539 | 16 | 45,241 |
| Past due 60 - 89 days | 20,499 | 26,418 | 3,965 | 23 | 50,905 |
| | $ 73,470 | $ 42,190 | $ 8,604 | $ 185 | $ 124,449 |

## 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.

## 8. Investment Property (Continued)

During the fiscal year 2012, the Bank engaged the services of a real estate and valuation expert who holds a recognized 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 (2012: $3,882,873).

## 9. Other Assets

Other assets are comprised of the following:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Accounts receivables | $ | 255,682 | $ | 837,766 |
| Prepaid assets | | 2,171,500 | | 2,294,984 |
| Cheque clearing account | | 16,156 | | 1,167,653 |
| Other assets | | 721,804 | | 581,457 |
| | **$** | **3,165,142** | **$** | **4,881,860** |

Included in other assets is the Bank's investment in the Bahamas Automated Clearing House Limited in the amount of $259,480 (2012: $280,970).

## 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 2011 | $ 2,547,815 | $ 3,044,259 | $ 6,550,783 | $ 12,142,857 |
| Additions | - | 860,618 | 2,980,988 | 3,841,606 |
| Disposal | - | - | (2,666) | (2,666) |
| 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** |
| | | | | |
| **ACCUMULATED DEPRECIATION** | | | | |
| Balance as at June 2011 | $ 734,842 | $ 2,332,030 | $ 2,191,123 | $ 5,257,995 |
| Depreciation (Note 21) | - | 416,026 | 820,124 | 1,236,150 |
| Disposal | - | - | (2,444) | (2,444) |
| 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** |
| | | | | |
| **NET BOOK VALUE :** | | | | |
| **Balance as at June 30, 2013** | **$ 1,812,973** | **$ 3,031,556** | **$ 5,838,841** | **$ 10,683,370** |
| **Balance as at June 30, 2012** | **$ 1,812,973** | **$ 1,156,821** | **$ 6,520,302** | **$ 9,490,096** |

Land in the amount of $1,428,020 (2012: $1,428,020) is included in land and building.

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 $990,729 (2012: $3,098,393).

## 11. Intangible Assets, Net

| | Goodwill | Software | Total |
|---|---|---|---|
| Balance as at June 30, 2011 | $ 1,075,759 | $ 2,969,602 | $ 4,045,361 |
| Additions | - | 269,632 | 269,632 |
| Accumulated amortisation (Note 21) | - | (693,944) | (693,944) |
| **Closing as at June 30, 2012** | **$ 1,075,759** | **$ 2,545,290** | **$ 3,621,049** |
| | | | |
| 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** |

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 6.65% (2012: 6.63%). As at June 30, 2013, management determined that goodwill was not impaired (2012: $Nil).

## 12. Deposits from Customers and Banks

Deposits from customers and banks are as follows:

| | 2013 | 2012 |
|---|---|---|
| Term deposits | $ 572,856,274 | $ 527,858,144 |
| Demand deposits | 88,349,528 | 82,630,356 |
| Savings accounts | 55,837,146 | 54,179,316 |
| | 717,042,948 | 664,667,816 |
| Accrued interest payable | 6,198,278 | 6,755,544 |
| | **$ 723,241,226** | **$ 671,423,360** |

## 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:

| | | 2013 | | | 2012 | |
|---|---|---|---|---|---|---|
| | | Value | No. of Deposits | | Value | No. of Deposits |
| $0 - $ 10,000 | $ | 25,815,281 | 45,138 | $ | 25,715,137 | 44,293 |
| $10,001 - $ 25,000 | | 21,006,651 | 1,359 | | 20,754,068 | 1,351 |
| $25,001 - $ 50,000 | | 21,775,292 | 620 | | 19,605,707 | 557 |
| $50,001 - $100,000 | | 30,751,638 | 450 | | 31,163,766 | 453 |
| Over $100,000 | | 617,694,086 | 767 | | 567,429,138 | 743 |
| | **$** | **717,042,948** | **48,334** | **$** | **664,667,816** | **47,397** |

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $217,773 (2012: $198,196) 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 the National Insurance Board on May 1, 2002, and bear interest at the Bahamian dollar prime rate which at year end was 4.75% (2012: 4.75%). Interest expense during the year on these instruments totaled $717,576 (2012: $809,713). These bonds are secured by the equivalent amount under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifying assets which include Government registered stock and cash. During the period, the Bank redeemed the outstanding bonds payable. Interest payable on bonds at year end was $Nil (2012: $19,911).

## 13. Other Borrowed Funds (Continued)

The amounts and maturity dates are as follows:

| Description | Maturity | 2013 | 2012 |
|---|---|---|---|
| Prime bond series A | Due December 31, 2012 | $ - | $ 3,500,000 |
| Prime bond series B | Due December 31, 2013 | - | 4,800,000 |
| Prime bond series C | Due December 31, 2014 | - | 2,600,000 |
| Prime bond series D | Due December 31, 2015 | - | 6,100,000 |
| | | **$ -** | **$ 17,000,000** |

**Mortgage backed bonds**

Mortgage backed bonds bearing interest of 1.75% above Bahamian dollar prime rate which yields an effective rate of 6.50% were issued in a private placement on January 1, 2007. Interest expense on these instruments during the year 2013 totaled $750,349 (2012: $1,303,562). In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio.

| Description | Maturity | 2013 | 2012 |
|---|---|---|---|
| Mortgage backed bonds Series F | 2022 | $ - | $ 4,000,000 |
| Mortgage backed bonds Series G | 2023 | - | 4,000,000 |
| Mortgage backed bonds Series H | 2024 | 500,000 | 4,000,000 |
| Mortgage backed bonds Series I | 2025 | 2,000,000 | 4,000,000 |
| Mortgage backed bonds Series J | 2026 | 2,500,000 | 4,000,000 |
| | | **$ 5,000,000** | **$ 20,000,000** |

## 14. Other Liabilities

Other liabilities consist of the following:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Accounts Payable | $ | 2,839,282 | $ | 2,135,617 |
| Other Liabilities | | 4,339,559 | | 5,948,100 |
| Cardholders Liability | | 1,337,465 | | 1,432,983 |
| Cheques and other items in transit | | 3,572,472 | | 19,117,618 |
| | **$** | **12,088,778** | **$** | **28,634,318** |

## 15. Share Capital

Share capital consists of the following:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Authorized: | | | | |
| 125,000 Preference shares of B$1,000 each (2012: 125,000) | $ | 125,000,000 | $ | 125,000,000 |
| 25,000,000 Ordinary shares (voting) of B$1 each (2012: 25,000,000) | $ | 25,000,000 | $ | 25,000,000 |
| 10,000,000 Ordinary shares (non-voting) of B$1 each (2012: Nil) | $ | 10,000,000 | $ | - |
| Issued and fully paid: | | | | |
| 34,415.99 Preference shares of B$1,000 each (2012: 34,415.99) | $ | 34,415,990 | $ | 34,415,990 |
| 15,439,134 Ordinary shares (voting) of B$1 each (2012: 15,513,414) | $ | 15,439,134 | $ | 15,513,414 |
| 6,022,945 Ordinary shares (non-voting) of B$1 each (2012: Nil) | $ | 6,022,945 | $ | - |
| Treasury Shares: | | | | |
| 160,866 issued previously at B$1 each (2012: 86,586) | $ | 160,866 | $ | 86,586 |
| | **$** | **56,038,935** | **$** | **50,015,990** |

## 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.

*Ordinary shares*
During the period, 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. 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. During the period July 2012 through to June 2013 the Bank acquired 74,280 of its own shares for $402,513 including fees and commissions. As at June 30, 2013, the Bank held treasury shares of 160,866 (2012: 86,586).

## 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.

## 17. Reserves (Continued)

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, 2013 the regulatory credit reserves amount to $4,000,000 (2012: $4,000,000).

| | | **2013** | | **2012** |
|---|---|---|---|---|
| Balance, beginning of year | $ | 4,266,896 | $ | 4,117,767 |
| Fair value gains, net during the year (Note 6) | | 241,955 | | 149,129 |
| **Balance, end of year** | **$** | **4,508,851** | **$** | **4,266,896** |

## 18. Net Interest Income

| | | **2013** | | **2012** |
|---|---|---|---|---|
| **Interest and similar income** | | | | |
| Cash and short term investments | $ | 31,211 | $ | 115,193 |
| Investment securities | | 2,996,222 | | 2,728,717 |
| Loans and advances to customers | | 62,673,315 | | 59,187,474 |
| | | 65,700,748 | | 62,031,384 |
| **Interest and similar expense** | | | | |
| Banks and customers | | 20,627,448 | | 22,397,322 |
| Debt securities (Note 13) | | 1,467,925 | | 2,113,274 |
| | | 22,095,373 | | 24,510,596 |
| **Total net interest income** | **$** | **43,605,375** | **$** | **37,520,788** |

## 19. Fee and Commission Income

| | 2013 | 2012 |
|---|---|---|
| Deposit services fees and commissions | $ 2,170,150 | $ 1,999,749 |
| Credit services fees and commissions | 237,199 | 273,830 |
| Card services fees and commissions | 1,418,178 | 820,684 |
| Other fees and commissions | 370,955 | 457,850 |
| **Total fee and commission income** | **$ 4,196,482** | **$ 3,552,113** |

## 20. Other Operating Income

| | 2013 | 2012 |
|---|---|---|
| Foreign exchange | $ 1,547,036 | $ 1,777,466 |
| Other | 1,111,638 | 1,136,254 |
| **Total other operating income** | **$ 2,658,674** | **$ 2,913,720** |

## 21. Operating Expenses

| | 2013 | 2012 |
|---|---|---|
| Staff costs | $ 18,420,384 | $ 17,577,239 |
| Occupancy | 3,680,608 | 3,628,154 |
| Licenses and other fees | 2,885,449 | 2,257,381 |
| Other administrative expenses | 2,310,598 | 1,403,268 |
| Information technology | 1,381,688 | 1,232,978 |
| Advertising, marketing and donations | 707,117 | 863,570 |
| Telecommunication and postage | 440,010 | 403,968 |
| Travel and entertainment | 339,162 | 425,062 |
| **Operating expenses** | **$ 30,165,016** | **$ 27,791,620** |
| | | |
| Depreciation of property and equipment (Note 10) | $ 1,625,816 | $ 1,236,150 |
| Amortization of software (Note 11) | 736,436 | 693,944 |
| **Depreciation and amortisation** | **$ 2,362,252** | **$ 1,930,094** |
| | | |
| **Total operating expenses** | **$ 32,527,268** | **$ 29,721,714** |

## 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, 2013, are as follows:

| | | **2013** | | **2012** |
|---|---|---|---|---|
| No later than 1 year | $ | 364,938 | $ | 452,657 |
| Later than 1 year and no later than 5 years | | 940,466 | | 1,698,906 |
| Total | $ | 1,305,404 | $ | 2,151,563 |

Rental expense (including service charges) totaled $1,784,125 (2012: $1,826,965).

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, 2013 was $11,767,418 (2012: $15,409,239).

(b) The Bank has a commitment for future capital expenditure of $63,400 (2012: $74,489).

**23. Commitments (Continued)**

(c) The Bank has a commitment with Visa of $450,000 (2012: $450,000).

(d) The Bank has a commitment with Master Card of $150,000 (2012: $150,000).

(e) The Bank has letters of credit and guarantees of $2,494,349 (2012: $2,469,248).

## 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, 2013 (2012: Nil). No provision expense has been recognized in these consolidated financial statements on loans to related parties.

| | Government | Other Government Entities | Key Management | Total 2013 | Total 2012 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents (Note 5) | $ - | $ 38,958,728 | $ - | $ 38,958,728 | $ 50,179,030 |
| Investment securities (Note 6) | 56,048,900 | - | - | 56,048,900 | 54,685,000 |
| Loans and advances to customers | 906,994 | 9,191,758 | 3,379,596 | 13,478,348 | 13,105,405 |
| Other Assets | 891,392 | - | - | 891,392 | 791,818 |
| **Liabilities** | | | | | |
| Deposits from customers and banks | $ 65,871,673 | $ 121,579,559 | $ 696,896 | $ 188,148,128 | $ 175,916,189 |
| Other borrowed funds | - | - | - | - | 17,000,000 |
| Other liabilities | - | - | - | - | 19,911 |

| | Government | Other Government Entities | Key Management | Total 2013 | Total 2012 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Interest Income | $ 2,997,141 | $ 464,324 | $ 89,245 | $ 3,550,710 | $ 3,377,052 |
| **Total** | **$ 2,997,141** | **$ 464,324** | **$ 89,245** | **$ 3,550,710** | **$ 3,377,052** |
| **Expenses** | | | | | |
| Interest Expense | $ 1,477,104 | $ 4,993,639 | $ 15,438 | $ 6,486,181 | $ 7,828,671 |
| Directors fees | - | - | 299,178 | 299,178 | 198,500 |
| Other operating expenses | 1,234,564 | - | - | 1,234,564 | 1,243,357 |
| Short-term employee benefits | - | - | 2,454,401 | 2,454,401 | 2,738,838 |
| Pension expense | - | - | 129,043 | 129,043 | 134,085 |
| Termination benefits | - | - | - | - | 160,566 |
| **Total** | **$ 2,711,668** | **$ 4,993,639** | **$ 2,898,060** | **$ 10,603,367** | **$ 12,304,017** |

## 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, 2013 totaled $779,108 (2012: $715,516).

As at June 30, 2013, the Plan owns 187,166 (2012: 210,826) shares of the Bank. The holdings represent approximately 8.6% (2012: 10.25%) of the Plan's net assets.

As at June 30, 2013, the Plan has deposits totaling $3,298,854 (2012: $6,565,425) with the Bank.

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

## 26. Assets under Administration

Assets under administration for clients in the Bank's fiduciary capacity are as follows:

| | | **2013** | | **2012** |
|---|---|---|---|---|
| Government- guaranteed student education loans | $ | 75,803,282 | $ | 77,647,076 |
| Trust assets | $ | 84,717,027 | $ | 77,962,646 |

During the period, the Bank recognized fees totaling $209,007 (2012: $225,952), for the administration of the Government Guaranteed Student Loans program.

## 27. Dividends and Earnings per Share

Dividends to the Bank's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors and approved by the Bank's Regulators. Dividends paid by the Bank to ordinary shareholders in 2013 totaled $Nil or $Nil per share (2012: $775,671 or $0.06 per share).

## 27. Dividends and Earnings per Share (Continued)

During the year the Bank paid dividends on its preference shares of $2,462,500 (2012:$2,462,498).

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Net (loss)/income attributable to equity shareholders | $ | (3,754,825) | $ | 3,677,062 |
| Preference share dividends | | (2,462,500) | | (2,462,498) |
| Net (loss)/income attributable to ordinary shareholders | $ | (6,217,325) | $ | 1,214,564 |
| Weighted average number of ordinary shares outstanding | | 15,975,692 | | 15,515,835 |
| Basic (loss)/earnings per ordinary share | $ | (0.39) | $ | 0.08 |

## 28. Fair Value of Financial Assets and Liabilities

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

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

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes 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, 2013 the Bank held equity securities classified as available-for-sale totaling $731,539 (2012: $489,584) which have been valued as a Level 1 investment. All other available-for-sale and held-to-maturity investments totaling $60,048,900 (2012: $58,685,000) 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 the estimated fair value of investments are deemed to reflect the cost or amortised cost.

**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 a valuation performed by an appointed independent registered valuer taking into account factors such as the property growth and market in the surrounding area. The fair value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

## 29. Regulatory Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank. During the past year, the Bank had complied in full with all its externally imposed capital 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 manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. Other than as noted in Note 15 (ordinary shares), 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 condition. 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, 2013 and 2012 the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares and retained earnings. 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 preferences shares, reserves, retained earnings and common share issuances.

**29. Regulatory Capital (Continued)**

| **(in $'000s)** | **Actual 2013** | **Actual 2012** |
|---|---|---|
| Tier 1 capital | $ 109,487 | $ 84,492 |
| Tier 2 capital | 34,924 | 34,682 |
| Total capital | $ 144,411 | $ 119,174 |
| | | |
| Risk weighted assets | $ 631,502 | $ 576,584 |
| | | |
| Tier 1 capital ratio | 11.88% | 9.51% |
| Total capital ratio | 15.68% | 13.41% |
| | | |
| CET1 Ratio | 17.51% | 14.84% |
| Tier 1 Capital to Total Risk Weighted Assets | 17.34% | 14.65% |
| Total Capital to Total Risk Weighted Assets | 22.89% | 20.67% |
| CET1 as a percentage of Total Tier 1 Capital | 100.98% | 101.27% |
| Tier 1 Capital as a percentage of Total Capital | 75.82% | 70.90% |

Regulatory capital consists of Tier 1 capital, which comprises share capital, reserves less goodwill and retained earnings including current year's financial results. The other component of regulatory capital is Tier 2 capital, which comprises long term debt and revaluation reserves on available-for-sale securities. Common Equity Tier 1 (CET1) comprises of common share capital, share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves.

The Central Bank's regulations requires, consistent with international best practice as defined by the Bank of International Settlements Basel 1 Capital Accord, that the Bank maintains a risk adjusted capital to asset ratio equal to or greater than 8.00%. The Bank's risk adjusted capital ratio at the end of the fiscal year was 22.89% (2012: 20.67%).

**30. Comparatives**

Certain corresponding figures within the Regulatory Capital (Note 29) from the prior year have been adjusted to conform with the current year's financial statement presentation.

**31. 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.

## 31. Risk Management (Continued)

### Credit risk (continued)

The credit worthiness of most borrowers is not constant over a period of time. For this reason changes in ratings must reflect changes in the relative strength of the borrowers and their obligations. Appropriate credit ratings must be assigned to every borrowing relationship. A rating must be assigned at the time of credit extension and reviewed and updated in each periodic review or if the situation warrants a change at any other time. A rating change highlights a change in the credit worthiness, or corrects a previous rating that did not fully reflect the quality of the credit. Because of their very nature, changes are to be expected more frequently among credits with lower ratings that among credits of higher ratings. Typically loans within a retail credit portfolio which are performing are not assessed for changes in ratings unless the customer approaches the Bank for additional credit.

The assigning of a risk rating calls for professional judgment and can involve subjective elements. When a credit rating is assigned, all relevant information concerning the risk profile of the borrower is considered including, but not limited to, industry trends, economic climate, business environment and earnings track record. Consideration is given to such less quantifiable items such as opinion of management, perception of trustworthiness and character, hidden reserves and other factors.

The Bank conducts an impairment assessment on each of its loans. The main considerations for the loan impairment assessment included whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment on an individual and portfolio basis. In managing credit risk the Bank takes a holistic approach in assessing its impact and implications from a regulatory standpoint and potential consequences for liquidity and its capital.

## 31. Risk Management (Continued)

### Credit risk (continued)

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

| In ($000s) | 2013 PRINCIPAL BALANCE | 2013 RESTRUCTURED | 2013 TOTAL | 2012 PRINCIPAL BALANCE | 2012 RESTRUCTURED | 2012 TOTAL |
|---|---|---|---|---|---|---|
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Neither past due or impaired | $ 73,336 | $ - | $ 73,336 | $ 92,584 | $ - | $ 92,584 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 73,336 | $ - | $ 73,336 | $ 92,584 | $ - | $ 92,584 |
| **INVESTMENT SECURITIES** | | | | | | |
| Neither past due or impaired | $ 60,780 | $ - | $ 60,780 | $ 59,175 | $ - | $ 59,175 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 60,780 | $ - | $ 60,780 | $ 59,175 | $ - | $ 59,175 |
| **LOANS AND ADVANCES TO CUSTOMERS** | | | | | | |
| Neither past due or impaired | $ 407,262 | $ 61,819 | $ 469,081 | $ 424,519 | $ 68,785 | $ 493,304 |
| Past due but not impaired | 106,471 | 58,569 | 165,040 | 107,775 | 16,674 | 124,449 |
| Impaired | 97,100 | 21,825 | 118,925 | 79,985 | 5,464 | 85,449 |
| | $ 610,833 | $ 142,213 | $ 753,046 | $ 612,279 | $ 90,923 | $ 703,202 |

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

### 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.

## 31. 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, 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

### Concentrations of currency risk

**June 30, 2013**
**(in $000s)**

| | B$ | US$ | CAD$ | GPB£ | Other | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and central bank balances | $ 45,537 | $ 27,012 | $ 107 | $ 577 | $ 103 | $ 73,336 |
| Financial assets - held to maturity | 16,965 | - | - | - | - | 16,965 |
| Financial assets - available for sale | 39,084 | 4,731 | - | - | - | 43,815 |
| Loans and advances, net | 711,071 | 24,015 | 2 | 1 | | 735,089 |
| **Total financial assets** | $ 812,657 | $ 55,758 | $ 109 | $ 578 | $ 103 | $ 869,205 |
| **Liabilities** | | | | | | |
| Deposits from customers and banks | $ 696,046 | $ 26,686 | $ 23 | $ 450 | $ 36 | $ 723,241 |
| Other borrowed funds | 5,000 | - | - | - | - | 5,000 |
| Cheques and other items in transit | 1,955 | 1,375 | 140 | 100 | 2 | 3,572 |
| **Total financial liabilities** | $ 703,001 | $ 28,061 | $ 163 | $ 550 | $ 38 | $ 731,813 |
| **Net financial position** | **$ 109,656** | **$ 27,697** | **$ (54)** | **$ 28** | **$ 65** | **$ 137,392** |

**June 30, 2012**

| **(in $000s)** | B$ | US$ | CAD$ | GPB£ | Other | Total |
|---|---|---|---|---|---|---|
| Total financial assets | $ 773,744 | $ 58,331 | $ 6,630 | $ 523 | $ 155 | $ 839,383 |
| Total financial liabilities | 687,864 | 32,512 | 6,584 | 563 | 19 | 727,542 |
| **Net financial position** | **$ 85,880** | **$ 25,819** | **$ 46** | **$ (40)** | **$ 136** | **$ 111,841** |

## 31. Risk Management (Continued)

### 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 pricing, renewal of existing positions, and capital funding. Based on these scenarios, the bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders' equity of a 100 basis point shift would be a maximum increase or decrease of $1.4 million (2012: $1.3 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.

## 31. Risk Management (Continued)

### Liquidity risk (continued)

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

| June 30, 2013<br>(in $000s) | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 73,336 | $ - | $ - | $ - | $ 73,336 |
| Investment Securities | 731 | - | 7,539 | 52,510 | 60,780 |
| Loans and advances to customers, net | 225,167 | 42,999 | 51,251 | 415,672 | 735,089 |
| **Total financial assets** | $ 299,234 | $ 42,999 | $ 58,790 | $ 468,182 | $ 869,205 |

| June 30, 2013<br>(in $000s) | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Deposits from customers and banks | $ 421,615 | $ 255,211 | $ 29,748 | $ 16,667 | $ 723,241 |
| Other borrowed funds | - | - | - | 5,000 | 5,000 |
| Cheques and other items in transit | 3,572 | - | - | - | 3,572 |
| **Total financial liabilities** | $ 425,187 | $ 255,211 | $ 29,748 | $ 21,667 | $ 731,813 |
| | | | | | |
| **Net position** | $ (125,953) | $ (212,212) | $ 29,042 | $ 446,515 | $ 137,392 |

| June 30, 2012<br>(in $000s) | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Total financial assets | $ 268,684 | $ 75,742 | $ 68,178 | $ 426,778 | $ 839,382 |
| Total financial liabilities | 413,951 | 232,039 | 47,117 | 34,435 | 727,542 |
| **Net position** | **$ (145,267)** | **$ (156,297)** | **$ 21,061** | **$ 392,343** | **$ 111,840** |

## 32. Liquidation of subsidiary

During the period, 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, 2013 is as follows:

| | | **2013** |
|---|---|---|
| Assets | | |
| Cash and current accounts with bank | $ | 243,445 |
| Other assets | | 37,698 |
| | | 281,143 |
| Liabilities | | |
| Other liabilities | | 280,460 |
| Due to BOB | | 36,868 |
| | | 317,328 |
| **Net assets disposed of** | **$** | **(36,185)** |

## 33. Subsidiaries

Subsidiaries of the Bank as at June 30, 2013 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 Management |

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