



# BOB

## STRENGTHENING THE FOUNDATION

ANNUAL REPORT 2019





CON





# TENTS

## STRENGTHENING THE FOUNDATION

ANNUAL REPORT 2019

<b>INTRODUCTION</b>	<b>3</b>
<b>HISTORY</b>	<b>4</b>
<b>MESSAGE FROM THE CHAIRMAN</b>	<b>5</b>
<b>MESSAGE FROM THE MANAGING DIRECTOR</b>	<b>6</b>
<b>BOARD OF DIRECTORS</b>	<b>7</b>
<b>MANAGEMENT</b>	<b>8</b>
<b>ORGANIZATION CHART</b>	<b>9</b>
<b>GOVERNANCE ACTIVITIES</b>	<b>11</b>
<b>CELEBRATING 30 YEARS!</b>	<b>16</b>
<b>KEY MILESTONES</b>	<b>18</b>
<b>MANAGEMENT DISCUSSION &amp; ANALYSIS</b>	<b>21</b>
<b>CONSOLIDATED STATEMENTS</b>	<b>25</b>

# FOUN

**...the best companies know that  
a concrete foundation of great  
strategy, people and products  
must be reinforced with the steel  
of rigorous policies...**



# DATION

## FOUNDATION NOUN

FOUN·DA·TION | \ FAUN-'DĀ-SHƏN

: AN UNDERLYING BASE OR SUPPORT

MERRIAM-WEBSTER DICTIONARY

The foundation is the most important part of any structure. It supports the load of a building and resists movement during severe weather thus protecting a building's occupants and contents. It also prevents moisture from weakening the structure to cause cracks, or in a worst case scenario, a potential collapse.

The greater a building will be, whether a magnificent cathedral, soaring skyscraper or sturdy clinic, the greater the need for a strong foundation; one that will enable the structure to weather the elements and withstand the inevitable storms and vicissitudes of time.

The same principles apply to building a great organization. If the foundation is weak problems are more likely to occur, especially in economic downturns, making lasting success much less likely. But the best companies know that the materials for a strong foundation must include clear vision, the right strategy and the best people and products.

They also know that a concrete foundation must be reinforced by the steel of rigorous policies and procedures that mitigate risk; sound systems that allow for a smooth flow of operations and exceptional service, all of which help to provide the best underpinning for long-term success and sustainable growth.

In fiscal 2019 Bank of The Bahamas focused on strengthening its foundation, the first phase of a three year strategic plan to restore profitability and set the Bank on a path to achieving accelerated growth and eventual market leadership.

In this phase we focused on curing deficiencies, correcting faulty procedures and instituting a strong risk culture to insulate the Bank against future shocks. This included reconfiguring our corporate structure to align with our strategy and updating or creating policies and procedures for each department.

We are stronger.

We are investing in an ultramodern new core banking system that will simplify and significantly speed up our daily processes when installation is completed in 2020. We are also developing our people through consistent and continuous training via in-house and external programmes to make them better and stronger.

Recently we introduced a brand new Customer Experience Department that will focus on enhancing every aspect of the customer journey to ensure exceptional experiences for each customer. Meanwhile our ATM Expansion Programme is making great progress and expected to gain momentum in the coming months.

*With each passing day we are stronger.*

We remain committed to creating the best BOB for you and we truly believe the best is yet to come!



# HISTORY

## BANK OF THE BAHAMAS LIMITED

Bank of The Bahamas Limited was incorporated in The Commonwealth of The Bahamas on April 17, 1970 as Bank of Montreal (Bahamas & Caribbean) Limited. In 1983, its name was changed to Bank of Montreal Bahamas Limited. Five years later in September 1988, the Government of The Bahamas created a joint venture with Euro Canadian Bank Limited and purchased 100% of the shares of Bank of Montreal Bahamas Limited, and renamed it Bank of The Bahamas Limited with a 51% controlling interest. During the second half of 1990, the Government purchased all of the Shares held by Euro Canadian Bank Limited and issued an additional 7,000,000 Shares, bringing the total number of shares issued to 10,000,000.

During September 1994 the Government sold 20% of its Shareholding or 2,000,000 Shares to the Bahamian public. In October 1995 the Government offered a further 3,000,000 Shares of the Bank to the Bahamian public. Both offerings were substantially oversubscribed. In 2005 the Bank had an oversubscribed rights offering of \$25 million and a subsequent \$15 million private placement preference share offering in 2006.

Later branded as BOB, the Bank of Solutions, Bank of The Bahamas became synonymous with creating firsts in local retail banking: the first to introduce VISA gift and pre-paid cards, the first local bank with comprehensive online banking and the first to offer e-mail and text alerts to notify customers of deposits, withdrawals, loan payment or other activity on their accounts. Its ATMS remain the only 24/7 banking facilities in The Bahamas to offer a number of features including instructions in Braille and non-envelope deposit capability with immediate value for cash deposits. Though relatively young, Bank of The Bahamas grew through acquisitions including the assets of Workers Bank Limited (2001) and the mortgage portfolio of Citibank (2007).

In September 2016 the Bank's \$40,000,000 Rights Offering was fully subscribed and in December of the same year the Bank offered a private placement of \$30,000,000 at 3.125% Fixed Rate Perpetual Contingent Convertible Bonds ("CoCo") to accredited investors only. This private placement was offered in three tranches of \$10,000,000 each. The first tranche was subscribed by and issued to the Government as at December 31, 2016. The offering closed on February 28, 2017 and effective June 30, 2017, the bond was converted to 6,756,756 voting common shares.



# MESSAGE FROM THE CHAIRMAN



## DEAR SHAREHOLDERS,

I am pleased to report to you that the team at Bank of The Bahamas, building on the footing formed in the previous year, produced net income of \$2.9 million (2018: \$1.6 million). We did this by concentrating on strengthening the foundation of the Bank, the first phase of the strategic plans set for fiscal years 2019 - 2021.

The net income increased by \$1.3 million, fueled by an increase of revenues of \$1.9 million and a reduction of credit loss expense of \$5.8 million, and offset by higher non-interest expenses of \$6.4 million. The Bank's expenses have been carefully managed and, excluding a provision for certain litigation, remained near flat compared to the previous year. Excluding the litigation provision, our efficiency ratio improved to 72% at the end of the current fiscal year from 76% at the end of the prior year. Whilst the Bank did not achieve its objective to further reduce the efficiency ratio, our long-term strategy includes a plan to improve this measure through increased revenue and operational efficiency.

The focus of the team, inter alia, was on identifying the key risks faced by the Bank and framing and implementing processes, policies and procedures to manage those risks. My Board colleagues and I continue to focus on our responsibility to oversee the Bank's execution of the Board-approved strategic plans that were agreed with management. The Board, along with management, reviews and measures achievements throughout the year at the Board and committee meetings. This year-round review and assessment include discussions with management about the current operating environment, human resource issues, trends and developments in the financial sector and regulatory changes that affect the Bank's operations.

I have stated in the past and reiterate that our overriding objective is for the Bank to make profits – sustainable profits at a rate that is consistent with the risks assumed by its shareholders. The Bank – its directors, executives and all of its employees – realise that this goal would not be achievable unless we fix some of the issues that resulted in past losses. We have made significant progress in improving credit activity – sound lending practices have been adopted; more aggressive steps have been taken to collect on delinquent debts; and regulatory issues that resulted in restrictions on lending have been addressed in earnest. Whilst a reduction of loan losses has contributed to the current year's performance, it is not the recipe for achieving long-term profitability.

We must grow our balance sheet through accelerated growth – the second phase of our plans – in order for the Bank to realise the goal of achieving sustainable profits. Healthy growth can only come from attracting more customers,

depositors and borrowers. We have selected a leadership team and are developing a work force that is motivated and well-equipped to achieve the necessary growth through improving the sales and service culture, remaining customer-centric and managing risks. Our systems presently are being upgraded and, before the end of fiscal 2020, we shall have re-engineered key processes, increased the use of automated tools, replaced existing - and installed additional - ATMs, and improved our systems environment. These enhancements are essential elements to improving the quality and delivery of services to our customers and will ensure that we retain them.

As we were preparing to launch Phase II of our ATM expansion in Grand Bahama and selected Family Islands, Hurricane Dorian struck on 1st September with unprecedented force, devastating Abaco and Grand Bahama in a way that we have never before experienced. Like many buildings in Grand Bahama, our Freeport Branch sustained moderate damage but fortunately, despite some losses of personal possessions, all of our Freeport staff survived the storm. With the immediate implementation of our Hurricane Relief Plan in September, we are demonstrating our commitment to assist our staff and customers in their recovery while playing a key role in the rebuilding.

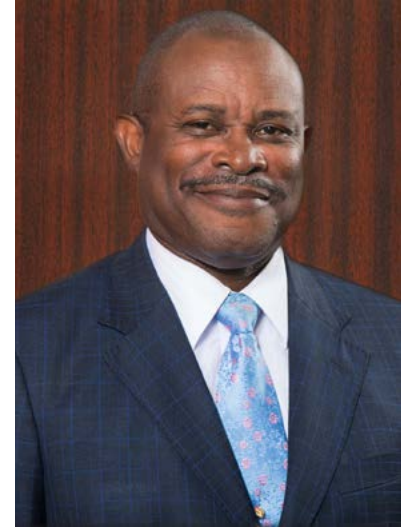
During the year, Mrs. Ruth Bowe-Darville, who chaired the Human Resource Board Committee, resigned from the Board to take up an appointment as a Justice of the Supreme Court. Mrs. Phaedra Mackey-Knowles, who chaired the Credit Risk Management Board Committee, will not seek reappointment to the Board. Mrs. Bowe-Darville and Mrs. Mackey-Knowles, both of whom served on other Board committees, were valuable members of the Board, and their wise counsel will be missed.

My colleagues on the Board and I are thankful to you, our shareholders, for your support and investment in BOB, and we especially thank you for having endured another year of not realizing a dividend. I would like to thank the employees and management of the Bank and my Board colleagues for the effective teamwork that is being employed in our efforts to achieve our goals.

WAYNE J ARANHA

21st October 2019





# MESSAGE FROM THE MANAGING DIRECTOR

Fiscal 2019 has been a year of continued transition for our Bank as we embark on this journey to ensure that Bank of the Bahamas becomes the most efficient customer centric bank in The Bahamas. Our quest to achieve this, which is my vision as your Managing Director, has not been an easy one, however with the full and unwavering support of a dedicated and qualified team, we are well on our way.

We have continued on our journey under the theme: **Building a Better BOB...Building a Better Bahamas**, with an expanded Strategic Plan which encompasses the strengthening of our systems, products and overall customer service while ensuring that all staff are given the opportunity for growth and development through their involvement in internal and external training programs.

Returning your Bank to a level of profitability was our first step to achieving long term sustainable growth and effective overall management. During the year, we have made considerable strides to achieving all of our strategic goals, however there is much more that is required to ensure that this trend of increasing profitability will be maintained for many years to come. We have made strategic decisions regarding strengthening our policies and procedures, restructuring the organization and filling key management positions while ensuring that we maintain our focus on the initiatives as outlined in our Strategic Plan. During fiscal 2019, we continued with the initial phase of the Strategic Plan of strengthening our foundation, inclusive of our systems, policies and personnel, some of which will continue throughout

fiscal 2020. As indicated previously, our key objectives are to create a strong risk management culture, sustained shareholder value through sustained profitability, an improved sales and service culture, a more efficient operation and disciplined, motivated, knowledgeable and well-equipped staff.

I am personally thankful for the support provided by our knowledgeable and dedicated staff as we continue to progress towards the goals that have been set. We are steadily advancing to the second strategic phase of *accelerated growth and eventually, market leadership* as we become the first choice of all persons requiring banking services. Our Bank is stronger and will become a successful institution thereby providing increased value to all stakeholders.

As always I, along with our committed staff, remain committed to making our Bank your ultimate partner in banking solutions and take this opportunity to thank our loyal customers for their continued trust. We will remain steadfast and will ultimately achieve the goals as set out in our Strategic Plan.

KENRICK BRATHWAITE



# BOARD OF DIRECTORS

BOB's Board of Directors is responsible for providing guidance to executive management and oversight of the Bank's operations. The Board monitors the Bank's policies and processes to ensure that risk is managed and the Bank is in compliance with applicable laws and regulations which are consistent with sound banking practices. The current Board is led by Chairman Wayne Aranha.

Pictured from left to right (Seated): Phaedra Mackey-Knowles, *Director*; Wayne Aranha, *Chairman* and Kirk Antoni, *Director*; (Standing) Kenrick Brathwaite, *Managing Director* and Timothy Brown, *Director*.



## EXECUTIVE MANAGEMENT TEAM

Neil Strachan, *Chief Risk Officer*; Jihanne Hosmillo-Williams, *Chief Financial Officer*; Charlene Paul, *Chief Internal Auditor*; Vanessa Taylor, *Chief Operations Officer*; and Kenrick Brathwaite, *Managing Director*.

## CORPORATE MANAGERS

FRONT ROW: Ian Thompson, *Corporate Manager, Credit and Adjudications*; Maureen Woodside-Turnquest, *Corporate Manager, Finance*; Robert Cox, *Corporate Manager, Business Development*; Indira Deal, *Corporate Officer, General Legal Counsel*;

BACK ROW: Earl Beneby, *Corporate Manager, Corporate and Commercial Services*; Milton Smith, *Corporate Manager IT and Chief Information Officer*; Bacchus Rolle, *Corporate Manager, Delinquency Management*; and Wendell Gardiner, *Corporate Manager, Compliance*.



## SENIOR MANAGERS

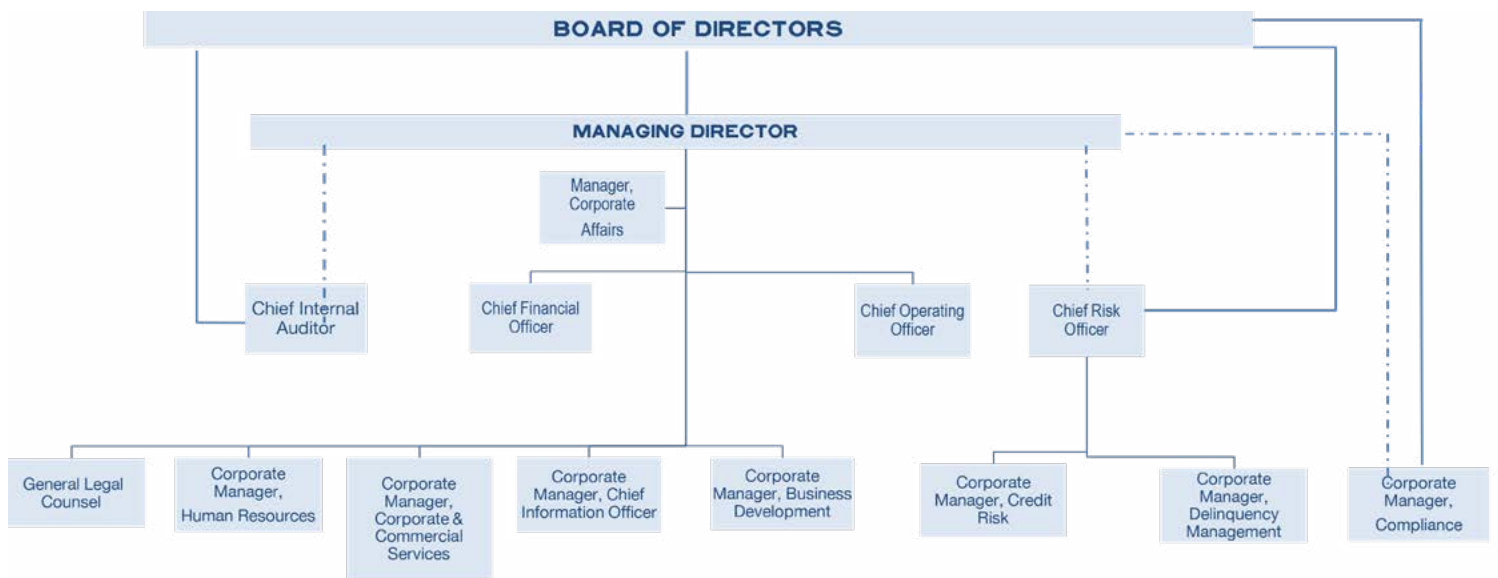
FRONT ROW: Syche McDonald, *Senior Manager, Customer Experience*; Kelvin Briggs, *Senior Manager, Credit and Adjudications*; Pedro Burrows, *Senior Manager, Business Development*;

BACK ROW: Jillian Ferreira, *Senior Manager, Business Services*; Renay Miller, *Senior Manager, Risk*; Clarice Varence, *Senior Manager, Operations Administration*; Brea Braynen; *Senior Manager, Collections and Recoveries*.

NOT PICTURED: Elnora Major, *Senior Manager, Back Office Support*; Shantell Bain, *Senior Manager Business Development - Operations*.



# ORGANIZATION CHART





**The following principles were adopted by the Board of Directors (“the Board”) of Bank of The Bahamas Limited (“the Bank”) and provide the framework for corporate governance of the Bank.**

# GOVERNANCE ACTIVITIES

## ROLE OF BOARD OF DIRECTORS

The Bank's corporate governance structure seeks to protect the stakeholders of the Bank to ensure a lasting legacy for its shareholders, staff and the Bahamian community. The Board is ultimately responsible for the conduct of the Bank's affairs and operations. In light of this mandate, the Board provides oversight of the risks identified and ensures that they are adequately monitored and managed. Whilst the management of the day-to-day operations are delegated to the Bank's executives, the Board reviews policies and procedures and monitors the Bank's activities to ensure that its operations are carried out in compliance with applicable laws and regulations and are consistent with sound banking practices.

The Bank's *"Directors & Officers Corporate Governance Handbook"* addresses the powers, duties, responsibilities and roles of Directors such as:- the appointment of the Managing Director, approvals of the Budget, Strategic Plan, Remuneration Policies, and assessing management's performance against approved objectives and strategies.

## BOARD COMMITTEES

### *Board Committees*

The Board has implemented and maintains an effective corporate governance framework, which is facilitated by Board Committees, to ensure transparency and accountability to its stakeholders. These Committees assist the Board in carrying out its responsibilities and provide oversight to major functional areas. Each Committee is governed by a Mandate setting out matters relevant to the composition, responsibilities and administration of the Committee, and other matters

that the Board may consider appropriate.

The Bank has six Board Committees, namely:-

Corporate Governance Committee

Enterprise Risk Committee

Operations Board Committee

HR & Compensation Board Committee

Audit & Finance Board Committee

Credit Risk Management Board Committee

### *Director Attestations*

There are various policies that directors are required to adhere to as members of the Board of a bank. Therefore, on an annual basis, the Directors complete attestations which determine their independence, whether any possible conflicts of interest may have arisen during the course of their term and attestations which seek to confirm their fiduciary responsibility to provide the necessary corporate governance oversight required.

### *Compensation of Directors*

The total remuneration of the Board is approved by the shareholders at the Bank's Annual General Meeting ("AGM") and may be divided among members as they see fit.

### *Director Education*

Each Director is expected to be knowledgeable about concepts discussed and to ensure that decisions made



by the Board are reasonable. Toward this end, the Bank provides ongoing educational opportunities for its Directors through seminars, trade publications and regulatory updates.

#### *Independence of Directors*

As part of its evaluation process, each candidate nominated to serve on the Board completes a document to determine their independence in accordance with best practices and within the Central Bank of The Bahamas' "Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business within and from within The Bahamas". We note that whilst a majority of the Board would not be considered independent according to the aforementioned Guidelines each member of the Board seeks to conduct themselves in accordance with the prevailing laws of The Bahamas and evolving best practice standards. It is incumbent upon the Directors and Officers of the Bank to view their own actions and intentions objectively in that they are accountable not only to the Bank's shareholders and depositors, but also to the Bank's regulatory supervisors. The Bank's Directors are required to exercise reasonable care in governing the Bank's affairs and must consider the Bank's interest before their own.

## **BOARD MEETINGS**

Board Committee meetings held during fiscal 2019 are as follows:-

#### *Summary of Board Committee Meetings Held for the Year Ended June 30, 2019*

Corporate Governance Board Committee	1
Audit & Finance Board Committee	6
Operations Board Committee	4
Human Resources & Compensation Board Committee	4
Enterprise Risk Board Committee	4
Credit Risk Management Board Committee	8

#### *Attendance at Meetings*

Regular attendance at all Board meetings, together with Board Committee meetings and the Annual General Meeting, is expected of all Directors. Following is a record of attendance of Directors at the quarterly Board Meetings during the 2019 fiscal year:

#### **For the period July 1, 2018 to June 30, 2019**

Director	BOD Meeting Sept. 4, 2018	BOD Meeting Nov. 20, 2018	BOD Meeting Nov. 30, 2018	BOD Meeting January 25, 2019
Wayne J. Aranha	✓	✓	✓	✓
Ruth Bowe-Darville	✓	✓	✓	✓
Kirk Antoni	✓	✓	✓	✓
Timothy Brown	✓	✓	✓	✓
Phaedra Mackey-Knowles	✓	✓	✓	✓
Kenrick L. Brathwaite, Sr.	✓	✓	✓	✓

Director	BOD Meeting March 12, 2019	BOD Meeting April 16, 2019	BOD Meeting April 30, 2019	BOD Meeting May 21, 2019	BOD Meeting June 26, 2019
Wayne J. Aranha	✓	✓	✓	✓	✓
Ruth Bowe-Darville	✓	✓	✓	X	*
Kirk Antoni	✓	✓	✓	✓	✓
Timothy Brown	✓	✓	✓	✓	✓
Phaedra Mackey-Knowles	X	✓	✓	✓	✓
Kenrick L. Brathwaite, Sr	✓	✓	✓	✓	✓

✓	=	Present
X	=	Apologies
*	=	Resigned

#### *Preparation for, and Business of, Meetings*

The Chairman and the Managing Director prepare the agenda for each meeting. In addition, the Management team provides reports on key issues to their respective Board Committees relative to the various units of the Bank. Directors may also request that certain items be added to the Agenda for discussion at the Board level.

While a dominant and necessary interest of the Bank is to realise profits – sustainable profits – the Board is fully mindful that sustainable profits are only attainable if the Directors have regard to the communities and environment in which the Bank operates, the needs of its customers and the welfare of the people that are employed. Meetings of the Board ultimately are concerned with the Bank achieving excellence in its operations and in the service that is provided to its customers. Only then will the Bank have the capacity to adequately fund the investment in plant and equipment, systems and automation, human capital, and dividends to shareholders.

## BOARD CERTIFICATION

Each year the Board is required to issue a Corporate Governance Statement to The Central Bank of The Bahamas (“CBOB”) in accordance with the *Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and from Within The Bahamas* (“Corporate Governance Guidelines”). As part of this exercise, the Internal Audit Department conducts a Controls Assurance Audit which tests the control environment of the Bank. The purpose of this audit is to validate the Bank’s compliance with the criteria as set out in the Corporate Governance Guidelines.

Over the past two years, the Board has been particularly concerned with the remediation and implementation of supervisory directives. Currently, the Bank is generally in compliance with the laws, regulations, and guidelines to which it is subject. An action plan to implement the requirements or remedy the deficiencies stated in the most recent Central Bank reports was prepared and submitted to the Inspector, and the agreed remedial actions have been taken with the one remaining issue. In addition, the Bank is addressing certain issues relating to its credit risks that continue to cause it to be subject to restriction on the extension of commercial credits.

## CORPORATE GOVERNANCE BOARD COMMITTEE

The mandate of the Corporate Governance Board Committee is to ensure that Directors and Officers of the Bank conduct themselves in accordance with the Bank’s Articles of Association, Guidelines as set out in the Bank’s Corporate Governance Handbook and recommendations made by the regulatory and supervisory bodies. During the year, a number of this committee’s primary objectives were dealt with by the Board, including:

- The review and amendment to Board Committee mandates;
- Review and amendment of the Bank’s Directors & Officers Corporate Governance Handbook;
- Identifying Directors to serve on Board Committees taking into consideration skill sets, knowledge and experience of members; and
- Oversight of the remuneration and benefits of the Senior Executives.

## OPERATIONS BOARD COMMITTEE

The Operations Board Committee is chaired by Mr. Kirk

Antoni. This Committee is primarily responsible for ensuring that the operations of the Bank are consistent with its business objectives and strategies.

Over the past year, the Committee’s focus has been on ensuring the necessary plans, resources and attention were given to align with the Bank’s strategy of “*Strengthening its Foundation*”. Therefore, the following initiatives were undertaken:

- Upgrade of critical banking systems, infrastructure and equipment;
- Update of policies and procedures; and
- Strengthening the operating environment.

As the Bank now moves to refortify itself within the market over the next fiscal cycle, the Committee looks forward to completion of the core banking system upgrade, replacement and expansion of the Bank’s ATM network, improved profitability as a result of new sales strategies, digitization and improved customer service, physical improvements to some of our facilities, and a well-trained, professional and courteous workforce.

## AUDIT & FINANCE BOARD COMMITTEE

The Audit and Finance Board Committee’s primary purpose is to assist the Board in fulfilling its oversight responsibilities relating to financial reporting, external and internal audit functions, finance and compliance with legal and regulatory requirements. This Committee is chaired by Mr. Timothy Brown. During the course of the year the Audit & Finance Committee reviewed and addressed the following matters:

- Considered the issues and findings presented by the internal audit team and satisfied itself that management has resolved, or is in the process of effectively resolving, any outstanding issues or concerns. In this regard, the Committee was able to approve the closure of 66% of outstanding internal and external audit issues;
- Reviewed the Bank’s responses to changes in International Financial Reporting Standards (IFRS) in particular IFRS 9 Financial Instruments, IFRS 15 Revenue From Contracts With Customers;
- Reviewed the regulatory reporting requirements and ensured that all matters were effectively addressed or action plans in place to effectively facilitate remediation, achieving a completion rate of 100% on brought forward issues;
- Reviewed the proposed audit strategy for the 2018/2019 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the



areas of particular focus for the 2018/2019 audit and tasking management to resolve any issues relating to internal controls and risk management systems;

- Reviewed the effectiveness of the risk management and internal control systems, following the updated Enterprise-wide risk management assessment that was completed with the external assistance of PricewaterhouseCoopers;
- Approved the strategic internal audit planning approach, ensuring that it was risk based and appropriately addressed the Board approved Strategic Plan; and quarterly reviewed the work of the internal audit function in executing the audit plan.
- Oversaw the engagement of a public accounting firm to conduct an external quality assurance review of the internal audit function.

## **HUMAN RESOURCE AND COMPENSATION BOARD COMMITTEE**

The mission of the Human Resource and Compensation Board Committee (“HR Committee”) that was chaired by Mrs. Ruth Bowe-Darville is to review, assess and make recommendations as it relates to the remuneration of all staff, except for certain senior executives. The HR Committee is responsible for, and during the year has been engaged in, the following activities:

- Oversight of the recruitment of key personnel;
- Oversight of the Bank’s Human Resources Policies, including the issuance of a revised Employee Handbook;
- Oversight of training and development inclusive of the Board and staff; and
- Oversight of strategies to enhance the development and retention of the Bank’s workforce

## **CREDIT RISK MANAGEMENT BOARD COMMITTEE**

The Credit Risk Management Board Committee is chaired by Ms. Phaedra Mackey-Knowles. This Committee provides guidance to the Board as to the credit risk appetite for the Bank and oversees the identification, assessment, monitoring and managing of credit risk impacting the Bank.

The Committee is primarily responsible to assist the Board in fulfilling its oversight with respect to:

- Adequacy of credit policies;
- Establishing and approving lending limits for the Bank;
- Ensuring that credit is extended in accordance with established policies and relevant laws, regulations, guidelines, and accepted business practices and ethical standards;
- Ensuring that the credit process is managed appropriately and effectively;
- Authorizing and approving loans of credit applications in excess of the Board approved risk appetite delegated to the Adjudication Function but within the Credit Committee’s lending limit upon recommendation by Credit Risk Management; and
- Oversight of Management’s administration of the Bank’s credit portfolio and compliance with applicable credit risk related policies, procedures and tolerances.

During the past year the Committee focused on the following initiatives:

- Amendment of the Bank’s Credit Risk Policy Guidelines;
- Credit Governance Structure of the Bank;
- Updated credit oversight processes, procedures and practices; and
- Implementation of corrective actions to address Directives issued by the Central Bank of The Bahamas.

The Committee is focused on restoring the Bank’s capacity to lend commercially as it seeks to regain market share.

## **ENTERPRISE RISK BOARD COMMITTEE**

All Directors are members of this Committee, which is chaired by Mr. Aranha; its mandate is to provide guidance to the Board in defining the risk appetite for the Bank and overseeing the identification, assessment, monitoring and managing of all major areas of risks that may impact the Bank. The responsibilities include:

- Review and recommendation for approval by the Board, after consultation with management, the risk appetite of the Bank, the risks inherent in the Bank’s businesses and strategic direction and the overall risk management strategy;
- Review key policies and procedures for the

effective identification, assessment, monitoring and management of Strategic, Credit, Market, liquidity and Funding, Operational, Compliance, Legal and reputational risks;

- Oversee management's establishment of policies and guidelines (for the Board's adoption);
- Oversight of management's administration of, and compliance with, the Bank's policies and guidelines respecting risks.

The Bank has completed the enterprise wide assessments of its risks, including Anti-Money Laundering, Countering the Financing of Terrorism and Proliferation Financing (AML/CFT/PF) risks. The comprehensive analysis and documentation of the Bank's AML/CFT/PF risk management framework embeds into the Bank's new policies the following new and amended AML legislation, regulations and guidelines:

- I. Financial Transactions Reporting Act, 2018
- II. Proceeds of Crime Act, 2018
- III. Financial Transactions Reporting (wire transfer) Regulations, 2018
- IV. Streamline Requirements for Account Opening, Provisions of Financial Services and Customer Identification.

During the year, the Committee also reviewed and approved the implementation of the Bank's Enterprise Risk Management Framework, including but not limited to the Risk Appetite Framework as developed by management; the Charter of Expectations relative to the Operational Risk Department, encompassing Credit Risk Monitoring, Information Security Risk Monitoring and Operational Risk Monitoring; and significant policies and procedures relating to Enterprise Risk Management and Compliance Risk.

This Committee ensured that adequate attention was paid to the management of Compliance Risk, which represents the risk of negative impact to the business activities or capital regulatory relationships as a result of failure to comply with or failure to adapt to current and changing regulations, law, industry codes or rules, regulatory expectations, ethical standards or internal policies and procedures. The Board, on the recommendation of this committee, approved the on-boarding of competent and adequate Compliance resources and tools. The committee, among others, reviewed and approved:

- Policies and procedures incorporating controls which were appropriately enhanced to identify and mitigate ML/TF risks associated with Gaming House Operators (GHOs); and

- Reviewed and approved a revamped policy and procedures relating to Political Exposed Persons (PEPs).

# CELEBRATING 30 YEARS

## STAFF DAY



## ANNIVERSARY EVENT



This year we celebrated 30 years of providing commercial banking services to the public. We celebrated our record of innovation, our successes and overcoming challenges. We celebrated with ourselves, with our customers and in giving to the community. We also celebrate in anticipation of the next 30 years!

## CUSTOMER APPRECIATION DAY





**SPONSORSHIP AND CHARITABLE DONATIONS**



BOB Sponsors  
Z-Bandits  
Summer Camp

BOB supports The  
Bahamas Special  
Olympics Team



BOB gives  
to Bahamas  
Feeding Network

BOB Sponsors  
Love That Child  
Dance Benefit



Love That  
Child Cheque  
Presentation to  
Ranfurly Home  
For Children

**JUNIOR ACHIEVEMENT**

BOB's JA Company B-S.U.P.R.E.M.E. displays products at the JA Fair. Products include: The Spice is Right Organic Bahamian Sea Salt, Perfect Pepper Flakes and Fish Seasoning and Wholesome and Healthy Power Snack Pak



BOB Paints Da Streets  
Pink to Fight Breast  
Cancer with Rotaract

BOB wins  
2019 Bowling  
Championship



# KEYMILE

**In 2018 the Bank developed a new three year Strategic Plan comprising three phases:**

- 1. Strengthening the Foundation;**
- 2. Accelerated Growth and**
- 3. Market Leadership**

- 1970** The Bank was incorporated in The Commonwealth of The Bahamas on April 17 as Bank of Montreal (Bahamas & Caribbean) Limited.
- 1983** Its name was changed to Bank of Montreal Bahamas Limited.
- 1988** The Government of The Bahamas created a joint venture with Euro Canadian Bank Limited, purchasing 51% of the shares and on October 3rd changed the Bank's name to Bank of The Bahamas Limited
- 1990** The Government purchased all of the shares held by Euro Canadian Bank Limited and issued an additional 7,000,000 shares, bringing the total number of shares issued to 10,000,000.
- 1994** The Government sold 20% of its shareholding or 2,000,000 shares to the Bahamian public.
- 1995** The Government offered a further 3,000,000 shares of the Bank to the Bahamian public. Both offerings were substantially oversubscribed.
- 2003** The Bank acquired the assets of Workers Bank Limited, increasing its branches in New Providence to four. The Bank also acquired Citibank N.A. Bahamas' mortgage portfolio of \$22,459,682 at a cost of \$20,995,859. The closing of the contract, which included full payment to the seller, occurred on July 1, 2003.

# STONES

**2005** The Bank continued to experience extraordinary success as it was able to announce an oversubscribed rights offering of \$25 million. The Bank also hosted an Incredible Dream Mortgage Fair, the first of its kind in the nation. The fair was a success, resulting in a doubling of the Bank's loan portfolio.

**2006** A subsequent \$15 million private placement preference share offering was held. Authorized Capital of the Bank was at 150,000,000 Shares of B\$1 par value. The Bank embarked on a multimillion technology investment to overhaul the back end of data entry and storage and enable Bank of The Bahamas to provide the best possible business solutions with ongoing analysis.

**2007** BOB acquired the mortgage portfolio of Citibank as it shed its domestic book of business.

**2009** A \$20 million preference share offering further increased capital to support expansion.

**2012** Work was completed on the new Carmichael Road branch which was opened in December.

**2013** The Bank was able to bolster to its capital to 22.89% in compliance with Central Bank and Basel III requirements. BOB also became the first bank in the country to offer non-envelope ATM cash deposits with immediate cash value. The Bank's Merchant Services unit also introduced wireless card processing Terminals.

**2014** BOB launched its eNotifier electronic application becoming the first local bank to provide text and email alerts for customer generated account transactions

**2014** The Bank collaborated with The Ministry of Social Services to design a Prepaid card for 5000 beneficiaries of its Prepaid Social Services Programme.

**2015** The Bank continued its focus on innovation and launched BOB Mobile Express, a cutting edge Merchant Services Application that allowed customers to use their smartphones to accept and process credit card transactions

**2016** In September 2016 the Bank's \$40,000,000 Rights Offering was fully subscribed and in December of the same year the Bank offered a private placement of \$30,000,000 at 3.125% Fixed Rate Perpetual Contingent Convertible Bonds ("CoCo") to accredited investors only.

**2016** BOB introduced the Restricted Registry Prepaid Card for use on The Registrar General Department's e-portal

**2017** The Fixed Rate Perpetual Contingent Bonds were converted to 6,756,756 voting common shares.

**2018** The Bank Developed a new three-year Strategic Plan comprising three phases with the following objectives: 1. Strengthening the Foundation, 2. Accelerated Growth; and 3. Achieve. Market Leadership

**2019** The Bank invested in a new core banking system and commenced an ATM Expansion Programme to replace old machines with new BOB Express models and increase the number of ATM locations in Nassau, Grand Bahama and selected Family Islands.



**In the past several years,  
we continued the journey  
to create a better Bank of  
The Bahamas working  
towards sustainable  
profitability**

# MANAGEMENT DISCUSSION & ANALYSIS

## (MD&A) OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR FINANCIAL YEAR END JUNE 30, 2019

*This MD&A should be read in conjunction with the audited consolidated financial statements of the Bank included in this Annual Report.*

FINANCIAL HIGHLIGHTS					
	2019	2018	2017	2016	2015
Interest and Similar Income	\$ 36.32	\$ 37.13	\$ 38.83	\$ 40.01	\$ 42.74
Net Interest Income	\$ 28.20	\$ 27.92	\$ 26.54	\$ 24.34	\$ 26.21
Net Non-Interest Income	\$ 12.55	\$ 10.93	\$ 10.05	\$ 9.29	\$ 6.79
Operating Expenses	\$ 36.11	\$ 29.69	\$ 31.24	\$ 32.53	\$ 37.27
Net Credit Loss Expense	\$ 1.72	\$ 7.57	\$ 51.96	\$ 24.50	\$ 26.12
Net Income/(Loss)	\$ 2.91	\$ 1.60	\$ (46.49)	\$ (23.41)	\$ (30.40)
Earnings/(Loss) per Share (EPS) *	\$ (0.01)	\$ 0.04	\$ (1.43)	\$ (1.09)	\$ (1.42)
Total Assets	\$ 818.11	\$ 834.19	\$ 755.81	\$ 853.42	\$ 811.70
Loans and Advances to Customers, net	\$ 344.18	\$ 351.49	\$ 448.12	\$ 509.88	\$ 569.41
Total Liabilities	\$ 656.60	\$ 656.35	\$ 691.91	\$ 789.33	\$ 720.91
Total Shareholders Equity	\$ 161.52	\$ 177.85	\$ 63.91	\$ 64.09	\$ 90.79
Share Closing Price	\$ 2.51	\$ 1.01	\$ 1.47	\$ 5.22	\$ 5.22
Risk Adjusted Capital Ratio	42.4	45.1	13.9	11.70	17.40
Efficiency Ratio*	88.63	76.41	84.64	94.35	106.31

\* The EPS relates to the share of income attributable to the holders of Common shares. See Note 27 to the consolidated financial statements. \$ amounts are stated in Millions. The EPS and Share Price in \$, and Capital and Efficiency Ratios are %.

### OVERVIEW

In the past several years, we continued the journey to create a better Bank of The Bahamas working towards sustainable profitability, positive returns for our investors and financial stability for all of our stakeholders. After five years of consecutive losses, the Bank returned to profitability in the year ended June 30, 2018 with a net income of \$1.6 million; the net income increased to \$2.9 million for the year ended June 30, 2019.

The Bank recorded net interest income and net non-interest income of \$0.3 million and \$1.6 million, respectively, higher than prior year, which resulted in \$1.9 million positive variance in the Bank's total operating income from \$38.9 million in prior year to \$40.8 million for the year ended June 30, 2019.

The Bank recognized \$7.7 million increase in net operating income from \$31.3 million in prior year to \$39.0 million for the year ended June 30, 2019 primarily due to lower net credit loss expense during

the year which decreased from \$7.6 million for the year ended June 30, 2018 to \$1.7 million for the year ended June 30, 2019.

Operating expenses before the \$6.9 million provision continued to decrease year on year from \$29.7 million during prior year to \$29.2 million for the year ended June 30, 2019. As disclosed in the audited financial statements, during the last quarter of the fiscal year, the Bank was made aware of a significant legal claim against the Bank in respect of a judgment in default and related damages. Management considers that adequate provision has been made for any loss that might ultimately be determined. Consequently, total operating expenses increased by \$6.4 million during the year.

During the year, our focus shifted to providing more sustainable growth opportunities to ensure the Bank's success over the long term and to build a brand that restores trust, empowers customers and promotes responsible banking. Under the theme: Building a Better BOB... Building a Better Bahamas, a comprehensive three-phased strategic plan was implemented.

## **INTEREST AND SIMILAR INCOME**

Interest and similar income for the year ended June 30, 2019 was \$0.8 million or 2.17% lower than prior year as interest income from loans and advances to customers decreased by \$2.0 million due to the decline in the Bank's performing mortgage and commercial loan portfolio. This was partially offset by higher interest on cash and short-term investments (mainly owing to interest on Treasury Bills) and higher interest income on investment securities.

## **INTEREST AND SIMILAR EXPENSE**

Interest and similar expense trended lower by \$1.1 million or 11.74% compared to prior year. The reduction in interest expense is indicative of the decreased cost of funds and decrease in the deposit base of approximately \$12.6 million or 2.00% as at year end.

## **NET NON-INTEREST INCOME**

Net non-interest income consists of the Bank's fees and commission income and expense from its cards, deposits and credit services, including other income. The Bank's net non-interest income increased by \$1.6 million or 14.79% during the year,

primarily due to other income from late payment claims and night depository revenue.

## **NET CREDIT LOSS EXPENSE**

Net credit loss expense of \$1.7 million was \$5.8 million or 77.23% lower than prior year. The movement was consistent with the change in non-performing loans which decreased by \$14.3 million or 14.08% from \$101.7 million as at June 30, 2018 to \$87.3 million as at June 30, 2019. This is largely owing to the Bank's more aggressive approach in reducing delinquencies and placing greater emphasis on improving the collection of non-performing loans. The Bank continues to implement stringent assessments of specific credit losses as the Bank, like the industry, continues to be challenged by high loan delinquencies, reduced values on collateral holdings and difficulty realizing on the collateral as experienced within the present economic environment.

## **OPERATING EXPENSES**

Total operating expenses of \$36.1 million was \$6.4 million or 21.64% higher than prior year primarily due to the \$6.9 million provision recorded for a legal claim. The components of operating expenses were relatively flat compared to prior year, while depreciation expense reduced by \$0.7 million as several items were fully depreciated/amortized since the prior year.

Efficiency ratio increased from 76.41% in the prior year to 88.63% for the year ended June 30, 2019. Efficiency ratio, excluding the legal claim provision, would have been 71.76% for the year ended June 30, 2019 or 4.65% improvement compared to prior year. Management continues to seek and implement cost control measures in line with the Bank's plan to manage its costs, increase revenue and sustain profitability.

## **STATEMENT OF FINANCIAL POSITION**

The Bank's risk management structure promotes sound business decisions. Investment securities consist primarily of government stocks, cash equivalents consist solely of government Treasury Bills, and cash and due from banks have been placed with high quality reputable institutions. Strategic reviews of the loan portfolio are performed to minimize the Bank's exposure to those balances where collectability may be uncertain.



## TOTAL ASSETS

Total assets stood at \$818.1 million, a decrease of \$16.1 million or 1.93% compared to the prior year's total assets of \$834.2 million. This decrease is primarily owing to the decrease in Cash and account with The Central Bank by \$54.0 million or 43.72% while investment securities increased by \$36.3 million or 56.24% as the Bank invested its liquidity into Bahamas Government Registered Stocks and Treasury Bills.

Increases were also noted on Due from banks and Property and equipment. Due from banks balances increased by \$18.0 million or 41.23% as placements and funding continue to strengthen. Property and equipment book value increased by \$1.7 million or 54.53% as the Bank upgrade its systems and processes i.e. core banking, ATMs and systems hardware. While gross loans and advances to customers decreased by \$4.8 million or 1.19% from \$409.0 million to \$404.2 million primarily due to payouts and pay-downs in mortgage and commercial loans, full liquidation of government guaranteed student and hurricane loans, partly offset by the growth in consumer loans.

## TOTAL LIABILITIES

Total liabilities stood at \$656.6 million, an increase of \$0.3 million or 0.04% compared to prior year's total liabilities of \$656.3 million. Deposits from customers and banks, which account for about 93.79% of total liabilities, decreased by \$12.6 million or 2.00%, from \$628.4 million as at June 30, 2018 to \$615.9 million as at June 30, 2019. The decline in the Bank's deposit base primarily stemmed from a net decrease in demand deposit accounts and term deposits, despite an increase in savings accounts. Notable decreases were seen in government and related party demand deposit accounts and business term deposits, while increases were

noted for certain corporate and individual savings accounts. The Bank continues with its initiatives in creating and implementing sales and service strategies and ensuring successful execution to achieve optimal growth. The net decrease in the deposits from customers and banks was offset by the \$12.8 million or 56.86% increase in Other liabilities primarily due to the \$6.9 million provision recorded for a legal claim, \$3.3 million increase in cheques and other items in transit and \$3.2 million in additional accounts payable.

## TOTAL SHAREHOLDERS' EQUITY

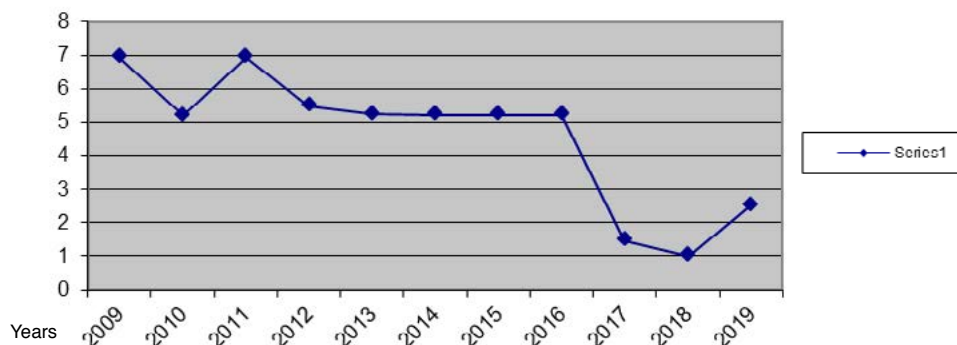
The Bank's total equity closed at \$161.5 million, \$16.3 million or 9.18% lower than the June 30, 2018 balance of \$177.8 million due to net \$1.2 million charge against equity for the implementation of IFRS 9 effective July 1, 2018, redemption of the remaining outstanding preference shares of \$15.2 million, payment of preference shares dividends of \$3.2 million, and the recognition of \$2.9 million net income for the year ended June 30, 2019.

The Bank's key capital ratios were restored to compliance in the prior year and remained strong, with Total Risk Adjusted Capital ratio of 42.40% as at June 30, 2019 (2018:45.1%) compared to a minimum requirement of 18.00% (2018:18%).

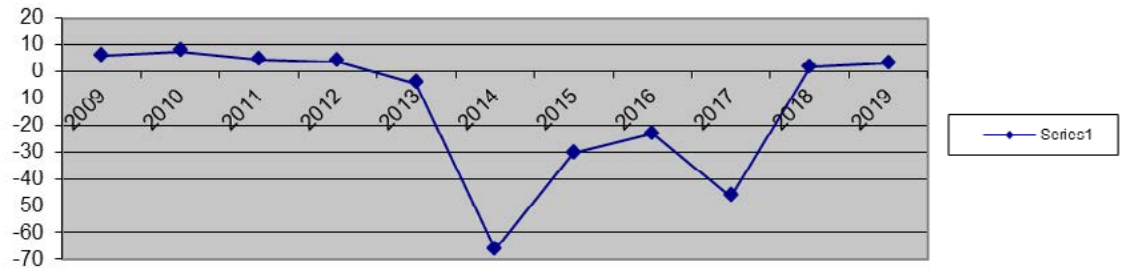
## CONCLUSION

In the fiscal year 2019, the Bank focused on strengthening its foundation, the first phase of a three-year strategic plan to set the Bank on a path to achieving accelerated growth and eventual market leadership. Our Bank was founded on and remains dedicated to a tradition of financial integrity, quality and excellence. We at BOB are joining forces, the best of each of us, to create a stronger, better, best BOB.

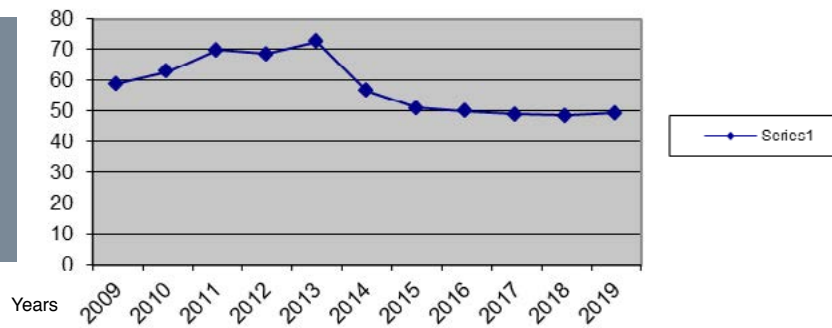
## SHARE PRICE



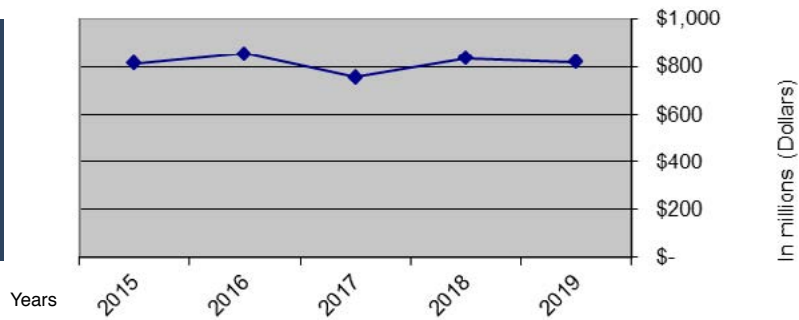
## NET INCOME (LOSS)



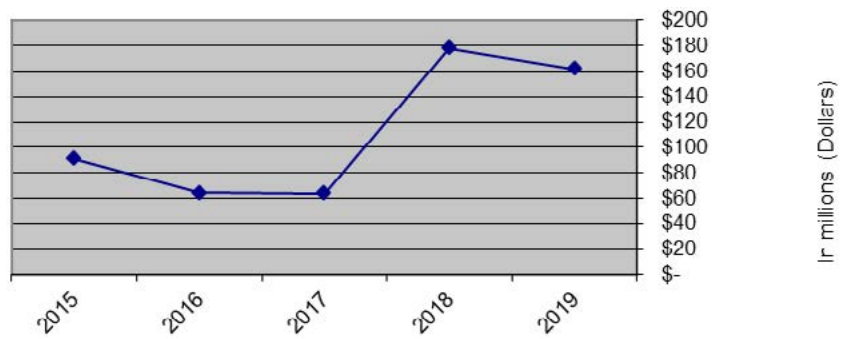
## GROSS REVENUE



## TOTAL ASSETS



## SHAREHOLDERS' EQUITY



# **CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>27</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>31</b>
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>32</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>33</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>34</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>35</b>



**With each  
passing day we  
are stronger**



KPMG  
PO Box N-123  
Montague Sterling Centre  
East Bay Street  
Nassau, Bahamas

Telephone +1 242 393 2007  
Fax +1 242 393 1772  
kpmg.com.bs

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Bank of The Bahamas Limited

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Bank of The Bahamas Limited and its subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at June 30, 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Material uncertainty related to going concern*

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

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



*Application of IFRS 9 in the calculation of impairment of Loans and advances to customer (\$61,505,934, see notes 2d, 7)*

<i>The risk</i>	<i>Our response</i>
<p>On January 1, 2018 a new accounting standard for financial instruments (“IFRS 9”) became effective, which requires impairment to be calculated based on expected credit losses (“ECLs”), rather than the incurred loss model previously applied under IAS 39.</p> <p>As at June 30, 2019, Loans comprise a major portion of the Group’s assets.</p> <p>Impairment of Loans was considered to be a key audit area primarily for the following reasons:</p> <ul style="list-style-type: none"> <li>• IFRS 9 is a new and complex accounting standard which requires significant judgment to determine both the timing and measurement of impairment losses.</li> <li>• The determination of expected credit loss allowances is highly subjective and judgmental. Small changes in key assumptions may result in material differences in the Group’s consolidated financial statements. Key judgments and estimates in respect of the timing and measurement of ECLs include: <ul style="list-style-type: none"> <li>- The interpretation of the requirements to determine impairment under IFRS 9, which are reflected in the Bank’s ECL model;</li> <li>- The identification of exposures with a significant deterioration in credit quality;</li> <li>- The allocation of Loans to stages 1, 2 and 3 using criteria in accordance with IFRS 9;</li> <li>- Modelling assumptions used to build the ECL model;</li> <li>- Completeness and accuracy of data used to calculate the ECL; and</li> <li>- Accuracy and adequacy of related financial statement disclosures.</li> </ul> </li> </ul>	<p>In assessing the impairment losses on Loans, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained an overall understanding of the Bank’s methodology to determine the impairment allowance under the newly implemented IFRS 9.</li> <li>• Obtained an understanding of the Bank’s key credit processes and related controls, including granting, recording, monitoring and ECL provisioning.</li> <li>• Assessed and tested key modeling assumptions used in the ECL model used by management to calculate the impairment allowance;</li> <li>• Involved our internal specialists in testing the assumptions, inputs and formulas used in the ECL model. This included assessing the model’s arithmetic accuracy and consistency with the requirements of IFRS 9.</li> <li>• Tested the completeness and accuracy of key data inputs sourced from underlying systems that are applied in the calculation of the impairment allowance. We tested the reconciliation of Loans between the underlying source systems and the ECL models.</li> <li>• Recalculated the risk ratings for a sample of Loans to assess if they were appropriately allocated to the relevant stage, (i.e. stages 1, 2 and 3).</li> <li>• As IFRS 9 was adopted at the start of the 2019 fiscal year, we evaluated related opening balances to gain assurance on the transition to IFRS 9. This included testing related adjustments and disclosures made on the transition in compliance with IFRSs.</li> </ul>



<i>Interest income (\$36,321,639, see note 18)</i>	
<i>The risk</i>	<i>Our response</i>
<p>Interest income is the Bank’s primary source of revenues.</p> <p>The existence and accuracy of interest income are considered to be a key audit area due to the material financial impact of this account on the Bank’s consolidated financial statements.</p>	<p>In this area, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Reviewing the internal controls and testing the key controls;</li> <li>• Confirmation of principal balances and terms of interest bearing assets and vouching interest bearing assets to supporting documentation evidencing amounts, interest rates and payment terms; and</li> <li>• Substantive analytical procedures and re-performance of the calculation of interest accruals to test the accuracy of interest income.</li> </ul>

***Other information***

We expect to receive other information from the Bank on October 23, 2019, which will comprise the information to be included in the Bank’s annual report, but does not include the consolidated financial statements and our auditors’ report thereon.

Our opinion on the consolidated financial statements does not and will not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether there are indications that the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we determine that there is a material misstatement of this other information; we would be required to report that fact.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

***Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Nassau, Bahamas  
October 22, 2019



**BANK OF THE BAHAMAS LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**YEAR ENDED JUNE 30, 2019, WITH CORRESPONDING FIGURES FOR 2018**

(Expressed in Bahamian Dollars)

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

The notes on pages 35 -99 are an integral part of these consolidated financial statements.

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

Director

Director



**BANK OF THE BAHAMAS LIMITED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**YEAR ENDED JUNE 30, 2019, WITH CORRESPONDING FIGURES FOR 2018**

(Expressed in Bahamian Dollars)

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

The notes on pages 35 -99 are an integral part of these consolidated financial statements.

**BANK OF THE BAHAMAS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**YEAR ENDED JUNE 30, 2019, WITH CORRESPONDING FIGURES FOR 2018**

(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total Equity
<b>Balance, June 30, 2017</b>	\$ 64,010,505	\$ 81,950,384	\$ (1,318,224)	\$ 5,140,730	\$ 54,622,532	\$ (140,498,322)	\$ 63,907,605
<i>Total comprehensive income:</i>							
Net income for the year	-	-	-	-	-	1,598,066	1,598,066
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets (Note 17)	-	-	-	992,948	-	-	992,948
<i>Transactions with owners of the Bank:</i>							
Special retained earnings (Note 12)	-	-	-	-	117,500,400	-	117,500,400
Redemption of preference shares (Note 15)	(6,150,000)	-	-	-	-	-	(6,150,000)
<b>Balance, June 30, 2018</b>	<b>57,860,505</b>	<b>81,950,384</b>	<b>(1,318,224)</b>	<b>6,133,678</b>	<b>172,122,932</b>	<b>(138,900,256)</b>	<b>177,849,019</b>
IFRS 9 Adjustments	-	-	-	(4,000,000)	-	2,808,333	(1,191,667)
<i>Total comprehensive income:</i>							
Net income for the year	-	-	-	-	-	2,910,259	2,910,259
<i>Other comprehensive income:</i>							
Movement in fair value: equity investments at FVOCI (Note 17)	-	-	-	378,781	-	-	378,781
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares (Note 15)	(15,250,000)	-	-	-	-	-	(15,250,000)
Dividends on preference shares (Note 27)	-	-	-	-	-	(3,181,052)	(3,181,052)
<b>Balance, June 30, 2019</b>	<b>\$ 42,610,505</b>	<b>\$ 81,950,384</b>	<b>\$ (1,318,224)</b>	<b>\$ 2,512,459</b>	<b>172,122,932</b>	<b>\$ (136,362,716)</b>	<b>\$ 161,515,340</b>

The notes on pages 35 -99 are an integral part of these consolidated financial statements.

**BANK OF THE BAHAMAS LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2019, WITH CORRESPONDING FIGURES FOR 2018**

(Expressed in Bahamian Dollars)

	Notes	2019	2018
<b>Cash flows from operating activities:</b>			
Net income		\$ 2,910,259	\$ 1,598,066
Adjustments for:			
Depreciation and amortisation	21	703,314	1,382,088
Loss/(gain) on disposal of fixed assets	10	3,937	(1,617)
Loss on disposal of computer software	11	11,164	-
Net provision for loan losses	7	1,723,287	7,568,185
		5,351,961	10,546,722
Change in operating assets and liabilities		20,219,276	(8,537,653)
Decrease in loans and advances to customers, net		4,493,039	38,868,041
Decrease in deposits from customers and banks		(12,553,297)	(35,497,895)
Net cash provided by operating activities		17,510,979	5,379,215
<b>Cash flows from investing activities:</b>			
Acquisition of property and equipment	10	(2,078,331)	(1,170,165)
Acquisition of computer software	11	(1,878,547)	(139,816)
Purchase of investment securities	6	(48,503,800)	(25,444,812)
Proceeds from sale of non current asset held for sale		-	925,000
Proceeds from disposal of property and equipment	10	-	28,300
Proceeds from maturity of investment securities	6	12,659,500	3,309,000
Net cash used in investing activities		(39,801,178)	(22,492,493)
<b>Cash flows from financing activities:</b>			
Redemption of notes receivable	12	-	100,000,000
Redemption of preference shares	15	(15,250,000)	(6,150,000)
Dividends on preference shares	27	(3,181,052)	-
Net cash (used in)/provided by financing activities		(18,431,052)	93,850,000
Net (decrease)/increase in cash and cash equivalents		(40,721,251)	76,736,722
Cash and cash equivalents, beginning of year		198,201,124	121,464,402
Cash and cash equivalents, end of year	5	\$ 157,479,873	\$ 198,201,124
<b>Supplemental information:</b>			
Interest received		\$ 45,792,037	\$ 32,569,699
Interest paid		8,114,784	9,587,634
<b>Non-cash transactions:</b>			
Derecognition of loans and advances, net	12	\$ -	\$ 50,199,600
Recognition of notes receivable	12	-	167,700,000
Special retained earnings	12	-	117,500,400

The notes on pages 35 -99 are an integral part of these consolidated financial statements.



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**1. Corporate information**

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

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange. As at June 30, 2019 and 2018, The Government of the Commonwealth of The Bahamas (the “Government”) and The National Insurance Board (“NIB”) owned approximately 82.6% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

The Bank’s head office is located at Cloughton House, corner of Shirley Street and Charlotte Street, Nassau, The Bahamas. The registered office is located at Sassoon House, corner of Shirley Street and Victoria Avenue, Nassau, The Bahamas.

The Bank’s services include the provision of commercial and retail banking and trust services (Note 26), private banking and the issuance of Visa branded stored value, prepaid and credit cards. The Bank is an agent for American Express and for MoneyGram. As at June 30, 2019, the Bank had twelve branches (2018: twelve): four in New Providence, one in Grand Bahama, two in Andros, one in San Salvador, one in Inagua, one in Cat Island, one in Eleuthera, and one in Bimini.

**2. Basis of preparation**

The Bank’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This is the first set of the Bank’s annual consolidated financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 2(d).

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**2. Basis of preparation** *(continued)*

**(a) Going concern**

The Bank's management has made an assessment of the Bank's ability to continue as a going concern. The Bank experienced significant operating losses for several years prior to the fiscal year ended June 30, 2018 and has an accumulated deficit at June 30, 2019 of \$136,362,716 (2018: \$138,900,256).

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

**(b) Basis of consolidation**

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

1. Subsidiaries

'Subsidiaries' are entities controlled by the Bank. The Bank 'controls' an entity if it is exposed to, or has rights, to variable returns from its involvement with the entity investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee, namely, existing rights that give it the current ability to direct the relevant activities of the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank's voting rights and potential voting rights

The Bank re-assesses whether it has control if there are changes to one or more of the elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation.

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

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

**2. Basis of preparation** *(continued)*

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

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

***New Standards, amendments and interpretations not yet adopted by the Bank***

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

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

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

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



**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**2. Basis of preparation** *(continued)*

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

Effective July 1, 2018, the Bank adopted IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”). Due to the transition methods chosen by the Bank in applying these standards, comparative information throughout these consolidated financial statements have not been restated.

**i. IFRS 9 Financial Instruments**

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

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

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

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

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

***Classification and measurement of financial assets and financial liabilities***

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**2. Basis of preparation (continued)**

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

**i. IFRS 9 Financial Instruments (continued)**

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

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

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

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

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

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**2. Basis of preparation (continued)**

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

**i. IFRS 9 Financial Instruments (continued)**

***Reconciliation of impairment allowance balance IAS 39 to IFRS 9***

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

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

***Impairment of financial assets***

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

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



**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**2. Basis of preparation** *(continued)*

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

**ii. IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

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

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

BANK OF THE BAHAMAS LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions that cannot be known with certainty at the time the consolidated financial statements are prepared. A “critical accounting estimate” is one that is both important to the presentation of the Bank’s financial position and results of operations and requires management’s most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Management evaluates such estimates on an ongoing basis based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances.

***Applicable to fiscal year 2019:***

*Classification of financial assets*

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

*Impairment of financial assets*

The allowance for loan impairment represents management's estimate of an asset's expected credit loss (“ECL”).

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

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

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

*Applicable to fiscal year 2019: (continued)*

*Impairment of financial assets (continued)*

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

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

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

*Applicable to fiscal years 2019 and 2018:*

*Property and equipment*

Property and equipment are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods. During the year ended June 30, 2019, the Bank recognized impairment losses of Nil (2018: Nil Note 10).

*Depreciation and amortisation*

Depreciation and amortisation are based on management estimates of the future useful lives of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful lives and in the amortisation or depreciation charges. The Bank reviews the future useful lives of property and equipment and intangible assets periodically taking into consideration the factors mentioned above and all other important factors.

Estimated useful lives for similar types of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, and climate, among others. In case of significant changes in the estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

*Deferred loan fees*

Commitment fees received to originate a loan or fees that are an integral part of the effective interest rate of a financial instrument, together with the related transaction cost, are deferred and recognised as an adjustment of the effective interest rate. Management manually amortises the loan commitment fees using the effective interest rate method over the average loan terms.

*Fair value of financial instruments*

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

*Recognition and measurement of provisions and contingencies*

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



YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

#### 4. Summary of significant accounting policies

##### (a) Revenue and expense recognition

###### *Policy applicable from July 1, 2018*

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

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

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

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

###### *Accounting policies applied until June 30, 2018:*

###### *Interest and similar income and expense*

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

###### *Fees and commission income*

The Bank earned fees and commission income from a diverse range of services it provided to its customers. Fees and commissions were generally recognised on an accrual basis when the service was provided.

###### *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time were accrued over that period. Those fees included commission income and asset management, custody and other management and advisory fees. Loan commitment fees and other credit related fees were deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

*Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, were recognised on completion of the underlying transaction. Fees or components of fees that were linked to a certain performance were recognised after fulfilling the corresponding criteria.

**(b) Cash and cash equivalents**

For purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash with The Central Bank of The Bahamas, amounts due from other banks, and short-term treasury bills.

**(c) Financial instruments**

*Recognition and initial measurement*

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

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

*Classification*

***Financial assets – policy applicable from July 1, 2018:***

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

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

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

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

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

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

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

***Recognition and initial measurement*** *(continued)*

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

All other financial assets are classified as measured at FVTPL.

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

***Business model assessment***

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

***Business model assessment (continued)***

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

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

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

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

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

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



YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

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

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

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

###### **Reclassifications**

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

###### **Modification**

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of the eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

*Accounting policies applied until June 30, 2018:*

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

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

All financial assets and liabilities were initially recognised on the trade date, that is, the date that the Bank became a party to the contractual provisions of the instrument. This included ‘regular way trades’: purchases or sales of financial assets that required delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their purpose and characteristics and management’s intention in acquiring them. All financial instruments were measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

*Financial assets*

The Bank classified its financial assets in the following categories: Loans and receivables; held-to-maturity investments; and available-for-sale investments. Management determined the classification of its investments at initial recognition.

*(i) Loans and receivables*

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

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

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

*(ii) Held-to-maturity financial assets*

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

*(iii) Available-for-sale financial assets*

Available-for-sale investments were those intended to be held for an indefinite period of time, which sometimes had the potential of being sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial measurement, available-for-sale financial assets were measured at fair value with unrealized gains or losses recognised directly in equity until the investment was derecognised, at which time the cumulative gain or loss recorded in equity was recognised in the consolidated statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity was recognised in the consolidated statement of comprehensive income.

*Financial liabilities*

There were no changes in the classification and measurement of financial liabilities. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. Financial liabilities are classified as either a) FVTPL or b) other financial liabilities.

The Bank's financial liabilities include deposits from customers and banks, and other liabilities. Deposits from customers and banks represent demand and time deposits placed with the Bank for the benefit of third parties, except as disclosed in Note 24.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

**(d) Impairment of financial assets**

*Policy applicable from July 1, 2018*

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

Impairment of financial assets is recognised in three stages:

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

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

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

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

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

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

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



YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

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

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

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank through actions such as realising security (if any held);
- The financial asset is more than 90 days past due; or
- The borrower is on principal only repayment terms.

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

##### *Write-off of loans and advances*

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

##### *Recovery of previously written-off loans*

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

##### *Renegotiated loans*

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

BANK OF THE BAHAMAS LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

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

*Accounting policies applied until June 30, 2018:*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The criteria that the Bank used to determine that there was objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level; and
- Economic conditions in The Bahamas.

The Bank first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment.

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

The amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognised in the consolidated statement of comprehensive income. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflected the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

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

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

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

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

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

##### *Provision for loan losses*

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

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

The specific provision for an impaired collateral-dependent loan, where repayment was expected to be provided solely by the sale of the underlying collateral, was set at an amount equal to the difference between the principal balance and the estimated net realizable value of the collateral. Net realizable value represents the discounted fair value of the collateral less all costs associated with its disposition. For unsecured loans, the Bank calculated the provision by applying various factors, including the past due status of the loans. Because of current economic conditions in The Bahamas, secured loans were further assessed for provision by applying additional factors based on the past due status of the loans.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

*Provision for loan losses (continued)*

For the purposes of a collective assessment of impairment, loans were grouped based on the type of loans. Future cash flows for loans that were collectively evaluated for impairment were estimated based on the contractual cash flows of the loans with the Bank considering its historical loss experience, that is, average of actual write-offs in prior years for each type of loans and current observable data (e.g. unemployment rate) to reflect the effects of current conditions that did not affect the period on which the historical loss experience was based. The Bank assigned certain weight factors in the historical loss experience and current observable data.

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

*Renegotiated loans*

Where possible, the Bank sought to restructure loans rather than to take possession of collateral. This might have involved extending payment arrangements and the agreement of new loan conditions. Once the terms were renegotiated, any impairment was measured using the original effective interest rate as calculated before the modification of terms, and the loan was no longer considered past due. Management continually reviewed renegotiated loans to ensure that all criteria were met and that future payments were likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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

For AFS financial investments, the Bank assessed at each reporting date whether there was objective evidence that an investment was impaired.

In the case of debt instruments classified as AFS, the Bank assessed individually whether there was objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment was the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income was based on the reduced carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income was recorded as part of interest and similar income.

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



YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

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

*Available-for-sale (“AFS”) financial assets (continued)*

In respect of AFS equity securities, impairment losses previously recognised in profit or loss were not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss was recognised in other comprehensive income and accumulated under the heading of net gain on AFS financial assets.

In respect of AFS debt securities, impairment losses were subsequently reversed through profit or loss if an increase in the fair value of the investment could be objectively related to an event occurring after the recognition of the impairment loss.

*Held-to-maturity financial assets*

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

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through profit or loss.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

*Financial assets*

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

- The contractual rights to receive cash flows from the financial asset have expired; or
- The Bank has transferred its rights to receive the contractual cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either:
  - The Bank has transferred substantially all the risks and rewards of ownership of the financial asset, or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

*Financial liabilities*

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

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

**(f) Foreign currency**

The reporting and functional currency of the Bank is the Bahamian dollar (B\$). Transactions in foreign currencies are converted to B\$ at the rates of exchange prevailing at the dates of the transactions.

Foreign currency monetary assets and liabilities are converted to B\$ at rates of exchange prevailing on the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year. Realized and unrealized foreign exchange gains and losses are included in the consolidated statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost or amortised cost are recorded at the exchange rates ruling at the dates of transaction.

**(g) Property and equipment**

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

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

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

Building	50 years
Leasehold improvements	3-5 years
Furniture, fixtures and equipment	3-10 years

Leasehold improvements are amortised over the shorter of the economic useful life of the asset or the lease term and taking into consideration any extension of the lease term if there is reasonable expectation of renewal. The amortisation term, however, does not exceed five years. Land is not depreciated.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

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

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

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

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

For impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

**(j) Related parties**

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

**(k) Employee benefits**

The Bank operates a defined contribution plan (the "Plan") where the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive payment obligations once contributions have been paid. The Plan's costs are charged to general and administrative expenses and are funded as accrued.



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

**(k) Employee benefits (continued)**

The Bank operates an Employee Share Ownership Plan (“ESOP”) where the Bank matches employees’ share purchases up to 25%. The matching contributions vest over 5 years. The costs of the ESOP are charged to general administrative expenses.

**(l) Earnings/(Loss) per share**

Basic earnings/(loss) per share is computed by dividing the net income/(loss) attributable to common shareholders by the weighted average number of shares outstanding during the year.

**(m) Fiduciary activities**

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Bank.

**(n) Taxes**

Effective January 1, 2015, the Government implemented a value-added tax (“VAT”) in the Commonwealth of The Bahamas. VAT is a broad-based consumption tax that would be applied to most goods and services bought locally or imported into the country. Up to June 30, 2018, the standard rate for VAT was 7.5% and it is charged on all goods and services that are not zero-rated or exempt. Under the VAT Act, a business is required to register for and charge VAT if the past or future 12 months of taxable activity exceeds the \$100,000 threshold. Businesses below the \$100,000 threshold can choose to register voluntarily and will be required to fulfill all of the obligations of a Mandatory Registrant. All VAT registrants, including voluntary registrants, must display their VAT Certificates prominently, display VAT inclusive prices at the retail level, issue valid invoices and receipts, maintain proper accounts and records, file accurate and timely VAT returns, and remit the net VAT collected (output minus input VAT) to the government within the stipulated deadlines. The Bank is a VAT registrant and has remitted all VAT collected during the year to the Government within the stipulated deadlines.

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

**(o) Investment property**

Investment property is initially measured at cost including transaction costs and subsequently at fair value based on an appraisal by a local real estate appraiser. Additions to investment property are also recorded at cost. On an annual basis, the investment property is assessed for impairment with gains and losses arising from changes in the fair value of the investment property included in the consolidated statement of comprehensive income for the period in which they arise. The impairment assessment is based on fair values as determined by an independent appraisal performed every three years, and as determined by management in intervening years.

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

**(o) Investment property** *(continued)*

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

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

**(p) Computer software**

Acquired computer software costs and licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line basis of accounting over the expected useful life. Software has a maximum expected useful life of 10 years.

**(q) Borrowings**

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

**(r) Share capital**

*(i) Share issue costs*

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

*(ii) Dividends on shares*

Dividends on common and preferred shares are recognised in equity in the period in which they are approved by the Bank's Directors and Regulator.

*(iii) Treasury shares*

Where the Bank has purchased its own equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

**(s) Leases**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and included in 'operating expenses' in the consolidated statement of comprehensive income.

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

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

##### (t) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. As at June 30, 2019 and 2018, there was no master netting agreements outstanding. Therefore, any related assets and liabilities are presented gross in the consolidated statement of financial position.

##### (u) Financial guarantees

‘Financial guarantees’ are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements (within ‘Other liabilities’) at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the consolidated statement of comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated statement of comprehensive income. The premium received is recognised in the consolidated statement of comprehensive income in ‘Net fees and commission income’ on a straight-line basis over the life of the guarantee.

##### (v) Comparatives

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**5. Cash and cash equivalents**

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas (“the Central Bank”) of \$23,647,690 (2018: \$25,742,225). Mandatory reserve deposits represent the Bank’s regulatory requirement to maintain a percentage of deposit liabilities as cash or deposits with the Central Bank. These funds are not available to finance the Bank’s day-to-day operations. All balances with The Central Bank of The Bahamas are non-interest bearing. Government issued Treasury Bills have maturity dates extending through to September 2019.

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



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**6. Investment securities**

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

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

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

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

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

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**7. Loans and advances to customers, net**

Loans and advances to customers are as follows:

	2019	2018
Mortgage residential loans	\$ 227,896,943	\$ 244,481,245
Mortgage commercial loans	13,377,196	13,937,392
Commercial loans	75,384,501	77,540,327
Consumer loans	75,320,834	62,989,797
Government (Note 24)	9,122,065	-
Credit cards	1,227,754	1,338,235
Business overdrafts	1,377,502	1,713,715
Personal overdrafts	504,990	477,329
Government guaranteed student loans	-	6,553,367
	<b>\$ 404,211,785</b>	<b>\$ 409,031,407</b>

Loan loss provisions are as follows:

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

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

Non-accrual (impaired) loans are as follows:

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

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

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

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



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

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

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

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**8. Investment property**

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

In June 2017, the Bank engaged the services of an independent real estate and valuation expert who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. Every three years, the Bank obtains an appraised report for the property. The appraised value of \$6,463,000 was allocated to the investment property as at June 30, 2019 and 2018.

This investment property has been classified as Level 3 in the fair value measurement hierarchy and there were no transfers from or to Level 3 during the period. The fair value of the investment property is based on the appraisal value using the sales comparison approach where the average sales price approximated \$1,150,000 per acre.

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

**9. Other assets**

Other assets are comprised of the following:

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

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**10. Property and equipment, net**

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

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

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**11. Computer software, net**

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

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

**12. Notes receivable and special retained earnings**

During October 2014, the Government created a special purpose vehicle, Bahamas Resolve Limited (“Resolve”), that is owned and controlled by the Government. At that time, the Bank sold certain of its non-performing loans to Resolve, resulting in the following:

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

On August 31, 2017, Resolve purchased another portfolio of loans from the Bank at a price equivalent to the gross book value of those loans before provisions. This transaction consists of three tranches, effective August 31, 2017, September 18, 2017 and November 14, 2017. The results are as follows:

- A portfolio of non-performing loans principal amount of \$134.5 million, with a total net book value of approximately \$50.6 million and accrued interest receivable of \$33.2 million were derecognized.
- \$167.7 million in unsecured promissory note was received for these loans and was recognized as an asset.



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

- The net difference of approximately \$117.1 million between the promissory note received and the net book value of the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank's regulatory capital. An additional \$0.4 million in fees and charges were recognized in Special Retained Earnings.
- The promissory note with final maturity date of August 31, 2022 bears fixed interest at 3.5%, payable semi-annually on the 28th day of February and the 31st day of August, commencing in August 2018. As at June 30, 2019, accrued interest receivable amounts to \$1,956,500 (2018: \$4,878,391).

The Bank has transferred all of its rights relating to the non-performing loans to Resolve and will have no rights to future cash flows from the non-performing loans. Resolve, and not the Bank, will bear all the risks and rewards of the non-performing loans subsequent to the transaction and Resolve, and not the Bank, will control the non-performing loans. The Bank will not have any continuing involvement in servicing the non-performing loans, and the Bank's only rights will relate to the cash flows associated with the promissory note. Further, the Bank will not be providing any form of future direct or indirect financing to the customers and loans transferred to Resolve, and these customers will no longer be customers of the Bank.

As a part of the transaction, the Bank received an irrevocable Letter of Support from the Government. The Letter of Support pledged the Government's support of Resolve to enable it to satisfy its obligations under the promissory note and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.

	2019	2018
Notes receivable	\$ 167,700,000	\$ 167,700,000
Allowance for impairment loss (Note 2)	(73,500)	-
	<b>\$ 167,626,500</b>	<b>\$ 167,700,000</b>

**13. Deposits from customers and banks**

Deposits from customers and banks are as follows:

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**13. Deposits from customers (continued)**

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

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

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

**14. Other liabilities**

Other liabilities consist of the following:

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**15. Share capital**

Share capital at par value consists of the following:

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**15. Share capital (continued)**

*Preference shares*

The Bank's shareholders approved resolutions to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares, redeemable at the discretion of the Board of Directors. On June 30, 2006 and during May 7, 2009 the Bank issued a total of B\$15,000,000 and B\$20,000,000 in redeemable preference shares at a rate of 2.00% and 2.50% above the Bahamian dollar prime rate. In accordance with International Financial Reporting Standards, the preference shares were classified as equity. Costs totaling \$235,010 and \$349,000 related to the preference share offering respectively were netted against the proceeds.

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

*Voting common shares*

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

On April 15, 2016, the Bank's shareholders approved the reclassification of the authorized and unissued preference shares of the Bank comprising 80,000 shares having a par value of \$1,000 per share into 80,000,000 voting common shares having a par value of \$1.00 per share. The total authorized capital of the Bank remained unchanged at \$160,000,000.

During the period from September 6 - 12, 2016, the Bank entered into a common shares rights offering for an aggregate amount of \$40 million for 14,814,814 voting common shares. For each 1.44 common shares held as at record date of September 5, 2016, shareholders had the right to purchase an additional 1 share. At the end of the offer period, the Government subscribed for the majority of the offering, and the Bank issued a total of \$39,517,333 in voting common shares to its shareholders at a price of \$2.70 per share. Costs totaling \$482,667 related to this common share offering were netted against the proceeds and resulted in additional share premium of \$24,702,519.

During the period December 31, 2016 to February 28, 2017, the Bank offered a private placement of \$30 million at 3.125% Fixed Rate Perpetual Contingent Convertible Bonds to accredited investors only. This private placement was offered in three tranches of \$10 million each. As at December 31, 2016, the first tranche was subscribed by and issued to the Government. Effective June 30, 2017, this bond in the amount of \$10 million was converted to 6,756,756 voting common shares at a price of \$1.48 per share which resulted in additional share premium of \$3,243,244.

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**15. Share capital (continued)**

*Non-voting common shares*

During 2013, the Bank's shareholders approved resolutions to increase the authorized share capital of the Bank and allow for the issuance of a separate class of B\$10,000,000 non-voting common shares. On June 28, 2013 the Bank issued a total of 6,022,945 Class B non-voting common shares to its major shareholder at a share price of \$5.23. Costs totaling \$60,300 related to this common share offering were netted against the proceeds and resulted in additional share premium of \$25,416,755.

**16. Treasury shares**

During 2011 and 2013, the Bank's Board of Directors approved the repurchase of \$750,000 and \$750,000 respectively of the Bank's own shares. The implementation of the share repurchase plan is a strategy to enhance the shareholder value to existing shareholders. There were no repurchase of shares during fiscal years 2019 and 2018.

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

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

**17. Reserves**

As at June 30, 2018, reserves were comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date and regulatory credit reserves for loan loss provisions. Banking regulations of the Central Bank require a general provision in respect of the Bank's loans of at least 1%. In circumstances where the Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is accounted for as an appropriation of retained earnings and is included in a non-distributable regulatory credit reserve in equity.

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

Reserves were comprised of:

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



**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**17. Reserves (continued)**

Movement in reserves for the year was as follows:

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

**18. Net interest income**

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

**19. Fees and commission income**

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**20. Other operating income**

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

**21. Operating expenses**

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

**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.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**22. Contingencies (continued)**

*Legal claims*

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. As a result of the litigation risk inherent in its operations, the Bank is involved in various litigation proceedings in the ordinary course of its business. The Bank has internal and external legal counsel, and formal controls and policies for managing legal claims. With the benefit of professional legal advice, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing and/or discloses amounts in accordance with its accounting policies.

As at year end, the Bank had several unresolved legal claims. Various legal proceedings are pending that challenge certain actions of the Bank. Most of these proceedings are loan-related and are reactions to steps taken by the Bank to collect delinquent loans and enforce its rights against collateral securing such loans. During the last quarter of the fiscal year, the Bank was made aware of a significant legal claim against the Bank in respect of a judgment in default and related damages of approximately \$6 million plus interest and cost. The Bank has filed the necessary applications to set aside the default judgment and to set aside the said damages. The Bank has also filed papers to stay the enforcement of damages and in certain circumstances to strike out enforcement steps. Management considers that adequate provision has been made in these financial statements, included in other administrative expenses (Note 21) and accounts payable (Note 14), for any loss that might ultimately be determined.

**23. Commitments**

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

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

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

Certain leases contain renewal options for the next 5 years.

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

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**24. Transactions and balances with related parties**

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**25. Employee benefits**

The Bank has a defined contribution plan (the “Plan”) in which eligible employees (those having attained 18 years of age and employed on a full-time basis for a continuous period of twelve months) contribute a minimum of 3.50% of their annual salaries and the Bank contributes 6.50%. Employees become fully vested after 5 years of plan membership. The plan assets are managed by an independent third-party investment manager. Contributions for the year ended June 30, 2019 totaled \$569,191 (2018: \$601,640) recorded as staff costs (Note 21).

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

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

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

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

**26. Assets under administration**

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

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

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

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

Dividends to the Bank’s shareholders are recognised as a liability in the period in which they are declared by the Board of Directors and approved by the Bank’s Regulator. In December 2018, outstanding preference shares dividends of \$1,546,250 was declared and paid, while the remaining outstanding preference shares dividends of \$1,634,802 was declared as at March 31, 2019 and fully paid in May 2019. The Bank paid no dividends to common shareholders during the reporting years.



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

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

**28. Fair value of financial assets and liabilities**

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

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

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

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

The following methods and assumptions have been used in determining fair value:

**Cash and cash equivalents, other assets and other liabilities**

Due to their short-term maturity, the carrying values of these financial instruments approximate their fair values.

**Investment securities**

The estimated fair values of the Bank’s investments are determined based on quoted market prices, when available. If quoted market prices are not available, management’s best estimate of the fair value is based on significant market observable inputs disclosed in Note 6.

**Loan and advances to customers**

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

**Deposits from customers**

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

**Investment property**

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

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

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

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

**29. Regulatory capital**

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

Capital regulatory requirements for subsidiary companies are managed through the Bank. The Bank's strategy is unchanged from 2018. The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank. As at June 30, 2019, the Bank was compliant with all of the externally imposed capital ratio requirements.

**Capital risk management**

The primary objectives of the Bank's capital management are to comply with externally imposed capital requirements, maintain strong capital ratios to support its business and to maximize shareholders' value.

The Bank typically manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The capital structure is designed to provide optimal risk absorption consistent with the risk profile of the Bank's consolidated statement of financial position. The capital mix is intended to maximize the return for shareholders. The Bank utilizes a balance of equity and debt issuances to achieve an ideal capital structure.

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**29. Regulatory capital (continued)**

**Capital risk management (continued)**

At June 30, 2019 and 2018, the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares, special retained earnings and accumulated deficit. Ongoing capital management includes the payment of dividends, common share issuances, redemption of preferences shares, maintenance of reserves and special retained earnings.

In (\$000s)	2019	2018
Tier 1 capital	\$ 158,979	\$ 156,040
Tier 2 capital	2,512	20,522
<b>Total capital</b>	<b>\$ 161,491</b>	<b>\$ 176,562</b>
Risk weighted assets	\$ 380,638	\$ 391,468
CET1 must be at least 9.6% of total Risk Weighted Assets	41.8%	39.9%
Total Tier 1 Capital must be at least 12.8% of total Risk Weighted Assets	41.8%	39.9%
Total Capital must be at least 18.0% of total Risk Weighted Assets	42.4%	45.1%
CET1 must be at least 75% of total Tier 1 Capital	100.0%	100.0%
Total Tier 1 Capital must be a minimum of 75% of Total Capital	98.4%	88.4%

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

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

### **30. Risk management**

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

#### **Credit risk**

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. From this perspective, the Bank's significant exposure to credit risk is primarily concentrated in cash and due from banks, investments, notes receivable and loans. Cash, due from banks and investments are predominantly in Bahamian and United States dollars and have been placed with high quality institutions. The Bank maintains deposits in foreign currencies with top rated correspondent banks in the United States, Canada and the United Kingdom.

The Bank evaluates the concentration of risk with respect to the note receivable as low, as the interest and principal sum is payable by Bahamas Resolve Limited ("Resolve"), which is a company wholly owned and controlled by the Government. Accordingly, the Bank evaluates the concentration of risk with respect to the Government loan as low, as the interest and principal sum is payable by the Government. An impairment analysis is performed at each reporting date by assessing the Government's ability to make the interest payments due on the Note, given that the Government has undertaken to support Resolve, as more fully described in Note 12.

Credit risk arising from loans is mitigated through the employment of a credit risk management regime that sets limits for sector concentration, as well as single and related party exposure. The Board of Directors approves credit granting limits. In addition, the credit policies provide for credit facilities to be reviewed regularly by the Bank's credit risk management department, internal audit department and annual review by credit officers. Most of the Bank's loans are collateralized and guaranteed, thus providing further mitigation of credit risk.

The Bank assesses credit exposure on loans by utilizing risk ratings. The ratings are categorized into a variety of segments such as minimal risk, moderate risk, high risk and non-performing. The purpose of credit rating is to provide a simple, but effective and ongoing system of credit risk gradation by which relative credit worthiness of borrowers may be identified and accordingly the level of credit enhancements, degree of monitoring, frequency of reviews, level of provisioning, and pricing can be determined. The credit rating would reflect both the likelihood of default and the potential extent of loss given default.

The credit worthiness of most borrowers is not constant over time. For this reason, changes in ratings must reflect changes in the relative strength of the borrowers and in their obligations. Appropriate credit ratings must be assigned to every borrowing relationship. A rating must be assigned at the time of credit extension and reviewed and updated in each periodic review or if the situation warrants a change at any other time.



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

A rating change highlights a change in the credit worthiness or corrects a previous rating that did not fully reflect the quality of the credit. Because of their very nature, changes are to be expected more frequently among credits with lower ratings than among credits of higher ratings. Typically loans within the retail credit portfolio which are performing are not assessed for changes in ratings, unless the customer approaches the Bank for additional credit.

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

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

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

In (\$000s)	2019	2018
<b>Cash, cash equivalent and due from banks</b>		
Neither past due nor impaired	\$ 181,128	\$ 223,943
<b>Investment securities</b>		
Neither past due nor impaired	\$ 100,810	\$ 64,521
<b>Loans and advances to customers</b>		
Neither past due nor impaired	\$ 280,991	\$ 243,342
Past due but not impaired	35,889	64,041
Impaired	87,332	101,648
	\$ 404,212	\$ 409,031
<b>Notes receivable</b>		
Neither past due nor impaired	\$ 167,627	\$ 167,700

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

### **30. Risk management** *(continued)*

#### **Credit risk** *(continued)*

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

#### ***Expected Credit Loss Measurement***

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

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

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

**Expected Credit Loss Measurement (continued)**

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

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

**Incorporation of forward-looking information**

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

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

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

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

**Maximum Exposure to Credit Risk**

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

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

**Transfers between Stages**

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

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

**Movement in Impairment Allowances by Stage**

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

- Additional allowances for new financial assets recognised during the period, as well as releases for financial assets derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs, and LGDs in the period, arising from regular refreshing of inputs to the model;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the period and write-offs of allowances related to the assets that were written off during the period.

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

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

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



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Credit risk (continued)**

***ECL sensitivity analysis***

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

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

**BANK OF THE BAHAMAS LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Foreign exchange risk**

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently, the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarizes the Bank's exposure to foreign currency exchange risk at June 30, 2019 and 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

**Concentrations of currency risk**

In (\$000s)	2019					
	BS	US\$	CAD\$	GBP£	Other	Total
<b>Assets</b>						
Cash, cash equivalent and Central Bank balances	\$ 112,437	\$ 67,092	\$ 310	\$ 1	\$ 1,288	\$ 181,128
Financial assets - FVOCI	-	2,735	-	-	-	2,735
Financial assets - held to collect	98,075	-	-	-	-	98,075
Loans and advances, net	339,131	5,050	-	-	-	344,181
Notes receivable	167,627	-	-	-	-	167,627
<b>Total financial assets</b>	<b>\$ 717,270</b>	<b>\$ 74,877</b>	<b>\$ 310</b>	<b>\$ 1</b>	<b>\$ 1,288</b>	<b>\$ 793,746</b>
<b>Liabilities</b>						
Deposits from customers and banks	\$ 588,452	\$ 26,803	\$ 205	\$ 21	\$ 372	\$ 615,853
Cheques and other items in transit	5,542	1,218	118	86	2	6,966
<b>Total financial liabilities</b>	<b>\$ 593,994</b>	<b>\$ 28,021</b>	<b>\$ 323</b>	<b>\$ 107</b>	<b>\$ 374</b>	<b>\$ 622,819</b>
<b>Net financial position</b>	<b>\$ 123,276</b>	<b>\$ 46,856</b>	<b>\$ (13)</b>	<b>\$ (106)</b>	<b>\$ 914</b>	<b>\$ 170,927</b>
<b>2018</b>						
In (\$000s)	BS	US\$	CAD\$	GBP£	Other	Total
Total financial assets	\$ 736,882	\$ 69,054	\$ 486	\$ 3	\$ 1,228	\$ 807,653
Total financial liabilities	598,592	32,497	492	110	380	632,071
<b>Net financial position</b>	<b>\$ 138,290</b>	<b>\$ 36,557</b>	<b>\$ (6)</b>	<b>\$ (107)</b>	<b>\$ 848</b>	<b>\$ 175,582</b>

YEAR ENDED JUNE 30, 2019

(Expressed in Bahamian Dollars)

### 30. Risk management *(continued)*

#### **Operational risk**

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

#### **Interest rate risk**

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

Interest rate sensitivity or interest rate risk results from differences in the maturities or repricing dates of assets and liabilities. Interest rate risk exposures or “gaps” may produce favorable or unfavorable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. Interest rate gaps are carefully monitored, and scenario tests are performed to determine the potential impact of various gap exposures. When assets have a shorter average maturity than liabilities, an increase in interest rates would have a positive impact on net interest margins, and conversely, if more liabilities than assets mature or are repriced in a particular time interval then a negative impact on net interest margin would result. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base.

The Bank analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration changes in interest rates. Based on these scenarios, the Bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders’ equity of a 100-basis point shift would be a maximum increase or decrease of \$1.7 million (2018: \$1.8 million).

#### **Liquidity risk**

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

The Bank maintains a portion of its deposits in cash and other liquid assets to mitigate this risk. On a daily basis, the Bank monitors its cash and other liquid assets to check that they sufficiently meet the Bank’s requirements. In addition, the Bank performs regular gap analyses showing the maturity exposure arising from the different maturity of assets and liabilities. As is the case throughout the sector, those gap analyses show that the Bank is liability-sensitive in the short term. Regular scenario tests are performed to determine the extent to which the Bank can withstand unforeseen withdrawals and the cost associated with meeting such demands should they arise.



**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**30. Risk management (continued)**

**Liquidity risk (continued)**

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

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

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

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

**BANK OF THE BAHAMAS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

(Expressed in Bahamian Dollars)

**31. Subsidiaries**

Subsidiaries of the Bank as at June 30, 2019 are as follows:

<b>Name</b>	<b>Place of Incorporation</b>	<b>Shareholding</b>	<b>Nature of business</b>
Multi-Card Services Ltd.	Commonwealth of The Bahamas	100%	Card processing and services
West Bay Property Holdings Ltd.	Commonwealth of The Bahamas	100%	Investment Property
Bank of The Bahamas Trust Ltd.	Commonwealth of The Bahamas	100%	Trust Company
BAHTCO Holdings Ltd.	Commonwealth of The Bahamas	100%	Nominee Holding Company
BOB Property Holdings	Commonwealth of The Bahamas	100%	Property Holding

**32. Subsequent events**

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

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

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

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



Head Office:  
Claughton House  
Shirley & Charlotte Streets  
P.O. Box N-7118, Nassau, Bahamas  
Tel: (242) 397-3000 Fax: (242) 325-2762

[www.BankBahamas.com](http://www.BankBahamas.com)