Bank of The Bahamas
LIMITED

TRANSFORMATION

ANNUAL REPORT 2016

TRANSFORMATION

Bank of The Bahamas
LIMITED

ANNUAL REPORT 2016

TABLE OF CONTENTS

TRANS·FOR·MA·TION

noun

"In an organizational context, a process of profound and radical change that orients an organization in a new direction and takes it to entirely different levels of effectiveness."

www.businessdictionary.com

INTRODUCTION

For anyone who has seen a butterfly in its intermediate stages, when it is no longer a caterpillar and not yet a beautiful winged creature, it is a strange and awkward period to observe. From a distance nothing spectacular seems to be happening. One might be tempted to doubt or circumvent the process. Even the butterfly in its pupa and chrysalis stages becomes uncomfortable. But wait...take a closer look. Changes are occurring. Transformation is underway and in the end the metamorphosis will be worth the wait!

Now, in the midst of our transformation, we at Bank of The Bahamas are pleased to present this annual report to you, our nearly 3,000 valued shareholders, myriad loyal customers and vendors, and to our 350 dedicated members of staff, without whom, the many achievements of the past year would not have been possible. This record details key accomplishments in our transformation journey that we believe have laid the groundwork for nothing short of a complete turnaround in our financial performance and business culture.

As you review our progress in the pages that follow, the Directors, Management and Staff thank you for your loyalty and renew our commitment to a continued focus on innovation and exemplary service which have secured for us a unique and critical place in the local banking industry. We also invite you to examine the plans and policies for our continued transformation that will propel us forward to become "the Bank of the future" and first choice of residents from all walks of life.

To become "the bank of the future", a quicker, nimbler institution providing best in class customer service, demands that we continue to adjust our business model to face the realities of the current economic climate, while we take advantage of the opportunities that lie before us. This necessitates a lowered appetite for risk, a reduced focus on big commercial concerns and expanded emphasis on personal banking, SMEs and government business including payments and benefits. While adopting a more conservative approach to lending we are harnessing all of the possibilities of technology to increase market share, improve service delivery and make banking increasingly accessible through offsite ATMs, online banking and mobile devices.

As we position ourselves to capitalize on a promising economic upturn we will continue to bolster our capital position by accelerating the resolution of impaired assets via enhanced collections and provision of viable restructuring and refinancing options for our existing clientele. At the same time, we will focus on growing our retail portfolio by aggressively pursuing new business and maximizing our key competitive advantages and opportunities.

For BOB a complete transformation requires that nothing be taken for granted; that all procedures and processes be examined and that we welcome more efficient and cost-effective methods of doing business, however, in the midst of change, our one constant priority remains you, the customer. You are the reason why we do what we do every day and we thank you for the privilege of serving.

To our shareholders we pledge to continue to exercise prudent risk management and stringent oversight of operational expenses in our stewardship of your bank. We recommit to building relationships by working together to ensure that each customer experience is exceptional and that the solutions we provide are cutting edge, relevant and applicable to the current and future needs of our customers. In so doing, day by day, customer by customer we fully expect to achieve our vision: to be the best and most respected financial enterprise in The Bahamas.

BOARD OF DIRECTORS

BOB's Board of Directors brings a unique mix of skills and expertise to the oversight of the institution. Directors draw insight from backgrounds in varied specialized fields including accounting, banking and legal professions to business and technology, labour and human resources management, theology and international diplomacy. Together these 9 men and women have married their complementary abilities and experiences to ensure good Corporate Governance for Bank of The Bahamas while protecting Shareholder Interests.

HISTORY

The Bank 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. In September 1988, the Government of The Bahamas created a joint venture with Euro Canadian Bank Limited. By purchasing 51% of the shares, the Government not only had controlling interest, but was able to ensure that Bahamian employees were offered employment with the new bank, appropriately renamed Bank of The Bahamas Limited.

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. In 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.

The Bank continued to experience extraordinary success as it was able to announce an oversubscribed rights offering of $25 million in late 2005 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.*

Throughout its history, Bank of The Bahamas has accepted its role as a national development vehicle, serving smaller communities in remote areas less attractive to larger institutions but critical to local economies. Though young itself, Bank of The Bahamas grew through prudent acquisitions including assets of Workers Bank Limited (2001) and the mortgage portfolio of Citibank (2007).

The Bank of The Bahamas currently operates 13 branches on 8 islands stretching over more than 500 miles, and continues to assess efficiency of operations across such a distant environment.

MESSAGE FROM

THE CHAIRMAN | DR. RICHARD DEMERITTE

Fiscal 2016 was a year of considerable progress for Bank of The Bahamas. Loan losses were reduced and the Bank began a transformational process that will shape the BOB of the future. Together with a team of independent advisors, we are examining, assessing and revising policies, processes and procedures across every facet of this institution. Our aim is to build a leaner, faster and better bank; one that daily inspires the respect of our customers, the trust of our shareholders and the confidence of The Bahamian people.

This transformation has already produced positive results for us in asset recovery, credit risk procedures, corporate governance and strategic plans including capitalization and cost optimization. As a result, we fully anticipate a return to profitability in the near future, however, there is still much more work to be done.

With each step we take, we are focused on providing real solutions for each of our customers: from bright-eyed young savers to forward thinking professionals to savvy investors, while working strategically to maximize value for our shareholders. We fully understand that our success will depend on how well we meet and exceed our stakeholder expectations, therefore, we will be relentless in our daily pursuit of excellence.

Looking ahead *we are confident that Bank of The Bahamas will become the Bank of first choice for Bahamians from all walks of life due to a continuing emphasis on innovative products, enhanced customer service and modern, cutting edge technology.* As a leader in innovation we remain committed to ongoing improvements in service delivery and support that make banking with us even more convenient and accessible. In FY2016, for example, we upgraded our online banking platform to provide many more exciting and convenient personal banking features and there is more to come.

Through all of these changes and new developments we have been proud to have the best team possible to lead our transformation: Executive Managers and employees who have brought not only the requisite skills and expertise to the table, but also, an unwavering belief that all things are possible, and an indefatigable spirit and desire to win. I salute you and thank you for the sacrifices you have made and assure you of the continued support of our equally dedicated board of directors. To our thousands of customers, thank you for your loyalty, and to our shareholders, I assure you that your trust will be rewarded in time.

As we look forward with cautious optimism to the promise and prospects of 2017, we are grateful for the lives that were spared during Hurricane Matthew and for the opportunities we have had to assist you in your restoration. We will continue our journey of transformation and anticipate your support as partners on the road to our full recovery.

MESSAGE FROM THE ACTING MANAGING DIRECTOR | RENEE DAVIS

At the beginning of 2016 we began a journey to transform Bank of The Bahamas into a customer centric institution with sustainable profitability, providing solid, strong returns for our investors and stability and growth for our depositors.

Positive strides are being made towards these goals. Asset recovery has increased through improved remediation and collections processes and Business Development has embarked on a new sales model that is in various stages of implementation across all branches. We have streamlined our procedures to ensure ease of business for customers and introduced new operational systems to achieve a simplified, connected and standardized internal environment. Additionally, significant steps have been taken to advance recapitalization and strengthening of our Corporate Governance structure. We are transforming. I truly believe that what the mind conceives and believes it can achieve. There are infinite possibilities available to us all.

During fiscal 2016, we also achieved tremendous growth in our customer base and increased our footprint in the payments market. Growth requires a redoubled focus on quality customer service and fully engaged digital channels to enhance service delivery. In this regard, we will continue to utilize the power of technology to provide multiple access options to our customers from superfast ATMs, providing immediate cash value to multi-transactional, secure online banking and mobile banking.

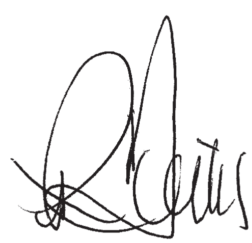
Of course we have not come this far without overcoming some obstacles. *Transformation is a process of discomfort. During transformation you have not arrived at your ideal state and you are not where you were in the past. It is a state of flux, unfolding into the realization of full potential.*

Change, development and growth are challenging stages for any entity, however, we must stay focused on our goals and not be deterred. Each team member has a role to play and it requires us all to be extraordinary, to stretch and think outside of the box.

BOB continues to metamorphose into its ultimate form, a bank that is high tech, yet high touch; leading the market in innovation, while providing fast, accurate, friendly service. Credit quality is improving while average credit limits have decreased. We are creating better customer experiences through new operations systems and working with customers to renegotiate and restructure loans, including mortgages through the government's mortgage relief programme. Losses from non-performing loans are trending down and we are now emerging from a most challenging period.

We are creating a better Bank, for our customers, for our employees, for our shareholders, for all Bahamians and steadily working to achieve our vision: to be the best and most respected financial enterprise in The Bahamas.

We will be successful! Continue to watch our transformation.



TRANSFORMATION
THE BOB JOURNEY

In January 2016, Bank of The Bahamas embarked on a transformation strategy designed to turnaround its financial performance and lay the foundation for building the BOB of the future, a customer centric institution offering innovative solutions, coupled with best in class service.

We brought together people in the Bank with technical, sales, and customer service expertise and, along with external independent advisors, created a Transformation Team that would meet weekly. Led by The Board of Directors and Executive and senior management the team embarked on the journey with dedication and commitment, beginning with assessing challenges facing the loan portfolio, liquidity risks and reviewing organizational capabilities.

The Transformation Team identified core elements driving the need for change and defined a new strategic vision that would refocus the Bank's core business segments to emphasize 1. provision of financial services to government and public agencies with a broad range of payment capabilities and 2. careful loan origination to individual and SME customers with tighter risk controls.

This new vision was shared with a range of key stakeholders including the Board of Directors, the Ministry of Finance and the Central Bank of The Bahamas before the Bank kicked off critical initiatives for transformation, with priority being given to addressing capital and liquidity risks, credit risks, cost optimization and reforming corporate governance infrastructure.

In laying the groundwork for the BOB of the future the Transformation Team sought to resolve impaired assets and pursue safe growth by strengthening the Bank's capital position, reducing delinquencies and proactively monitoring the quality of the loan portfolio. Additionally, focus was given to enabling the organization by increasing its deposit base with targeted customer segmentation, revamping branch sales effectiveness and increasing operational efficiency.

Twelve priority work-streams were identified and headed by executive sponsors tasked with directing the collective energies and expertise of relevant departments to effect change. All efforts were centrally managed through a cross-functional Transformation Office to ensure transparency and accountability.

Now, more than one year later, the transformation process has produced significant measurable results as the Bank continues its journey on the road to sustainable profitability. These achievements include:

ACCOMPLISHMENTS JANUARY 2016 – JUNE 30, 2016

CORPORATE GOVERNANCE

OBJECTIVES:

1. Address current governance needs, including creating a framework for minority shareholder representation on the Board and a Restructuring Committee.
2. Optimize organizational structure to match strategy.

ACCOMPLISHMENTS:

* A framework was developed for nomination and election of minority shareholder representatives to the Board of Directors.
* The Board approved a new organizational structure to streamline the transformation process.
* Approval was granted for members of the Restructure Committee and the committee was constituted

CAPITAL INJECTION AND LIQUIDITY

OBJECTIVES:

1. Obtain capital support to cover current needs and meet capital requirements in the long run
2. Maintain liquidity reserves above regulatory requirements

ACCOMPLISHMENTS:

* Short and medium-term capital needs of the Bank have been identified to ensure compliance with regulatory requirements. A capital injection of $40 million in common shares will immediately alleviate the deficiencies in the Tier 1 Capital Adequacy ratios. (Refer to the subsequent events disclosure in Note 32 of the audited consolidated financial statements) while a Contingent Convertible Instrument will provide a buffer as hybrid capital securities that absorb losses when the capital falls below a certain level.

COST OPTIMIZATION

OBJECTIVE:

Analyze cost footprint and adjust costs to match new strategy

ACCOMPLISHMENTS:

* The Bank is focused in the process of right sizing its cost base to release capital or otherwise meet stakeholder objectives.

* The Bank is establishing reasonable cost saving targets to drive optimization with focus on certain cost levers including third party spending, corporate occupancy, labor and other general and administrative expenses.

GOVERNMENT RELATIONSHIP MANAGEMENT

OBJECTIVE:
Increase Government demand and term accounts while maintaining or increasing deposit base on other segments.

ACCOMPLISHMENTS:
* Strengthened auxiliary revenue streams which contribute to increasing non-interest income

ADJUDICATIONS, MONITORING AND CREDIT RISK MANAGEMENT

OBJECTIVE:
Streamline credit adjudication to improve efficiency and credit risk monitoring functions

ACCOMPLISHMENTS:
* Automated credit adjudication process to provide more efficiency resulting in reduced processing time making the bank more competitive.

COLLECTIONS

OBJECTIVES:
Maximize recovery of impaired assets from the existing book

ACCOMPLISHMENTS:
* Implemented mortgage and commercial programmes to assist with restructuring of delinquent facilities.

BRANCH SALES EFFECTIVENESS

OBJECTIVES:
Drive Branch Sales through new processes and performance management

ACCOMPLISHMENTS:
* An enhanced model was implemented to improve the sales process.

Since January 2016 the transformation process has involved the participation of virtually every department and unit of the Bank. Employees at every level have committed themselves to the process, going above and beyond business as usual to achieve the stated objectives and goals of this undertaking. The teamwork and collaboration required for such transformation efforts has released a renewed sense of purpose and synergy throughout the Bank with measurable results.

While the transformation is not yet complete, Bank of The Bahamas has come a long way in a short time, morphing from an organization that was almost crippled by challenges to one that has begun to realize the promise and potential of a new vision.

The journey continues...

AGENTS OF CHANGE

LEADING THE TRANSFORMATION

The teamwork and extensive collaboration required for transformation has released a renewed sense of purpose and synergy throughout the Bank. Here are some of the agents of change.

TRANSFORMATION OFFICE TEAM: *Seated (L-R)* **Brea Braynen**, Manager, Retail Recoveries; **Vanessa Taylor**, Senior Manager, Operations; **Patrice Gardiner**, Corporate Manager, Human Resources; **Renee Davis**, Acting Managing Director; **Philice Albury**, Corporate Manager, Enterprise Risk Management; **Jihanne Hosmillo-Williams**, Financial Controller; and **Davine Rolle**, Chief Internal Auditor;

Standing (L-R) **Kelvin Briggs**, Senior Manager, Retail Recovery and Collections; **Ian Thompson**, Senior Manager, Credit Adjudication; **Julius Seymour**, Manager, Retail Credit Adjudication; **Charles Barnett**, Corporate Manager, Credit Risk Management; **Philip Haven**, Sr. Manager, Business Development; **Earl Beneby**, Corporate Manager, Corporate and Commercial Services; **Derek Sweeting**, Manager, Asset Management; **Hubert Edwards**, Chief Business Development Officer; **Patrick McFall**, Chief Risk Officer; and **Byron Miller**, Sr. Manager, Business Development.

CORPORATE CREDIT AND CREDIT RISK

HUMAN RESOURCES

CREDIT AJUDICATION

MARKETING

SALES & SERVICE

INFORMATION TECHNOLOGY

COMMUNITY
SPONSORSHIP AND CHARITABLE DONATIONS

Bank of The Bahamas has always sought to make a difference in the communities of which its branches and operations are a part, and 2016 was no exception. Despite a reduced allocation for sponsorship and charitable donations, BOB, "the bank with a heart" continued to give back, making significant contributions in key areas of Bahamian life.

FESTIVALS & REGATTAS

BOB provided banking and cash management services for the International Culture Wine & Food Festival and Bahamas Junkanoo Carnival events in Grand Bahama and New Providence. Each festival required the commitment of a large contingent of BOB Volunteers who willingly gave of their time and skills and worked tirelessly to provide essential banking services. In the Family Islands the Bank also supported the Cat Island and Acklins Sailing Regattas.

INDUSTRY DEVELOPMENT

BOB expressed its commitment to the development of the Banking sector through two key activities: its sponsorship of a BCOCEC "De-risking" breakfast seminar and financial support for the BIFS G12 Certificate Programme. The De-risking breakfast focused on maintaining relationships with international correspondent banks in a climate of uncertainty, while the G12 Certificate Programme continues to equip high school graduates with knowledge and skills to obtain entry level positions in the Financial Services sector.

EDUCATION & YOUTH DEVELOPMENT

Education and Youth Development remained key areas of focus for BOB's FY2016 sponsorship thrust. The bank once again sponsored the Royal Bahamas Police Force Summer Youth Camps, helping to keep thousands of youths engaged in positive activities along with social and technical skills development during the summer months when idleness has too often created an environment festering trouble, especially for at risk young males. Additionally, in preparation for back-to-school, BOB Management, staff and customers joined forces to collect and donate supplemental supplies to schools adopted by BOB branches.

SPORTS

Bank of The Bahamas recognizes the power of sports to develop character, unify a nation and provide opportunities for education and national development. In April 2016, the Bank sponsored the Chris Brown Bahamas Invitational for the second time. This world class event spearheaded by BOB Express Suite Ambassador and Olympic gold medalist Chris Brown drew top athletes and fans from around the world to compete at the Bahamas National Stadium. During the course of the year the bank also assisted Chris Brown and Triple Jump star Leevan Sands in their journeys to the 2016 Olympics and supported fundraising activities of the Bahamas Swimming and Bodybuilding Federations.

HUMANITARIAN AND SOCIAL NEEDS

Because The Bahamas is only as strong as its regard for the most vulnerable among us, BOB continued its support for invaluable programmes of The Bahamas Red Cross Society and The Salvation Army through sponsorship and volunteerism. Additionally, in the aftermath of Hurricane Joaquin, the bank's Management and staff donated funds to purchase Christmas gifts for "adopted" children who were displaced by the Hurricane.

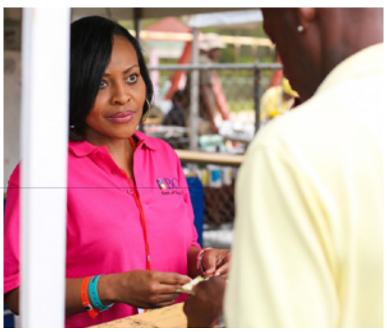
HISTORICAL AND ENVIRONMENTAL PRESERVATION

Bank of The Bahamas acknowledges the importance of our fragile ecosystems and historic landmarks as a foundation for all present and future growth. As a result, the bank gave its support to Earth Day Activities in Cat Island and the Historic Bahamas Foundation's Fair to fund restoration of the Cat Island Hermitage.

BOB Volunteers at the International Cultural Festival.

BOB sponsored the Chris Brown Bahamas Invitational and re-signed Chris Brown as Brand Ambassador for its BOB Express Suite of Products.

Executive and Senior Management present Christmas gifts to children displaced by Hurricane Joaquin.



A BOB volunteer assists a patron at Bahamas Junkanoo Carnival.

BOB presents incentive cheque to Bahamas Olympic Triple Jumper Leevan Sands

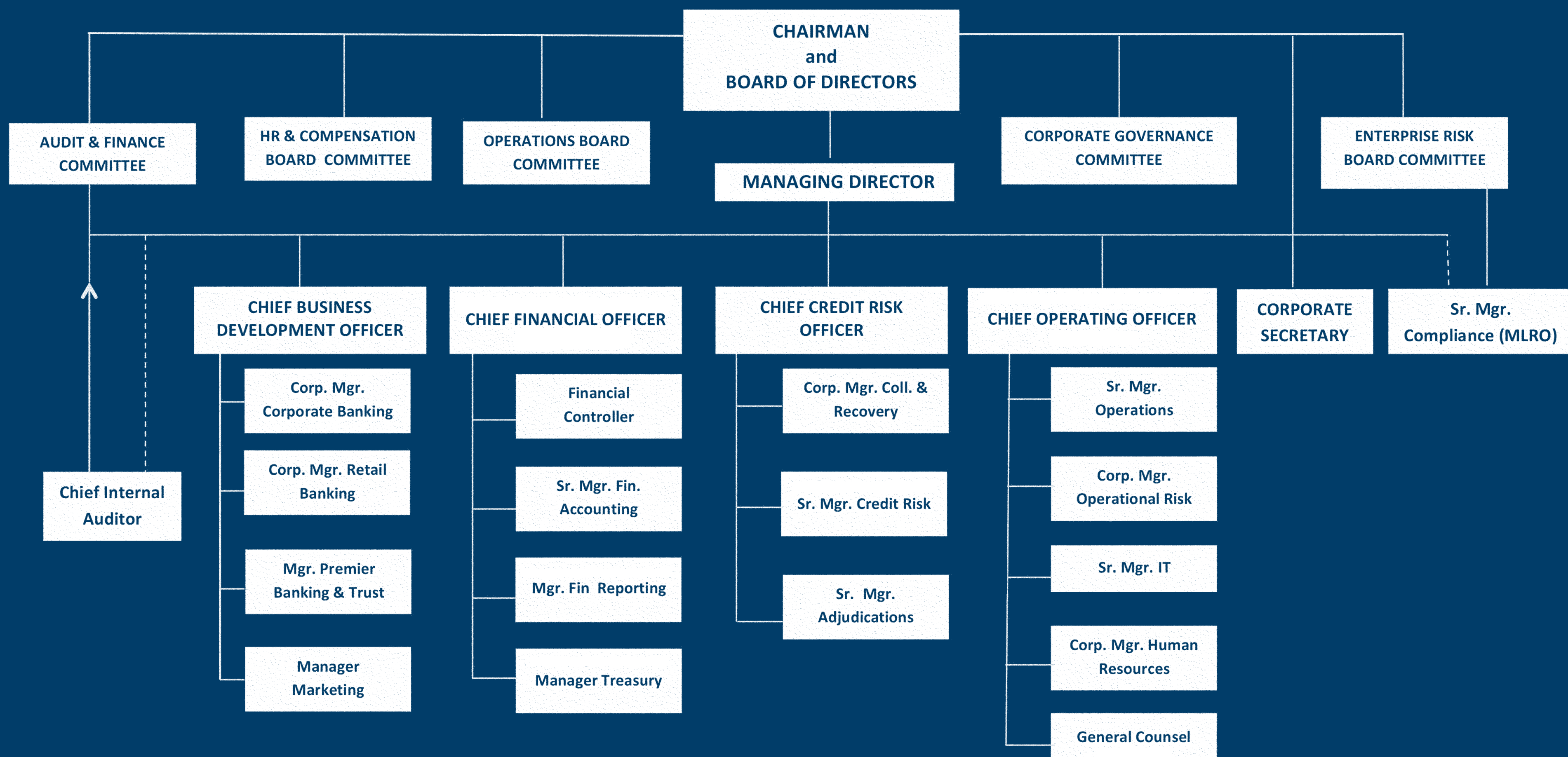
A cheque presentation to support The Cat Island Regatta.

Friendly service from a BOB volunteer.

BOB was a corporate sponsor for Bahamas Junkanoo Carnival providing cash management services for events in Grand Bahama and New Providence.

Bank of The Bahamas LIMITED

ORGANIZATIONAL CHART



EXECUTIVE MANAGEMENT TEAM

Pictured from left:
Patrick McFall, Chief Risk Officer; Renee Davis, Acting Managing Director; and Hubert Edwards, Chief Business Development Officer.

"We are creating a better Bank for our customers, for our employees, for our shareholders, for all Bahamians and steadily working to achieve our vision: to be the best and most respected financial enterprise in The Bahamas."

RENEE DAVIS
ACTING MANAGING DIRECTOR, BOB

SENIOR MANAGERS

PHILICE ALBURY
Corporate Manager,
Enterprise Risk Management

CHARLES BARNETT
Corporate Manager,
Credit Risk Management

EARL BENEBY
Corporate Manager,
Corporate & Commercial Services

BARBARA FERGUSON
Senior Manager, Internal Audit

PATRICE GARDINER
Corporate Manager, Human Resources

PHILLIP HAVEN
Senior Manager,
Business Development

JIHANNE HOSMILLO WILLIAMS
Financial Controller

RENEE IJEOMA
Senior Manager,
Information Technology

VANESSA TAYLOR
Senior Manager, Operations

ELNORA MAJOR
Senior Manager, Business Support

BYRON MILLER
Senior Manager,
Business Development

DAVINE ROLLE
Chief Internal Auditor

IAN THOMPSON
Senior Manager,
Credit Adjudication

MAUREEN TURNQUEST
Senior Manager,
Financial Accounting

LAURA WILLIAMS
Manager, Corporate Affairs

CORPORATE GOVERNANCE PRINCIPLES
BANK OF THE BAHAMAS LIMITED

The following principles were adopted by the Board of Directors ("the Board") of Bank of The Bahamas Limited ("the Bank/BOB") and provide the framework for corporate governance of the Bank.

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. And whilst the management of the day-to-day operations are delegated to the Bank's executives, the Board reviews policies and procedures and monitors to ensure that operations are carried out in compliance with applicable laws and regulations and are consistent with sound banking practices.

The Board's overall conduct is guided by its Corporate Governance Handbook which details the duties and potential liabilities of Directors and Officers of the Bank. Further, in order to evaluate the performance of Directors and the Board as a whole, the Board participates in a self-evaluation process on an annual basis.

BOARD COMPOSITION, STRUCTURE AND POLICIES

Board Membership
The Board is currently comprised of 7 non-executive Directors and one executive Director, the Acting Managing Director, who is responsible for the general supervision of the business, affairs and concerns of the day-to-day operations of the Bank.

Board Committees
BOB's Board of Directors seeks to facilitate an effective corporate governance framework which is facilitated by Board Committees to ensure transparency and accountability to its stakeholders. These Committees assist 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 which are as follows:-

- Corporate Governance Board Committee
- Enterprise Risk Board Committee
- Operations Board Committee
- HR & Compensation Board Committee
- Audit & Finance Board Committee
- Credit Adjudication Board Committee

Restructuring Sub-Committee
In early 2016 it was determined that a major restructuring of the Bank was required in order to guide it towards a sustainable path of profitability. Key stakeholders that included representatives from the

Bank, the majority shareholder and the Central Bank of The Bahamas devised a Restructuring Committee ("RC") which would serve as a sub-committee to the Board and oversee this transformation process.

Membership:- The RC is comprised of a representative of management (the Acting Managing Director), a major shareholder representative (the Financial Secretary), three external persons of the business and financial services community and the Central Bank's Monitor.

The RC is tasked with reviewing the overall transformation plan, i.e. its goals and objectives and provide feedback and advice on the overall approach, strategy and timing of key activities. This committee is required to work closely with management to problem solve key risks and mitigation strategies and assist the Board in evaluating overall management progress against the transformation objectives.

Term:- The RC is expected to be temporary and exist for 18 to 24 months.

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 Board completes 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. Therefore, we can attest that the Board is comprised of a substantial majority of Directors who meet The Central Bank of The Bahamas' criteria for independence. Should a Director not meet these criteria during the course of the year of service on the Board, said Director is required to update the Board with any new information in relation to interests or relationships relevant to independence.

BOARD MEETINGS

Frequency of Meetings

Board meeting dates are scheduled and communicated with Directors at least a year in advance. In 2016, four regular Board meetings and five extraordinary Board meetings were held.

Summary of Board Committee Meetings Held for the Year Ended June 30, 2016

Corporate Governance Board Committee	**1**
Audit & Finance Board Committee	**4**
Operations Board Committee	**4**
Human Resources & Compensation Board Committee	**4**
Enterprise Risk Board Committee	**4**
Credit Adjudication Board Committee	**2**

Attendance at Meetings
Regular attendance at all Board meetings, together with committee meetings and the AGM, is expected of all Directors. Following is a record of attendance during the 2016 fiscal year:

For the period July 1, 2015 to June 30, 2016
(July 2015 to December 2015)

Director	BOD July 9, 2015	BOD Sept. 11, 2015	Extra. BOD Oct. 20, 2015	BOD Nov. 17, 2015	Extra. BOD Dec. 4, 2015	Extra. BOD Dec. 16, 2015	Extra. BOD Dec. 29, 2015
Richard C. Demeritte	✓	✓	✓	✓	✓	✓	✓
Alexander Reckley	✓	✓	✓	✓	✓	✓	✓
Don Davis	✓	✓	✓	✓	✓	✓	✓
Donna Harding-Lee	✓	✓	✓	✓	✓	✓	✓
Eric Gibson, Jr.	✓	✓	✓	✓	✓	✓	✕
Errol McKinney	✓	✓	✓	✓	✓	✓	✕
W. Renae McKay	✓	✓	✓	✓	✓	✓	✓
Bishop Roston Davis	✓	✓	✓	✕	✓	✓	✓
Wayde A. Christie	✓	✓	✓	✓	✓	✓	✓

✓ = Present ✕ = Apologies

For the period July 1, 2015 to June 30, 2016
(February 2016 to May 13, 2016)

Director	Extra. BOD Feb. 24, 2016	BOD March 4, 2016	Extra BOD Mar. 17 2016	Extra. BOD April 1, 2016	Extra. BOD April 12, 2016	Extra. BOD April 25, 2016	BOD May 13, 2016
Richard C. Demeritte	✓	✓	✓	✓	✓	✓	✓
Alexander Reckley	✓	✓	✓	✓	✓	✓	✓
Don Davis	✓	✓	✓	✕	✓	✓	✕
Donna Harding-Lee	✓	✓	✓	✓	✓	✓	✓
Eric Gibson, Jr.	✓	✓	✓	✓	✓	✓	✕
Errol McKinney	✓	✓	✓	✓	✕	✓	✓
Bishop Roston Davis	✓	✓	✓	✓	✓	✕	✓
W. Renae McKay	✓	✓	✕	✓	✓	✓	✓
*Wayde A. Christie	✓	✓	✓	✓	✕	✕	✕
**Renee L. Davis	n/a	n/a	n/a	n/a	✓	✓	✓

*Wayde Christie demitted office as Managing Director in April, 2016
**Renee L. Davis appointed as Acting Managing Director in April 2016.

Preparation for Meetings
The Chairman along with the Managing Director prepares the agenda for each meeting. In addition, the Executive Committee 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.

Board materials are distributed 5 - 7 days in advance of Board meetings to give Directors an opportunity to review reports and, where possible, to obtain additional information from management or pose any questions or concerns they may have prior to the meetings.

BOARD CERTIFICATION

Each year the Board is required to issue a Corporate Governance Statement to The Central Bank of The Bahamas confirming that it is familiar with the contents of the *Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and from Within The Bahamas*, and is adhering to the guidelines as outlined. As part of this exercise, key areas of the Bank developed 'In-Control' statements. The Internal Audit Department reviews and tests the attestations made by management in this regard. Essentially, these documents capture the specific minimum reporting requirements for each division and its internal control systems, which ensure that each area is 'in control'. These reports are generated quarterly and presented at each Board meeting for review and ratification.

On 29th April, 2016, the Board submitted its Annual Certification (see letter below) to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines.

April 29, 2016

The Inspector of Banks and Trust Companies
The Central Bank of The Bahamas
Nassau, The Bahamas

Dear Sir,

RE: BANK OF THE BAHAMAS LIMITED – BOARD OF DIRECTORS' ANNUAL CERTIFICATION TO THE CENTRAL BANK OF THE BAHAMAS - DECEMBER 31, 2015

a. The Board of Directors (the Board) of Bank of The Bahamas Limited (the Bank) is familiar with the contents of the *Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within The Bahamas* (the Guidelines), issued by The Central Bank of The Bahamas on May 8, 2013, and acknowledges its role and responsibilities under the Guidelines.
b. The Independent Non-Executive Directors of the Board (INED) as listed below, for the period December 31, 2015, met some independence requirements as outlined in Section VIII of the above guidelines.

Dr. Richard C. Demeritte, Chairman
Mr. Don S. Davis
Mrs. Donna M. Harding-Lee
Bishop Roston L. Davis
Mr. Eric Gibson, Jr.
Mr. Errol J. McKinney
Mr. Alexander Reckley
*Ms. Renae McKay

The Board is aware of the Bank's unique position as it relates to the National Insurance Board and The Government as it major shareholders. The Bank's corporate governance process was enhanced in comparison to prior years and we will continue to implement controls that facilitate proper verification of related parties and conflicts of interests.

**Ms. McKay represents the National Insurance Board, a major shareholder of the Bank. Therefore, she is classified as a Non-Independent Non-Executive Director*

c. The Bank's environment was assessed by external consultants during the period. At present, there is a major restructuring exercise taking place to ensure we operate as efficiently and effectively as possible. As a result, we will continue to improve systems, processes and people in an effort to improve the Bank's control environment.

d. The Board has carefully considered the reporting of Senior Management and other information provided in determining whether the Bank is following the Guidelines and further encourages Management to ensure reporting is complete and timely;

e. The Board has reviewed key policies and procedures of the Bank and will continue to implement the necessary policies and procedures in compliance with the Guidelines and during the current Bank-wide transformational change;

f. The Board is of the opinion that the Bank is materially compliant with the principles of the Guidelines. Deficiencies noted are discussed with the Bank's regulators and key stakeholders in accordance to the Guidelines.

    i. *While we acknowledge that significant progress has been made, we do recognize that continued attention and progress are required in the following areas in order to further enhance the control environment of the Bank and improve the enterprise risk management process:*

        » *Enhanced training efforts to ensure that all key stakeholders are proficient in their knowledge of the Bank's risks, products and operating standards and adherence to Bank policies;*

        » *Enhancement of the Banks core banking systems;*

        » *Monitoring of the credit portfolio to ensure that the quality of the Bank's assets remain strong during this period of economic uncertainty;*

        » *Implementation of automated tools and reports to better monitor and assess the key risk areas within the Bank's control environment; and*

        » *Continued focus on improving data quality, information security and customer service standards.*

    ii. *Executive and Senior Management have been assigned to address the areas with deficiencies and we are confident that these areas will continue to be addressed with determination. An action plan to correct those deficiencies has been prepared and is being implemented; and*

    iii. *A copy of the action plan will be submitted to the Inspector;*

g. The Board previously reviewed the Bank's comprehensive *Business Continuity Plan* (BCP) Policy. The Board will review the Plan once further enhanced to reflect the Bank's environment. We will further seek to ensure that the recovery strategies adopted within that plan are valid and the plan will be tested moving forward;

h. The Board will seek to perform its functions and fulfilling its obligations under the *Guidelines for the Minimum Standards for the Outsourcing of Material Functions.* While the process was formalized during the period, it could be further enhanced. Executive Management will seek to enhance this process so that it operates effectively moving forward;

i. The Board has taken account of its obligations to comply with the *Guidelines for Licensees on the Prevention of Money Laundering and Countering the Financing of Terrorism*. The Bank has implemented an AML Monitoring Solution and continues to enhance these processes as it transitions from manual to automated.

j. The Board notes that internal audits completed and issues were identified. We will seek to ensure that there is active monitoring of action plans to ensure timely resolution;

k. An action plan to remedy the deficiencies stated in the Bank's Report of Examination has been prepared and submitted to the Inspector and the agreed remedial actions are being addressed;

l. The Board is satisfied that the Bank has policies, procedures, processes and controls in place to ensure that key inherent business risks, where they exist, are effectively managed. Moving forward, the Board will proactively ensure all risks are appropriately addressed through the Bank's Enterprise Risk Management program and control gaps noted will be resolved efficiently and effectively;

m. The Bank has developed its large exposure policy, however, the same is to be enhanced prior to approval and implementation. This is to ensure the effects of the transformational changes and new strategic initiatives are captured. We will continue monitoring the Bank's credit operations to ensure the adherence to the policy; and

n. The Bank has been granted the necessary approval for the appointment of a member of senior management as a Compliance Officer/Money Laundering Reporting Officer.

Based on the corrective actions being taken by Management and the formal representations made by the respective Executive and Senior Management, we are satisfied that the Bank is reasonably 'In-Control' with its operations. Priority will continue to be given to the resolution of deficiencies.

Yours faithfully,
On behalf of Bank of The Bahamas Limited Board of Directors:

Renee L. Davis **Acting Managing Director**	**Richard C. Demeritte** **Chairman**

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR FINANCIAL YEAR END JUNE 30, 2016

FINANCIAL HIGHLIGHTS	2016	2015	2014	2013	2012
Interest Income	$ 40.01	$ 42.74	$ 49.82	$ 65.70	$ 62.03
Net Interest Income	$ 24.34	$ 26.21	$ 31.49	$ 43.61	$ 37.52
Net Non-Interest Income	$ 9.29	$ 6.79	$ 6.15	$ 6.37	$ 6.13
Total Operating Expenses	$ 32.53	$ 37.27	$ 34.20	$ 32.53	$ 29.72
Net Credit Loss Expense	$ 24.50	$ 26.12	$ 69.72	$ 21.82	$ 10.22
Net (Loss)/Income	$ (23.41)	$ (30.40)	$ (66.28)	$ (4.37)	$ 3.68
(Loss)/Earnings per Share (EPS)	$ (1.09)	$ (1.42)	$ (3.21)	$ (0.43)	$ 0.08
Total Assets	$ 853.42	$ 811.70	$ 771.07	$ 890.04	$ 861.26
Loans and Advances to Customers, net	$ 509.88	$ 569.41	$ 660.55	$ 734.48	$ 687.62
Total Liabilities	$ 789.33	$ 720.91	$ 701.33	$ 747.87	$ 744.14
Shareholders Equity	$ 64.09	$ 90.79	$ 69.74	$ 142.17	$ 117.12
Share Closing Price	$ 5.22	$ 5.22	$ 5.22	$ 5.23	$ 5.49
Risk Adjusted Capital Ratio	11.70	17.40	11.13	22.44	20.67
Efficiency Ratio	94.35	106.31	90.86	65.08	68.08

$ amounts are stated in Millions. The EPS and Closing Price in $, Capital and Efficiency Ratios are %.

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

OVERVIEW

In the middle of the Bank's fiscal year, the Bank embarked on a transformation process and the road to restoration involves achieving a sustainable growth path for loans and deposits, an acceleration of the resolution of impaired assets while maintaining operational efficiency through balancing people, technology and processes. Profitability and the maintenance of adequate capital reserves can engender confidence in the stability and soundness of the Bank and can provide assurance that the Bank will continue to provide positive returns for our investors and a stable and safe institution for depositors.

The Bank's year end results and financial position is an early indication of the Bank's continuous commitment and focus on the transformation process and the positive strides made to mitigate losses. However, the year-end results also still reflect the continued challenges with systematically high loan delinquencies which reduce the level of income recognized while credit losses was still the key factor affecting overall profitability.

Total revenue for the year amounted to $50.0 million, slightly lower than prior year's $51.0 million, however the Bank's total operating income

(TOI) for the year resulted in a $0.6 million positive variance from $33.0 million during prior year to $33.6 million for the year ended June 30, 2016. The overall positive variance was the result of higher net fees and commission income and other operating income of $2.5 million, partially offset by lower net interest income of $1.9 million.

For the year ended June 30, 2016, the Bank's net loss of $23.4 million is $7.0 million or 23% lower than prior year's net loss of $30.4 million, and a significant $42.9 million or 64.69% lower than the net loss for year ended June 30, 2014 when the Bank recorded its highest net losses. Compared to prior year, the Bank's operating expenses before impairment losses decreased by $3.4 million or 9.55%, net credit loss expense decreased by $1.6 million or 6.22% and impairment losses decreased by $1.4 million or 63.18%.

Although the Bank's overall performance was significantly impacted by the performance of its loan portfolio, the Bank's balance sheet remains strong with total assets of $853.4 million as of June 30, 2016, primarily driven by the composite of net loans and advances, which stood at $509.9 million, and customer deposits base which ended at $764.4 million as at year end.

INTEREST AND SIMILAR INCOME

Interest income for the year ended June 30, 2016 was $2.7 million or 6.39% lower than prior year as interest income from loans and advances to customers decreased by $4.2 million primarily driven by the decline in the Bank's gross loan portfolio by $37.6 million or 5.93%, partially offset by $1.4 million higher interest income accrued for notes receivable. The average loan yield for the Bank was 6.25% versus 6.36% in the prior year. The slightly lower yield reflects a highly competitive market.

INTEREST AND SIMILAR EXPENSE

Interest and similar expense trended lower by $0.9 million or 5.18% compared to prior year. While the deposit base shows an overall growth of approximately $67.0 million or 9.60% as at year end, the decline in interest expense was attributed to customers shifting from the longer term and higher yielding term deposit products to the lower yielding savings and demand deposit accounts. The Bank continues to seek the best combination of funds to further grow and diversify its deposit base with greater emphasis being placed on basic savings deposit schemes and programs.

NET INTEREST INCOME

Net interest income represents the amount by which income on interest earning assets exceeds interest expense incurred on interest bearing deposits. Consequently, with a lower interest income only partially offset by a lower interest expense during the year, the Bank's net interest income decreased by $1.9 million or 7.15%.

NET NON-INTEREST INCOME

Net non-interest income consists of the Bank's fees and commission income and expense primarily from its card products, deposits and credit services including other income. The Bank's net non-interest income increased by $2.5 million or 36.90% during the year, which ended with $9.3 million compared to $6.8 million in the prior year. Aside from an extraordinary other income of $1.3 million recognized during the year, fee and commission income increased by more than $0.8 million as the Bank placed more emphasis on strengthening its auxiliary revenue streams.

NET CREDIT LOSS EXPENSE

Net credit loss expense has trended lower year on year, with a $1.6 million or 6.22% decline since prior year and a significant $45.2 million or 64.86% decline since the year ended June 30, 2014 when the Bank recorded its highest credit loss expense. Specific provisions recorded during the year amounted to $24.5 million partially offset by lower portfolio assessment of $0.1 million, while compared to prior year the Bank recorded higher additional credit losses on both the specific provision and portfolio assessment of $25.1 million and $0.7 million, respectively.

Although net credit losses has shown some improvement year over year and the Bank's non-accrual loans decreased by $0.1 million during the year from $235.0 million as at June 30, 2015 to $234.9 million as at June 30, 2016, the Bank continues to be mindful of the need for diligence and prudence in its assessment of credit losses as the Bank, like the industry, continue to be challenged by high loan delinquencies, reduced values on collateral holdings and difficulty to realize on the collateral as experienced within the present economic environment.

OPERATING EXPENSES

Operating expenses before impairment losses fell by $3.4 million or 9.55% year on year, ending at $31.7 million versus $35.1 million in the prior year. Lower staff costs, licenses and other fees, occupancy and other administrative expenses were the key expense line items that contributed to this positive variance. The Bank incurred lower salaries, termination and settlement expenses during the year. Business license fees were also down as the Bank's total gross revenue decreased year on year while certain professional fees incurred in the prior year were non-recurring expenses. Lower utilities expense contributed to a lower occupancy expense. The Bank also recognized lower impairment losses of $0.8 million during the year for the provisions on certain clearing items compared to $2.2 million in the prior year for impairment on property and intangible asset.

Efficiency ratio based on operating expenses before impairment losses improved from 106.31% in the prior year to 94.35% for the year ended June 30, 2016. Management continues to seek and implement cost control measures in line with the Bank's plan to manage its costs and return to profitability.

STATEMENT OF FINANCIAL POSITION

The Bank's risk management structure promotes sound business decisions. Investment securities consist primarily of government bonds, and cash and due from banks have been placed with high quality reputable institutions. Strategic reviews of the loan portfolio are performed to minimize our exposure to those balances where collectability may be uncertain. We continue to focus our efforts toward prudent financial and capital management to ensure that the Bank's statement of financial position remains strong.

TOTAL ASSETS

Total assets stood at $853.4 million, an increase of $41.7 million or 5.14% compared to the prior year's total assets of $811.7 million. Cash and account with The Central Bank increased by $103.4 million or 217.89% due to facilitation of normal business activities and the Bank's initiatives to significantly grow its deposit base. This increase was partially offset by a decrease in net loans and advances to customers by $59.5 million or 10.45%, from $569.4 million as at June 30, 2015 to $509.9 million as at June 30, 2016. The decline in net loans and advances was largely due to the overall decrease in the gross loan portfolio of about $37.6 million as a result of collections on regular loan payments and significant loan pay-outs as the Bank competes with other local banks. Additionally, provision for loan losses moved from $72.4 million as at prior year to $94.8 million, an increase of $22.4 million or 30.91% for the additional net credit loss expense recognized during the year, thereby further decreasing the year-end balance of net loans and advances to customers.

TOTAL LIABILITIES

Total liabilities stood at $789.3 million, an increase of $68.4 million or 9.49% compared to prior year's total liabilities of $720.9 million. Deposits from customers and banks, which account for about 96.84% of total liabilities, increased by $67.0 million or 9.60%, from $697.4 million as at June 30, 2015 to $764.4 million as at June 30, 2016. The growth in the Bank's deposit base primarily stemmed from a net increase in demand deposit accounts and savings accounts, despite a decrease in term deposits. Increases were noted in government and related parties demand deposits, business demand deposits, individual savings deposits, and individual term deposits. The Bank continues with its initiatives in creating and implementing sales and service strategies and ensuring successful execution to achieve optimal growth.

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity stood at $64.1 million, a decrease of $26.7 million or 29.41% compared to prior year equity of $90.8 million. The decrease in total equity is largely due to the net loss of $23.4 million during the year, which increased the accumulated deficit to $94.0 million. Share capital also decreased by $3.4 million or 6.91% due to the annual partial redemption of preference shares.

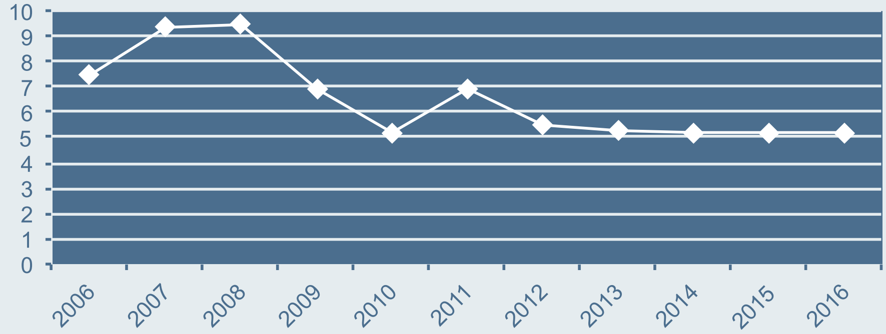
Effective January 1, 2015, Basel III capital requirements were fully implemented which required the Bank to maintain more stringent capital adequacy ratios. Subsequently, effective September 30, 2016 the Central Bank further increased the Bank's key Basel III ratio, the Total Capital to Total Risk Weighted Assets ratio, from a minimum of 17.00% to 18.00%. As at June 30, 2015, the Bank's Total Capital ratio of 17.40% dropped to 11.70% as at June 30, 2016 primarily due to a lower total eligible capital as the Bank recorded further net losses during the year. However, this temporary breach in the total capital ratio was subsequently resolved through the September 2016 ordinary shares rights offering which restored the key Basel III ratios back to compliance.

CONCLUSION

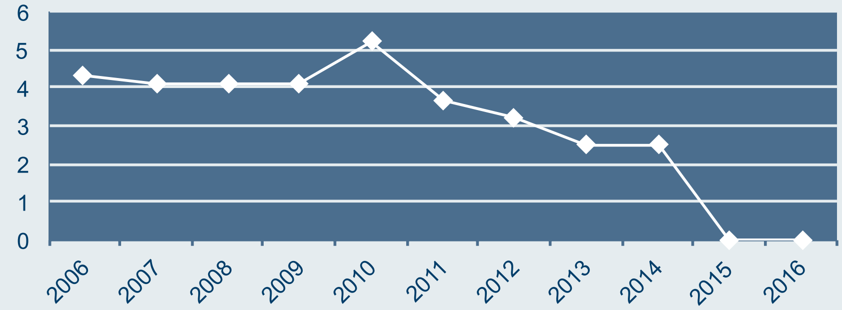
The team at Bank of The Bahamas remains committed to consistently providing exceptional customer service and superior financial solutions. Our Bank was founded and remains dedicated to a tradition of financial integrity, quality and excellence. Through product innovation, diversification and enhanced customer service, coupled with human capital development and new technology, the Bank is devoted to achieving further operating efficiencies and increased value for each of our stakeholders. The key objective remains sustainable growth and sound liquidity management, while maintaining healthy reserves and capital levels.

A comprehensive transformation exercise has been underway. BOB's transformation will take time, but key elements of the plan have already been started. Within the next several months, BOB will make substantial progress towards our vision: to be the best and most respected financial enterprise in the Bahamas.

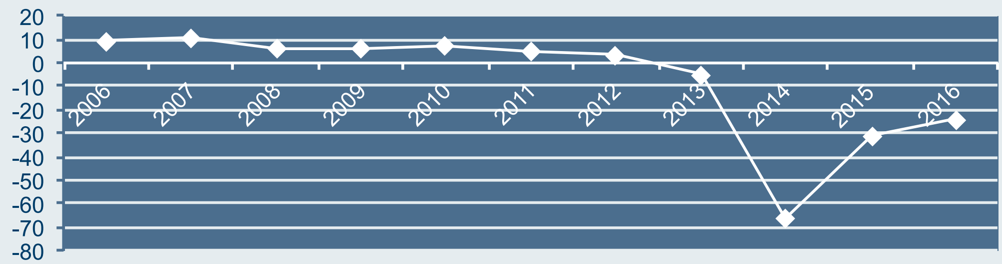
SHARE PRICE



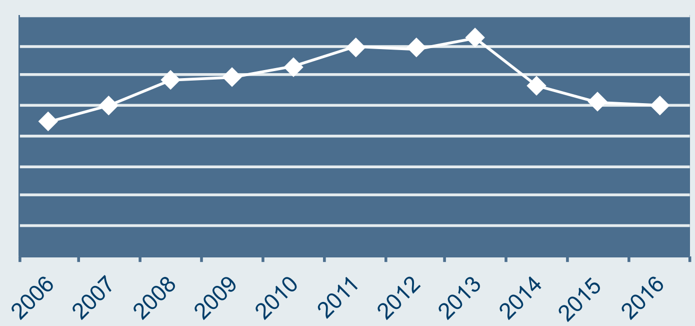
DIVIDENDS



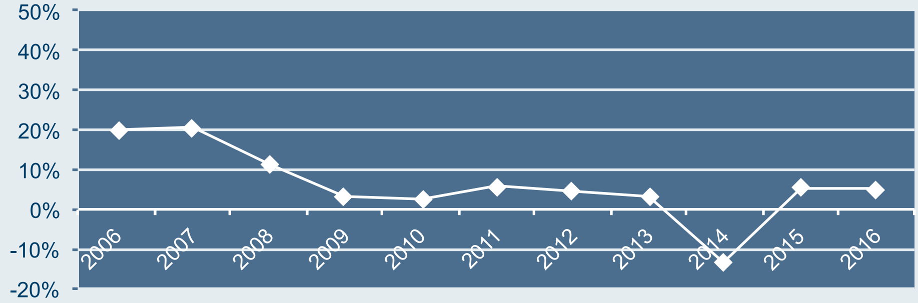
NET INCOME/(LOSS)



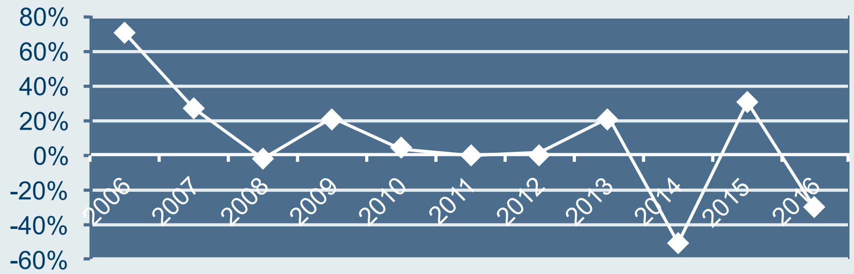
GROSS REVENUE



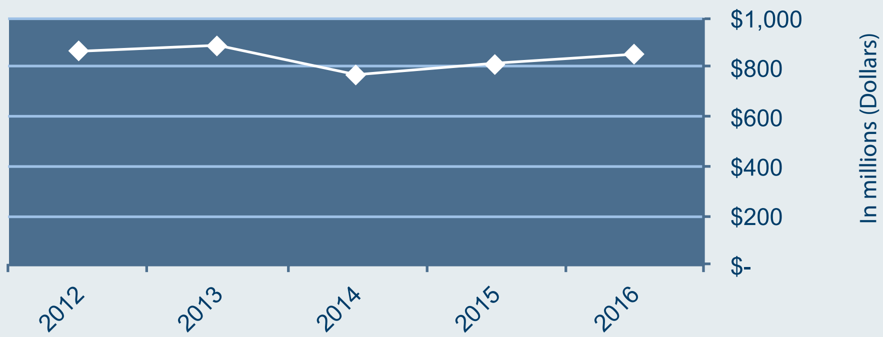
ASSET GROWTH



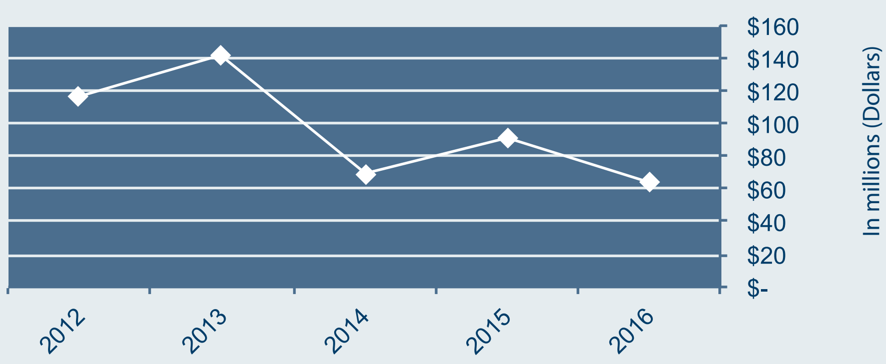
SHAREHOLDER'S EQUITY GROWTH



TOTAL ASSETS



SHAREHOLDERS' EQUITY



Bank of The Bahamas LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

BANK OF THE BAHAMAS LIMITED
Year ended June 30, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Bank of The Bahamas Limited
Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank of The Bahamas Limited and its subsidiaries (the "Bank") which comprise the consolidated statement of financial position as at June 30, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at June 30, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 2(a) *Going Concern* and 29 *Regulatory Capital.* The Bank has experienced continuing operating losses for the last several years and was also non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2016 and 2015. Management does not expect that the continued operating losses or regulatory capital deficiencies will impact the Bank's continuing ability to operate as a going concern.

Our opinion is not qualified in respect of this matter.

Other Matter

The consolidated financial statements of the Bank as at and for the year ended June 30, 2015 were audited by another auditor who expressed an unqualified opinion on those statements on December 29, 2015.

KPMG

December 13, 2016

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Financial Position

June 30, 2016, with corresponding figures for 2015
(Expressed in Bahamian Dollars)

	Notes		2016	2015
ASSETS				
Cash and account with The Central Bank	5, 24	$	150,891,387	47,466,356
Due from banks	5		42,486,741	37,429,012
Investment securities	6, 24		31,198,018	31,547,284
Loans and advances to customers, net	7, 24		509,884,153	569,410,985
Investment property	8		4,340,000	4,340,000
Other assets	9, 24		6,296,220	11,397,822
Property and equipment, net	10		6,828,712	9,055,871
Intangible assets, net	11		1,498,596	1,049,403
Notes receivable	12, 24		100,000,000	100,000,000
TOTAL ASSETS			**853,423,827**	**811,696,733**
LIABILITIES				
Deposits from customers and banks	13, 24	$	764,352,914	697,382,511
Other liabilities	14, 24		18,830,998	17,032,743
Deferred loan fees	3		6,149,779	6,495,342
Total liabilities			**789,333,691**	**720,910,596**
EQUITY				
Share capital	15		45,838,935	49,238,935
Share premium	15		54,004,621	54,004,621
Treasury shares	16		(1,318,224)	(1,318,224)
Reserves	17		4,946,230	4,835,596
Special retained earnings	12		54,622,532	54,622,532
Accumulated deficit			(94,003,958)	(70,597,323)
Total equity			**64,090,136**	**90,786,137**
TOTAL LIABILITIES AND EQUITY		**$**	**853,423,827**	**811,696,733**

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on December 13, 2016 and are signed on its behalf by:

Director

Director

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Comprehensive Income

Year ended June 30, 2016, with corresponding figures for 2015
(Expressed in Bahamian Dollars)

	Notes		2016	2015
Interest and similar income	18, 24	$	40,009,145	42,738,641
Interest and similar expense	18, 24		15,672,224	16,528,369
Net interest income			24,336,921	26,210,272
Fees and commission income	19		5,918,908	5,129,364
Fees and commission expense	19		689,223	1,482,457
Net fees and commission income			5,229,685	3,646,907
Other operating income	20		4,059,390	3,138,230
Total operating income			33,625,996	32,995,409
Credit loss expense, net	7		(24,499,006)	(26,124,108)
Net operating income			9,126,990	6,871,301
Operating expenses	21, 24		32,533,625	37,268,068
Net loss			**(23,406,635)**	**(30,396,767)**
Other comprehensive income				
Net gain on available-for-sale financial assets	6		110,634	223,201
Total comprehensive loss for the year		**$**	**(23,296,001)**	**(30,173,566)**
Earnings per share				
Basic loss per ordinary share	27	$	(1.09)	(1.42)

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Changes in Equity

Year ended June 30, 2016, with corresponding figures for 2015
(Expressed in Bahamian Dollars)

		Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total Equity
Balance, June 30, 2014	**$**	**52,638,935**	**54,004,621**	**(1,318,224)**	**4,612,395**	**–**	**(40,200,556)**	**69,737,171**
Total comprehensive loss:								
Net loss for the year		–	–	–	–	–	(30,396,767)	(30,396,767)
Other comprehensive income:								
Net gain on available-for-sale financial assets (Note 17)		–	–	–	223,201	–	–	223,201
		–	–	–	223,201	–	(30,396,767)	(30,173,566)
Transactions with owners of the Bank:								
Redemption of preference shares (Note 15)		(3,400,000)	–	–	–	–	–	(3,400,000)
		(3,400,000)	–	–	–	–	–	(3,400,000)
Special retained earnings (Note 12)		–	–	–	–	54,622,532	–	54,622,532
Balance, June 30, 2015		**49,238,935**	**54,004,621**	**(1,318,224)**	**4,835,596**	**54,622,532**	**(70,597,323)**	**90,786,137**
Total comprehensive loss:								
Net loss for the year		–	–	–	–	–	(23,406,635)	(23,406,635)
Other comprehensive income:								
Net gain on available-for-sale financial assets (Note 17)		–	–	–	110,634	–	–	110,634
		–	–	–	110,634	–	(23,406,635)	(23,296,001)
Transactions with owners of the Bank:								
Redemption of preference shares (Note 15)		(3,400,000)	–	–	–	–	–	(3,400,000)
		(3,400,000)	–	–	–	–	–	(3,400,000)
Balance, June 30, 2016	**$**	**45,838,935**	**54,004,621**	**(1,318,224)**	**4,946,230**	**54,622,532**	**(94,003,958)**	**64,090,136**

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Cash Flows

Year ended June 30, 2016, with corresponding figures for 2015
(Expressed in Bahamian Dollars)

	Notes		2016	2015
Cash flows from operating activities:				
Net loss		$	(23,406,635)	(30,396,767)
Adjustments for:				
Depreciation and amortisation	21		2,576,199	2,673,582
Impairment losses	21		806,113	2,189,612
Gain on revaluation of investment property	8		–	(457,127)
Gain on disposal of fixed assets			(5,752)	–
Net provision for loan losses	7		24,499,006	26,124,108
			4,468,931	133,408
Change in operating assets and liabilities			5,382,591	(6,062,510)
Decrease in loans and advances to customers, net			35,027,826	19,637,999
Increase in deposits from customers and banks			66,970,403	18,150,905
Net cash provided by operating activities			111,849,751	31,859,802
Cash flows from investing activities:				
Acquisition of property and equipment	10		(67,241)	(489,552)
Acquisition of intangible assets	11		(743,240)	(232,048)
Proceeds from disposal of property and equipment			18,000	–
Proceeds from maturity of investment securities	6		459,900	3,770,000
Net cash (used in)/provided by investing activities			(332,581)	3,048,400
Cash flows from financing activities:				
Redemption of preference shares	15		(3,400,000)	(3,400,000)
Net cash used in financing activities			(3,400,000)	(3,400,000)
Net increase in cash and cash equivalents			108,117,170	31,508,202
Cash and cash equivalents, beginning of year			58,436,878	26,928,676
Cash and cash equivalents, end of year	5	$	166,554,048	58,436,878
Supplemental information:				
Interest received		$	39,344,474	42,321,626
Interest paid			15,698,668	16,528,369
Non-cash transaction:				
Derecognition of loans and advances, net	12	$	–	45,377,468
Recognition of notes receivable	12		–	100,000,000
Special retained earnings	12		–	54,622,532

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

1. Corporate information

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

The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange. As at June 30, 2016, the Government of The Commonwealth of The Bahamas (the "Government") and The National Insurance Board ("NIB") owned approximately 65% of the issued common shares. As disclosed in Note 32, subsequent to the end of the year, pursuant to a rights offering in September 2016, the ownership interest of the Government and NIB in the Bank increased to 79%. The remaining common shares are owned by approximately 3,000 Bahamian shareholders. The Bank's head office is located at Claughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, The Bahamas.

The Bank's services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded stored value, prepaid and credit cards. The Bank has thirteen branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua, one in Cat Island and one in Eleuthera. On September 30, 2015, the Thompson Boulevard branch was closed and on November 2, 2015, the Eleuthera branch was opened.

A wholly-owned subsidiary of the Bank, BOB Financial Services Inc. was incorporated in Coral Gables, Florida on June 30, 2005 and commenced operations December 10, 2007. The main activities of BOB Financial Services Inc. were the provision of trade financing and other financial services. Effective June 30, 2013, the Bank ceased the operations of BOB Financial Services Inc. This subsidiary was voluntarily dissolved on June 25, 2015.

The Bank is an agent for American Express and MoneyGram.

2. Basis of preparation

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(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 has experienced continuing operating losses for the last several years and has an accumulated deficit at June 30, 2016 of $94,003,958 (2015 - $70,597,323).

As disclosed in Note 29, the Bank was non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2016 and 2015.

Management has developed a strategic plan intended to improve the operations and financial viability of the Bank and does not expect that the continued operating losses or regulatory capital deficiencies will impact the Bank's continuing ability to operate as a going concern.

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

(b) New and amended standards and interpretations

The accounting policies adopted are consistent with those used in the previous financial year. No new standards took effect during the year.

Standards issued but not yet effective

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended June 30, 2016 and which have not been adopted in these consolidated financial statements. Those which may be relevant to the Bank but which have not been early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2016:
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 16 and IAS 38 – Classification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

Effective for annual periods beginning on or after January 1, 2017:
- Amendments to IAS 7 - Disclosure Initiative

Effective for annual periods beginning on or after January 1, 2018:
- IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009) and IFRS 9 Financial Instruments (2013) (together IFRS 9)
- IFRS 15 Revenue from Contracts with Customers

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

2. Basis of preparation *(continued)*

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 31) as at June 30, 2016 and 2015. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

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

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

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

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation. The financial statements of subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies.

(d) Change in accounting policy

During the year, the Bank made a change in accounting policy to align the general ledger classification of overdraft accounts with overdue interest of 90 days or more to the Bank's credit policy on causes of non-accrual, stating that they are to be classified as non-current overdrafts. The retrospective application of this policy is disclosed in Note 7.

There was no impact to the consolidated statement of financial position as at June 30, 2015 or the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended as these non-current overdrafts were subjected to provisioning and any provisions were already recorded during the year then ended.

BANK OF THE BAHAMAS LIMITED

Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(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 which cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one which is both important to the presentation of the Bank's financial position and results of operations and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. Management evaluates such estimates on an ongoing basis based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances.

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, 2016, the Bank recognized impairment losses of $Nil (2015: $1,113,853) (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, climate etc. In case of significant changes in the estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

Impairment losses on loans and advances to customers and banks

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

Since fiscal year 2014, the Bank revised its expectations on the extent and timing of an anticipated economic recovery and subsequently revised the methodologies used for the recognition of loan loss provisions.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

Investments

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

Goodwill

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

The impairment charge is determined by taking the difference between the present value of the unit's projected cash flow and its book value. As of June 30, 2015 goodwill was fully written-off. Further details are presented in Note 11.

Deferred loan fees

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

4. Summary of significant accounting policies

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

(a) Revenue and expense recognition

Interest and similar income and expense

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions are generally recognised on an accrual basis when the service has been provided.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

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

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

(b) Cash and cash equivalents

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

(c) Financial instruments

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Financial assets

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

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

(c) Financial instruments *(continued)*

Financial assets (continued)

(ii) Held-to-maturity financial assets

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

(iii) Available-for-sale financial assets

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

Financial liabilities

The Bank's financial liabilities include deposits from customers and banks and other liabilities. Deposits from customers and banks represent demand and time deposits held by the Bank for the benefit of third parties except as disclosed in Note 24. The deposits are carried at amortised cost.

(d) Impairment of financial assets

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level; and
- Economic conditions in The Bahamas.

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

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

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

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

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

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

Provision for loan losses

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

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

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

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

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

Renegotiated loans

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

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

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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

Held-to-maturity financial assets

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

Held-to-maturity financial assets (continued)

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

(e) Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(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 into B$ at rates of exchange prevailing on the reporting date. Realized and unrealized foreign exchange gains and losses are included in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost or amortised cost are recorded at the exchange rate ruling at the date of transaction.

(g) Property and equipment

Property and equipment (excluding one of the buildings) are stated at historical cost excluding day to day servicing, less accumulated depreciation and any accumulated impairment in value. The other building is stated at estimated salvage value of $384,951, with subsequent additions at cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

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

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

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

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

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Provisions

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

(j) Related parties

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

(k) Employee benefits

The Bank operates a defined contribution plan (the "Plan") where the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive payment obligations once contributions have been paid. The Plan allows eligible employees (those who have attained 18 years of age and confirmed in their positions) to contribute a minimum of 3.50% of their annual salaries and the Bank contributes 6.50%. Employees become fully vested after 5 years of plan membership. The Plan's costs are charged to general and administrative expenses and are funded as accrued. The Bank operates an Employee Share Ownership Plan ("ESOP") where the Bank matches employees' share purchases up to 25%. 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.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

(m) Fiduciary activities

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

(n) Taxes

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

(o) Investment property

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

(p) Goodwill

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

(q) Computer software

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

(r) Borrowings

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

(s) Share capital

(i) Share issue costs

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

(ii) Dividends on shares

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

(iii) Treasury shares

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

(t) 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.

(u) 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, 2016 and 2015, there were no master netting agreements outstanding. Therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

(v) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the consolidated statement of comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

(w) Comparatives

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

- As of June 30, 2015 the credit portion of the cheque clearing account of $543,832 has been reclassified from Other Assets (Note 9) to Other Liabilities (Note 14).

5. Cash and cash equivalents

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas ("the Central Bank") of $26,824,080 (2015: $26,458,490). 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.

		2016	2015
Cash	$	10,045,505	10,223,683
Deposits with the Central Bank non-interest bearing (Note 24)		140,845,882	37,242,673
Due from banks		42,486,741	37,429,012
Cash and due from banks		193,378,128	84,895,368
Less: mandatory reserve deposits with the Central Bank		26,824,080	26,458,490
Cash and cash equivalents	**$**	**166,554,048**	**58,436,878**

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

6. Investment securities

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

		2016	2015
Available-For-Sale			
Bahamas Registered Stock (Note 24)	$	13,194,500	13,194,500
Equity Securities		1,168,918	1,058,284
Debt Securities		3,000,000	3,000,000
		17,363,418	17,252,784
Held-To-Maturity			
Bahamas Registered Stock (Note 24)		13,698,100	14,158,000
Bridge Authority Bond (Note 24)		136,500	136,500
		13,834,600	14,294,500
Total investment securities	**$**	**31,198,018**	**31,547,284**

As of the year end reporting date, government securities mainly comprise of Bahamas Registered Stock which are variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.80% to 6.00% per annum (2015: from 4.80% to 6.00% per annum) and scheduled maturities between 2017 and 2035 (2015: between 2016 and 2035).

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

		Available-for-sale	Held-to-maturity	Total
At July 1, 2014	$	18,129,583	16,964,500	35,094,083
Maturities		(1,100,000)	(2,670,000)	(3,770,000)
Net fair value gain (Note 17)		223,201	–	223,201
At June 30, 2015	**$**	**17,252,784**	**14,294,500**	**31,547,284**
At July 1, 2015	$	17,252,784	14,294,500	31,547,284
Maturities		–	(459,900)	(459,900)
Net fair value gain (Note 17)		110,634	–	110,634
At June 30, 2016	**$**	**17,363,418**	**13,834,600**	**31,198,018**

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

7. Loans and advances to customers, net

Loans and advances to customers are as follows:

		2016	2015
Mortgage loans	$	353,295,678	359,572,342
Commercial loans		178,064,579	172,610,519
Consumer loans		50,302,933	46,738,007
Credit cards		2,009,501	1,553,723
Business overdrafts		6,344,992	37,362,611
Personal overdrafts		597,978	10,301,589
Government guaranteed student loans		6,988,774	7,115,616
	$	**597,604,435**	**635,254,407**

Loan loss provisions are as follows:

		2016	2015
Less: Provision for loan losses			
At beginning of year	$	72,441,789	96,095,481
Amount written-off		(2,104,053)	(7,161,849)
Amount written-back (Note 12)		–	(42,615,951)
Net provision charged to expense		24,499,006	26,124,108
At end of year		94,836,742	72,441,789
Accrued interest receivable		7,116,460	6,598,367
Loans and advances to customers, net	**$**	**509,884,153**	**569,410,985**

		2016	2015
Specific Provisions			
Mortgage loans	$	28,410,287	21,360,991
Commercial loans		49,733,951	39,731,896
Consumer loans		11,201,888	5,882,353
Credit and prepaid cards		590,952	430,600
		89,937,078	**67,405,840**
Portfolio assessment		**4,899,664**	**5,035,949**
	$	**94,836,742**	**72,441,789**

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(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.

	2016	2015 As reclassified
Provisions as a percentage of the net loan portfolio	18.60%	12.72%
Provisions and equity reserves as a percentage of the net loan portfolio	19.38%	13.42%
Provisions and equity reserves as a percentage of non-accrual loans	42.08%	32.53%

Non-accrual (impaired) loans are as follows:

		2016	2015 As reclassified
Mortgage loans	$	123,482,526	127,035,478
Commercial loans and overdrafts		92,869,464	90,668,448
Consumer loans and overdrafts		17,913,456	16,843,428
Credit cards		620,955	437,504
	$	**234,886,401**	**234,984,858**
Percentage of loan portfolio (net)		46.07%	41.27%
Percentage of total assets		27.52%	28.95%

During June 2016, the Bank termed out certain non-performing overdrafts to non-performing mortgage, commercial or consumer loans amounting to $38 million.

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

					2016			**2015**	
					Value	No. of Loans and Overdrafts		Value	No. of Loans and Overdrafts
$0	-	$	10,000	$	7,431,095	2,851	$	8,355,781	3,099
$10,001	-	$	25,000		18,435,222	1,104		20,137,941	1,208
$25,001	-	$	50,000		23,788,118	668		24,771,988	684
$50,001	-	$	100,000		43,021,789	585		45,653,677	621
Over		$	100,000		504,928,211	1,508		536,335,020	1,590
				$	597,604,435	6,716	$	635,254,407	7,202

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

In ($000s)		2016	2015 As reclassified
Mortgage loans			
Neither past due or impaired	$	193,228	198,058
Past due but not impaired		36,585	52,380
Impaired		123,483	127,036
	$	**353,296**	**377,474**
Commercial loans and overdrafts			
Neither past due or impaired	$	70,980	76,481
Past due but not impaired		20,560	27,790
Impaired		92,869	90,668
	$	**184,409**	**194,939**
Consumer, GG student loans and overdrafts			
Neither past due or impaired	$	35,769	38,326
Past due but not impaired		4,208	6,118
Impaired		17,913	16,843
	$	**57,890**	**61,287**
Credit cards			
Neither past due or impaired	$	1,138	924
Past due but not impaired		250	192
Impaired		621	438
	$	**2,009**	**1,554**

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

2016, In ($000s)		Principal	Restructured	Total
Mortgage loans	$	282,536	70,760	353,296
Commercial loans and overdrafts		93,394	91,015	184,409
Consumer loans, GG student loans and overdrafts		54,370	3,520	57,890
Credit cards		2,009	–	2,009
	$	432,309	165,295	597,604

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

2015 In ($000s)		Principal	Restructured	Total
Mortgage loans	$	287,376	72,196	359,572
Commercial loans		121,269	88,704	209,973
Consumer loans, GG student loans and overdrafts		60,634	3,521	64,155
Credit cards		1,554	–	1,554
	$	470,833	164,421	635,254

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

			2016			
In ($000s)		Mortgages	Commercial	Consumer	Credit Card	Total
Past due up to 29 days	$	17,138	7,121	1,574	–	25,833
Past due 30 – 59 days		8,055	12,071	1,371	180	21,677
Past due 60 – 89 days		11,392	1,368	1,263	70	14,093
	$	36,585	20,560	4,208	250	61,603

			2015			
In ($000s)		Mortgages	Commercial	Consumer	Credit Card	Total
Past due up to 29 days	$	29,433	10,326	2,378	–	42,137
Past due 30 - 59 days		12,485	11,939	2,259	180	26,863
Past due 60 - 89 days		10,462	5,525	1,481	12	17,480
	$	52,380	27,790	6,118	192	86,480

8. Investment property

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

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

During March 2015, the Bank engaged the services of a real estate and valuation expert who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. 70% of the appraised value of $6,200,000 was allocated to the investment property.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

8. Investment property *(continued)*

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

		2016	2015
Balance as at June 30, 2015	$	4,340,000	3,882,873
Revaluation gains (Note 20)		–	457,127
Balance as at June 30, 2016	$	4,340,000	4,340,000

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

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:

		2016	2015
Prepaid assets	$	4,438,386	4,396,203
Accrued interest receivable (Notes 6 and 12)		1,109,385	3,220,067
Accounts receivables		328,187	476,181
Clearing in transit		117,705	2,873,344
Other assets		302,557	432,027
	$	6,296,220	11,397,822

Included in other assets is the Bank's investment in the Bahamas Automated Clearing House Limited in the amount of $209,403 (2015: $212,113).

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(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
Cost					
Balance as at June 30, 2014	$	5,011,815	6,560,683	10,180,334	21,752,832
Additions		–	–	489,552	489,552
Balance as at June 30, 2015		5,011,815	6,560,683	10,669,886	22,242,384
Additions		–	–	67,241	67,241
Disposal		–	(225,080)	(59,257)	(284,337)
Transfers		–	204,308	(441,095)	(236,787)
Balance as at June 30, 2016	$	5,011,815	6,539,911	10,236,775	21,788,501
Accumulated depreciation					
Balance as at June 30, 2014	$	734,842	4,052,264	5,192,914	9,980,020
Depreciation (Note 21)		83,965	707,818	1,300,857	2,092,640
Balance as at June 30, 2015		818,807	4,760,082	6,493,771	12,072,660
Depreciation (Note 21)		35,276	713,447	1,296,642	2,045,365
Disposal		–	(225,080)	(47,009)	(272,089)
Balance as at June 30, 2016	$	854,083	5,248,449	7,743,404	13,845,936
Accumulated impairment					
Balance as at June 30, 2016 and 2015	$	1,113,853	–	–	1,113,853
Net book value:					
Balance as at June 30, 2016	$	3,043,879	1,291,462	2,493,371	6,828,712
Balance as at June 30, 2015	$	3,079,155	1,800,601	4,176,115	9,055,871

Land in the amount of $1,997,495 (2015: $1,997,495) is included in land and building.

Included as a part of property and equipment is work in progress not yet in operation and on which no depreciation has been charged in the amount of $491,750 (2015: $1,365,549).

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

11. Intangible assets, net

		Goodwill	Software	Total
Balance as at June 30, 2014	$	1,075,759	1,398,297	2,474,056
Additions		–	232,048	232,048
Amortisation (Note 21)		–	(580,942)	(580,942)
Impairment loss (Note 21)		(1,075,759)	–	(1,075,759)
Closing as at June 30, 2015	$	–	1,049,403	1,049,403
Balance as at June 30, 2015	$	–	1,049,403	1,049,403
Additions		–	743,240	743,240
Amortisation (Note 21)		–	(530,834)	(530,834)
Transfers		–	236,787	236,787
Closing as at June 30, 2016	$	–	1,498,596	1,498,596

Goodwill arose during the Bank's acquisition of the business of a former bank. As at June 30, 2015, management determined that goodwill was fully impaired and recognised an impairment loss of $1,075,759.

12. Notes receivable and special retained earnings

During October 2014, the Government created a Special Purpose Vehicle ("SPV") that is owned and controlled by the Government. At that time, the Bank sold certain of its non-performing loans to the SPV, resulting in the following:

- Non-performing loans with a face value of $100 million and a net book value of approximately $45 million were derecognized.
- $100 million in unsecured promissory notes (the "Notes") were received for the non-performing loans and was recognized as an asset.
- The net difference of approximately $55 million between the Notes received and 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.
- The Bank has transferred all of its rights relating to the non-performing loans to the SPV and the Bank will have no rights to future cash flows from the non-performing loans. The SPV and not the Bank will bear all the risks and rewards of the non-performing loans subsequent to the transaction and the SPV and not the Bank will control the non-performing loans. The Bank will not have any continuing involvement in servicing the non-performing loans and the Bank's only rights will relate to the cash flows associated with the Notes. Further, the Bank will not be providing any form of future direct or indirect financing to the customers and loans transferred to the SPV and these customers will no longer be customers of the Bank.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

- 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 the SPV to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by the SPV, the Bank can seek to recover outstanding balances from the Government.

The Notes may not be redeemed prior to October 30, 2016. After such date, redemption may be made at any time prior to maturity in whole or from time to time in part at the SPV's option. The notes have a final maturity date of October 30, 2024. No redemptions were made in 2015 or 2016.

The Notes bear interest at the Bahamian Prime rate -0.50%, with interest payable semi-annually on the 30th day of April and the 30th day of October, commencing in 2015.

As at June 30, 2016, accrued interest receivable amount to $708,333 (2015: $2,833,333).

13. Deposits from customers and banks

Deposits from customers and banks are as follows:

		2016	2015
Term deposits	$	488,829,556	494,924,695
Demand deposits		202,988,625	135,395,524
Savings accounts		69,056,085	63,557,200
		760,874,266	693,877,419
Accrued interest payable		3,478,648	3,505,092
	$	764,352,914	697,382,511

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

				2016			2015	
				Value	No. of deposits		Value	No. of deposits
$0	-	$ 10,000	$	27,763,617	50,101	$	25,083,378	42,548
$10,001	-	$ 25,000		20,802,842	1,344		19,458,366	1,278
$25,001	-	$ 50,000		20,489,385	588		21,353,216	608
$50,001	-	$100,000		27,474,158	404		26,974,050	391
Over		$100,000		664,344,264	620		601,008,409	636
			$	760,874,266	53,057	$	693,877,419	45,461

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $188,495 (2015: $231,983) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

14. Other liabilities

Other liabilities consist of the following:

		2016	2015
Accounts Payable	$	2,017,806	2,910,991
Other liabilities		4,171,070	4,090,081
Clearing in transit		837,893	543,832
Cardholders liability		6,726,407	3,955,287
Cheques and other items in transit		5,077,822	5,532,552
	$	18,830,998	17,032,743

Included in Clearing in transit is a debit balance for USD cheque clearing of $920,677 with a provision for impairment loss of $806,113 (Note 21).

15. Share capital

Share capital at par value consists of the following:

		2016	2015
Authorized:			
45,000 preference shares of B$1,000 each (2015: 125,000)	$	45,000,000	125,000,000
105,000,000 Ordinary shares (voting) of B$1 each (2015: 25,000,000)		105,000,000	25,000,000
10,000,000 Ordinary shares (non-voting) of B$1 each (2015: 10,000,000)		10,000,000	10,000,000
	$	160,000,000	160,000,000
Issued and fully paid:			
24,215.99 preference shares of B$1,000 each (2015: 27,615.99)	$	24,215,990	27,615,990
15,364,979 Ordinary shares (voting) of B$1 each (2015: 15,364,979)		15,364,979	15,364,979
6,022,945 Ordinary shares (non-voting) of B$1 each (2015: 6,022,945)		6,022,945	6,022,945
Treasury shares:			
235,021 issued previously at B$1 each (2015: 235,021)		235,021	235,021
	$	45,838,935	49,238,935

Ordinary shares

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

15. Share capital *(continued)*

Ordinary shares (continued)

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 ordinary voting shares having a par value of $1.00 per share. The total authorized capital of the Bank remained unchanged at $160,000,000.

Preference shares

The Bank's shareholders approved resolutions to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares redeemable at the discretion of the Board of Directors. On June 30, 2006 and during May 7, 2009 the Bank issued a total of B$15,000,000 and B$20,000,000 in redeemable preference shares at a rate of 2.00% and 2.50% above the Bahamian dollar prime rate which yields an effective interest rate of 6.75% and 7.25% respectively per annum. In accordance with International Financial Reporting Standards, as the preference shares are classified as equity, the dividends on these shares are paid out of retained earnings. Costs totaling $235,010 and $349,000 related to the preference share offering respectively were netted against the proceeds.

During the year, $3,400,000 (2015: $3,400,000) of preference shares were redeemed.

Class B Ordinary shares

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

16. Treasury shares

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at that time was 3,855 for $30,244, maintained until June 30, 2010. During 2011 and 2013, the Bank's Board of Directors approved the repurchase of $750,000 and $750,000 respectively of the Bank's own shares. The implementation of the share repurchase plan is a strategy to enhance the shareholder value to existing shareholders. There were no repurchase of shares during fiscal 2016 and 2015.

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

	No. of Shares	Value
Balance as at June 30, 2016 and 2015	235,021	$ 1,318,224

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

17. Reserves

Reserves are comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date and regulatory credit reserves for loan loss provisions. Previously, the Bank recorded all credit reserves as a valuation allowance against loans and advances to customers. The Bank subsequently established a regulatory credit reserve as an appropriation to retained earnings. In circumstances where the Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is accounted for as an appropriation of retained earnings and is included in a non-distributable regulatory credit reserve in retained earnings. Banking regulations of the Central Bank require a general provision in respect of the Bank's loans of at least 1%. As of June 30, 2016, the regulatory credit reserves amount to $4,000,000 (2015: $4,000,000).

Reserves were comprised of:

		2016	2015
Net gain on remeasurement of available-for-sale securities	$	946,230	835,596
Regulatory credit reserves allocated from retained earnings		4,000,000	4,000,000
Balance, end of year	$	4,946,230	4,835,596

Movement in reserves for the year were as follows:

		2016	2015
Balance, beginning of year	$	4,835,596	4,612,395
Fair value gains, net during the year (Note 6)		110,634	223,201
Balance, end of year	$	4,946,230	4,835,596

18. Net interest income

		2016	2015
Interest and similar income			
Cash and short term investments	$	73,324	51,992
Investment securities		1,423,733	1,400,393
Notes receivable		4,250,000	2,833,333
Loans and advances to customers		34,262,088	38,452,923
		40,009,145	42,738,641
Interest and similar expense			
Banks and customers		15,672,224	16,528,369
Total net interest income	$	24,336,921	26,210,272

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

19. Fees and commission income and expense

		2016	2015
Card services fees and commissions	$	2,660,118	2,128,343
Deposit services fees and commissions		2,636,528	2,535,064
Credit services fees and commissions		193,783	200,004
Other fees and commissions		428,479	265,953
Total fee and commission income	$	5,918,908	5,129,364

Included in total fee and commission expense are fines and penalties paid to the Central Bank of The Bahamas for primary and secondary reserve breaches of $273,847 (2015: $872,284).

20. Other operating income

		2016	2015
Foreign exchange	$	2,016,364	1,829,527
Other		2,043,026	851,576
Revaluating gain on investment property (Note 8)		–	457,127
Total other operating income	$	4,059,390	3,138,230

Other income includes a $1.3 million gain resulting from the reversal of rent expense accrual for a branch that closed during the year.

21. Operating expenses

		2016	2015
Staff costs	$	16,739,267	18,571,212
Licences and other fees		4,263,702	5,010,327
Occupancy		3,596,804	3,733,624
Other administrative expenses		1,516,400	2,251,541
Information technology		1,854,408	1,701,966
Advertising, marketing and donations		505,047	470,438
Telecommunications and entertainment		420,957	449,530
Travel and entertainment		254,728	216,236
Impairment losses (Notes 10, 11 and 14)		806,113	2,189,612
Operating expenses	$	29,957,426	34,594,486
Depreciation of property and equipment (Note 10)	$	2,045,365	2,092,640
Amortisation of software (Note 11)		530,834	580,942
Depreciation and amortisation		2,576,199	2,673,582
Total operating expenses	$	32,533,625	37,268,068

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

22. Contingencies

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

Legal claims

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

23. Commitments

The approximate minimum rental commitments (exclusive of the effect of escalation clauses as to taxes, maintenance, etc.) under operating leases for the years ended June 30, 2016 and 2015 are as follows:

		2016	2015
No later than 1 year	$	735,951	631,939
Later than 1 year and no later than 5 years		1,224,976	752,881
Total	$	1,960,927	1,384,820

Rental expense (including service charges) totaled $1,833,239 (2015: $1,821,896) and is included in occupancy costs within operating expenses.

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

(a) The commitments for loans and advances at June 30, 2016 were $8,745,926 (2015: $10,021,478).

(b) The Bank has a commitment for future capital expenditure of $97,198 (2015: Nil).

(c) The Bank has letters of credit and guarantees of $1,095,900 (2015: $1,337,900).

24. Transactions and balances with related parties

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2016 (2015: Nil). No provision expense has been recognised in these consolidated financial statements on loans to related parties.

BANK OF THE BAHAMAS LIMITED

Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

		Government	Other Government Entities	Key Management	Total 2016	Total 2015
Assets						
Cash and cash equivalents (Note 5)	$	–	140,845,882	–	140,845,882	37,242,673
Investment securities (Note 6)		27,029,100	–	–	27,029,100	27,489,000
Loans and advances to customers		496,103	3,375,143	1,883,090	5,754,336	6,954,519
Notes receivable (Note 12)		–	100,000,000	–	100,000,000	100,000,000
Other assets		399,552	708,333	–	1,107,885	3,218,566
Liabilities						
Deposits from customers and banks	$	243,396,118	159,473,330	1,062,086	403,931,534	316,502,895
Other liabilities		–	3,349,533	–	3,349,533	3,349,533
Revenues						
Interest Income	$	1,388,133	4,475,679	56,402	5,920,214	4,656,096
Total	$	1,388,133	4,475,679	56,402	5,920,214	4,656,096
Expenses						
Interest Expense	$	4,540,097	4,457,624	23,607	9,021,328	8,172,348
Directors fees		–	–	275,000	275,000	272,802
Other operating expenses		3,163,850	–	–	3,163,850	3,606,328
Short-term employee benefits		–	–	1,896,127	1,896,127	2,335,187
Pension expense		–	–	97,089	97,089	119,714
Termination benefits		–	–	69,686	69,686	1,476,585
Total	$	7,703,947	4,457,624	2,361,509	14,523,080	15,982,964

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, 2016 totaled $681,680 (2015: $772,204).

As at June 30, 2016, the Plan owns 154,986 (2015: 154,986) shares of the Bank. The holdings represent approximately 8.72% (2015: 7.94%) of the Plan's net assets.

As at June 30, 2016, the Plan has deposits totaling $341,417 (2015: $417,339) with the Bank.

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

26. Assets under administration

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

		2016	2015
Government guaranteed student education loans	$	70,771,304	72,048,959
Trust assets	$	122,255,987	115,639,155

During the period, the Bank recognised fees totaling $171,364 (2015: $175,835), for the administration of the Government Guaranteed Student Loans program.

27. Dividends and loss per share

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

Due to the Bank's accumulated deficit position, since July 2014 the Government in its capacity as the major shareholder of the Bank agreed to deploy a part of its treasury deposits directly to the paying agent for disbursement to the preference shareholders as at June 30, 2015 and December 31, 2015 in the amount of $985,000 and $985,000 respectively (2015: $2,200,000). There is no obligation for the Bank to repay the amounts remitted. During the year, the Bank declared and paid preference shares dividends from retained earnings of Nil (2015: Nil).

		2016	2015
Net loss attributable to ordinary shareholders	$	(23,406,635)	(30,396,767)
Weighted average number of ordinary shares outstanding		21,387,924	21,387,924
Basic loss per ordinary share	$	(1.09)	(1.42)

28. Fair value of financial assets and liabilities

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

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

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

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

As of June 30, 2016 the Bank held equity securities classified as available-for-sale totaling $1,168,918 (2015: $1,058,284) which have been valued as a Level 1 investment. All other available-for-sale investments totaling $16,194,500 (2015: $16,194,500) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy. Investment property has been classified as Level 3 (Note 8).

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

Cash and cash equivalents, other assets and other liabilities

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

Investments

The estimated fair values of investments are based on quoted market prices, when available. If quoted market prices are not available, management's best estimate of the fair value is based on significant market observable inputs.

Loans

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

Deposits

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

Investment property

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

29. Regulatory capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank. As at June 30, 2016 and 2015, as a result of the significant loan loss provisions recognised during the fiscal years and its subsequent effects on retained earnings and the Bank's equity, the Bank was non-compliant with certain of its externally imposed capital ratio requirements.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

Capital risk management

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

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

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

At June 30, 2016 and 2015, the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares, special retained earnings and accumulated deficit. Ongoing capital management includes the payment of dividends, new share issuances, redemptions of preferences shares, reserves, special retained earnings and common share issuances.

(in $'000s)		2016	2015
Tier 1 capital	$	33,430	57,286
Tier 2 capital		31,292	35,074
Total capital	$	64,722	92,360
Risk weighted assets	$	554,813	529,892
Tier 1 capital ratio		3.5%	6.5%
Total capital ratio		6.8%	10.4%
CET1 must be at least 9.6% (2015: 9.6%) of Total Risk Weighted Assets		6.0%	10.8%
Total Tier 1 Capital must be at least 12.8% (2015: 12.8%)of Total Risk Weighted Assets		6.0%	10.8%
Total Capital must be at least 17.0% (2015: 17.0%) of Total Risk Weighted Assets		11.7%	17.4%
CET1 must be at least 75% (2015: 75%) of Total Tier 1 Capital		100.0%	100.0%
Total Tier 1 Capital must be a minimum of 75% (2015: 75%) of Total Capital		51.7%	62.0%

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

29. Regulatory capital *(continued)*

Capital risk management *(continued)*

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

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

As of June 30, 2016, the Bank was not in compliance with regulatory minimum requirements for the following ratios primarily due to the significant net losses recorded by the Bank and the consequential accumulated deficit position:

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

As of June 30, 2015, the Bank's ratio on Total Tier 1 Capital of Total Risk Weighted Assets and the ratio on Total Tier 1 Capital to Total Capital were below Central Bank's minimum requirements.

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

Subsequent to June 30, 2016, the Bank raised additional capital of $40 million via a fully subscribed rights.

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

30. Risk management

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

Credit risk

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

The Bank evaluates the concentration of risk with respect to the notes receivable as low, as the interest and principal sum is payable by Bahamas Resolve Limited, which is a company wholly owned and controlled by the Government. An impairment analysis is performed at each reporting date by assessing the government's ability to make the interest payments due on the Note.

Credit risk arising from loans is mitigated through the employment of a credit risk management regime that sets limits for sector concentration, as well as single and related party exposure. The Board of Directors approves credit granting limits. In addition, credit facilities are subject to regular review 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 a period of time. For this reason changes in ratings must reflect changes in the relative strength of the borrowers and their obligations. Appropriate credit ratings must be assigned to every borrowing relationship. A rating must be assigned at the time of credit extension and reviewed and updated in each periodic review or if the situation warrants a change at any other time. A rating change highlights a change in the credit worthiness, or corrects a previous rating that did not fully reflect the quality of the credit. Because of their very nature, changes are to be expected more frequently among credits with lower ratings that among credits of higher ratings. Typically loans within the retail credit portfolio which are performing are not assessed for changes in ratings unless the customer approaches the Bank for additional credit.

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

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

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Credit risk *(continued)*

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

In ($000s)		2016	2015 as reclassified
Cash and due from banks			
Neither past due or impaired	$	193,378	84,895
Past due but not impaired		–	–
Impaired		–	–
	$	193,378	84,895
Investment securities			
Neither past due or impaired	$	31,198	31,547
Past due but not impaired		–	–
Impaired		–	–
	$	31,198	31,547

Loans and advances to customers			
Neither past due or impaired	$	301,115	313,789
Past due but not impaired		61,603	86,480
Impaired		234,886	234,985
Business overdrafts		–	–
Personal overdrafts		–	–
	$	597,604	635,254
Notes receivable			
Neither past due or impaired	$	100,000	100,000
Past due but not impaired		–	–
Impaired		–	–
	$	100,000	100,000

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

Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarized the Bank's exposure to foreign currency exchange risk at June 30, 2016 and 2015. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Concentrations of currency risk

				2016			
(in $000s)		**B$**	**US$**	**CAD$**	**GBP£**	**Other**	**Total**
Assets							
Cash and due from banks	$	147,800	43,533	699	81	1,265	193,378
Financial assets – available for sale		13,194	4,169	–	–	–	17,363
Financial assets – held to maturity		13,835	–	–	–	–	13,835
Loans and advances, net		494,217	15,665	2	–	–	509,884
Notes receivable		100,000	–	–	–	–	100,000
Total financial assets	$	769,046	63,367	701	81	1,265	834,460

				2016			
(in $000s)		**B$**	**US$**	**CAD$**	**GBP£**	**Other**	**Total**
Liabilities							
Deposits from customers and banks	$	736,358	27,124	479	36	356	764,353
Cheques and other items in transit		2,345	2,514	129	89	1	5,078
Total financial liabilities	$	738,703	29,638	608	125	357	769,431
Net financial position	$	30,343	33,729	93	(44)	908	65,029

				2015			
(in $000s)		**B$**	**US$**	**CAD$**	**GBP£**	**Other**	**Total**
Total financial assets	$	724,326	57,840	2,874	137	676	785,853
Total financial liabilities		669,506	29,793	2,896	146	574	702,915
Net financial position	$	54,820	28,047	(22)	(9)	102	82,938

Operational risk

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

Interest rate risk

Interest rate sensitivity or interest rate risk results from differences in the maturities or re-pricing dates of earning assets and paying liabilities. Interest rate risk exposures may produce favorable or unfavorable effects on interest margins depending on the nature of the gap and the direction of interest rate movement and/or the expected volatility of those interest rates. Interest rate gaps are carefully monitored and scenario tests performed to determine the potential impact of various gap exposures.

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Interest rate risk *(continued)*

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 $1.3 million (2015: $1.0 million).

Liquidity risk

Liquidity risk reflects the risk that the Bank will not be able to meet an obligation when it becomes due or honors a deposit withdrawal request or service loans. The Bank maintains a portion of its deposits in cash and other liquid assets to mitigate this risk. On a daily basis, the Bank monitors its cash and other liquid assets to check that they sufficiently meet the Bank's requirements. In addition, the Bank performs regular gap analyses showing the maturity exposure arising from the different maturity of assets and liabilities. As is the case throughout the sector, those gap analyses show that the Bank is liability-sensitive in the short term. Regular scenario tests are performed to determine the extent to which the Bank can withstand unforeseen withdrawals and the cost associated with meeting such demands should they arise.

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.

		2016				
(in $000s)		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and due from banks	$	190,096	3,282	–	–	193,378
Investment securities		1,234	–	9,745	20,219	31,198
Loans and advances to customers, net		57,693	3,149	57,151	391,891	509,884
Notes receivable		–	–	–	100,000	100,000
Total financial assets	$	249,023	6,431	66,896	512,110	834,460
Deposits from customers and banks	$	560,839	156,062	30,520	16,932	764,353
Cheques and other items in transit		5,078	–	–	–	5,078
Total financial liabilities	$	565,917	156,062	30,520	16,932	769,431
Net position	$	(316,894)	(149,631)	36,376	495,178	65,029

BANK OF THE BAHAMAS LIMITED
Notes to Consolidated Financial Statements

Year ended June 30, 2016,
(Expressed in Bahamian Dollars)

30. Risk management *(continued)*

Liquidity risk *(continued)*

		2015				
(in $000s)		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	$	161,733	19,870	59,638	544,612	785,853
Total financial liabilities		496,476	172,149	16,877	17,413	702,915
Net position	$	(334,743)	(152,279)	42,761	527,199	82,938

31. Subsidiaries

Subsidiaries of the Bank as at June 30, 2016 are as follows:

Name	**Place of Incorporation**	**Shareholding**	**Nature of business**
BOB Financial Services Inc. (Liquidated)	Florida, United States of America	100%	Trade financing and other financial services
Multi-Card Services Ltd.	Commonwealth of The Bahamas	100%	Card processing and services
West Bay Property Holdings Ltd.	Commonwealth of The Bahamas	100%	Investment Property
Bank of The Bahamas Trust Ltd.	Commonwealth of The Bahamas	100%	Trust Company
BAHTCO Holdings Ltd.	Commonwealth of The Bahamas	100%	Nominee Holding Company
BOB Property Holdings	Commonwealth of The Bahamas	100%	Property Holding

32. Subsequent events

Ordinary shares rights offering

During the period from September 6 to 12, 2016, the Bank entered into an ordinary shares rights offering for an aggregate amount of $40 million for 14,814,815 ordinary voting shares. For each 1.44 ordinary 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 major shareholder subscribed for the majority of the offering and the Bank issued a total of $39,517,333 in voting shares to its shareholders at a price of $2.70 per share. Costs totaling $482,667 related to this ordinary share offering were netted against the proceeds. As a result, the Government and The National Insurance Board now own approximately 79% of the issued common shares.

Payment of preference shareholders

On July 15, 2016, the Government in its capacity as the major shareholder of the Bank agreed to deploy a part of its treasury deposits directly to the paying agent for disbursement to the preference shareholders as at June 30, 2016 in the amount of $816,000. There is no obligation for the Bank to repay the amounts remitted.

Bank of The Bahamas
LIMITED

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