

BANK OF THE BAHAMAS LIMITED
Unaudited Condensed Consolidated Interim Financial Statements
For the Period Ended March 31, 2018

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at March 31, 2018 with comparative figures as at June 30, 2017

(Expressed in Bahamian Dollars)

	March 31, 2018	June 30, 2017
ASSETS		
Cash and account with The Central Bank	\$ 130,069,706	\$ 97,969,652
Cash equivalents - Treasury Bills	49,855,322	-
Due from banks	50,686,888	47,981,770
Investment securities	49,158,322	41,392,518
Loans and advances to customers, net	365,074,376	448,124,914
Non-current assets held for sale	925,000	925,000
Investment property	6,463,000	6,463,000
Other assets	14,229,574	8,873,414
Property and equipment, net	3,275,429	3,056,345
Computer software, net	800,035	1,026,580
Notes receivable	179,700,000	100,000,000
TOTAL	\$ 850,237,652	\$ 755,813,193
LIABILITIES		
Deposits from customers and banks	\$ 642,385,539	\$ 663,903,707
Other liabilities	25,600,036	22,167,898
Deferred loan fees	5,574,075	5,833,983
Total liabilities	673,559,650	691,905,588
EQUITY		
Share capital	57,912,505	64,010,505
Share premium	81,950,384	81,950,384
Treasury shares	(1,318,224)	(1,318,224)
General reserve	4,000,000	4,000,000
Valuation reserve	1,804,633	1,140,730
Special retained earnings	171,753,357	54,622,532
Accumulated deficit	(139,424,653)	(140,498,322)
Total equity	176,678,002	63,907,605
TOTAL	\$ 850,237,652	\$ 755,813,193

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended March 31, 2018
with comparatives for the nine months ended March 31, 2017
(Expressed in Bahamian Dollars)

	Three Months		Nine Months	
	2018	2017	2018	2017
Interest and similar income	\$ 9,156,065	\$ 9,207,909	\$ 27,953,630	\$ 29,056,174
Interest and similar expenses	2,238,414	2,933,645	6,992,515	10,020,165
Net interest income	<u>\$ 6,917,651</u>	<u>6,274,264</u>	<u>20,961,115</u>	<u>19,036,009</u>
Fees and commission income	2,032,141	1,773,121	6,009,380	4,976,855
Fees and commission expense	155,187	104,023	341,542	246,154
Net fees and commission income	<u>1,876,954</u>	<u>1,669,098</u>	<u>5,667,838</u>	<u>4,730,701</u>
Other operating income	929,233	811,167	2,676,629	2,046,457
Total operating income	9,723,838	8,754,529	29,305,582	25,813,167
Credit loss expense, net	(2,722,140)	(6,621,587)	(6,014,440)	(13,858,282)
Net operating income	<u>7,001,698</u>	<u>2,132,942</u>	<u>23,291,142</u>	<u>11,954,885</u>
Operating expenses	7,378,835	7,668,919	22,217,473	22,979,984
Net income/(loss)	<u>(377,137)</u>	<u>\$ (5,535,977)</u>	<u>1,073,669</u>	<u>\$ (11,025,099)</u>
Other comprehensive income				
Net gain/(loss) on available-for-sale financial assets	226,752	170,996	663,903	231,672
Total comprehensive income/(loss) for the year	<u>\$ (150,385)</u>	<u>\$ (5,364,981)</u>	<u>\$ 1,737,572</u>	<u>\$ (10,793,427)</u>
EARNINGS PER SHARE CALCULATION:				
NET INCOME/(LOSS)	\$ (377,137)	\$ (5,535,977)	\$ 1,073,669	\$ (11,025,099)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<u>42,959,494</u>	<u>32,910,557</u>	<u>42,959,494</u>	<u>32,910,557</u>
INCOME/(LOSS) PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.17)</u>	<u>\$ 0.02</u>	<u>\$ (0.34)</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended March 31, 2018

with comparatives for the nine months ended March 31, 2017

(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total
Balance at June 30, 2016	\$ 45,838,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,946,230	\$ 54,622,532	\$ (94,003,958)	\$ 64,090,136
<i>Total comprehensive loss:</i>							
Net loss for the year	-	-	-	-	-	(11,025,099)	(11,025,099)
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	231,672	-	-	231,672
<i>Transactions with owners of the Bank:</i>							
Issuance of ordinary shares	14,814,814	24,702,519	-	-	-	-	39,517,333
Redemption of preference shares	(3,400,000)	-	-	-	-	-	(3,400,000)
Balance at March 31, 2017	\$ 57,253,749	\$ 78,707,140	\$ (1,318,224)	\$ 5,177,902	\$ 54,622,532	\$ (105,029,057)	\$ 89,414,042
Balance at June 30, 2017	\$ 64,010,505	\$ 81,950,384	\$ (1,318,224)	\$ 5,140,730	\$ 54,622,532	\$ (140,498,322)	\$ 63,907,605
<i>Total comprehensive income:</i>							
Net income for the year	-	-	-	-	-	1,073,669	1,073,669
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets	-	-	-	663,903	-	-	663,903
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares	(6,098,000)	-	-	-	-	-	(6,098,000)
Special retained earnings	-	-	-	-	117,130,825	-	117,130,825
Balance at March 31, 2018	\$ 57,912,505	\$ 81,950,384	\$ (1,318,224)	\$ 5,804,633	\$ 171,753,357	\$ (139,424,653)	\$ 176,678,002

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the nine months ended March 31, 2018
with comparatives for the nine months ended March 31, 2017
(Expressed in Bahamian Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 1,073,669	\$ (11,025,099)
Adjustments for:		
Depreciation and amortization	1,213,854	1,838,319
Loss on disposal of fixed assets	883	-
Net provision for loan losses	6,014,440	13,858,282
	<u>8,302,846</u>	<u>4,671,502</u>
Change in operating assets and liabilities	(1,931,801)	1,718,910
Decrease/(increase) in loans and advances to customers, net	26,466,923	(2,493,683)
Decrease in deposits from customers and banks	(21,518,168)	(143,645,517)
Net cash provided by/(used in) operating activities	<u>11,319,800</u>	<u>(139,748,788)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,233,076)	(416,718)
Acquisition of computer software	-	(32,280)
Purchase of investment securities	(10,166,900)	(10,000,000)
Proceeds from disposal of property and equipment	25,800	-
Proceeds from maturity of investment securities	3,065,000	-
Net cash used in investing activities	<u>(8,309,176)</u>	<u>(10,448,998)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of notes receivable	88,000,000	-
Redemption of preference shares	(6,098,000)	(3,400,000)
Issuance of ordinary shares	-	39,517,333
Issuance of contingent convertible bond	-	10,000,000
Net cash provided by financing activities	<u>81,902,000</u>	<u>46,117,333</u>
Net increase/(decrease) in cash and cash equivalents	84,912,624	(104,080,453)
Cash and cash equivalents, beginning of year	121,464,402	166,554,048
Cash and cash equivalents, end of period	<u>\$ 206,377,026</u>	<u>\$ 62,473,595</u>

SUPPLEMENTAL INFORMATION:

Interest received	\$ 25,412,815	\$ 28,520,068
Interest paid	7,375,361	10,671,059

NON-CASH TRANSACTION:

Derecognition of loans and advances, net	\$ 50,569,175	\$ -
Recognition of notes receivable	167,700,000	-
Special retained earnings	117,130,825	-

BANK OF THE BAHAMAS LIMITED
Selected Explanatory Notes to the Unaudited Condensed Consolidated Interim
Financial Statements

For the period ended March 31, 2018
(Expressed in Bahamian Dollars)

1. General Information

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

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange. Pursuant to a rights offering in September 2016, the Government of The Commonwealth of The Bahamas (the “Government”) acquired the majority of an additional 14,814,814 ordinary voting shares issued by the Bank. The Government also purchased \$10 million of convertible bonds pursuant to the Bank’s private placement in December 2016. Effective June 30, 2017, this bond was converted to 6,756,756 ordinary voting shares. As a result of these transactions, the ownership interest of the Government and The National Insurance Board (“NIB”) in the Bank increased. The Government and NIB own approximately 82.6% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

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

As at March 31, 2018, the Bank has twelve branches: four in New Providence, one in Grand Bahama (previously 2 branches, the other branch closed during September 2017), two in Andros, one in San Salvador, one in Inagua, one in Cat Island, one in Eleuthera and the newest branch in Bimini opened in August 2017. The branch in Exuma closed in December 2017.

2. Significant Accounting Policies

The significant accounting policies and methods of computation followed in the preparation of these interim consolidated financial statements are the same as those followed in the preparation of the annual consolidated financial statements of the Bank for the year ended June 30, 2017. These consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting.

BANK OF THE BAHAMAS LIMITED
Selected Explanatory Notes to the Unaudited Condensed Consolidated Interim
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For the period ended March 31, 2018
 (Expressed in Bahamian Dollars)

2. Significant Accounting Policies *(continued)*

The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and under the 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.

3. Dividends

Dividends to the Bank’s shareholders are recognized as a liability in the period in which they are declared by the Board of Directors and approved by the Bank’s Regulator. Due to the Bank’s accumulated deficit position since July 2014, the Government in its capacity as the major shareholder of the Bank deployed a part of its treasury deposits directly to the paying agent for semi-annual disbursements to the preference shareholders. There is no obligation for the Bank to repay the amount remitted. Subsequently, in December 2016, the Government discontinued the semi-annual disbursements to the preference shareholders.

4. Cash and Cash Equivalents

	March 31 2018	June 30, 2017
Cash	\$ 23,921,034	\$ 10,623,566
Deposits with the Central Bank- non-interest bearing	106,148,672	87,346,086
Cash equivalents - Treasury Bills	49,855,322	-
Due from Banks	50,686,888	47,981,770
Cash and due from Banks	<u>230,611,916</u>	<u>145,951,422</u>
Less: Mandatory reserve deposits with the Central Bank	<u>(24,234,890)</u>	<u>(24,487,020)</u>
Total cash and cash equivalents	<u>\$ 206,377,026</u>	<u>\$ 121,464,402</u>

As at March 31, 2018 the Bank’s statutory reserve deposits with The Central Bank of The Bahamas were above Central Bank’s regulatory requirement.

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5. Loans and advances to customers, net

	March 31	June 30,
	2018	2017
Mortgage residential loans	\$ 249,516,699	# \$ 270,943,623
Mortgage commercial loans	14,254,726	55,487,291
Commercial loans	81,741,646	174,005,998
Consumer loans	65,067,282	68,629,640
Credit cards	1,556,716	1,295,620
Business overdrafts	2,271,550	5,094,803
Personal overdrafts	438,150	494,311
Government guaranteed student loans	6,742,355	6,885,517
	<u>421,589,124</u>	<u>582,836,803</u>
Less: Provision for loan losses		
Provision at beginning of year	\$ 142,599,409	\$ 94,836,742
Amount written-off	(302,631)	(4,195,126)
Amount written back (Note 8)	(83,947,003)	-
Net provision charged to expense	6,014,440	51,957,793
Provision at end of year	<u>64,364,215</u>	<u>142,599,409</u>
Accrued interest receivable	7,849,467	7,887,520
Loans and advances to customers, net	<u><u>\$ 365,074,376</u></u>	<u><u>\$ 448,124,914</u></u>

6. Commitments and Contingencies

Commitment

The commitment for loans and advances at March 31, 2018 was \$4,881,960 (June 30, 2017: \$7,455,948).

Contingencies

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

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7. Regulatory Capital

Regulatory capital consists of Tier 1 and Tier 2 capital. Total Tier 1 capital comprises of Common Equity Tier 1 and Additional Tier 1 capital.

(in \$'000s)	March 31 2018	June 30, 2017
Tier 1 capital	\$ 155,486	\$ 36,925
Tier 2 capital	20,599	27,038
Total capital	<u>\$ 176,085</u>	<u>\$ 63,963</u>
Risk weighted assets	<u>\$ 404,407</u>	<u>\$ 461,789</u>

Ratios

CET1 must be at least 9.6% of total Risk Weighted Assets	38.4%	8.0%
Total Tier 1 Capital must be at least 12.8% of Total Risk Weighted Assets	38.4%	8.0%
Total Capital must be at least 18.0% of Total Risk Weighted Assets	43.5%	13.9%
CET1 must be at least 75% of Total Tier 1 Capital	100.0%	100.0%
Total Tier 1 Capital must be a minimum of 75% of Total Capital	88.3%	57.7%

Since December 2014, the Bank redeemed annually \$3,400,000 of preference shares. On December 31, 2017, the Bank redeemed \$6,098,000 of preference shares.

8. Notes Receivable and Special Retained Earnings

On August 31, 2017, Bahamas Resolve Limited (“Resolve”), a special purpose vehicle owned and controlled by the Government, purchased another portfolio of loans from the Bank at a price equivalent to the gross book value of those loans before provisions. This transaction consists of three tranches effective August 31, 2017, September 18, 2017 and November 14, 2017. The results are as follows:

- A portfolio of non-performing loans principal amount of \$134.5 million, with a total net book value of approximately \$50.6 million and accrued interest receivable of \$33.7 million were derecognized.

BANK OF THE BAHAMAS LIMITED

Selected Explanatory Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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(Expressed in Bahamian Dollars)

8. Notes Receivable and Special Retained Earnings *(continued)*

- \$167.7 million in unsecured promissory notes was received for these loans and was recognized as an asset.
- The net difference of approximately \$117.1 million between the Notes received and the net book value of the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank's regulatory capital.
- The Bank has transferred all of its rights and obligations relating to the non-performing loans to Resolve without recourse and will have no rights to future cash flows from the non-performing loans.
- As a part of the transaction, the Bank received an irrevocable Letter of Support from the Government. The Letter of Support pledged the Government's support of Resolve to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.
- The Notes bear fixed interest at 3.5%, payable semi-annually on the 28th day of February and the 31st day of August, commencing in 2018.

In addition, the Government has agreed to redeem the entire \$100.0 million of the promissory notes from the first Resolve transaction between August 2017 and May 2018. The first, second and third scheduled redemptions of \$50 million, \$19 million and \$19 million were made on August 31, 2017, November 14, 2017, and February 28, 2018, respectively.