Consolidated Financial Statements

BANK OF THE BAHAMAS LIMITED

Year ended June 30, 2016

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Year ended June 30, 2016

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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.

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.

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.

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.

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.

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.

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.

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;

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.

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.

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.

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.

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

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.

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.

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.

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**

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**

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**

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

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

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.

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).

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).

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.

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.

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.

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

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

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

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.

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.

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:

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

29. Regulatory capital *(continued)*

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.

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%

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.

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.

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.

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.

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

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.