

BANK OF THE BAHAMAS LIMITED
Unaudited Condensed Consolidated Interim Financial Statements
For the Period Ended September 30, 2014

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at September 30, 2014 with comparative figures as at June 30, 2014

(Expressed in Bahamian Dollars)

	September 30, 2014	June 30, 2014
ASSETS		
Cash and account with The Central Bank	\$ 40,813,726	\$ 25,712,146
Due from banks	29,755,187	26,628,530
Investment securities	32,329,678	35,094,083
Loans and advances to customers, net	655,223,824	660,550,561
Investment property	3,882,873	3,882,873
Other assets	7,695,361	4,954,376
Property and equipment	11,486,708	11,772,812
Intangible assets, net	2,334,642	2,474,056
TOTAL	\$ 783,521,999	\$ 771,069,437
LIABILITIES		
Deposits from customers and banks	\$ 698,009,579	\$ 679,231,606
Other liabilities	13,416,375	15,250,689
Deferred loan fees	6,551,234	6,849,971
Total liabilities	717,977,188	701,332,266
EQUITY		
Share capital	52,638,935	52,638,935
Share premium	54,004,621	54,004,621
Treasury shares	(1,318,224)	(1,318,224)
Reserves	4,617,989	4,612,395
Accumulated deficit	(44,398,510)	(40,200,556)
Total equity	65,544,811	69,737,171
TOTAL	\$ 783,521,999	\$ 771,069,437

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three months ended September 30, 2014
with comparatives for the three months ended September 30, 2013
(Expressed in Bahamian Dollars)

	Three Months	
	2014	2013
Interest and similar income	\$ 10,534,175	\$ 15,637,222
Interest and similar expenses	4,274,522	5,136,496
Net Interest income	<u>6,259,653</u>	<u>10,500,726</u>
Fees and commission income	1,192,585	1,042,920
Fees and commission expense	306,258	107,833
Net fees and commission income	<u>886,327</u>	<u>935,087</u>
Other operating income	588,684	657,561
Total operating income	7,734,664	12,093,374
Credit loss expense, net	(3,712,697)	(6,226,436)
Net operating Income	<u>4,021,967</u>	<u>5,866,938</u>
Operating expenses	8,219,921	7,811,122
Net loss	<u>\$ (4,197,954)</u>	<u>\$ (1,944,184)</u>
Other comprehensive income		
Net gain on available-for-sale financial assets	5,594	22,143
Total comprehensive loss for the period	<u>\$ (4,192,360)</u>	<u>\$ (1,922,041)</u>
EARNINGS PER SHARE CALCULATION:		
NET LOSS	\$ (4,197,954)	\$ (1,944,184)
PREFERENCE SHARE DIVIDEND	-	(1,231,250)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (4,197,954)</u>	<u>\$ (3,175,434)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<u>21,387,924</u>	<u>21,444,256</u>
LOSS PER SHARE	<u>\$ (0.20)</u>	<u>\$ (0.15)</u>

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended September 30, 2014
with comparatives for the three months ended September 30, 2013
(Expressed in Bahamian Dollars)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Treasury Shares</u>	<u>Reserves</u>	<u>Retained Earnings/ Accumulated Deficit</u>	<u>Total</u>
Balance, June 30, 2013	\$ 56,038,935	\$ 54,004,621	\$ (930,809)	\$ 4,508,851	\$ 28,546,353	\$ 142,167,951
Net loss	-	-	-	-	(1,944,184)	(1,944,184)
Purchase of treasury shares	-	-	(180,676)	-	-	(180,676)
Other comprehensive income	-	-	-	22,143	-	22,143
Dividends on preference shares	-	-	-	-	(1,231,250)	(1,231,250)
Balance at September 30, 2013	\$ 56,038,935	\$ 54,004,621	\$ (1,111,485)	\$ 4,530,994	\$ 25,370,919	\$ 138,833,984
Balance at June 30, 2014	\$ 52,638,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,612,395	\$ (40,200,556)	\$ 69,737,171
Net loss	-	-	-	-	(4,197,954)	(4,197,954)
Other comprehensive income	-	-	-	5,594	-	5,594
Balance at September 30, 2014	\$ 52,638,935	\$ 54,004,621	\$ (1,318,224)	\$ 4,617,989	\$ (44,398,510)	\$ 65,544,811

BANK OF THE BAHAMAS LIMITED

UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the three months ended September 30, 2014
with comparatives for the three months ended September 30, 2013
(Expressed in Bahamian Dollars)

	September, 2014	September, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,197,954)	\$ (1,944,184)
Adjustments for:		
Depreciation and amortization	652,024	759,153
Net provision for loan losses	3,712,697	6,226,436
	<u>166,767</u>	<u>5,041,405</u>
Change in operating assets and liabilities	(4,836,578)	(5,030,218)
(Decrease)/increase in loans and advances to customers, net	1,614,040	(4,858,999)
Increase in deposits from customers and banks	18,777,973	24,652,537
Net cash provided by operating activities	<u>15,722,202</u>	<u>19,804,725</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(214,039)	(239,628)
Acquisition of intangible assets	(12,466)	-
Purchase of investment securities	-	(4,210,100)
Proceeds from maturity of investment securities	2,770,000	-
Net cash provided by/(used in) investing activities	<u>2,543,495</u>	<u>(4,449,728)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends on preference shares	-	(1,231,250)
Purchase of treasury shares	-	(180,676)
Net cash used in financing activities	<u>-</u>	<u>(1,411,926)</u>
Net increase in cash and cash equivalents	18,265,697	13,943,071
Cash and cash equivalents, beginning of year	26,928,676	45,662,497
Cash and cash equivalents, end of period	<u>\$ 45,194,373</u>	<u>\$ 59,605,568</u>

SUPPLEMENTAL INFORMATION:

Interest received	\$ 10,835,471	\$ 20,341,256
Interest paid	\$ 4,513,719	\$ 5,840,761
Dividends paid	\$ -	\$ 1,231,250

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

For the period ended September 30, 2014
(Expressed in Bahamian Dollars)

1. General Information

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

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange. The Government of The Commonwealth of The Bahamas (the “Government”) and The National Insurance Board own approximately 65% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders. The Bank’s head office is located at Claughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, The Bahamas.

2. Significant Accounting Policies

The significant accounting policies and methods of computation followed in the preparation of these interim consolidated financial statements are the same as those followed in the preparation of the annual consolidated financial statements of the Bank for the year ended June 30, 2014 with the exception of those noted below. The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and investment property that are required to be remeasured at estimated fair value.

3. Dividends per Share

Dividends are typically paid out of retained earnings. Due to the Bank’s negative retained earnings position, on July 21, 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 in the amount of \$1.1 million. There is no obligation for the Bank to repay the amounts remitted. As a result of the aforementioned, the Bank declared and paid preference shares dividends from retained earnings of \$Nil (2013: \$1,231,250) during the current period.

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4. Provision for Loan Losses

	September 30, 2014	September 30, 2013
At beginning of year	\$ 96,095,481	\$ 30,749,745
Amount written-off	(495,175)	(409,636)
Net recoveries	78,519	3,640
Provision charged to expense	3,634,178	6,222,796
Provision at the end of period	<u>\$ 99,313,003</u>	<u>\$ 36,566,545</u>

5. Commitments and Contingencies

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.

The commitment for loans at September 30, 2014 was \$5,213,759 (2013: \$7,116,151).

6. Regulatory Capital

Regulatory capital consists of Tier 1 capital, which comprises share capital, reserves less goodwill and retained earnings/(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.

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

For the period ended September 30, 2014
 (Expressed in Bahamian Dollars)

6. Regulatory Capital (Continued)

The Central Bank of The Bahamas regulations requires that the Bank maintains Total Tier 1 Capital and Total Capital of Total Risk Weighted Assets ratios equal to or greater than 11.70% and 17.00% respectively. The Bank's risk adjusted tier 1 capital ratio and risk adjusted capital ratio as at September 30, 2014 was 4.37% (2013: 15.33%) and 10.54% (2013: 22.15%) respectively. These ratios were below Central Bank's minimum requirements as at period end but this temporary non-compliance was addressed in the subsequent fiscal quarter.

(in \$'000s)	September 30, 2014	September 30, 2013
Tier 1 capital	\$ 28,836	\$ 98,812
Tier 2 capital	40,680	43,914
Total capital	<u>\$ 69,516</u>	<u>\$ 142,726</u>
Total qualifying assets	<u>\$ 883,911</u>	<u>\$ 943,807</u>
Risk weighted assets	<u>\$ 659,382</u>	<u>\$ 644,464</u>
Tier 1 capital ratio	3.26%	10.47%
Total capital ratio	7.86%	15.12%

Ratios

CET1 must be at least 8.50% of total Risk Weighted Assets	4.54%	15.50%
Total Tier 1 Capital must be at least 11.70% of Total Risk Weighted Assets	4.37%	15.33%
Total Capital must be at least 17% of Total Risk Weighted Assets	10.54%	22.15%
CET1 must be at least 75% of Total Tier 1 Capital	103.73%	101.09%
Total Tier 1 Capital must be a minimum of 75% of Total Capital	41.48%	69.23%

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For the period ended September 30, 2014
(Expressed in Bahamian Dollars)

7. Cash and Cash Equivalents

	September 30, 2014	September 30, 2013
Cash	\$ 9,628,542	\$ 9,776,807
Deposits with the Central Bank- non-interest bearing	31,185,184	58,528,754
Due from Banks	<u>29,755,187</u>	<u>19,539,317</u>
Cash and due from Banks	70,568,913	87,844,878
Less: Mandatory reserve deposits with the Central Bank	<u>(25,374,540)</u>	<u>(28,239,310)</u>
Total cash and cash equivalents	<u>\$ 45,194,373</u>	<u>\$ 59,605,568</u>

8. Comparatives

Certain corresponding figures in the condensed consolidated financial statements have been reclassified to conform to the financial statement presentation adopted in the current year.

9. Subsequent Event

Sale of certain non-performing loans

Subsequent to this quarter's end, the Government created a Special Purpose Vehicle (SPV) that is owned and controlled by the Government. The Bank entered into a transaction with the SPV to derecognise from its consolidated statement of financial position certain of its non-performing loans amounting to approximately net \$45 million and to recognise as an asset \$100 million in unsecured promissory notes (the "Notes") with multiple maturities up to ten years and annual coupon interest payments of Bahamian Prime (-) 0.50% issued from the SPV. The net difference of approximately \$55 million between the Notes received and the derecognised assets is accounted for as a part of the Bank's shareholder's equity in its statement of financial position and will be included as part of the Bank's regulatory capital.

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9. Subsequent Event (Continued)

As a part of the transaction, the Bank received a Letter of Support from the Government.

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.

The transaction above assisted the Bank in regularising the key non-compliant regulatory capital ratios breached in Note 6.