BOB

ANNUAL REPORT

2021


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Bank of The Bahamas LIMITED

BOB
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“I can’t change the direction of the wind but I can adjust my sails to always reach my destination.”

- Jimmy Dean, Singer, Actor & Businessman

Introduction

When we entered fiscal 2021 we had been in the midst of a global pandemic for almost four months. We were still learning about a novel virus called the Corona or COVID-19 virus. It was like sailing through uncharted waters; unlike anything we had ever experienced before.

The winds were blowing unfavorably, while the waves threatened and demanded that we take immediate action to adjust our sails. This meant implementing new health and safety protocols and adopting new ways of doing business to ensure business continuity and the wellbeing of our staff and customers.

More than a year later we are incredibly fortunate to have vaccines and therapies to prevent or mitigate the impact of COVID-19. We are striving to rebuild our economy and attempting to negotiate a new space of increased freedoms and less fear, balanced with appropriate precautions.

We are still learning about COVID-19 and its multiple variants but, more importantly, we have learned and are learning about ourselves. From the perspective of Bank of The Bahamas we have learned that we are resolute, resourceful and resilient.

We have learned that we have the ability to adapt and respond to crises with grace and courage.

We learned that together we can achieve positive results even in sub-optimal circumstances.

We realized that the commitment of our colleagues is not confined to one location and runs deeper than imagined.

We learned that some problems require infinite patience; that with perseverance and determination we can get through anything and even prosper in a pandemic.

We were reminded that a brother is born for the time of adversity; and we must be our brother's keeper.

Most importantly, we've learned to appreciate every breath and lead with greater compassion; that each life that crosses our path is precious and love wins the day.

We have not been this way before, but we are better for the experience!

History

Bank of The Bahamas Limited (the Bank) was incorporated in The Commonwealth of The Bahamas on April 17, 1970 as Bank of Montreal (Bahamas & Caribbean) Limited. In 1983, its name was changed to Bank of Montreal Bahamas Limited. Five years later in September 1988, the Government of The Bahamas created a joint venture with Euro Canadian Bank Limited and purchased 100% of the shares of Bank of Montreal Bahamas Limited, and renamed it Bank of The Bahamas Limited with a 51% controlling interest.

During the second half of 1990, the Government purchased all of the shares held by Euro Canadian Bank Limited and issued an additional 7,000,000 shares, bringing the total number of shares issued to 10,000,000. During September 1994 the Government sold 20% of its shareholding or 2,000,000 shares to the Bahamian public. In October 1995 the Government offered a further 3,000,000 shares of the Bank to the Bahamian public. Both offerings were substantially oversubscribed. In 2005, the Bank had an oversubscribed rights offering of $25 million and a subsequent $15 million private placement preference share offering in 2006.

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

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

As at June 30, 2021, the Bank's total assets stood at $903 million and total equity was $158.5 million.

"Tough times never last BUT TOUGH PEOPLE DO"

- Robert H. Schuller

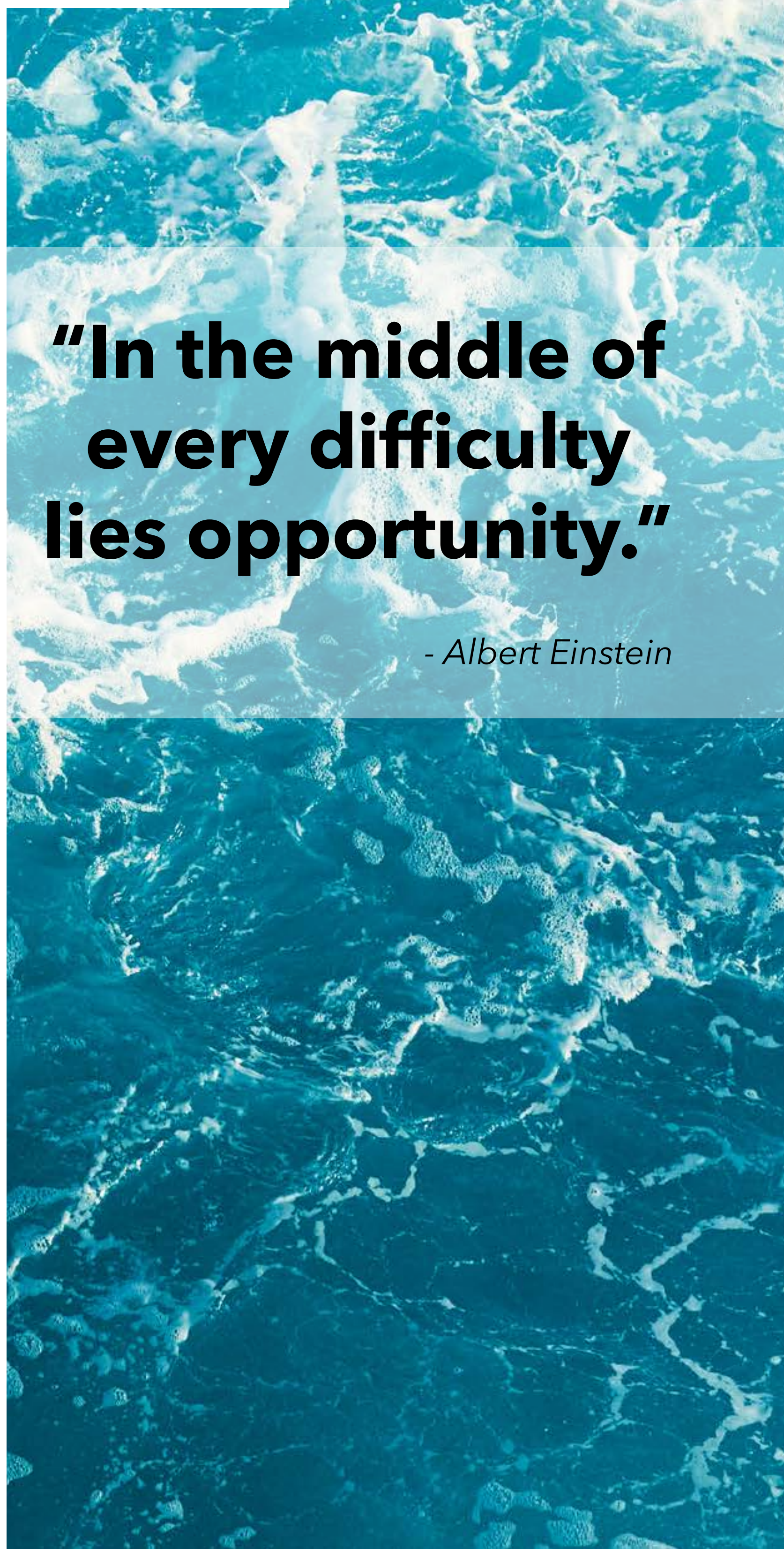
MESSAGE FROM
THE CHAIRMAN

Dear Shareholders,

Last year, the COVID-19 pandemic presented the banking industry with many difficulties to overcome and tested our agility and adaptability. While still confronted by many challenges, I am pleased to report that through the persistence and resilience of the BOB Team, the Bank recognised a profit for the year ended June 30, 2021, as it continues its path of rebuilding.

In Fiscal 2021, Bank of the Bahamas achieved net income of $3.7 million and total comprehensive income of $4.4 million. Net loans and advances increased by $18.2 million over the prior year and net interest income totaled $33.5 million. Net credit loss expenses of $10.1 million were recorded year to date compared to $15.3 million during the same period of the prior fiscal year, a 34% positive variance. Reversals of provisions for impairment of $5.3 million were also recorded during the current year, compared to impairment losses of $6.3 million in the prior year. The Bank's total assets increased by $81 million to $903 million while total equity increased by $4.4 million from $154.1 million to $158.5 million.

Management continued to emphasize robust portfolio management and focus on cost containment measures; however, the Bank's operating expenses increased by $2.9 million or 8.88% year to date. Increases were noted in staff costs, depreciation and IT related expenses as the Bank invested in the human resources, system innovation and upgrades to support the Bank's planned growth and strategic initiatives. In addition, the Bank recognized an increase in its licence fee of $0.8 million.



"In the middle of every difficulty lies opportunity."

- Albert Einstein

While there are signs of a budding economic recovery with some renewed activity and employment in the tourism, restaurant and retail sectors, it is still difficult to predict how long a full recovery will take or speak with any degree of confidence about the Bank's prospects for fiscal year 2022. The continuing effects of the pandemic on the economy have created a more challenging environment in which to operate. In this landscape, all revenue streams have been negatively impacted.

In the past year, the Bank began the process to fully automate its loans processing and delinquency management systems, a new portfolio of EMV Chip Prepaid and Credit Cards was launched and the range of electronic banking services available through our online banking platform was expanded. I am also pleased to report that the second phase of the ATM Expansion Programme was completed. This phase included the deployment of five new offsite ATMs in New Providence and, for the first time, an ATM installation in Kemp's Bay, Andros. In fiscal 2022, the journey continues with the imminent launch of Contactless Chip Prepaid and Credit Cards, a new corporate website inclusive of online applications and a new corporate online banking platform and mobile app, as well as the launch of a debit card.

During the fiscal year, the Bank continued its defence in its two highest risk litigation matters: Kaydee Limited et al. v. Bank of The Bahamas Limited and Leslie O. Miller et al. v. The Bank of The Bahamas et al. In the matter of Kaydee Limited et al. v. Bank of The Bahamas Limited, the Bank awaits the delivery of the Appeal ruling stemming from the Judgment in Default of Defence entered against the Bank by the Plaintiffs in excess of $6 million, which was set aside on October 21, 2019, and thereafter appealed. The delivery date of the ruling has been vacated on three occasions.

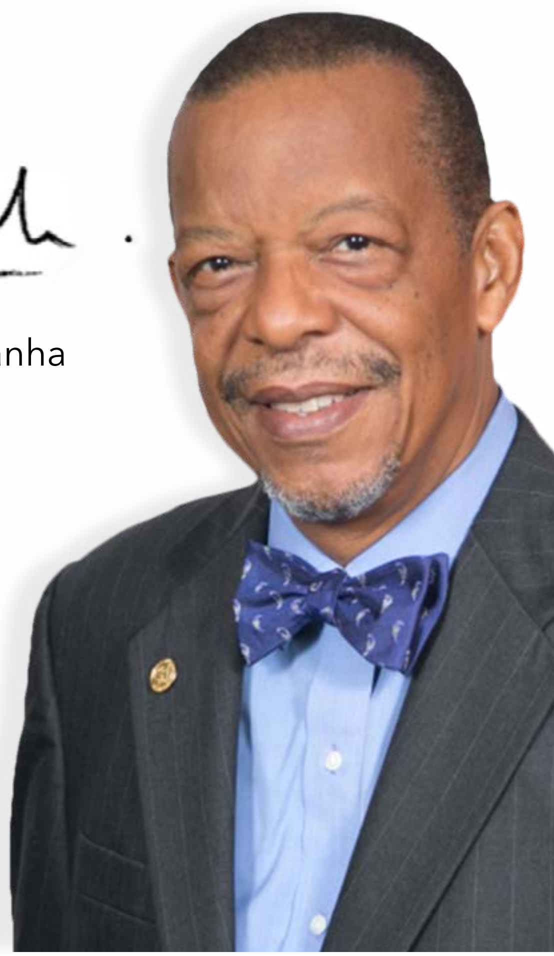
Regarding the matter of Leslie O. Miller et al. v. The Bank of The Bahamas et al., in January 2021, the Judge's finalized ruling on the application made by the Plaintiffs for Summary Judgment against the Attorney General and the Treasurer of the Commonwealth of The Bahamas ("the Treasurer"), the Second and Fourth Defendants, respectively, was issued, granting Judgment in excess of $9.8 million in favour of the Plaintiffs. Upon application by Bank, the final ruling removed all adverse findings against the Bank which were found in a purported draft ruling that was in the public domain.

The Attorney General and the Treasurer appealed to the Court of Appeal. On September 27, 2021, the appeal was heard; the Court of Appeal allowed the appeal, set aside the Judgment and ordered that the matter be remitted to the Supreme Court to be heard by a different Judge.

Since the last annual general meeting, Dr. Dana Hall, a medical practitioner and businessman and La Verne Burrows-Deleveaux, a veteran banking professional, were appointed to the Board bringing fresh insights, knowledge and experience.

On behalf of my Board colleagues, I thank you, shareholders, for your continued trust. I also thank our customers for their continued loyalty and support and our employees for their unwavering commitment and dedication to the success of the Bank, particularly our frontline employees, throughout the challenges brought on by COVID-19. To the Bank's management I extend my deep appreciation for the focused and dedicated leadership, and to my Board colleagues, I express my gratitude for their professionalism and engagement, which have been essential to the achievement of our goals.

Wayne J. Aranha



MESSAGE FROM
THE MANAGING DIRECTOR

I believe that we are on the right path and I am bullish on the future of Bank of The Bahamas.

Bank of the Bahamas continues on the path to rebuild and reclaim its position as a leading financial institution in The Bahamas. The momentum established in the past year will continue in fiscal 2022 as we progress to becoming the most efficient customer centric bank in The Bahamas.

While we celebrate a return to profitability, we fully realize that there is a lot more work to be done to provide our customers with essential and modern banking solutions delivered through enhanced state-of-the-art technology.

In Fiscal 2021 and in line with our overall Strategic Plan, we further strengthened our foundation by completing our Core Banking upgrade and the second phase of our ATM expansion programme. We continued on a plan to improve our products and enhance our service to our customers by introducing our EMV Chip Prepaid and Credit cards, implemented a centralized Mortgage Centre to facilitate the processing of all mortgage related products and expanded our Customer Experience Department to drive a cultural shift with a focus on providing optimum customer service with consistent development and training at all levels of the Bank.

This year we are forging ahead with key strategic initiatives to reinvent the Bank and differentiate us from our competitors. We are anticipating the completion of the extensive renovation of our Freeport Branch and opening of two new branch locations. We are also excited about the planned improvement to our website, the introduction of a new online banking platform, the introduction of a new Debit Card, the expansion of our Merchant Services Unit and the complete automation of our account onboarding, loan origination and delinquency management processes. Yes, your Bank is on the move!

I believe that we are on the right path and I am bullish on the future of Bank of The Bahamas. All of the above initiatives will set the stage for accelerated growth and eventual market leadership as we continue to enhance our customer service culture while improving our efficiency and products availability.

Finally, I take this opportunity to thank you, our shareholders, to thank our staff and customers for continuing on this journey of success with us. It is a worthwhile journey and we will reach our destination.

Kenrick Brathwaite

THE BOARD OF DIRECTORS

FRONT ROW: **Timothy Brown**, *Director*; **Wayne Aranha**, *Chairman*; **Kenrick Brathwaite**, *Managing Director*; **Kirk Antoni**, *Director*

BACK ROW: **La Verne Burrows-Deleveaux**, *Director*; **Dr. Dana Hall**, *Director*; **Margo Hillhouse**, *Director*; **Whitney Patton**, *Director*

BOB's Board of Directors is responsible for providing guidance to executive management and oversight of the Bank's operations. The Board, along with management, reviews and measures achievements throughout the year at the Board and committee meetings. These meetings include discussions with management about the current operating environment, human resource issues, trends and developments in the financial sector and regulatory changes that affect the Bank's operations. The Board also monitors the Bank's policies and processes to ensure that risk is managed and the Bank is in compliance with applicable laws and regulations which are consistent with sound banking practices. The current Board is chaired by Wayne Aranha.

Executive Management

Corporate Managers


Tanya Astwood
Corporate Manager,
Human Resources


Earl Beneby
Corporate Manager,
Corporate & Commercial Services


Brea Braynen
Corporate Manager,
Delinquency Management


Robert Cox
Corporate Manager,
Business Development


Indira Deal-Sands
Corporate Manager,
General Legal Counsel


Wendell Gardiner
Corporate Manager,
Compliance / MLRO


Milton Smith
Corporate Manager,
IT and Chief Information Officer


Ian Thompson
Corporate Manager,
Credit Risk


Maureen Woodside-Turnquest
Corporate Manager,
Finance / Financial Controller

Senior Managers


Pedro Burrows
Senior Manager,
Sales


Syche McDonald
Senior Manager,
Customer Experience


Jillian Ferreira
Senior Manager,
Business Services


Kelvin Briggs
Senior Manager,
Credit Adjudication


Shantell Bain
Senior Manager,
Branch Operations


Frank Thurston
Senior Manager,
Information Technology


Elnora Major
Senior Manager,
Back Office Support


Renay Miller
Senior Manager,
Operational Risk Unit


Clarice Varence
Senior Manager,
Operations Administration

"A smooth sea never made a skillful sailor"

- Franklin D. Roosevelt

Executive Office Organizational Chart

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR FINANCIAL YEAR END JUNE 30, 2021

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

FINANCIAL HIGHLIGHTS

		2021		2020		2019		2018		2017
Interest and Similar Income	$	40.10	$	41.69	$	36.32	$	37.13	$	38.83
Net Interest Income	$	33.52	$	34.82	$	28.20	$	27.92	$	26.54
Net Non-Interest Income	$	10.85	$	11.94	$	12.41	$	10.93	$	10.05
Operating Expenses	$	35.83	$	32.91	$	36.00	$	29.69	$	31.24
Provision for (Reversal of) Impairment Losses	$	(5.34)	$	6.32	$	-	$	-	$	-
Credit Loss Expense, net	$	10.15	$	15.35	$	1.72	$	7.57	$	51.96
Net Income/(Loss)	$	3.73	$	(7.30)	$	2.91	$	1.60	$	(46.49)
Earnings/(Loss) per Share (EPS)	$	0.09	$	(0.17)	$	(0.01)	$	0.04	$	(1.43)
Total Assets	$	903.01	$	821.95	$	818.11	$	834.19	$	755.81
Loans and Advances to Customers, net	$	388.66	$	370.45	$	344.18	$	351.49	$	448.12
Total Liabilities	$	744.54	$	667.86	$	656.60	$	656.35	$	691.91
Total Shareholders Equity	$	158.47	$	154.10	$	161.52	$	177.85	$	63.91
Share Closing Price	$	1.44	$	1.78	$	2.51	$	1.01	$	1.47
Common Equity Tier 1 (CET1) Capital Ratio		36.1		37.5		41.8		39.9		8.0
Efficiency Ratio*		80.76		70.38		88.65		76.41		84.64

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

OVERVIEW

Over the past year, the COVID-19 pandemic continued to affect countries around the world. The Bahamas experienced its own economic shock due to the pandemic. The Bank of the Bahamas (the "Bank") has been able to significantly mitigate the impact of COVID-19, as well as benefit from the opportunities it created, both operationally and financially. The Bank has operated, and continues to operate, efficiently and effectively, remaining focused on the security and wellness of both its employees and customers as well as on continuously evaluating and, where opportunity exists, enhancing its practical risk management processes and activities. With the shift to a mostly virtual environment and an adjusted operating model, banking operations were carried out smoothly, technology was deployed, and unprecedented agility and resilience were demonstrated. As a result, customers were served and employees were productive. With the recent certain relaxation in Government restrictions and the ramp up of the tourism sector, some level of economic recovery is expected in the near term. However, although we acknowledge continuing challenges before the positive impact of the ongoing vaccination is felt and the economy fully rebounds, we are optimistic of the country's and the Bank's future.

The team at Bank of the Bahamas remains steadfast in pushing through the challenges stemming from the ongoing pandemic, and the joint efforts have resulted in an overall net income of $3.7 million for the year ended June 30, 2021 from a net loss of $7.3 million in the prior year.

INTEREST AND SIMILAR INCOME

Interest and similar income for the year ended June 30, 2021 was $1.6 million or 3.81% lower than prior year owing to the deferred loan fees accounting estimate adjustment that resulted in a $3.3 million higher interest income in prior year; partially offset by the current year's higher interest income from loans and advances to customers by $1.4 million due to growth in the Bank's performing consumer, mortgage and government loan portfolio, and higher interest income on cash equivalents and investment securities by $0.4 million.

INTEREST AND SIMILAR EXPENSE

Interest and similar expense decreased by $0.3 million or 4.20% due to a decline in certain deposit balances and interest rates.

NET NON-INTEREST INCOME

Net non-interest income consists of the Bank's fees and commission income and expense from its cards, deposits and credit services, including other income. The decline in non-interest income of $1.1 million or 9.17% year to date was largely due to the adverse impact of the pandemic on the Bank's auxiliary revenue streams, which was immediate, substantial and continues to date.

NET CREDIT LOSS EXPENSE AND PROVISION FOR IMPAIRMENT REVERSALS/LOSSES

Credit loss expense on loans and advances

Net credit loss expense of $10.1 million was recorded year to date compared to $15.3 million during the prior fiscal year, a 33.89% positive variance. The credit loss expense reflects the Bank's economic outlook as at June 30, 2021. The Bank considered the appropriate economic factors to be The Bahamas' unemployment rate and its expectation of the performance of the Bahamian economy for the purposes of the ECL calculation on its loan portfolio. The Bank had established relief programs to help borrowers manage through challenges of COVID-19 primarily through payment deferrals.

Impairment loss on other financial assets

Impairment loss reversal of $5.3 million was recorded during the current year, compared to impairment loss of $6.3 million in the prior year as certain 'worst-case scenario' on forward-looking ECL estimates and assumptions used for the sovereign and corporate financial assets in the prior year did not fully materialize.

Management continues to use its judgement in the assessment of determining significant changes in credit risk and the underlying assumptions on its loans and other financial assets impacted by the COVID-19 pandemic.

OPERATING EXPENSES

Total operating expenses of $35.8 million was $2.9 million or 8.88% higher than prior year primarily due to higher banking license fees imposed by the Central Bank to all banks. Also contributing to the increase were higher staff costs, depreciation and IT related expenses as the Bank invested in the human resources, system innovation and upgrades to support the Bank's planned growth and strategic initiatives.

Efficiency ratio changed from 70.38% in the prior year to 80.76% for the year ended June 30, 2021 as the Bank's operating expenses increased and its total operating income decreased during the year. Management continues to seek and implement cost control measures and grow auxiliary revenue streams in line with the Bank's plan to manage its costs, increase revenue and sustain profitability.

STATEMENT OF FINANCIAL POSITION

The Bank's risk management structure promotes sound business decisions. Cash Equivalents and Investment Securities consist primarily of treasury bills and government registered stocks, while Cash and Due from Banks have been placed with high quality reputable institutions. Strategic reviews of the loan portfolio are regularly performed.

TOTAL ASSETS

Total assets stood at $903.0 million, an increase of $81.0 million or 9.86% compared to the prior year's total assets of $822.0 million. This increase was largely owing to the net additional Investment Securities of $23.2 million or 46.41%, higher Due from Banks balance by $21.2 million or 42.96%, and the growth in Loans and Advances by $18.2 million or 4.92%. The Bank continued to show a consistently strong liquidity level and funds the growth in its credit portfolio and operations.

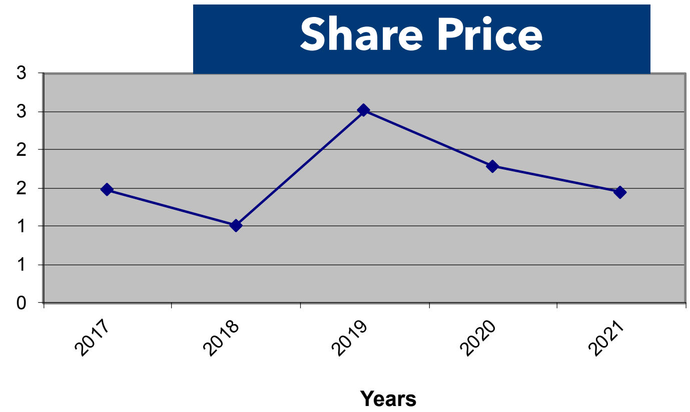
Cash and account with the Central Bank also increased by $9.5 million or 8.52%, a portion of which is attributable to additional offsite ATM locations as the Bank expands its footprint. Net Note Receivables increased by $4.0 million or 2.40% due to reduced impairment provision. Other assets increased by $3.9 million or 43.59% mostly due to higher real property tax receivable on certain loans.

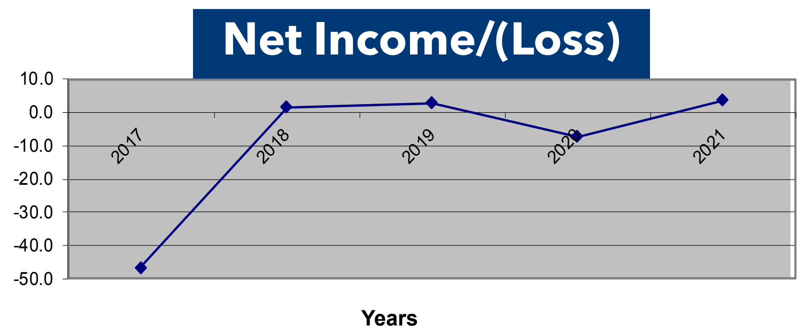
TOTAL LIABILITIES

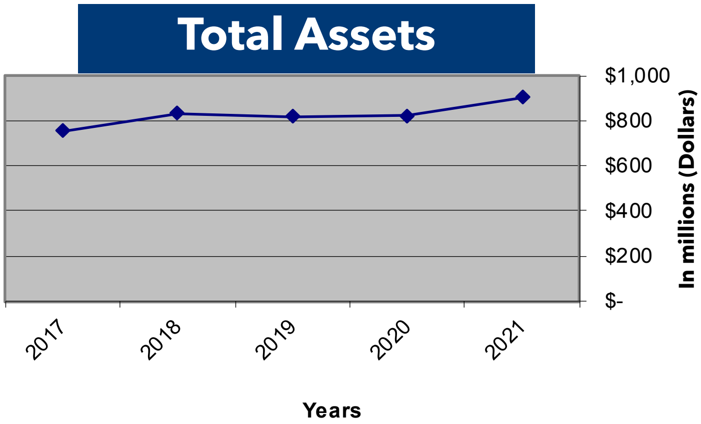
Total liabilities stood at $744.5 million, an increase of $76.7 million or 11.48% compared to prior year's total liabilities of $667.9 million. Deposits from customers and banks, which account for approximately 93.46% of total liabilities, increased by $63.0 million or 9.96%, from $632.8 million as at June 30, 2020 to $695.9 million as at June 30, 2021. The Bank's demand, savings and term deposits grew during the year, with significant increases seen in business demand and term deposit products which fully offset decreases in government and related party demand and term deposits.

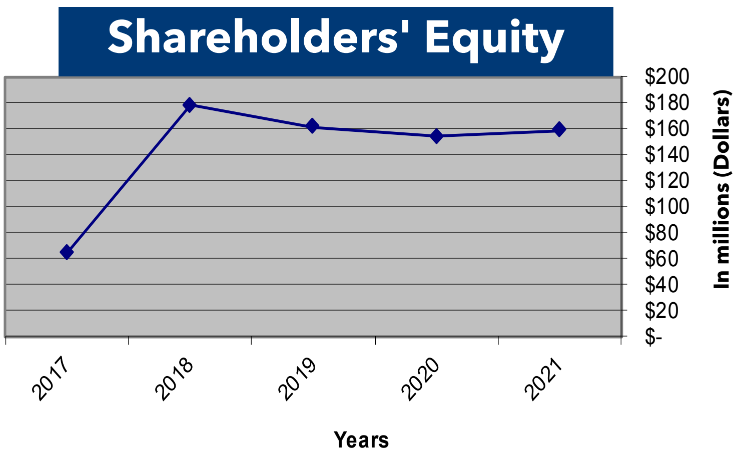
TOTAL SHAREHOLDERS' EQUITY

The Bank's total equity closed at $158.5 million, $4.4 million or 2.84% higher than the June 30, 2020 balance of $154.1 million attributable to the $3.7 million net income during the year and the $0.6 million mark-to-market gain on Visa shares investment.









The Bank's key capital ratios remained strong and compliant with regulatory requirements, with the Bank's CET1 ratio at 36.1% (2020: 37.5%), well above the Central Bank's minimum requirement of 9.6%.

CONCLUSION

Experience gained in responding to the pandemic will undoubtedly be a catalyst for further change, with an opportunity for a more streamlined and efficient banking model, moving towards a position of sustainable profitability and growth. As we remain committed to keeping health and safety at the forefront, we would like to thank our dedicated and qualified BOB team of employees, management, directors, shareholders and most importantly our customers for their loyalty and continued support of the Bank.

ON THE MOVE!

Despite restricted operating hours due to the global COVID-19 pandemic, the bank made considerable progress in implementing major planned initiatives during the past year. With a great deal of resourcefulness and collaboration between cross-functional teams, the Bank continued to expand its service delivery channels while upgrading premises and technology in critical areas.

Significantly, the bank benefitted from efficiencies gained from its investment in a $5.1 million upgrade of its Core Banking system from Oracle Flexcube v 7.1 to Oracle Flexcube v 12.3. Additionally, the following projects came to fruition in fiscal 2021.

Members of the IT Team

ATM EXPANSION PHASE II

The Bank completed the second phase of its ATM Expansion programme which included the installation of five new offsite ATMS in New Providence and brought ATM service to Kemp's Bay, Andros for the first time. Strategic ATM locations were identified and secured by the Business Development Department while the Bank's Information Technology Team sourced and installed the equipment including surveillance and security infrastructure.

The new offsite ATMs in New Providence are located on Prince Charles Drive, Robinson Road, Cable Beach, Gladstone Road and Carmichael Road. Additionally, in Kemp's Bay, Andros, where branch operations are limited to three days a week, the new ATM is providing 24 hour access to a range of banking transactions, much to the delight of customers.

Robert Cox, Corporate Manager, Business Development, says the new ATMs are having the intended effect.

"Customers are elated and we're very happy about the expansion. As expected, this initiative has reduced lines at Branch ATMs while providing more banking options and greater convenience to customers," he said.

LAUNCH OF EMV CHIP CARDS

Another important development in Fiscal 2021 was the launch of the Bank's portfolio of Chip VISA prepaid and credit cards. This upgraded product includes modern EMV Chip technology that provides greater security for card transactions than its predecessor, traditional magnetic stripe card. The cards and collateral materials were designed by the Marketing Department in collaboration with VISA, Card Services and Business Services. The cards were launched in third quarter of fiscal 2021 and are being rolled out to customers based on the natural expiry dates of existing magnetic stripe cards.

IN PROGRESS

As the Bank entered the second quarter of Fiscal 2022, renovations were well underway for its Freeport Branch, that sustained damage from Hurricane Dorian in 2019. With renovations designed and executed by the firm of Bruce LaFleur and Associates, the branch is expected to set a new, spectacular standard for customer experience and completion is anticipated by December 2021. Meanwhile, the Board of Directors has also approved the addition of two new branches in New Providence.

EXPANDED ELECTRONIC PAYMENT OPTIONS

During the past year, BOB customers also benefitted from the introduction of an expanded range of low cost, time saving electronic payment options. These new services enable customers to transfer funds between commercial banks and are alternate options to wire transfers and standing orders. Customers can now utilize electronic payments to:

- Settle bills such as rent, tuition and utilities
- Send funds to friends and family
- Remit payments to suppliers, vendors and more

At BOB these payments can be initiated using the BOB Express Online Banking platform.

COMING SOON!

Also by December 2021, the bank's VISA card portfolio will have received yet another upgrade with the addition of contactless features to all cards, bringing the portfolio in line with the most modern available card services. The launch of contactless chip credit and prepaid cards will provide customers with more flexibility, control and ease of use. When used with contactless merchant processing terminals, customers will only need to gently tap their BOB VISA cards on the terminals instead of inserting or swiping them.

And there is more! Card services and customer convenience will receive a further boost with the introduction of VISA debit cards by year end Fiscal 2022. The bank's ecommerce product offering will also be upgraded through Fiserv technology and its Merchant Services enhanced by a new processing partnership with First Data.

Additionally, by third quarter 2022, the bank's investments in technology upgrades, ATM expansion and branch improvements will be complemented by the launch of a new, modern, user-friendly corporate Website inclusive of online applications facilitated by Newgen software. Customers will be able to start the application process for loans and account opening services via the website and the loans application process will be fully automated for greater efficiency, as will delinquency management processes. The new corporate website will also provide an interface to access the Bank's brand new state-of-the-art online banking platform and mobile banking app by Oracle.

All of these developments are expected to place Bank of The Bahamas in the best position to achieve its strategic goals which include accelerated growth and eventual market leadership in the local commercial banking industry.

PEOPLE DEVELOPMENT TAKES PRIORITY AT BOB

One important key to executing a winning strategy is having a winning team. In addition to recruiting employees with the right qualifications and attitudes, Bank of The Bahamas invests in ongoing people development to ensure that all employees are equipped with the necessary skills and knowledge to achieve the bank's vision and mission.

The Bank's Training Department is responsible for assessing bank-wide training needs and providing opportunities to meet those needs. These opportunities range from mandatory orientation workshops, service skills training and annual Anti-Money Laundering courses to specialized instruction for departments or groups of employees. The Department also works with cross-functional teams to organize training for new product launches, systems and software.

Elricha Brown, Manager of the Training Department explains that planning for people development starts prior to each fiscal year. "We conduct a training needs analysis survey to ascertain the anticipated training needs of the bank. In addition to this, various department heads will include us in meetings to discuss ongoing projects throughout the Bank. This allows us to ensure that the relevant employees receive the training they require," she said.

The Training Department prepares and publishes a schedule of optional and required courses on a monthly basis from which employees can select

THE TRAINING DEPARTMENT *from l-r: Lakeisha Ferguson, Training Administrative Assistant, Elricha Brown; Manager, Training; and Julisa Chea, Training Officer.*

Training session in progress

courses and times most convenient to their work schedules. However, training is not limited to in-house courses. Partnerships with organizations like The Bahamas Institute of Financial Services, the American Bankers Association and VISA greatly expand the array of available options for professional development, skill enhancement and certification.

Furthermore, with the introduction of a Velsoft online Learning Management System (LMS) in 2020, employees of Bank of The Bahamas have gained even more control over their professional development than ever before. With LMS, staff can take refresher courses in Microsoft Office during their lunch hour or expand their knowledge on other relevant subjects before or after work or during their free time at their own pace.

“I always encourage employees to learn as much as they can,” says Kenrick Brathwaite, Managing Director, Bank of The Bahamas Limited. “When I started as a young banker I wanted to learn everything and in Banking there is always something new to learn.”

Mrs. Brown also suggests each employee should take the time to determine their career goals. “They can discuss their goals with their Supervisors and Managers and then notify us of their respective training requirements so we can seek ways to meet these needs,” she said.

During the past fiscal year, the COVID-19 pandemic has caused a shift to increased virtual training over face-to-face instruction, however, this has not prevented the Training Department from carrying out its mandate or decreased the participation and enthusiasm of employees. For example, the department ensured that BOB’s $5.1 million Core Banking System upgrade was actively supported by bank-wide training for all employees. Also, in recent months the Training Department coordinated a series of Leadership Development Training and Customer Experience seminars for Management level employees via Zoom.

In the current fiscal year, comprehensive training programmes will support new initiatives including the launch of the Newgen online loan origination/account opening software and the Bank’s new Online Banking Platform from Oracle. Additionally, Leadership Development Training & Supervisory Workshops will continue for managers and supervisors while the Training Department and Customer Experience Unit will partner to offer a series of workshops designed to help Branch Ambassadors enhance the BOB Customer Experience.

“Over the next few years, I see employees continuing to utilize online learning as it is readily available for immediate training needs. We also see our classroom training returning as the merits of this training method still outweigh other training methods. We see employees learning not just about their current roles but also about future roles they may wish to move into as they give more thought to planning their careers with the bank,” Mrs. Brown said.

CREATING A CUSTOMER **CENTRIC EXPERIENCE**

Syche McDonald, Senior Manager, Customer Experience

Soon after Kenrick Brathwaite Sr., Managing Director, joined the Bank in 2018, he shared with Management colleagues and the entire organization his personal vision that **Bank of The Bahamas would "become the most efficient customer-centric bank in The Bahamas".** In a bold step to accomplish this goal, in 2019 a new department called the Customer Experience Unit of the Bank was created and Syche McDonald, former Manager, Training was appointed to head the unit. Mrs. McDonald currently heads a team of two including Assistant Manager Crystal Morris and Analyst Chiquita Bowleg.

The Customer Experience Unit is charged with driving a cultural change that delivers a best-in-class customer experience at all service touch points of the bank. This includes the branch network, online and ATM channels and every step along the customer journey. The unit is expected to drive the service culture of the Bank by sensitizing all employees to the importance of a great customer experience. It conducts regular customer surveys and analyzes that data, especially the Bank's net promoter score, to understand what impacts customer experience initiatives may have on revenue.

"Our mandate is not just to improve the customer service but to improve the customer experience. We ask our customers about our services and use that data to meet their service needs and recommend improvements. We are the voice of the customer, and we act as an ombudsman for them. We listen when they speak and then address their issues internally by sensitizing staff to the needs of our customers. We raise awareness of customer concerns and at the same time address any procedural gaps that may prevent the Bank from putting the customer at the heart of business operations," Mrs. McDonald explains.

The work of the Customer Experience Department requires reaching across company borders and partnering with stakeholders in all branches and departments. It entails communicating with business partners, especially Branch Operations, to highlight areas of procedures and workflow processes that are not conducive to a great customer experience.

With many local banks offering similar products and some rapidly implementing digitisation without due regard for customer support, a great customer experience is one factor that can set a bank apart from others. Since its establishment, the Customer Experience Unit has created and promoted avenues whereby customers can reach the Unit, for example, via telephone or email, and share their experiences, whether good or bad. In return the Unit is able to respond with appropriate action to help solve an issue causing a complaint or share letters of commendation with Management and the involved branch or department.

"We receive numerous calls from our customers and it is indeed a pleasure when we hear our customers express gratitude for having an outlet to convey their satisfaction or dissatisfaction with services at Bank of The Bahamas; when our customers are elated and let us know they appreciate us being there to listen, we know we are impacting change" said Mrs. McDonald.

In fiscal 2021, the Unit partnered with the Training Department to implement Customer Experience Training for Management level employees and create a specialized training course for Brand Ambassadors. This summer CXU also commenced Financial Literacy Zoom presentations for customers focusing on financial wellness. With the assistance of the Marketing Department the sessions have appeared on the Bank's Facebook page and the intention is to continue with monthly sessions to educate customers in all areas of finance.

More recently the Unit launched a 100 Day Challenge Customer Experience Competition across the organization. This Challenge is designed to improve people performance, build teams and improve the customer experience. It has introduced Customer Experience champions across every branch and department of the bank with teams all focused on producing and executing the best ideas to provide a best-in-class Customer Experience.

While the winners of this Challenge are yet to be announced, the Unit is also planning other initiatives to place additional focus on the Customer Experience. Considering the Bank's recently implemented and upcoming technological upgrades, the unit plans to partner with Information Technology and other business partners, to ensure that the best customer experience is built into digital service delivery systems.

"We also want to continue to focus on people development, customer education, and delivering a world class customer experience. By focusing on the valuable data received from customers we intend to provide Business Development with critical information that will translate into meaningful solutions and company success," said Mrs. McDonald.

TOP HONOURS FOR
BOB VISION JAC

Pictured from right to left: Top Achievers Shaylaine Roker and Tymia Thompson paid a courtesy on BOB Managing Director Kenrick Brathwaite and Corporate Business Development Manager Robert Cox.

In fiscal 2021, BOB once again invested in the development of up and coming business leaders through its participation in the Junior Achievement Programme. The Bank committed to sponsoring and mentoring a Junior Achievement Company for the fourth consecutive year since rejoining the programme in 2017. It was a commitment that not only yielded a great return for investors, but exceptional results for the participating students and tremendous pride and satisfaction for BOB's dedicated team of volunteer staff advisors.

In this year's Junior Achievement Awards, the BOB JA Company BOB VISION walked away with the programme's highest honours. BOB Achiever Shaylaine Roker captured the top prizes of Most Distinguished Achiever, with an $8,500 scholarship and the award for Most Distinguished Officer (Human Resources). She also captured the Best Speaker award. Simultaneously, company president Tymia Thompson placed fourth in the running for Most Distinguished Achiever while Assistant Vice President of Marketing Atiya Rolle received the Above and Beyond the Call of Duty Award.

BOB VISION also won numerous other prizes and accolades during the year including second place in the National JA Speech Competition (Shaylaine Roker) and the top three awards for the JA New Providence Speech Competition (Shaylaine Roker – 1st Place, Janae Ingraham – 2nd place and Tymia Thompson – 3rd place). The company placed 3rd overall for the JA product of the year (IGuud COVID Care Kits) and won third place in the JA Open House Competition.

"We are extremely proud of Miss Roker and all of the students for the tremendous work they have done this year," said Kenrick Brathwaite, Managing Director, Bank of The Bahamas Limited. "We congratulate them for an outstanding job and wish them much success in the future. We also congratulate and thank our BOB advisory team for their steadfast commitment to the success of BOB VISION," Mr. Brathwaite said.

"Visionaries Initiating Solutions; Inspiring Opportunities Nationwide"

CHARITABLE DONATIONS & **SPONSORSHIPS 2021**

BOB Supports RBPF Fire Relief Drive

BOB SUPPORTED A NUMBER OF WORTHY CAUSES IN FISCAL 2021 INCLUDING BUT NOT LIMITED TO THE FOLLOWING:

- Donation of Personal Protective Equipment (PPE) to Sandilands Rehabilitation Centre
- Partnering with Ministry of Education to purchase Tablets for school children
- Partnering with More FM Secret Santa promotion for Children impacted by HIV/AIDS
- Zonta Education Initiatives
- Parade of Champions (Junkanoo)
- Bahamas National Feeding Network
- Commonwealth Writers of The Bahamas
- Purpose Path International
- Caribbean Women in Leadership Conference
- Red-Line Track and Field Classic
- Ranfurly Home for Children
- Royal Bahamas Police Force Fire Relief Drive
- Boys Club of The Bahamas
- One Family Culture Initiative
- Bimini Fisher's Network
- Royal Eleuthera Youth Corps

CORPORATE GOVERNANCE PRINCIPLES

The following principles provide the framework for corporate governance of the Bank.

ROLE OF BOARD OF DIRECTORS

The Board is ultimately responsible for the conduct of the Bank's affairs and operations. Considering this mandate, the Board provides oversight of the risks identified and ensures that they are adequately monitored and managed. Whilst the management of the day-to-day operations are delegated to the Bank's executives, the Board provides oversight of the Bank's activities to ensure that its operations are carried out in compliance with applicable laws and regulations and are consistent with sound banking practices.

The Bank's *"Directors & Officers Corporate Governance Handbook"* addresses the powers, duties, responsibilities and roles of Directors such as:- the appointment of the Managing Director and, where not done by the shareholders, all other Board appointments; approvals of the Budget, Strategic Plan, and Remuneration Policies; assessing management's performance against approved objectives and strategies; and providing the annual certification of compliance with the Central Bank's Corporate Governance Guidelines to the Inspector of Banks & Trust Companies.

BOARD COMMITTEES

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

The Bank has six Board Committees, namely:-

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

Director Attestations

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

Compensation of Directors

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

Director Education

Each Director is expected to be knowledgeable about concepts discussed and to ensure that decisions made by the Board are reasonable. Toward this end, the Bank provides ongoing educational opportunities for the Directors through seminars, online training, trade publications and regulatory updates.

Independence of Directors

As part of its evaluation process, each candidate nominated to serve on the Board completes a document to determine their independence in accordance with best practices and within the

Central Bank of The Bahamas' "Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business within and from within The Bahamas". Board members conduct themselves in accordance with the prevailing laws of The Bahamas and evolving best practice standards. It is incumbent upon the Directors and Officers of the Bank to view their own actions and intentions objectively in that they are accountable not only to the Bank's shareholders and depositors, but also to the Bank's regulatory supervisors. Bank directors are required to exercise reasonable care in governing the Bank's affairs and must consider the Bank's interest before their own.

BOARD MEETINGS

Board Committee meetings held during fiscal 2021 are as follows:-

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

Attendance at Meetings

Regular attendance at all Board meetings, together with Board Committee meetings and the Annual General Meeting, is expected of all Directors. Following is a record of attendance of Directors at the quarterly Board Meetings during the 2021 fiscal year:

BOD MEETINGS
FOR THE PERIOD July 1, 2020 to June 30, 2021

Director	August 6, 2020	Sept. 8, 2020	Nov. 17, 2020	Dec. 30, 2020	Feb. 18, 2021	Mar. 16, 2021	Apr. 22, 2021	May 18, 2021	Jun. 8, 2021	Jun. 24, 2021
Wayne J. Aranha	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kenrick L. Brathwaite, Sr.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Timothy Brown	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kirk Antoni	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Whitney Patton	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Margo Hillhouse	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
La Verne Deleveaux	n/a	n/a	n/a	✓	✓	✓	✓	✓	✓	✓
Dana Hall	n/a	n/a	n/a	✓	✓	x	x	✓	✓	x

✓ = Present x = Apologies n/a = Was not a Director at the time

Preparation for, and Business of, Meetings

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

Board Certification

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

The Board provides oversight to management to seek remediation of issues that may be highlighted by the Central Bank. The Bank is generally in compliance with the laws, regulations, and guidelines to which it is subject. An action plan to implement the requirements or remedy the deficiencies stated in the most recent Central Bank reports was prepared and submitted to the Inspector, and the agreed remedial actions are being taken. In addition, the Bank is addressing certain issues relating to its credit risks that continue to cause it to be subject to restriction on the extension of commercial credits.

FOLLOWING IS A SUMMARY OF BOARD COMMITTEE ACTIVITIES THROUGHOUT THE PAST FISCAL YEAR.

Corporate Governance Board Committee

The Corporate Governance Committee is comprised of the Chairman of the Board, the Chairman of the HR & Compensation Board Committee and the Managing Director. This Committee provides oversight to ensure that Directors and Officers of the Bank conduct themselves in accordance with the Bank's Articles of Association, its Directors & Officers Corporate Governance Handbook and guidelines as outlined by regulatory and supervisory bodies.

During the year, the Committee addressed the following matters:

- Reconstituted the Board Committees taking into consideration skill sets, knowledge and experience of members.
- Reviewed and amended Board Committee mandates.
- Reviewed and amended the Directors & Officers Corporate Governance Handbook.
- Oversight of the Board's Annual Self-Assessment Evaluations;
- Ensured the annual Director Attestations relative to Conflicts of Interest and Independence were completed.

Operations Board Committee

The Operations Board Committee is chaired by Mr. Whitney Patton. This Committee is primarily responsible for ensuring that the operations of the Bank are consistent with its business objectives and strategies, delivery of efficient and effective customer service and a sound internal control environment.

While there have been notable challenges due to the COVID-19 pandemic, the Committee is pleased with the following accomplishments over the past year in supporting the Bank's overall strategy of *"Strengthening the Foundation"*:

- Upgrade of critical banking systems, key infrastructure, and equipment.
- Commencement of branch/unit upgrades.
- Replacement/Expansion of branch ATM network.
- Upgrade of security and surveillance systems.
- Review and update of Policies and Procedures.

As the strategic focus now shifts to *"Accelerating Growth"*, the Bank will continue its focus on the following operational initiatives:

- Physical improvement of facilities.
- Strengthened system security.
- Improved service delivery.
- Improved operating efficiency.
- Development of a well-trained work force.
- Adding Value to Stakeholders expectation.

Audit & Finance Board Committee

The Audit and Finance Board Committee's primary purpose is to assist the Board in fulfilling its oversight responsibilities relating to financial reporting, external and internal audit functions, finance and compliance with legal and regulatory requirements. This Committee is chaired by Mr. Timothy Brown.

During the fiscal year, the Audit & Finance Committee, amongst others, reviewed and addressed the following matters:

- Considered the issues and findings presented by the internal audit team during the fiscal year and satisfied itself that management has resolved, or is in the process of effectively resolving, any outstanding issues or concerns on a timely basis.

- Reviewed the regulatory reporting requirements and ensured that all matters were effectively addressed.
- Oversaw the relationship between the bank and external auditors. Approved the strategic internal audit planning approach, ensuring that it was risk based and appropriately addressed the Board approved Strategic Plan; and quarterly reviewed the work of the internal audit function in executing the audit plan.
- Ensured that a quality assurance improvement program implemented in the prior period remained functional.
- Obtained Board Approval for the revised Internal Audit Department's Policies and Procedures Manual.
- Reviewed the quality assurance review and monitoring process conducted on the Core Banking system implementation, ensuring that issues and concerns raised were being adequately addressed by management.
- Reviewed and approved the remediation of issues emanating from the Information Technology Audit covering IT Resourcing and Change Management to adequately assess the risk, governance and management of the IT function.

Human Resources and Compensation Board Committee

The Human Resources and Compensation Board Committee chaired by Mr. Kirk Antoni, ensured that the Human Resources Department remained steadfast in providing the Bank with competent and capable financial services professionals who could grow and expand within the business. The Human Resources Department continued to support the Bank in becoming one of the best financial institutions in The Bahamas, while exceeding expectations through a constant progression of development at every level of the business. The culture of the Bank is one of positivity, competence and a desire to improve, boosting morale while ensuring the Bank is built on a framework of inspired financial services professionals and efficient people management processes.

Throughout the past year, there were several challenges created by the global pandemic. Despite the unexpected disruption that the COVID-19 virus continues to place on businesses around the world, we have continued to work hard in improving our practices so that we strive to be better than we have been. For this reason, we have placed a significant emphasis on the development of our teams; an ongoing effort that will help boost morale, motivation and ability within the business and ensure that we rise from the pandemic as a successful entity.

Our flexible approach to working has allowed for a more relaxed office dynamic. There has been a need for some teams to work from home, while the office environment has been adjusted to always ensure covid-safe practices. This has allowed us to focus on our broader vision while reducing the risk of illness for our employees.

Succession Planning Programme

During the year, we were pleased to have implemented the succession plan, which allowed us to identify individuals who could potentially fill critical positions within the Bank, while growing and developing. Key roles have been identified, while the assessment of individuals is an ongoing process, allowing for continuous professional growth and career progression.

The succession plan has been implemented to secure the Bank's resource model for business continuity and employee development. Development Plans have been created on an individual basis, so that each potential successor is able to work on their own areas of improvement. The succession plan has allowed us to create a full and comprehensive development profile of the Bank, focusing on top-down management throughout the organization which will ensure a continuous pipeline of high-performing employees through the business and that any career decisions are made in a systematic and routine way for best results.

To support this plan and others across the Bank, a Performance Management application was implemented to allow us to advance our goals and ensure our talent pool is aligned with the Bank's strategy.

TRAINING AND DEVELOPMENT THROUGHOUT THE BANK

Proving that opportunities for development never end, we hosted Leadership Development Workshop Programmes for Managers. Showing their desire to lead by example and commit to lifelong learning to be ever-more efficient in their role. This ongoing commitment to self-development will likely allow our management team to stay ahead of the competition and be aware of emerging markets and sectors of growth.

In addition, training plans have been created for High Potential Employees in an effort to boost their skills and create staff with a more holistic approach to their workplace. High Potential employees have already engaged in cross-training activities; these programmes are ongoing and have proven to be effective.

BOOSTING PERFORMANCE AND EMPLOYEE MORALE

The training plans introduced this past year promoted our vision of growth and enhanced performance. We focused on overall employee development and engagement with a number of courses and systems that not only increased employee morale but promoted learning and growth. One of our latest initiatives was the E-Learning Policy Training was introduced and implemented, allowing employees to review and interpret policies at their own pace.

Additionally, we implemented learning management systems to support our business and customer service training goals, ensuring well-rounded developed employees. Our customer service teams further benefited from the introduction of courses developed to promote customer service excellence across the Bank.

Finally, we took the wellbeing of our staff very seriously, and therefore introduced initiatives throughout the year to create a happier workplace for all.

PERFECTING OUR POLICIES

The Human Resources policies were revised to allow us to manage risk and to outline the benefits and opportunities available to employees. Therefore, improving employee morale, retention and job satisfaction.

FOCUS FOR FY 2022

The goals achieved in 2021 have served to assist in the transformation of the Bank. COVID-19 remains a serious consideration, but with rising uptake of the vaccine, we hope to be able to move forward in a positive and progressive way. As such, the focus for next year will include:

- Succession planning: Strengthening the foundation to ensure business continuity and employee development.
- Introducing the revised Human Resources Policies.
- Implementing the Career Management Framework and the Career Progression Framework.
- Assessing salary, benefits and rewards and recognition in line with the market.

Credit Risk Management Board Committee

The Credit Risk Management Committee is chaired by Mr. Wayne Aranha. This Committee provides guidance to the Board as to the credit risk appetite for the Bank and oversees the identification, assessment, monitoring and management of credit risk impacting the Bank.

The Committee is primarily responsible for providing oversight with respect to the Bank's credit activities, including the following:

- Adequacy of credit policies.
- Establishment and approval of lending limits for the Bank.
- Ensuring that credit is extended in accordance with established policies and relevant laws, regulations, guidelines, accepted business practices and ethical standards.
- Ensuring that the credit process is managed appropriately and effectively.
- Oversight of Management's administration of the Bank's credit portfolio and compliance with applicable credit risk related policies, procedures, and tolerances.

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

- Enhancing the Bank's Credit Risk Management, Residential Mortgage, and Collections Policies and Procedures.
- Strengthening the Credit Governance Structure of the Bank.
- Updating the Bank's provisioning processes, procedures and practices.
- Oversight of a project to implement a comprehensive loan origination solution

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

Enterprise Risk Board Committee

All Chairpersons are members of this Committee, which is chaired by Mrs. Margo Hillhouse. The Committee's mandate is to provide guidance to the Board in defining the risk appetite for the Bank and overseeing the identification, assessment, monitoring and managing of all major areas of risks that may impact the Bank. The responsibilities include:

- Review and recommendation for approval by the Board, after consultation with management, the risk appetite of the Bank, the risks inherent in the Bank's businesses and strategic direction and the overall risk management strategy;
- Review key policies and procedures for the effective identification, assessment, monitoring and management of Strategic, Credit, Market, liquidity and Funding, Operational, Compliance, Legal and reputational risks;
- Oversee management's establishment of policies and guidelines (for the Board's approval), articulating the Bank's tolerances with respect to all risks;
- Oversight of management's administration of, and compliance with, the Bank's policies and guidelines respecting risk.
- Ensure that the Enterprise Risk Management framework is embedded into the Bank's culture;
- Ensure that the Risk Management Committee Strategic Priorities Risks Assessments are completed annually.

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

I. Financial Transactions Reporting Act, 2018;

II. Proceeds of Crime Act, 2018;

III. Financial Transactions Reporting (wire transfer) Regulations, 2018;

IV. Financial Transactions Reporting

Regulations, 2018;

V. Anti-Terrorism Act, 2018

VI. Streamline Requirements for Account Opening, Provisions of Financial Services and Customer Identification.

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

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

- A more structured and concise reporting regime on compliance related matters to Senior Management and the Board of Directors and its Regulators.

- Revamped policies and procedures relating to Politically Exposed Persons (PEPs).

Bank of The Bahamas
LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

pwc

Independent auditors' report

To the Shareholders of Bank of The Bahamas Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bank of The Bahamas Limited (the Bank) and its subsidiaries (together 'the Bank') as at June 30, 2021, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's consolidated financial statements comprise:

- the consolidated statement of financial position as at June 30, 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

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

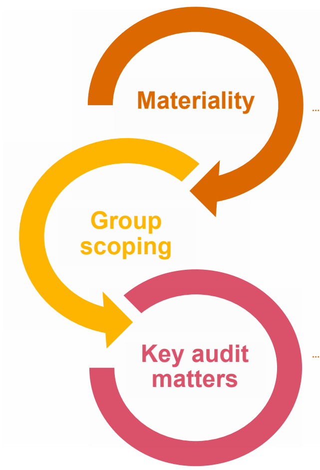
Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 2 Bayside Executive Park, West Bay Street & Blake Road, P.O. Box N-3910, Nassau, Bahamas T: + 1 242 302 5300, F: + 1 242 302 5350, www.pwc.com/bs, E-mail: pwcbs@bs.pwc.com

Our audit approach

Overview



- Overall group materiality: $1,530,000, which represents approximately 1% of net assets.

- The consolidated group consists of the Bank and its wholly owned subsidiaries Multi-Card Services Ltd, West Bay Property Holdings Ltd. and BOB Property Holdings Ltd., all incorporated and registered in The Bahamas.
- The audit engagement team was the auditor for the Bank and its subsidiaries.
- A full scope audit was performed on all entities in the group.

- Inputs and assumptions into the Stage 1 and 2 expected credit loss (ECL) model
- Credit impaired (Stage 3) collateralised loans

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates. All audit procedures were performed by PricewaterhouseCoopers Bahamas.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	$1,530,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark. We chose 1% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit & Finance Committee that we would report to them misstatements identified during our audit above $76,500, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Inputs and assumptions into the Stage 1 and 2 expected credit loss (ECL) model *Refer to notes 4(d), 7, and 31 to the consolidated financial statements for disclosures of related accounting policies and balances.*	
As at June 30, 2021, the Bank reported total Stage 1 and 2 gross loans and advances to customers of $378 million, for which had an allowance for expected credit losses of $18 million. The Bank's ECL model requires significant management judgements in determining the related assumptions. These assumptions include: - Probabilities of default (PD): This represents the likelihood that the borrower will default on its obligation over the next twelve months or over the remaining lifetime of the obligation. To determine the PD for loans and advances to customers, the Bank uses the historical days	With the assistance of our valuation specialist, we performed the following procedures, amongst others, over the inputs and assumptions into the Stage 1 and 2 expected credit loss (ECL) model as follows: - Obtained an understanding of management's ECL model including the relevant data inputs, assumptions and methodology. - Evaluated the appropriateness of the Bank's ECL model methodology, data integrity and model performance in comparison to the Bank's accounting policy and the relevant Financial Reporting Framework.

past due data to develop a transition matrix by product type, which is adjusted by forward looking information. - Forward looking assumptions: Management's determination of the forward looking assumptions incorporates unemployment rates and Gross Domestic Product (GDP) as well as the probability weightings applied to them. The Covid-19 pandemic continues to have a negative impact on the Bank's customers ability to service their loans. As a result, the Bank segmented the portfolio between tourism and non-tourism related borrowers and adjusted its unemployment rates to reflect the Bank's expectation of the economic outlook in these segments, which due to the subjectivity of these estimates could materially impact the Stage 1 and 2 provision. We focused on this area as a result of the complexity and estimation uncertainty in the above assumptions, which form part of management's judgement and significantly impacts the result of the ECL model.	- Evaluated the design and tested the operating effectiveness of the relevant controls, including the automated calculation of days past due used in the ECL model. - On a sample basis, tested the date of default, maturity date to the terms of the underlying contracts and recalculated the number of days past due. - Agreed unemployment rates and GDP used by management in the forward looking information to externally published data. - Tested management's classification of tourism versus non-tourism loans and advances by tracing to the underlying contract, which contained terms and details of the loan or advance. - Recalculated the probability weightings used and evaluated the weightings used by management in comparison to industry practice and underlying knowledge of the portfolio. - Tested on a sample basis, the appropriateness of the model design and formulae used by reperforming management's model on selected contracts. The results of our procedures indicated that the inputs and assumptions used by management for determining the Stage 1 and Stage 2 ECL were not unreasonable.
Credit impaired (Stage 3) real estate collateralised loans *Refer to notes 4(d), 7 and 31 to the consolidated financial statements for disclosures of related accounting policies and balances.* The Stage 3 ECL for defaulted mortgages totalled $28 million at June 30, 2021. We focused on management's impairment assessment for Stage 3 loans collateralised by real estate as management uses significant judgement in determining the	With the assistance of our real estate expert, we performed the following procedures, amongst others: - Assessed the competence and objectivity of management's appointed real estate appraisers to determine whether they are

valuation of real estate property pledged as collateral for loans and advances. This is the most significant repayment source for impaired collateralised loans. Due to the expertise and judgements required to value the collateral, management engages a number of independent experts on a periodic basis. Management's experts predominately have used the comparable sales assumption to determine the fair value of collateral held.

Further, management makes assumptions to discount certain collateral values based on the age of the experts report and the area the collateral is situated, which increases the estimation uncertainty surrounding the cash flows. The valuation of collateral is also impacted by estimated costs and time to sell.

appropriately qualified and independent of the Bank.

- On a sample basis, compared the collateral values recorded by management to the independent valuation appraisal reports.
- Compared the key assumptions used by management's real estate appraisers, being comparable sales, to actual comparable sales.
- On a sample basis, calculated the cost to sell and time to sell based on historical sales.
- On a sample basis, evaluated management's applied discounts by reference to the movement in historical and current appraised values.
- Recalculated the Stage 3 provision for collateralised loans and compared to the amounts recorded in the consolidated financial statements.

The results of our procedures indicated that management's assumptions used in the Stage 3 provision for collateralised loans and advances were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises the Bank of The Bahamas Limited Annual Report 2021 (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Bank of The Bahamas Limited Annual Report 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other matter

The consolidated financial statements of the Bank for the year ended June 30, 2020 were audited by another firm of auditors whose report, dated November 13, 2020, expressed an unmodified opinion on those statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Myra Lundy-Mortimer.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

October 28, 2021

BANK OF THE BAHAMAS LIMITED

(Incorporated under the laws of the Commonwealth of The Bahamas)
Consolidated Statement of Financial Position

As at June 30, 2021
(Expressed in Bahamian Dollars)

	Notes		2021		2020
ASSETS					
Cash and account with the Central Bank	5, 25	$	121,331,941	$	111,805,644
Cash equivalents - Treasury Bills	5, 25		44,919,339		44,935,963
Due from banks, net	5		70,535,440		49,339,675
Investment securities, net	6, 25		73,302,590		50,067,465
Loans and advances to customers, net	7, 25		388,656,053		370,447,999
Note receivable, net	8, 25		168,717,788		164,759,911
Investment property	9		6,463,000		6,463,000
Other assets	10, 25		12,762,836		8,888,333
Property and equipment, net	11		7,179,902		6,099,639
Right-of-use assets	12, 25		3,066,020		3,833,240
Computer software, net	13		6,071,011		5,313,347
TOTAL ASSETS		**$**	**903,005,920**	**$**	**821,954,216**
LIABILITIES					
Deposits from customers and banks	14, 25	$	695,855,586	$	632,824,620
Other liabilities	15, 25		42,582,597		28,340,104
Lease liabilities	12, 25		3,267,261		4,073,638
Deferred loan fees	3, 25		2,832,533		2,617,776
Total liabilities			**744,537,977**		**667,856,138**
EQUITY					
Share capital	16		42,610,505		42,610,505
Share premium	16		81,950,384		81,950,384
Treasury shares	17		(1,318,224)		(1,318,224)
Net gain on investments at FVOCI	18		3,462,314		2,821,670
Special retained earnings	8		172,122,932		172,122,932
Accumulated deficit			(140,359,968)		(144,089,189)
Total equity			**158,467,943**		**154,098,078**
TOTAL LIABILITIES AND EQUITY		**$**	**903,005,920**	**$**	**821,954,216**

These consolidated financial statements were approved by the Board of Directors on October 28, 2021 and are signed on its behalf by:

Director

Director

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Comprehensive Income

For the Year ended June 30, 2021
(Expressed in Bahamian Dollars)

	Notes		2021		2020
Continuing Operations:					
Interest and similar income	19, 25	$	40,099,318	$	41,685,999
Interest and similar expense	19, 25		(6,582,387)		(6,870,821)
Net interest income			33,516,931		34,815,178
Fees and commission income	20, 25		7,593,349		7,881,799
Fees and commission expense			(289,838)		(365,172)
Net fees and commission income			7,303,511		7,516,627
Other operating income	21		3,541,981		4,423,470
Total operating income			44,362,423		46,755,275
Operating expenses	22, 25		(35,828,680)		(32,907,165)
Provision for impairment reversals/(losses)	22, 25		5,341,283		(6,316,125)
Credit loss expense, net	7		(10,145,805)		(15,347,943)
Net income/(loss) from continuing operations			**3,729,221**		**(7,815,958)**
Discontinued Operations:					
Gain from discontinued operations	27		-		512,752
Net income/(loss)			**3,729,221**		**(7,303,206)**
Other comprehensive income					
Items that will not be reclassified to net income/(loss)					
Movement in fair value: equity investments at FVOCI	6, 18		640,644		309,211
Total comprehensive income/(loss) for the year		**$**	**4,369,865**	**$**	**(6,993,995)**
Earnings per share					
Basic income/(loss) per ordinary share	28	$	0.09	$	(0.17)

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

Consolidated Statement of Changes in Equity

For the Year ended June 30, 2021
(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Net gain on Investments at FVOCI	Special Retained Earnings	Accumulated Deficit	Total Equity
Balance, June 30, 2019	**$ 42,610,505**	**$ 81,950,384**	**$ (1,318,224)**	**$ 2,512,459**	**$ 172,122,932**	**$ (136,362,716)**	**$ 161,515,340**
IFRS 16 Adjustments	-	-	-	-	-	(423,267)	(423,267)
Adjusted balance July 1, 2019	**42,610,505**	**81,950,384**	**(1,318,224)**	**2,512,459**	**172,122,932**	**(136,785,983)**	**161,092,073**
Total comprehensive loss:							
Net loss for the year	-	-	-	-	-	(7,303,206)	(7,303,206)
Movement in fair value: equity investments at FVOCI (Note 6, 18)	-	-	-	309,211	-	-	309,211
Balance, June 30, 2020	**$ 42,610,505**	**$ 81,950,384**	**$ (1,318,224)**	**$ 2,821,670**	**$ 172,122,932**	**$ (144,089,189)**	**$ 154,098,078**
Total comprehensive income:							
Net income for the year	-	-	-	-	-	3,729,221	3,729,221
Movement in fair value: equity investments at FVOCI (Note 6, 18)	-	-	-	640,644	-	-	640,644
Balance, June 30, 2021	**$ 42,610,505**	**$ 81,950,384**	**$ (1,318,224)**	**$ 3,462,314**	**$ 172,122,932**	**$ (140,359,968)**	**$ 158,467,943**

The accompanying notes are an integral part of these consolidated financial statements.

BANK OF THE BAHAMAS LIMITED
Consolidated Statement of Cash Flows

For the Year ended June 30, 2021
(Expressed in Bahamian Dollars)

	Notes		2021		2020
Cash flows from operating activities:					
Net income/(loss)		$	3,729,221	$	(7,303,206)
Adjustments for:					
Interest income	19		(40,099,318)		(41,685,999)
Interest expense	12,19		6,777,421		6,870,821
Gain on sale of Trust assets	27		-		(512,752)
Depreciation and amortisation	22		2,723,964		2,044,235
Provision for impairment (reversals)/losses	22		(5,341,283)		6,316,125
Loss on disposal of fixed assets	11		16,426		-
Credit loss expense, net	7		10,145,805		15,347,943
Interest received			41,127,904		40,411,888
Interest paid			(6,540,084)		(7,570,549)
			12,540,056		13,918,506
Increase in loans and advances to customers, net			(29,118,549)		(40,081,538)
Increase in deposits from customers and banks			62,793,629		17,671,833
Increase in other assets			(3,874,503)		(943,853)
Increase/(decrease) in other liabilities			14,242,493		(6,924,926)
Increase/(decrease) in deferred loan fees			214,757		(2,862,539)
Increase in reserve deposit			(2,192,830)		(1,729,400)
Net cash provided by/(used in) operating activities			**54,605,053**		**(20,951,917)**
Cash flows from investing activities:					
Acquisition of property and equipment	11		(1,847,733)		(1,823,430)
Acquisition of computer software	13		(1,400,859)		(3,215,967)
Purchase of investment securities	6		(30,000,000)		(6,204,300)
Proceeds from maturity of investment securities	6		8,520,800		56,289,400
Proceeds from sale of Trust assets	27		-		541,717
Net cash (used in)/provided by investing activities			**(24,727,792)**		**45,587,420**
Cash flows from financing activity:					
Payment of lease liabilities			(1,368,882)		(1,378,096)
Net cash used in financing activity			**(1,368,882)**		**(1,378,096)**
Net increase in cash and cash equivalents			28,508,379		23,257,407
Cash and cash equivalents, beginning of year			180,737,280		157,479,873
Cash and cash equivalents, end of year	5	**$**	**209,245,659**	**$**	**180,737,280**

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

Bank of The Bahamas Limited (the "Bank"), is incorporated under the laws of The Commonwealth of The Bahamas and is licensed by the Central Bank of the Bahamas to carry on banking business in The Bahamas under the provisions of the Banks and Trust Companies Regulations Act, 2020. The Bank is also licensed as an authorized dealer, pursuant to the Exchange Control Regulations Act, and is the holder of a broker dealer license from the Securities Commission of The Bahamas (Note 33).

The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange ("BISX"). As at June 30, 2021 and 2020, The Government of the Commonwealth of The Bahamas (the "Government") and The National Insurance Board ("NIB") owned approximately 82.6% of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

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

The Bank, along with its subsidiaries (together, the "Bank") (Notes 2b and 32), services include the provision of commercial and retail banking services, private banking and the issuance of Visa branded stored value, prepaid and credit cards. The Bank is also an agent for American Express. Prior to October 31, 2019, the Bank also provided trust services (Note 27). As at June 30, 2021, the Bank had twelve branches (2020: twelve): four in New Providence, one in Grand Bahama, two in Andros, one in San Salvador, one in Inagua, one in Cat Island, one in Eleuthera, and one in Bimini.

2. Basis of preparation

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

2. Basis of preparation *(continued)*

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

(a) Going concern

These consolidated financial statements are prepared on a going concern basis, as the Bank's directors and management are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, a range of information relating to present and future conditions has been considered, including projections of profitability, cash flows and capital requirements. These considerations include the impact that the global COVID-19 pandemic has had, and continue to have, on the Bank's operations.

In March 2020, the World Health Organization declared a global pandemic due to COVID-19. This pandemic has affected the Bank's operations during the last quarter of the prior year and continues to impact the Bank in the current year. The restrictions imposed by the Government on certain businesses, national events and activities, the periods of community lockdown and curfew, the significant increase in unemployment and the historic decline in tourism severely reduced the economic activities of the Bank, the Bank's customers, the industry and the country, as a whole, and required the Bank to continuously adjust to the diverse challenges posed by the impact of this pandemic. These factors negatively impacted the Bank's impairment and credit loss expenses for the year ended June 30, 2020. During the current year, the Bank reassessed the impact of these factors on its operations and recorded credit loss expenses and impairment reversals for the year ended June 30, 2021 (Notes 7 and 22). Despite the continued effects of the pandemic, the Bank recorded $3,729,221 in net income for the year.

2. Basis of preparation *(continued)*

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 32) as at June 30, 2021 and 2020. 'Subsidiaries' are entities controlled by the Bank. The Bank 'controls' an entity if it is exposed to, or has rights, to variable returns from its involvement with the entity (investee) and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

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

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

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

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

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any non-controlling interest and other components of equity.

Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

(c) New standards, amendments and interpretations

Standards, amendments and interpretations adopted by the Bank

Standards and amendments and interpretations to published standards that became effective for the Bank's financial year beginning on July 1, 2020 were either not relevant or not significant to the Bank's operations and accordingly did not have a material impact on the Bank's accounting policies or consolidated financial statements.

2. Basis of preparation *(continued)*

(c) New standards, amendments and interpretations

New standards, amendments and interpretations not yet adopted by the Bank
Except as disclosed below, the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Bank's accounting policies or consolidated financial statements in the financial period of initial application.

Amendments to IAS 1 and IAS 8: Definition of Material
In January 2020, the IASB issued a narrow-scope amendment to IAS 1 *Presentation of Financial Statements* (IAS 1) which clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g., the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8). The amendment is effective for periods beginning on or after January 1, 2023. The amendment is not expected to have a significant impact on the Bank's consolidated financial statements.

3. Critical accounting judgments and key sources of estimation uncertainty

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions that cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one that is both important to the presentation of the Bank's financial position and results of operations and requires management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain.

The information presented below provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the consolidated financial statements.

Impairment of financial assets

The allowance for loan impairment represents management's estimate of an asset's ECL.

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

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

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

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

The level of estimation uncertainty and judgement for the calculation of ECL has increased as a result of the economic effects of the COVID-19 pandemic. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 31.

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

Fair value of financial instruments

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses three-level hierarchy as discussed in Note 29.

Recognition and measurement of provisions and contingencies

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

Valuation of investment property

The Bank carries its investment property at fair value, with changes in fair value being recognised in the consolidated statement of comprehensive income. The Bank assesses the fair value of its investment property through the use of independent valuation specialists on a periodic basis, performing management assessments in the intervening years. Investment property was valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location, and the condition of the respective property. Key assumptions used to determine the fair value of the investment property are discussed in Note 8.

Change in Accounting Estimate on 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 costs, are deferred and recognised as an adjustment of the effective interest rate. Management previously amortised the loan commitment fees using manual Excel-based effective interest rate method over the estimated average loan terms of the related portfolio basis. During the prior year, the Bank implemented certain automated processes that allowed for more accuracy in calculating deferred fees, and this change in accounting estimate resulted in the recognition of an additional $3.3 million of interest income.

4. Significant accounting policies

(a) Revenue and expense recognition

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

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

4. **Significant accounting policies** *(continued)*

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

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

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

(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 banks, and short-term treasury bills.

(c) Financial instruments

Recognition and initial measurement

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

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

Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

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

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

4. Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Classification *(continued)*

Financial assets *(continued)*

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

4. Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Business model assessment *(continued)*

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

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

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

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

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

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

Reclassifications

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

4. Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Modification

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

• fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of the eligible transaction costs are included in the initial measurement of the asset; and

• other fees are included in profit or loss as part of the gain or loss on derecognition.

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

Financial liabilities

Financial liabilities include deposits from customers and banks, cardholders' liabilities and accounts payable and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Cardholders' liabilities relate to deposits received by the Bank for prepaid VISA cards and are recorded at the fair value of the proceeds received.

(d) Impairment of financial assets

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

4. Significant accounting policies *(continued)*

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

As an exception, for certain financial instruments, such as credit cards and overdrafts, that may include both a loan and an undrawn commitment component, the Bank measures ECL over the period that the Bank is exposed to credit risk based on historical experience, that is, until the ECL would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Impairment of financial assets is recognised in three stages:

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

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

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

The calculation of ECL of a collateralised financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

IFRS 9 requires the use of forward-looking information including reasonable and supportable forecasts of future economic conditions. The requirement to consider a range of economic scenarios and their possible impact on impairment allowances is a subjective feature of the IFRS 9 ECL model. The Bank continues to assess the number of economic

4. Significant accounting policies *(continued)*

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

scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes.

The COVID-19 pandemic significantly impacted our economic outlook. In our assessment of economic scenarios, we considered tourism projections and those sectors impacted by the pandemic. The economic outlook is rapidly evolving and dependent on the opening of the economy, government measures among other factors and as such has a higher degree of uncertainty and is subject to change which may materially impact our ECL. The Bank is closely monitoring changes in conditions and their impact on the ECL model and macroeconomic variables as the impact of COVID-19 progresses.

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

– The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank through actions such as realising security (if any held);

– The financial asset is more than 90 days past due; or

– The borrower is on principal only repayment terms.

Impairment losses for financial assets measured at amortised cost are deducted from the gross carrying amount of assets through the use of an allowance account.

Write-off of loans and advances

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

Recovery of previously written-off loans

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

Restructured loans

Loans subject to impairment assessment, whose terms have been restructured, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as restructured are eligible for reclassification after twelve consecutive months of payments.

4. Significant accounting policies *(continued)*

(e) Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

Financial liabilities

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

(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.

4. Significant accounting policies *(continued)*

(f) Foreign currency *(continued)*

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

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

(g) Property and equipment

Items of property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

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

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

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

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

4. Significant accounting policies *(continued)*

(h) Impairment of non-financial assets

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

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

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

(i) Provisions

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

(j) Related parties

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

(k) Employee benefits

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

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.

4. Significant accounting policies *(continued)*

(l) Earnings/(Loss) per share

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

(m) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising therefrom 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. The standard rate for VAT is 12%, charged on all goods and services that are not zero-rated or exempt. Under the VAT Act, all VAT registrants, among other things, must 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 is initially measured at cost including transaction costs and subsequently at fair value based on an appraisal by a local real estate appraiser. Additions to investment property are also recorded at cost. On an annual basis, the investment property is assessed for impairment with gains and losses arising from changes in the fair value of the investment property included in the consolidated statement of comprehensive income for the period in which they arise. The impairment assessment is based on fair values as determined by an independent appraisal performed every three years, and as determined by management in intervening years.

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

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

(p) Computer software

Acquired computer software costs and licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line basis of accounting over the expected useful life. Software has expected useful life of 5 to 10 years.

4. Significant accounting policies *(continued)*

(q) Borrowings

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

(r) Share capital

(i) Share issue costs

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

(ii) Dividends on shares

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

(iii) Treasury shares

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

(s) Leases

Bank as a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

4. Significant accounting policies *(continued)*

(s) Leases *(continued)*

Lease liabilities
At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held the Bank, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g., term, country, currency and security

(t) Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. As at June 30, 2021 and 2020, there was no master netting agreements outstanding. Therefore, any related assets and liabilities are presented gross in the consolidated statement of financial position.

(u) Financial guarantees

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

4. Significant accounting policies *(continued)*

(u) Financial guarantees *(continued)*

The premium received is recognised in the consolidated statement of comprehensive income in ‘Net fees and commission income’ on a straight-line basis over the life of the guarantee.

(v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is the person or group responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the Bank.

Income and expenses directly associated with each segment are included in determining operating segment performance. The Bank has identified its sole operating and reportable segment as retail banking which incorporates the following services lending, depository, credit and debit cards and their related services. Segment assets and liabilities comprise operating assets and liabilities, representing the consolidated statement of financial position. The Bank's operations, income and assets are all based in The Bahamas

(w) Comparatives

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

Balance Sheet

Accrued interest receivable on investment securities and Note receivable were reclassified to be included in the respective asset line in the consolidated statement of financial position.

Cashflow Statement

Interest received and paid was reclassified to be included in the consolidated statement of cash flows.

Disaggregation of the proceeds from the sale of the trust business was reclassified in operating and investing cash flows.

Liquidity Risk

The liquidity risk table was adjusted to show the undiscounted cash flows for financial assets and liabilities.

(Expressed in Bahamian Dollars)

5. Cash and cash equivalents

		2021		2020
Cash	$	16,513,314	$	19,339,409
Deposits with the Central Bank, non-interest bearing (Note 25)		104,818,627		92,466,235
Cash and account with the Central Bank		121,331,941		111,805,644
Cash equivalents - Treasury Bills (Note 25)		44,929,797		44,935,963
Due from banks		70,553,841		49,372,763
Cash, cash equivalents and due from banks (Note 31)		236,815,579		206,114,370
Less: mandatory reserve deposits with the Central Bank		27,569,920		25,377,090
Cash and cash equivalents	$	209,245,659	$	180,737,280

The statutory reserve account with The Central Bank of The Bahamas (“the Central Bank”) of $27,569,920 (2020: $25,377,090) is not included in cash and cash equivalents. Mandatory reserve deposits represent the Bank’s regulatory requirement to maintain a percentage of deposit liabilities as cash or deposits with the Central Bank. These funds are not available to finance the Bank’s day-to-day operations. All balances with The Central Bank of The Bahamas are non-interest bearing. Government issued Treasury Bills in the table above are gross of $l0,458 (2020: $Nil) allowance for impairment losses (Note 22) and have maturity dates extending through to July 2021 (2020: September 2020). Deposits included in Due from banks amount to $12,372,103 (2020: $2,410,615), gross of $18,401 (2020: $33,088) allowance for impairment losses. Deposits have maturity dates extending through to September 2021 (2020: August 2020).

(Expressed in Bahamian Dollars)

6. Investment securities, net

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

		FVOCI		Amortised cost		Total
Bahamas Registered Stock (Note 25)	$	-	$	69,390,240	$	69,390,240
Equity Securities		3,685,003		-		3,685,003
Accrued interest receivable (Note 25)		-		734,618		734,618
Less: Allowance for impairment loss (Note 31)		-		(507,271)		(507,271)
At June 30, 2021	**$**	**3,685,003**	**$**	**69,617,587**	**$**	**73,302,590**

		FVOCI		Amortised cost		Total
Bahamas Registered Stock (Note 25)	$	-	$	47,957,388	$	47,957,388
Equity Securities		3,044,359		-		3,044,359
Accrued interest receivable (Note 25)		-		552,166		552,166
Less: Allowance for impairment loss (Note 31)		-		(1,486,448)		(1,486,448)
At June 30, 2020	**$**	**3,044,359**	**$**	**47,023,106**	**$**	**50,067,465**

As at year end, government securities mainly comprise Bahamas Registered Stock which are fixed and variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 2.78% to 5.65% per annum (2020: from 2.54% to 5.65% per annum) and scheduled maturities between 2021 and 2049 (2020: between 2020 and 2049).

As at June 30, 2021, the allowance for impairment loss significantly decreased as the ECL estimates and assumptions used in the prior year did not materialize. Management continues to use its judgement in the assessment of any significant changes in the underlying credit assumptions and migration of balances to progressive stages (Note 31). As at June 30, 2020, the allowance for impairment loss significantly increased as the ECL estimates and assumptions considered the impact of the COVID-19 pandemic.

(Expressed in Bahamian Dollars)

6. Investment securities, net *(continued)*

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

		FVOCI		Amortised cost		Total
At July 1, 2020	$	3,044,359	$	47,023,106	$	50,067,465
Additions		-		30,000,000		30,000,000
Maturities		-		(8,520,800)		(8,520,800)
Movement in fair value: equity investments at FVOCI		640,644		-		640,644
Premium amortisation		-		(46,348)		(46,348)
Accrued interest receivable (Note 25)		-		182,451		182,451
Add: Provision for impairment reversals (Notes 22, 25, 31)		-		979,178		979,178
At June 30, 2021	**$**	**3,685,003**	**$**	**69,617,587**	**$**	**73,302,590**

		FVOCI		Amortised cost		Total
At July 1, 2019	$	2,735,148	$	98,827,353	$	101,562,501
Additions		-		6,204,300		6,204,300
Maturities		-		(56,289,400)		(56,289,400)
Movement in fair value: equity investments at FVOCI		309,211		-		309,211
Premium amortisation		-		(58,832)		(58,832)
Accrued interest receivable (Note 25)		-		(200,367)		(200,367)
Less: Provision for impairment loss (Notes 22, 25, 31)		-		(1,459,948)		(1,459,948)
At June 30, 2020	**$**	**3,044,359**	**$**	**47,023,106**	**$**	**50,067,465**

(Expressed in Bahamian Dollars)

7. Loans and advances to customers, net

		2021		2020
Mortgage residential loans	$	201,973,783	$	212,613,763
Mortgage commercial loans		13,001,352		12,129,575
Commercial loans		66,964,607		70,556,396
Consumer loans		123,732,413		100,856,108
Government (Note 25)		42,941,726		37,289,911
Credit cards		1,365,891		1,563,211
Business overdrafts		309,927		551,167
Personal overdrafts		158,384		147,821
	$	450,448,083	$	435,707,952

Provisions for loan losses are as follows:

		2021		2020
Less: Provision for loan losses				
At July 1	$	68,262,712	$	61,505,934
Amount written-off/charged-off		(14,378,418)		(8,591,165)
Credit loss expense, net		10,145,805		15,347,943
At June 30		64,030,099		68,262,712
Accrued interest receivable		2,238,069		3,002,759
Loans and advances to customers, net	$	388,656,053	$	370,447,999

During the prior year, the Bank recorded $15.3 million in additional provision for loan losses, approximately $5.8 million of which was the result of the COVID-19 pandemic. Management used its judgement in the assessment of determining significant increases in credit risk and the migration of balances to progressive stages (Note 31).

		2021		2020
Specific Provisions				
Mortgage residential loans	$	33,978,496	$	41,237,390
Mortgage commercial loans		983,505		2,389,268
Commercial loans		9,753,835		7,957,066
Consumer loans		18,573,160		14,851,495
Government (Note 25)		464,803		1,350,126
Credit and prepaid cards		276,300		477,367
	$	64,030,099	$	68,262,712

(Expressed in Bahamian Dollars)

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

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

	2021	2020
Provisions as a percentage of the net loan portfolio	16.47%	18.43%
Provisions as a percentage of non-accrual loans	86.32%	81.37%

Non-performing (impaired) loans are as follows:

		2021		2020
Mortgage residential loans	$	47,786,234	$	61,861,888
Mortgage commercial loans		1,313,695		2,647,012
Commercial loans and overdrafts		12,961,720		8,565,531
Consumer loans and overdrafts		12,061,744		10,634,395
Credit cards		54,139		184,868
	$	74,177,532	$	83,893,694
Percentage of loan portfolio (net)		19.09%		22.65%
Percentage of total assets		8.21%		10.21%

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

		2021			2020	
		Value	No. of Loans and Overdrafts		Value	No. of Loans and Overdrafts
$0 - $ 10,000	$	9,885,256	5,524	$	9,269,455	6,337
$10,001 - $ 25,000		19,162,267	1,124		17,887,221	1,027
$25,001 - $ 50,000		58,480,294	1,588		49,357,603	1,338
$50,001 - $ 100,000		64,105,400	995		56,245,739	841
$100,001 - $ 300,000		153,338,595	904		157,689,651	922
Over $ 300,000		145,476,271	115		145,258,283	119
	$	450,448,083	10,250	$	435,707,952	10,584

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

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

In ($000s)		2021		2020
Mortgage residential loans				
Neither past due nor impaired	$	130,415	$	134,998
Past due but not impaired		23,773		15,754
Impaired		47,786		61,862
	$	201,974	$	212,614
Mortgage commercial loans				
Neither past due nor impaired	$	3,556	$	9,256
Past due but not impaired		8,131		227
Impaired		1,314		2,647
	$	13,001	$	12,130
Commercial loans and overdrafts				
Neither past due nor impaired	$	42,546	$	61,313
Past due but not impaired		11,766		1,232
Impaired		12,962		8,566
	$	67,274	$	71,111
Consumer loans and overdrafts				
Neither past due nor impaired	$	100,923	$	81,828
Past due but not impaired		10,906		8,542
Impaired		12,062		10,634
	$	123,891	$	101,004
Government				
Neither past due nor impaired	$	42,942	$	37,286
Past due but not impaired		-		-
Impaired		-		-
	$	42,942	$	37,286
Credit cards				
Neither past due nor impaired	$	1,209	$	1,004
Past due but not impaired		103		374
Impaired		54		185
	$	1,366	$	1,563

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

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

2021, In ($000s)		Principal		Restructured		Total
Mortgage residential loans	$	170,933	$	31,041	$	201,974
Mortgage commercial loans		4,120		8,881		13,001
Commercial loans and overdrafts		34,265		33,009		67,274
Consumer loans and overdrafts		122,276		1,615		123,891
Government		42,942		-		42,942
Credit cards		1,366		-		1,366
	$	375,902	$	74,546	$	450,448

2020, In ($000s)		Principal		Restructured		Total
Mortgage residential loans	$	155,885	$	56,729	$	212,614
Mortgage commercial loans		3,186		8,944		12,130
Commercial loans and overdrafts		27,918		43,193		71,111
Consumer loans and overdrafts		97,620		3,384		101,004
Government		37,286		-		37,286
Credit cards		1,563		-		1,563
	$	323,458	$	112,250	$	435,708

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

2021 In ($000s)		Mortgage Residential		Mortgage Commercial		Commercial and overdrafts		Consumer and overdrafts		Credit Card		Total
Past due 1 to 29 days	$	15,126	$	190	$	7,790	$	4,605	$	-	$	27,711
Past due 30 - 59 days		6,137		-		3,973		1,875		76		12,061
Past due 60 - 89 days		2,510		7,941		3		4,426		27		14,907
	$	23,773	$	8,131	$	11,766	$	10,906	$	103	$	54,679

2020 In ($000s)		Mortgage Residential		Mortgage Commercial		Commercial and overdrafts		Consumer and overdrafts		Credit Card		Total
Past due up to 29 days	$	4,843	$	169	$	612	$	3,995	$	-	$	9,619
Past due 30 - 59 days		5,952		-		351		2,970		313		9,586
Past due 60 - 89 days		4,959		58		269		1,577		61		6,924
	$	15,754	$	227	$	1,232	$	8,542	$	374	$	26,129

(Expressed in Bahamian Dollars)

8. Note receivable, net and special retained earnings

During October 2014, the Government created a special purpose vehicle, Bahamas Resolve Limited ("Resolve"), that is owned and controlled by the Government. At that time, the Bank sold to Resolve certain of its non-performing loans with a face value of $100 million and a net book value of approximately $45.4 million in consideration for $100 million in unsecured promissory notes (the "Notes"). The difference between the Notes received and net book value of the assets sold, approximately $54.6 million, was recognised directly in equity as Special Retained Earnings. The Notes which had a final maturity of October 30, 2024 were redeemed during the financial year ended June 30, 2018.

Also, during the financial year ended June 30, 2018, the Bank sold to Resolve another portfolio of non-performing loans with aggregate face value of $134.5 million and net book value of approximately $50.6 million, together with accrued (but suspended) interest on the loans of $33.2 million, in consideration for an unsecured promissory note in the amount of $167.7 million. The difference between the promissory note received and the net book value of the loans and accrued interest transferred to Resolve, amounting to approximately $117.1 million, was credited to Special Retained Earnings. An additional $0.4 million in fees and charges were recognised in Special Retained Earnings. The promissory note with final maturity date of August 31, 2022 bears fixed interest at 3.5% per annum, payable semi-annually on the 28th day of February and the 31st day of August.

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

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

		2021		2020
Note receivable (Note 25)	$	167,700,000	$	167,700,000
Accrued interest receivable (Note 25)		1,556,500		1,956,500
Less: Allowance for impairment loss (Notes 22, 31)		(538,712)		(4,896,589)
	$	**168,717,788**	**$**	**164,759,911**

(Expressed in Bahamian Dollars)

8. Note receivable, net and special retained earnings *(continued)*

During the prior year, the allowance for impairment loss significantly increased as the ECL estimates and assumptions considered the impact of the COVID-19 pandemic. As at June 30, 2021, the allowance for impairment loss significantly decreased as the ECL estimates and assumptions used in the prior year did not materialize. Management used its judgement in the assessment of significant increase in credit risk and migration of balances to progressive stages. There were no transfers between stages during the year.

9. Investment property

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

During the prior year, the Bank engaged the services of an independent real estate and valuation expert who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. The fair value of the investment property of $6,463,000 as at June 30, 2021 is based on the independent valuation (2020: $6,463,000) based on an appraisal that was performed in May 2020.

The appraisal has been prepared during the COVID-19. Based on the information now available, management believes that the appraised value appropriately reflects the fair value of the investment property.

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 reflects the current market conditions and is based on the appraised value using the sales comparison approach where the average sales price approximated $1,150,000 per acre.

10. Other assets

		2021		2020
Prepaid assets	$	6,189,814	$	6,104,361
Cheques and other items in transit		1,207,787		768,814
Accounts receivable		4,636,326		1,391,551
Other assets		728,909		623,607
	$	**12,762,836**	**$**	**8,888,333**

As at June 30, 2021, accounts receivable included $3.6 million (2020: $578,814) of real property taxes with corresponding accounts payable (Note 15). Included in other assets are the Bank's investments in the Bahamas Automated Clearing House Limited in the amount of $199,167 (2020: $208,453) and in SWIFT in the amount of $34,858 (2020: $Nil). Also included in Clearing and other items in transit is a debit balance for BSD cheque clearing of $326,620 (2020: $482,277) with allowance for unresolved items of $4,143 (2020: $133,401).

(Expressed in Bahamian Dollars)

11. Property and equipment, net

		Land and Building		Leasehold Improvements		Furniture, Fixtures and Equipment		Total
Cost								
Balance as at June 30, 2019	$	1,164,360	$	5,935,063	$	13,078,718	$	20,178,141
Additions		-		-		1,823,430		1,823,430
Disposal/write-off		-		-		(167,078)		(167,078)
Balance as at June 30, 2020		1,164,360		5,935,063		14,735,070		21,834,493
Additions		-		-		1,847,733		1,847,733
Disposal/write-off		-		-		(1,413,125)		(1,413,125)
Balance as at June 30, 2021	$	1,164,360	$	5,935,063	$	15,169,678	$	22,269,101
Accumulated Depreciation								
Balance as at June 30, 2019	$	734,840	$	5,720,298	$	8,954,021	$	15,409,159
Depreciation (Note 22)		-		65,740		427,033		492,773
Disposal/write-off		-		-		(167,078)		(167,078)
Balance as at June 30, 2020		734,840		5,786,038		9,213,976		15,734,854
Depreciation (Note 22)		-		58,119		692,925		751,044
Disposal/write-off		-		-		(1,396,699)		(1,396,699)
Balance as at June 30, 2021	$	734,840	$	5,844,157	$	8,510,202	$	15,089,199
Net book value:								
Balance as at June 30, 2021	$	429,520	$	90,906	$	6,659,476	$	7,179,902
Balance as at June 30, 2020	$	429,520	$	149,025	$	5,521,094	$	6,099,639

Land in the amount of $44,565 (2020: $44,565) is included in land and building.

Leasehold Improvements and Furniture, Fixtures and Equipment include work in progress, on which no depreciation has been charged, in the amount of $3,239,478 (2020: $2,729,060).

There is still uncertainty over how the COVID-19 pandemic will impact the Bank's property and equipment. Based on the information now available, management believes that the land stated at cost, building and other fixed assets net of depreciation appropriately reflect the net realisable value of the Bank's property and equipment.

(Expressed in Bahamian Dollars)

12. Right-of-use assets and lease liabilities

The reconciliation of the Bank's right-of-use assets and lease liabilities is as follows:

	Right-of-use assets	Lease liabilities
July 1, 2020	$ 3,833,240	$ 4,073,638
Net increase	562,505	562,505
Depreciation expense	(1,329,725)	-
Interest expense	-	195,034
Actual lease paid	-	(1,563,916)
June 30, 2021	$ 3,066,020	$ 3,267,261

	Right-of-use assets	Lease liabilities
July 1, 2019	$ 3,977,323	$ 4,400,590
Net increase	1,008,524	984,100
Depreciation expense	(1,152,607)	-
Interest expense	-	67,044
Actual lease paid	-	(1,378,096)
June 30, 2020	$ 3,833,240	$ 4,073,638

13. Computer software, net

	Computer software
Cost	
Balance as at June 30, 2019	$ 8,335,001
Additions	3,215,967
Balance as at June 30, 2020	11,550,968
Additions	1,400,859
Balance as at June 30, 2021	$ 12,951,827
Accumulated Amortisation	
Balance as at June 30, 2019	$ 5,881,386
Amortisation (Note 22)	356,235
Balance as at June 30, 2020	6,237,621
Amortisation (Note 22)	643,195
Balance as at June 30, 2021	$ 6,880,816
Net book value:	
Balance as at June 30, 2021	$ 6,071,011
Balance as at June 30, 2020	$ 5,313,347

Computer software includes work in progress in the amount of $746,252 (2020: $1,448,624) on which no amortisation has been charged.

(Expressed in Bahamian Dollars)

14. Deposits from customers and banks

		2021		2020
Term deposits	$	270,097,974	$	258,806,545
Demand deposits		288,053,939		243,701,913
Savings accounts		135,830,524		128,680,350
		693,982,437		631,188,808
Accrued interest payable		1,873,149		1,635,812
	$	695,855,586	$	632,824,620

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

		2021			2020	
		Value	No. of Deposits		Value	No. of Deposits
$0 - $ 10,000	$	43,668,786	78,748	$	44,608,371	79,126
$10,001 - $ 25,000		34,212,755	2,215		33,204,407	2,158
$25,001 - $ 50,000		33,894,068	966		31,739,864	908
$50,001 - $100,000		39,295,612	571		36,914,149	541
$100,001 - $300,000		71,415,595	449		63,753,263	395
Over $300,000		471,495,621	320		420,968,754	286
	$	693,982,437	83,269	$	631,188,808	83,414

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $200,500 (2020: $173,256) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000 per depositor.

15. Other liabilities

		2021		2020
Accounts payable (Note 23)	$	24,653,255	$	13,995,810
Cardholders liability		8,904,221		7,236,527
Cheques and other items in transit		4,556,481		3,662,494
Clearing in transit		985,526		66,252
Deferred revenue		324,703		148,543
Other liabilities		3,158,411		3,230,478
	$	42,582,597	$	28,340,104

(Expressed in Bahamian Dollars)

16. Share capital

		2021		2020
Authorized:				
45,000 Preference shares of B$1,000 each	$	45,000,000	$	45,000,000
105,000,000 Voting common shares of B$1 each		105,000,000		105,000,000
10,000,000 Non-voting common shares of B$1 each		10,000,000		10,000,000
	$	160,000,000	$	160,000,000
Issued and fully paid:				
37,171,570 Voting common shares of B$1 each	$	37,171,570	$	37,171,570
6,022,945 Non-voting common shares of B$1 each		6,022,945		6,022,945
Less: Cost of preference shares		(584,010)		(584,010)
	$	42,610,505	$	42,610,505

Preference shares

The Bank's shareholders approved resolutions to increase the authorised 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 May 7, 2009 the Bank issued a total of B$15,000,000 and B$20,000,000 in redeemable preference shares at a rate of 2.00% and 2.50% above the Bahamian dollar prime rate. In accordance with International Financial Reporting Standards, the preference shares were classified as equity. Costs totaling $235,010 and $349,000 related to the preference share offering respectively were netted against the proceeds.

From fiscal years 2014 to 2017, the Bank redeemed $3,400,000 of preference shares annually and $6,150,000 by fiscal year 2018, with the final redemption of $15,250,000 during fiscal year 2019.

16. Share capital *(continued)*

Voting common shares

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

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

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

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

Non-voting common shares

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

(Expressed in Bahamian Dollars)

17. Treasury shares

During each of the fiscal years 2011 and 2013, the Bank's Board of Directors approved the repurchase of $750,000 of the Bank's own shares. The implementation of the share repurchase plan was a strategy to enhance the shareholder value of then existing shareholders. There have not been any repurchase of shares since fiscal 2013.

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

	No. of Shares		Value
Balance as at June 30, 2021 and 2020	235,021	$	1,318,224

18. Net gain on investments at FVOCI

		2021		2020
Balance at July 1	$	2,821,670	$	2,512,459
Movement in fair value: equity investments at FVOCI (Note 6)		640,644		309,211
Balance at June 30	$	3,462,314	$	2,821,670

(Expressed in Bahamian Dollars)

19. Net interest income

		2021		2020
Interest and similar income				
Loans and advances to customers	$	29,772,388	$	31,728,330
Notes receivable		5,869,500		5,869,500
Investment securities		2,354,288		2,284,460
Cash and short term investments		2,103,142		1,803,709
		40,099,318		41,685,999
Interest and similar expense				
Banks and customers		(6,582,387)		(6,870,821)
Total net interest income	$	33,516,931	$	34,815,178

20. Fees and commission income

		2021		2020
Deposit services fees and commission	$	3,769,077	$	3,741,501
Card services fees and commission		3,101,701		3,058,138
Credit services fees and commission		431,871		666,263
Other fees and commission		290,700		415,897
Total fees and commission income	$	7,593,349	$	7,881,799

21. Other operating income

		2021		2020
Foreign exchange	$	2,156,324	$	2,407,041
Other		1,385,657		2,016,429
Total other operating income	$	3,541,981	$	4,423,470

(Expressed in Bahamian Dollars)

22. Operating expenses and Provision for impairment (reversals)/losses

		2021		2020
Staff costs (Note 26)	$	18,731,352	$	17,179,925
Licenses and other fees		5,828,346		5,016,185
Occupancy (Note 24)		2,408,851		2,247,426
Information technology		3,564,739		3,332,223
Other administrative expenses (Note 23)		1,730,559		2,090,510
Advertising, marketing and donations		255,287		452,507
Telecommunication and postage		449,320		419,573
Travel and entertainment		136,262		167,201
Operating expenses before depreciation and amortisation	$	33,104,716	$	30,905,550
Depreciation of property and equipment (Notes 11, 12)	$	2,080,769	$	1,645,380
Amortisation of software (Note 13)		643,195		356,235
Depreciation and amortisation		2,723,964		2,001,615
Total operating expenses	$	35,828,680	$	32,907,165

Provision for impairment (reversals)/ losses are as follows:

		2021		2020
Note receivable (Notes 8, 25)	$	(4,357,877)	$	4,823,089
Investment securities (Notes 6, 25)		(979,178)		1,459,948
Cash equivalents - Treasury Bills (Note 5, 25)		10,458		-
Money market placements (Note 5)		(14,686)		33,088
Total provision for impairment (reversals)/losses	$	(5,341,283)	$	6,316,125

During the prior year, the Bank recorded provision for impairment losses as the ECL estimates and assumptions were directly affected by the COVID-19 pandemic. As at June 30, 2021, the Bank recorded provision for impairment reversals as the ECL estimates and assumptions used in the prior year did not materialize. Management used its judgement in the assessment of significant increase in credit risk and migration of balances to progressive stages (Note 31).

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

As at year end, the Bank had several ongoing legal claims. Various legal proceedings are pending that challenge certain actions of the Bank. Most of these proceedings are loan-related and are reactions to steps taken by the Bank to collect delinquent loans and enforce its rights against collateral securing such loans. During the fiscal year 2019, the Bank was made aware of a significant legal claim against the Bank in respect of a judgment in default and related damages of approximately $6 million plus interest and costs for which the Bank recorded provision as at June 30, 2019. The Bank has filed the necessary applications to set aside the default judgment and to set aside the said damages. The Bank has also filed papers to stay the enforcement of damages and in certain circumstances to strike out enforcement steps. During the fiscal year 2020, the Bank was successful in having the judgement in default of defense set aside. As at June 30, 2021, the Bank maintained the related provision recorded since June 2019 while the ruling on the plaintiff's appeal is pending. Management considers that adequate provision has been made in these consolidated financial statements, included in accounts payable (Note 15), for any loss that might ultimately be determined.

(Expressed in Bahamian Dollars)

24. Commitments

The approximate minimum rental commitments (exclusive of the effect of escalation clauses relating to taxes, maintenance, etc.) for the years ended June 30, 2021 and 2020 are as follows:

		2021		2020
No later than 1 year	$	808,595	$	473,467
Later than 1 year and no later than 5 years		1,738,814		648,006
Total	$	2,547,409	$	1,121,473

The commitments for loans and advances at June 30, 2021 were $7,475,964 (2020: $5,666,460).

The Bank has a commitment for future capital expenditure of $2,004,273 (2020: $2,142,694).

The Bank has letters of credit and guarantees outstanding of $4,212,239 (2020: $3,475,019).

(Expressed in Bahamian Dollars)

25. Transactions and balances with related parties

All loans to related parties are extended in the regular course of business; allowance for impairment loss against any of these balances as at June 30, 2021 amounted to $1,542,072 (2020: $7,942,329).

	Government	Other Government Entities	Key Management	Total 2021	Total 2020
Assets					
Deposits with the Central Bank (Note 5)	$ -	$ 104,818,627	$ -	$ 104,818,627	$ 92,466,235
Treasury bills, net (Note 5)	44,919,339	-	-	44,919,339	44,935,963
Investment securities, net (Note 6)	69,617,587	-	-	69,617,587	47,023,106
Loans and advances to customers, net	42,877,334	-	2,807,421	45,684,755	45,042,061
Note receivable, net (Note 8)	-	168,717,788	-	168,717,788	164,759,911
Right-of-use assets (Note 12)	166,473	-	-	166,473	432,945
Other assets	350	2,019,774	-	2,020,124	1,995,473
Total	$ 157,581,083	$ 275,556,189	$ 2,807,421	$ 435,944,693	$ 396,655,694
Liabilities					
Deposits from customers and banks	$ 72,614,348	$ 88,558,505	$ 1,678,875	$ 162,851,728	$ 193,927,875
Other liabilities	21,123,216	-	-	21,123,216	7,797,351
Lease liabilities (Note 12)	221,458	-	-	221,458	529,628
Deferred loan fees	36,220	-	-	36,220	60,927
Total	$ 93,995,242	$ 88,558,505	$ 1,678,875	$ 184,232,622	$ 202,315,781
Revenues					
Interest Income	$ 6,178,153	$ 6,364,990	$ 111,502	$ 12,654,645	$ 10,619,036
Fees and commission income	566,949	16,395	-	583,344	870,287
Total	$ 6,745,102	$ 6,381,385	$ 111,502	$ 13,237,989	$ 11,489,323
Expenses and Impairment losses					
Interest Expense	$ 785,958	$ 1,142,207	$ 24,606	$ 1,952,771	$ 2,514,884
Directors fees	-	-	166,359	166,359	123,194
Provision for impairment (reversals)/losses	(968,720)	(4,357,877)	-	(5,326,597)	6,283,037
Credit loss (reversal)/expense	(885,323)	-	-	(885,323)	1,425,896
Other operating expenses	1,304,122	4,654,120	-	5,958,242	5,311,756
Short-term employee benefits	-	-	2,791,630	2,791,630	2,609,235
Pension expense	-	-	155,160	155,160	134,236
Total	$ 236,037	$ 1,438,450	$ 3,137,755	$ 4,812,242	$ 18,402,238

(Expressed in Bahamian Dollars)

26. 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 is managed by two Trustees that are independent of the Bank. The Trustees appointed an independent third-party investment manager to manage the assets of the Plan. Contributions for the year ended June 30, 2021 totaled $788,734 (2020: $700,568) recorded as staff costs (Note 22).

During fiscal 2019, the Plan revised its investment strategy and fully employed a low risk and conservative bond fund.

As at June 30, 2021, the Plan had deposits totaling $Nil (2020: $421) with the Bank.

27. Assets under administration

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

		2021		2020
Government guaranteed hurricane relief loans	$	7,972,534	$	15,413,355

The Bank recognised fees totaling $277,848 (2020: $543,686) for the administration of the Government Guaranteed Hurricane Relief Loans program.

The Bank's strategic plan included the sale of its trust operations, which were carried on mainly through Bank of the Bahamas Trust Ltd. (the "Trust"), a wholly-owned subsidiary. On May 21, 2019, the Bank's Board of Directors approved the sale of the Trust portfolio of assets under administration ("Trust's assets") to Leno Corporate Services Limited ("Leno"). On July 31, 2019, the Bank signed the agreement for the sale of its Trust assets to Leno for the amount of $561,717, which was subsequently adjusted to $541,717. Following regulatory approvals, the sale closed on October 31, 2019. This transaction met the IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* definition of discontinued operations as the Trust is a component of the Bank that has been disposed of as at October 31, 2019 and represents a separate major line of business. As a result of the sale, the Bank recorded $541,717 as other operating income in the prior year and the Net Gain from Discontinued Operations amounted to $512,752 as follows:

(Expressed in Bahamian Dollars)

27. Assets under administration *(continued)*

Results of discountinued operations as at October 31, 2019:

Trust revenue, net	$	2,725
Operating expenses		(31,690)
Results from operating activities		(28,965)
Gain on sale of Trust assets		541,717
Gain from discontinued operations	$	512,752

Cashflows from discontinued operations amounted to $541,717 as at October 31, 2019.

Discontinued operations' financial position as at October 31, 2019:

Total assets	$	2,940,242
Total liabilities		491
Total equity		2,939,751

(Expressed in Bahamian Dollars)

28. Dividends and earnings/(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 common shareholders during the reporting years.

		2021		2020
Net income/(loss) attributable to ordinary shareholders	$	3,729,221	$	(7,303,206)
Weighted average number of ordinary shares outstanding		42,959,494		42,959,494
From continuing operations	$	0.09	$	(0.18)
From discontinuing operations	$	-	$	0.01
Basic earnings/(loss) per ordinary share	$	0.09	$	(0.17)

29. Fair value of assets and liabilities

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

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

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

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

As of June 30, 2021, the Bank held equity securities as FVOCI totaling $3,685,003 (2020: $3,044,359) classified as Level 1 investment. No transfers were made during the year for any investments between the hierarchies. Investment property has been classified as Level 3 (Note 9).

There is still uncertainty over how the COVID-19 pandemic will impact the fair value of the Bank's assets and liabilities. Based on the information now available, management believes that assets and liabilities appropriately reflect fair value. The following methods and assumptions have been used in determining fair value.

Cash and cash equivalents, other assets and other liabilities

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

Investment securities

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

Loan and advances to customers

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

Deposits from customers

The estimated fair values of deposits from customers were determined by valuing the deposits based on current market interest rates relative to the Bank's interest rates. Given that deposits are principally short term in nature and have interest rates that reset to market rates, the fair values of deposit from customers approximate their carrying values.

Investment property

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

The fair value measurements for the investment property has been categorised as Level 3 fair value measurements. The valuation model used is the Sales Comparison Approach to estimate the Market Value of the subject site. The model considered three comparable transactions which were adjusted for the sales price for differences in location and size.

30. Regulatory capital

The Central Bank requires that the Bank maintains a ratio of total regulatory capital to risk-weighted assets at a minimum of 18%. The Bank's regulatory capital ratio as at June 30, 2021 stood at 36.9% (2020: 38.2%). Regulatory capital consists of Tier 1 and Tier 2 capital. Total Tier 1 capital comprises of Common Equity Tier 1 ("CET 1"). CET1 ratio must be at least 9.6% of the total Risk Weighted Assets. The Bank is in compliance with this capital requirement at 36.1% as at June 30, 2021 (2020: 37.5%).

Capital regulatory requirements for subsidiary companies are managed through the Bank. The Bank's strategy is unchanged from 2019. 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, 2021 and 2020, the Bank was compliant with all of the externally imposed capital ratio requirements.

Capital risk management

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

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

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

At June 30, 2021 and 2020, the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, special retained earnings and accumulated deficit. Ongoing capital management includes the payment of dividends, common share issuances, maintenance of reserves and special retained earnings.

30. Risk management

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

Credit risk

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

The Bank evaluates the concentration of risk with respect to the note receivable in the same manner as balances with the Government, as the interest and principal sum is payable by Bahamas Resolve Limited ("Resolve"), which is a company wholly owned and controlled by the Government. The Bank recognises an expected credit loss based on the credit rating of the Government, given that the Government has undertaken to support Resolve, as more fully described in Note 8.

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

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

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

31. Risk management *(continued)*

Credit risk *(continued)*

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

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

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

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

In ($000s)		2021		2020
Cash, cash equivalents and due from banks (Note 5)				
Neither past due nor impaired	$	236,816	$	206,114
Investment securities (Note 6)				
Neither past due nor impaired	$	70,125	$	48,510
Loans and advances to customers (Note 7)				
Neither past due nor impaired	$	321,591	$	325,685
Past due but not impaired		54,679		26,129
Impaired		74,178		83,894
Accrued interest receivable		2,238		3,003
	$	452,686	$	438,711
Note receivable (Note 8)				
Neither past due nor impaired	$	167,700	$	167,700
Accrued interest receivable		1,557		1,957
	$	169,257	$	169,657

31. Risk management *(continued)*

Credit risk *(continued)*

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

Expected Credit Loss Measurement

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

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

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

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

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

Expected Credit Loss Measurement *(continued)*

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

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

Incorporation of forward-looking information

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

The weighting assigned to each economic scenario as at June 30, 2021 was as follows:

	Base scenario	Upside scenario	Downside scenario
Sovereign exposures (Investments and Note Receivable)	91.00%	8.00%	1.00%
Loans and advances to customers	85.00%	8.00%	7.00%

The weighting assigned to each economic scenario as at June 30, 2020 was as follows:

	Base scenario	Upside scenario	Downside scenario
Sovereign exposures (Investments and Note Receivable)	85.00%	8.00%	7.00%
Loans and advances to customers	85.00%	8.00%	7.00%

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

Maximum Exposure to Credit Risk

For financial assets recognised on the consolidated statement of financial position, the exposure to credit risk equals their carrying amount. For standby letters of credit, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the standby letters of credit are called upon. For mortgage commitments and revolving credit lines that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. The maximum exposure to standby letters of credit and loan commitments are disclosed in Note 24. The following table contains an analysis of the credit risk exposure of financial assets for which an ECL allowance is recognised. The gross carrying amount of the financial assets represents the Bank's maximum exposure to the credit risk of these assets.

	Stage 1	Stage 2	Stage 3	Total 2021	Total 2020
Loans and accrued interest receivable	$ 298,699,720	$ 78,252,878	$ 73,883,436	$ 450,836,034	$ 436,450,961
Business and personal overdrafts	198,653	29,702	239,957	468,312	698,988
Credit cards	753,065	558,687	54,139	1,365,891	1,563,211
	$ 299,651,438	$ 78,841,267	$ 74,177,532	$ 452,670,237	$ 438,713,160
Note receivable	$ -	$ 169,256,500	$ -	$ 169,256,500	$ 169,656,500
Investment securities	$ 30,245,724	$ 39,879,134	$ -	$ 70,124,858	$ 48,509,554

Transfers between Stages

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

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

Movement in Impairment Allowances by Stage

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

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

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

• Additional allowances for new financial assets recognised during the period, as well as releases for financial assets derecognised in the period;

• Impact on the measurement of ECL due to changes in PDs, EADs, and LGDs in the period, arising from regular refreshing of inputs to the model;

• Impact on the measurement of ECL due to changes made to the model and assumptions; and

• Financial assets derecognised during the period and write-offs of allowances related to the assets that were written off during the period.

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

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Investment securities at amortised cost:					
Gross carrying amount	$ 30,245,724	$ 39,879,134	$ -	$ 70,124,858	$ 48,509,554
Loss allowance	(64,957)	(442,314)	-	(507,271)	(1,486,448)
Carrying amount	$ 30,180,767	$ 39,436,820	$ -	$ 69,617,587	$ 47,023,106

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Investment securities at amortised cost:					
Gross carrying amount as at July 1, 2020	$ -	$ 48,509,554	$ -	$ 48,509,554	$ 98,580,995
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	30,245,724	-	-	30,245,724	6,276,791
Financial assets fully derecognized during the period	-	(8,584,072)	-	(8,584,072)	(56,289,400)
Changes in principal and interest	-	(46,348)	-	(46,348)	(58,832)
Foreign exchange adjustment	-	-	-	-	-
Gross carrying amount as at June 30, 2021	$ 30,245,724	$ 39,879,134	$ -	$ 70,124,858	$ 48,509,554

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Investment securities at amortised cost:					
Loss allowance as at July 1, 2020	$ -	$ 1,486,448	$ -	$ 1,486,448	$ 26,500
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial assets originated or purchased	64,957	-	-	64,957	151,484
Financial assets fully derecognized during the period	-	(100,867)	-	(100,867)	(4,034)
Changes to inputs used in ECL calculation	-	(943,267)	-	(943,267)	1,312,498
Foreign exchange adjustment	-	-	-	-	-
Loss allowance as at June 30, 2021	$ 64,957	$ 442,314	$ -	$ 507,271	$ 1,486,448

Mortgage residential and mortgage commercial loans					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Loans and advances to customers at amortised cost:					
Gross carrying amount	$ 149,320,909	$ 17,373,673	$ 49,099,929	$ 215,794,511	$ 219,731,787
Loss allowance	(2,721,437)	(3,901,097)	(28,339,468)	(34,962,002)	(43,591,832)
Carrying amount	$ 146,599,472	$ 13,472,576	$ 20,760,461	$ 180,832,509	$ 176,139,955

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

Mortgage residential and mortgage commercial loans									
		Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total 2021		Total 2020
Loans and advances to customers at amortised cost:										
Gross carrying amount as at July 1, 2020	$	138,233,239	$	16,815,310	$	64,683,238	$	219,731,787	$	239,597,103
Transfers:										
Transfer from Stage 1 to Stage 2		(7,156,365)		7,156,365		-		-		-
Transfer from Stage 1 to Stage 3		(2,413,739)		-		2,413,739		-		-
Transfer from Stage 2 to Stage 1		5,567,159		(5,567,159)		-		-		-
Transfer from Stage 2 to Stage 3		-		(920,888)		920,888		-		-
Transfer from Stage 3 to Stage 1		1,167,622		-		(1,167,622)		-		-
Transfer from Stage 3 to Stage 2		-		122,867		(122,867)		-		-
New financial assets originated or purchased		26,705,920		-		-		26,705,920		9,308,319
Financial assets fully derecognized during the period		(6,878,933)		(520,794)		(15,186,357)		(22,586,084)		(20,033,088)
Changes in principal and interest		(5,903,994)		287,972		(2,441,090)		(8,057,112)		(9,140,547)
Foreign exchange adjustment		-		-		-		-		-
Gross carrying amount as at June 30, 2021	$	149,320,909	$	17,373,673	$	49,099,929	$	215,794,511	$	219,731,787

Mortgage residential and mortgage commercial loans										
		Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total 2021		Total 2020
Loans and advances to customers at amortised cost:										
Loss allowance as at July 1, 2020	$	3,199,045	$	1,502,828	$	38,889,959	$	43,591,832	$	45,598,207
Transfers:										
Transfer from Stage 1 to Stage 2		(298,087)		298,087		-		-		-
Transfer from Stage 1 to Stage 3		(442,420)		-		442,420		-		-
Transfer from Stage 2 to Stage 1		601,972		(601,972)		-		-		-
Transfer from Stage 2 to Stage 3		-		(242,369)		242,369		-		-
Transfer from Stage 3 to Stage 1		401,243		-		(401,243)		-		-
Transfer from Stage 3 to Stage 2		-		-		-		-		-
New financial assets originated or purchased		559,668		-		-		559,668		179,998
Financial assets fully derecognized during the period		(234,499)		(48,780)		(10,035,678)		(10,318,957)		(6,418,087)
Changes to inputs used in ECL calculation		(1,065,485)		2,993,303		(798,359)		1,129,459		4,231,714
Foreign exchange adjustment		-		-		-		-		-
Loss allowance as at June 30, 2021	$	2,721,437	$	3,901,097	$	28,339,468	$	34,962,002	$	43,591,832

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

Commercial loans, overdrafts and Government		Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total 2021		Total 2020
Loans and advances to customers at amortised cost:										
Gross carrying amount	$	43,657,696	$	54,221,777	$	12,961,720	$	110,841,193	$	115,598,380
Loss allowance		(297,214)		(1,187,671)		(8,733,752)		(10,218,637)		(9,516,357)
Carrying amount	$	43,360,482	$	53,034,106	$	4,227,968	$	100,622,556	$	106,082,023

Commercial loans, overdrafts and Government		Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total 2021		Total 2020
Loans and advances to customers at amortised cost:										
Gross carrying amount as at July 1, 2020	$	36,923,109	$	70,109,740	$	8,565,531	$	115,598,380	$	88,627,255
Transfers:										
Transfer from Stage 1 to Stage 2		(7,814,068)		7,814,068		-		-		-
Transfer from Stage 1 to Stage 3		(256,222)		-		256,222		-		-
Transfer from Stage 2 to Stage 1		231,861		(231,861)		-		-		-
Transfer from Stage 2 to Stage 3		-		(7,650,389)		7,650,389		-		-
Transfer from Stage 3 to Stage 1		-		-		-		-		-
Transfer from Stage 3 to Stage 2		-		424,043		(424,043)		-		-
New financial assets originated or purchased		10,679,418		-		-		10,679,418		14,326,325
Financial assets fully derecognized during the period		(7,734,788)		(8,865,680)		(3,009,414)		(19,609,882)		(11,205,610)
Changes in principal and interest		11,628,386		(7,378,144)		(76,965)		4,173,277		23,850,410
Foreign exchange adjustment		-		-		-		-		-
Gross carrying amount as at June 30, 2021	$	43,657,696	$	54,221,777	$	12,961,720	$	110,841,193	$	115,598,380

Commercial loans, overdrafts and Government		Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total 2021		Total 2020
Loans and advances to customers at amortised cost:										
Loss allowance as at July 1, 2020	$	397,919	$	3,288,537	$	5,829,901	$	9,516,357	$	10,180,058
Transfers:										
Transfer from Stage 1 to Stage 2		(182,801)		182,801		-		-		-
Transfer from Stage 1 to Stage 3		(32,952)		-		32,952		-		-
Transfer from Stage 2 to Stage 1		-		-		-		-		-
Transfer from Stage 2 to Stage 3		-		(1,044,018)		1,044,018		-		-
Transfer from Stage 3 to Stage 1		-		-		-		-		-
Transfer from Stage 3 to Stage 2		-		23		(23)		-		-
New financial assets originated or purchased		345,263		-		-		345,263		551,851
Financial assets fully derecognized during the period		(223,208)		(333,165)		(2,023,874)		(2,580,247)		(1,682,982)
Changes to inputs used in ECL calculation		(7,007)		(906,507)		3,850,778		2,937,264		467,430
Foreign exchange adjustment		-		-		-		-		-
Loss allowance as at June 30, 2021	$	297,214	$	1,187,671	$	8,733,752	$	10,218,637	$	9,516,357

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

Consumer loans, overdrafts and credit cards	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Loans and advances to customers at amortised cost:					
Gross carrying amount	$ 106,672,833	$ 7,245,817	$ 12,115,883	$ 126,034,533	$ 103,382,993
Loss allowance	(6,595,959)	(3,298,173)	(8,955,328)	(18,849,460)	(15,154,523)
Carrying amount	$ 100,076,874	$ 3,947,644	$ 3,160,555	$ 107,185,073	$ 88,228,470

Consumer loans, overdrafts and credit cards	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Loans and advances to customers at amortised cost:					
Gross carrying amount as at July 1, 2020	$ 87,430,450	$ 5,307,618	$ 10,644,925	$ 103,382,993	$ 77,462,668
Transfers:					
Transfer from Stage 1 to Stage 2	(5,658,454)	5,658,454	-	-	-
Transfer from Stage 1 to Stage 3	(4,980,533)	-	4,980,533	-	-
Transfer from Stage 2 to Stage 1	1,950,349	(1,950,349)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,318,757)	1,318,757	-	-
Transfer from Stage 3 to Stage 1	277,284	-	(277,284)	-	-
Transfer from Stage 3 to Stage 2	-	367,186	(367,186)	-	-
New financial assets originated or purchased	45,253,093	-	-	45,253,093	50,355,169
Financial assets fully derecognized during the period	(14,379,300)	(761,580)	(3,839,245)	(18,980,125)	(18,534,029)
Changes in principal and interest	(3,220,056)	(56,755)	(344,617)	(3,621,428)	(5,900,815)
Foreign exchange adjustment	-	-	-	-	-
Gross carrying amount as at June 30, 2021	$ 106,672,833	$ 7,245,817	$ 12,115,883	$ 126,034,533	$ 103,382,993

Consumer loans, overdrafts and credit cards	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total 2021	Total 2020
Loans and advances to customers at amortised cost:					
Loss allowance as at July 1, 2020	$ 5,459,372	$ 2,071,119	$ 7,624,032	$ 15,154,523	$ 15,154,523
Transfers:					
Transfer from Stage 1 to Stage 2	(663,471)	663,471	-	-	-
Transfer from Stage 1 to Stage 3	(757,295)	-	757,295	-	-
Transfer from Stage 2 to Stage 1	752,910	(752,910)	-	-	-
Transfer from Stage 2 to Stage 3	-	(568,109)	568,109	-	-
Transfer from Stage 3 to Stage 1	166,078	-	(166,078)	-	-
Transfer from Stage 3 to Stage 2	-	214,429	(214,429)	-	-
New financial assets originated or purchased	3,301,761	-	-	3,301,761	5,782,083
Financial assets fully derecognized during the period	(877,657)	(317,104)	(2,760,592)	(3,955,353)	(2,015,655)
Changes to inputs used in ECL calculation	(785,739)	1,987,277	3,146,991	4,348,529	(3,766,428)
Foreign exchange adjustment	-	-	-	-	-
Loss allowance as at June 30, 2021	$ 6,595,959	$ 3,298,173	$ 8,955,328	$ 18,849,460	$ 15,154,523

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

ECL sensitivity analysis

Set out below are changes to the Bank's ECL as at June 30, 2021 and 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used by the Bank as key ECL drivers.

	2021 ECL Impact of		
Collateral haircut	Change in threshold	Increase in ECL allowance	Decrease in ECL allowance
Loans and advances to customers	(+/- 5)%	$ 3,277,357	$ 3,019,272
Unemployment rate	(+/- 5)%	3,469,666	2,499,430

	2020 ECL Impact of		
Collateral haircut	Change in threshold	Increase in ECL allowance	Decrease in ECL allowance
Loans and advances to customers	(+/- 5)%	$ 3,697,156	$ 3,445,750
Unemployment rate	(+/- 5)%	4,365,773	4,964,770

COVID-19 impact

The COVID-19 pandemic continues to impact the Bank's financial performance outlook. The provision for loan losses reflects the Bank's economic outlook as at June 30, 2021. Subsequent changes to these forecasts and related estimates will be reflected in the provision for loan losses in future periods. The Bahamian economy experienced and continues to experience a significant economic shock as a result of the pandemic. With the easement of Government restrictions and the ramp up of the tourism sector, improvements are expected in the near term.

The Bank considered for its loan portfolio, the appropriate economic factors to be the Bahamas' unemployment rate. When considering its macroeconomic factors, the Bank segmented its book between counterparties which were in the tourism and related industries. At June 30, 2021 the Bank had gross loan exposures of $49 million or 11% of its loan portfolio in the tourism and related industries.

The Bank determined its forward-looking economic factors for the purposes of the ECL calculation based on its expectation of the performance of the Bahamian economy and these assumptions are subject to a high degree of uncertainty.

(Expressed in Bahamian Dollars)

31. Risk management *(continued)*

Credit risk *(continued)*

COVID-19 impact *(continued)*

Base Case Scenario
The base scenario reflects a sharp decline in economic activity during the last quarter followed by a partial recovery subsequent to the Bank's fiscal year end. For the tourism related loans, the Bank determined that the International Monetary Fund's ("IMF") forecast for 2022 to be too optimistic and therefore determined the rate of unemployment to be the average of the IMF's 2021 and 2022 forecasts, whereas for the non-tourism related loans, the Bank used the average unemployment rate over the last decade excluding the shock experienced in 2020.

Upside Scenario
The Bank considered the upside scenario in reference to published data from the IMF. For the tourism related loans, it considered the IMF's 2022 forecast. For non-tourism related loans, the highest unemployment rate excluding 2020 was used.

Downside Scenario
The Bank considered for both the tourism and non-tourism related loans, the IMF's 2020 unemployment rate, which is the highest observed rate for The Bahamas.

	2021		2020	
	Tourism Related	Non-Tourism Related	Tourism Related	Non-Tourism Related
Base	20.6%	16.6%	20.0%	15.2%
Upside	17.2%	15.9%	13.2%	13.2%
Downside	25.6%	25.6%	20.0%	15.9%

During the prior year, the Bank had established relief programs to help borrowers manage through challenges of COVID-19 primarily through payment deferrals. During the last quarter of the fiscal year, the Bank's COVID-19 relief programs ended. Leading up to the end of the fiscal year most of the borrowers would have been extended deferment terms in excess of nine months. All these relationships were showing current due to the relief program. However, increased provisions were raised through the application of a higher unemployment rate over this portion of the Bank's credit portfolio.

31. Risk management *(continued)*

Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently, the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarizes the Bank's exposure to foreign currency exchange risk at June 30, 2021 and 2020. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

			2021			
In ($000s)	B$	US$	CAD$	GBP£	Other	Total
Assets						
Cash and account with the Central Bank	$ 115,253	$ 6,078	$ -	$ 1	$ -	$ 121,332
Cash equivalents - Treasury Bills	44,919	-	-	-	-	44,919
Due from banks, net	-	70,206	329	-	-	70,535
Investment securities, net	69,618	3,685	-	-	-	73,303
Loans and advances to customers, net	379,515	9,141	-	-	-	388,656
Note receivable, net	168,718	-	-	-	-	168,718
Other assets	169,560	(161,481)	(1,097)	(610)	(33)	6,339
Total financial assets	$ 947,583	$ (72,371)	$ (768)	$ (609)	$ (33)	$ 873,802
Liabilities						
Deposits from customers and banks	$ 660,518	$ 34,886	$ 43	$ 20	$ 389	$ 695,856
Other liabilities	29,878	2,093	133	93	2	32,199
Lease liabilities	3,267	-	-	-	-	3,267
Total financial liabilities	$ 693,663	$ 36,979	$ 176	$ 113	$ 391	$ 731,322
Net financial position	$ 253,920	$ (109,350)	$ (944)	$ (722)	$ (424)	$ 142,480
Loan commitments, credit lines and guarantees	$ 11,067	$ 621	$ -	$ -	$ -	$ 11,688

			2020			
In ($000s)	B$	US$	CAD$	GBP£	Other	Total
Total financial assets	$ 884,913	$ (93,150)	$ (837)	$ (610)	$ 1,018	$ 791,334
Total financial liabilities	626,598	27,200	165	102	369	654,434
Net financial position	$ 258,315	$ (120,350)	$ (1,002)	$ (712)	$ 649	$ 136,900

31. Risk management *(continued)*

Operational risk

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

Interest rate risk

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

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

The Bank analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration changes in interest rates. Based on these scenarios, the Bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders' equity of a 100-basis point shift would be a maximum increase or decrease of $1.7 million (2020: $1.5 million).

Liquidity risk

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

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

31. Risk management *(continued)*

Liquidity risk *(continued)*

There is still uncertainty over how the COVID-19 pandemic will impact the Bank's liquidity position. However, based on the Bank's liquidity position as at the date of authorization of these consolidated financial statements, management believes that the Bank has sufficient funding to meet its financial obligations.

The following table summarises the undiscounted contractual amounts of 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.

					2021					
In ($000s)		Within 3 months		3-12 months		1-5 years		Over 5 years		Total
Cash and account with the Central Bank	$	121,332	$	-	$	-	$	-	$	121,332
Cash equivalents - Treasury Bills		45,000		-		-		-		45,000
Due from banks		70,557		-		-		-		70,557
Investment securities		3,912		17,868		30,463		21,546		73,789
Loans and advances to customers		91,173		55,844		270,685		320,316		738,018
Note receivable		1,468		4,402		168,678		-		174,548
Other assets		6,339		-		-		-		6,339
Total financial assets	$	339,781	$	78,114	$	469,826	$	341,862	$	1,229,583
In ($000s)		Within 3 months		3-12 months		1-5 years		Over 5 years		Total
Deposits from customers and banks	$	534,837	$	98,064	$	44,838	$	31,469	$	709,208
Other liabilities		32,199		-		-		-		32,199
Lease liabilities		390		1,019		1,978		90		3,477
Total financial liabilities	$	567,426	$	99,083	$	46,816	$	31,559	$	744,884
Net position	$	(227,645)	$	(20,969)	$	423,010	$	310,303	$	484,699
Loan commitments, credit lines and guarantees	$	11,688	$	-	$	-	$	-	$	11,688

					2020					
In ($000s)		Within 3 months		3-12 months		1-5 years		Over 5 years		Total
Total financial assets	$	302,664	$	55,830	$	431,324	$	314,785	$	1,104,603
Total financial liabilities		500,720		97,499		53,289		13,582		665,090
Net position	$	(198,056)	$	(41,669)	$	378,035	$	301,203	$	439,513
Loan commitments, credit lines and guarantees	$	9,141	$	-	$	-	$	-	$	9,141

(Expressed in Bahamian Dollars)

32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2021 are as follows:

Name	Place of Incorporation	Shareholding	Nature of business
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
BOB Property Holdings	Commonwealth of The Bahamas	100%	Property Holding

On April 14, 2020, the Bank's Board of Directors approved the dissolution and winding up of the Trust (Note 27) and BAHTCO Holdings Ltd. Effective January 27, 2021, the Trust and BAHTCO were dissolved.

33. Subsequent events

Effective August 31, 2021, the Bank surrendered its Broker dealer license to the Securities Commission of The Bahamas.

Subsequent to June 30, 2021, Moody's downgraded the Bahamas' credit rating from Ba2 to Ba3. Management assessed the impact of this credit downgrade on its sovereign exposures, and it was determined not to have a material impact on the related financial assets at year end.

NOTES

HEAD OFFICE:

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

WWW.BANKBAHAMAS.COM

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