

Together







 Bank of The Bahamas
L I M I T E D

Together

ANNUAL REPORT 2017

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“

...like the skilled fingers of the native straw workers, BOB is daily weaving its own pattern for success...

”

Together

JOINING FORCES TO CREATE A STRONGER, BETTER BOB!

Each day, each moment, like the skilled fingers of the native straw worker, BOB is daily weaving a new pattern for success. Key to this is harnessing the skills and expertise of every individual employee and department of The Bank and securing the support of all stakeholders to create a stronger, faster, better organization together.

Just as each string of the intricate straw plaits is necessary to produce the beauty of uniquely Bahamian straw work, each stakeholder group from our regulators and shareholders to our employees and customers, vendors, local businesses and the general public is an essential element for our success. Only by coming together and supporting each other can we accomplish our goals.

It is against this background that we present to you, our valued shareholders, loyal customers, vendors and staff, this report of our performance for FY2017. As you read, know that we, the Board of Directors, Management and staff of BOB thank you for your loyalty and support, and remain committed to our vision *"To be the best and most respected financial enterprise in The Bahamas."*

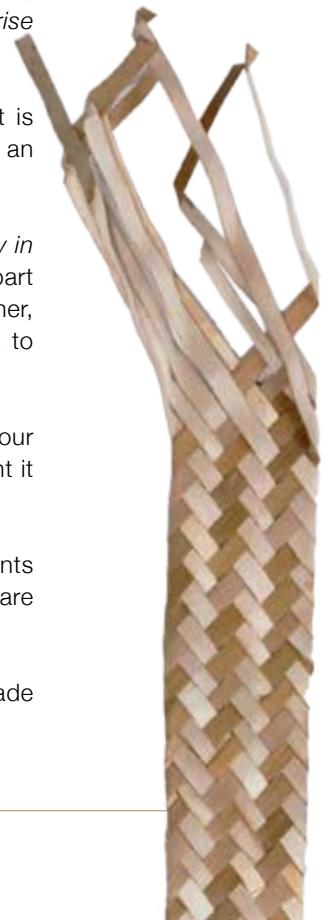
We continue to assess every aspect of our operations with a view to strengthen what is working and to change what no longer serves us well. This is not a one-time exercise but an ongoing constructive self-analysis accompanied by decisive action.

As writer and leadership speaker Robin Sharma once said *"Change is hard at first, messy in the middle and gorgeous at the end."* We are now traversing together the less gorgeous part of our journey. While many may only see bits and pieces that seemingly don't fit, we, together, have a collective vision of the beauty of the end product. We are weaving the strands to secure our vision.

At BOB we are still working toward our ultimate goal. We are not finished yet, therefore, our service is not yet perfect. We're working on it. Our performance is not yet where we want it to be and we are assiduously working to improve it.

Because of the changes we have made during fiscal year 2017 and additional improvements coming on stream in FY2018, we are confident that a brighter future is in sight and we are working diligently to create a better BOB for our customers, staff and shareholders.

At the end of the day we believe our success will be as beautiful as an original handmade Bahamian straw craft creation and as sustainable as our local Straw Industry.



BOARD OF DIRECTORS

BOB's Board of Directors is responsible for providing guidance to executive management and oversight of the Bank's operations. The Board 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.

In May 2017 Wayne Aranha succeeded Richard Demeritte as Chairman of the BOB board with former banker Anthony Allen assisting as Deputy Chairman during a transitional period until a new board was constituted in June 2017. The current Board includes individuals skilled in banking, law, business, information technology and human resources management. For the first time in the Bank's history, a director nominated by minority shareholders also sits on the Board.

BOARD OF DIRECTORS



DR. RICHARD C. DEMERITTE
CHAIRMAN
JUL. 1, 2012 -
MAY 11, 2017

RENEE DAVIS
ACTING MANAGING
DIRECTOR
FROM APRIL 1, 2016

DON DAVIS
JUL. 1, 2012 -
MAY 30, 2017

ERROL MCKINNEY
JUL. 1, 2012 -
JUN. 15, 2017

ERIC GIBSON
JUL. 1, 2012 -
JUN. 15, 2017

ALEX RECKLEY
MAR. 15, 2013 -
JUN. 15, 2017

DONNA HARDING-LEE
JUL. 1, 2012 -
JUN. 15, 2017

W. RENAE MCKAY
SEPT. 1, 2014 -
OCT. 31, 2016

BISHOP ROSTON DAVIS
JUL. 1, 2012 -
JUN. 15, 2017



WAYNE ARANHA
CHAIRMAN
FROM MAY 24, 2017

ANTHONY ALLEN, OBE
DEPUTY CHAIRMAN
MAY 24, 2017- OCT. 27, 2017

RENEE DAVIS
ACTING MANAGING
DIRECTOR
FROM APRIL 1, 2016

RUTH BOWE -DARVILLE
DIRECTOR
FROM JUNE 15, 2017

KIRK ANTHONI
DIRECTOR
FROM JUNE 15, 2017

TIMOTHY BROWN
DIRECTOR
(MINORITY NOMINATED)
FROM AUGUST 2, 2017



History

Bank of The Bahamas was incorporated in The Commonwealth of The Bahamas on April 17, 1970 as Bank of Montreal (Bahamas & Caribbean) Limited. In 1983, its name was changed to Bank of Montreal Bahamas Limited. In September 1988, the Government of The Bahamas created a joint venture with Euro Canadian Bank Limited. By purchasing 51% of the shares, the Government not only had controlling interest, but was able to ensure that Bahamian employees were offered employment with the new bank, appropriately renamed Bank of The Bahamas Limited.

During the second half of 1990, the Government purchased all of the Shares held by Euro Canadian Bank Limited and issued an additional 7,000,000 Shares, bringing the total number of shares issued to 10,000,000. In September 1994 the Government sold 20% of its Shareholding or 2,000,000 Shares to the Bahamian public. In October 1995 the Government offered a further 3,000,000 Shares of the Bank to the Bahamian public. Both offerings were substantially oversubscribed.

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 pre-paid cards, the first local bank with comprehensive online banking and the first to offer e-mail and text alerts to notify customers of deposits, withdrawals, loan payment or other activity on their accounts. Its ATMS remain the only 24/7 banking facilities in The Bahamas to offer a number of features including instructions in Braille and non-envelope deposit capability with immediate value for cash deposits.

Though relatively young, Bank of The Bahamas grew through prudent acquisitions including assets of Workers Bank Limited (2001) and the mortgage portfolio of Citibank (2007).

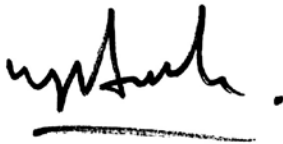
In September 2016 the Bank's \$40,000,000 Rights Offering was fully subscribed and in December of the same year the Bank offered a private placement of \$30,000,000 at 3.125% Fixed Rate Perpetual Contingent Convertible Bonds ("CoCo") to accredited investors only. This private placement was offered in 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 of June 30, 2017 Bank of The Bahamas operates 13 branches on 8 islands stretching over more than 500 miles, and continues to assess efficiency of operations across such a distant environment.

MESSAGE FROM THE CHAIRMAN



WAYNE ARANHA
CHAIRMAN



To our valued shareholders, customers and staff, we are pleased to report on the performance of your bank during fiscal 2017.

The Bank's performance before credit losses during the year ended June 30, 2017 showed some improvement relative to the year ended June 30, 2016 as income before provisions increased from approximately \$1.1 million to \$5.4 million. This favourable increase - \$4.3 - is due to an increase in total operating income of \$3.0 million and a decrease in total operating expenses of \$1.3 million.

The Bank, however, continued to have major challenges with its loans and advances, particularly its commercial exposure. The credit loss expense amounted to \$52.0 million and the net loss \$46.5 million for the year ended June 30, 2017. The performance during the year resulted in the Bank not complying with the Central Bank's required capital ratios at June 30, 2017.

Subsequent to the year-end 2017, the Government (as the major shareholder) agreed to further support the Bank, which support, inter alia, has had the effect of enabling the Bank to cure the capital deficiencies. The Government agreed with the Bank for the purchase of certain non-performing loans by Bahamas Resolve Ltd. (Resolve), the special purpose vehicle that was previously used to acquire certain of the Bank's non-performing loans, at a price equivalent to the gross book value of the loans, approximating \$167.7 million in consideration for which Resolve issued a Promissory Note for like amount. In addition, the Government agreed to facilitate Resolve retiring \$100.0 million of the Promissory Notes from the first Resolve transaction between August 2017 to May 2018.

As for the future, a comprehensive transformation exercise has been underway at the Bank as is noted in the 2016 Annual Report. From initial reviews by the Board, there is a need

to engage a more aggressive approach to reducing delinquencies. There is room for improving the collection of non-performing loans, and the strict implementation of improved policies and procedures inclusive of possible resource adjustments, which when implemented will imminently ensure that improvements are realized. Focus will also be placed on implementing systems and controls that ensure that compliance with applicable laws, regulations, guidelines and directives takes place as part of day-to-day processes.

The Bank has shown marginal success in reducing costs; however, its efficiency ratio is above that of its competitors. Thus, focus will be placed on costs control and revenue enhancing opportunities. Stringent cost control measures will be implemented, consistent with the need to ensure that risks are appropriately managed and customer service is not sacrificed. The Bank will seek cost recovery from Government in those cases where loss-making operations continue as a social or national service in a Family Island.

The Board of Directors is cautiously optimistic for the future prospects of the Bank, and we look forward to providing support and direction to management and staff in the Bank's pursuit of improved performance and sustainable profitability. I want to extend sincere thanks to my colleagues on the Board for their collegiality and dedication; in particular, I wish to record my appreciation for the wise counsel of Mr. Anthony C. Allen, who served as Deputy Chairman for a few months but resigned for personal reasons. The Contributions of management and staff are essential to the Bank's success, and I thank them for their dedication despite the trying times.

MESSAGE FROM THE MANAGING DIRECTOR (ACTING)



RENEE DAVIS
ACTING MANAGING
DIRECTOR



In Fiscal 2017 we continued the journey to create a better Bank of The Bahamas working towards sustainable profitability, positive returns for our investors and financial stability for all of our stakeholders.

We are grateful to our Boards of Directors for their guidance and to the major shareholder for its pledge of continued support of the Bank.

I also wish to thank the Management and staff of BOB who wholeheartedly committed to the hard work of self-assessment and improvement demanded by our journey. I am certain that this preliminary groundwork greatly helped to inspire confidence in BOB.

While we have made some progress we cannot rest because there is much more work to do and we have many more miles to go before we achieve our ultimate goal. I believe that we are up to the task and as a united team, utilizing the skills and expertise of each employee, we will succeed in creating the Bank of The Future and the Bank of Choice for Bahamians from all walks of life.

This will be a Bank that emphasizes cutting edge technology to provide positive customer experiences through a range of service channels; a bank that offers innovative products and services to help Bahamians achieve their financial goals; a bank that maintains reasonable fee schedules and continues to be a force for good in the communities we serve; a bank that values the contributions of

each of its employees and provides excellent benefits and opportunities for advancement. In short:

The best and most respected financial enterprise in The Bahamas!

But we cannot do this alone. In order for the Bank to succeed all of its stakeholders must be involved. BOB belongs to all Bahamians and its success depends on the support of a wide range of groups from our Board, management and staff to our regulators and shareholders to our depositors and vendors and the general public. By working together we can create something beautiful that reflects who we truly are.

Let us continue to press forward together to fulfill the vision and create a better bank, for our customers, for our employees, for our shareholders, and for all Bahamians.

We are succeeding. Keep your eyes on us!



OUR JOURNEY TOGETHER!



It is not just our growth that matters; in the final analysis it is how you feel about us that matters. If we have been able to provide personal service, if we have been able to respond to your applications in a timely fashion, if our rates and fees are equitable and our hours and locations convenient, if we answer every question with a smile and handle every transaction with appreciation, then we have succeeded in the most important way of all -- satisfying you.



OUR VISION

The Best and Most Respected Financial Enterprise in The Bahamas.

We aim to be the best at what we do. Being the best means expecting and demanding more of ourselves, reaching higher, always improving, always innovating and delivering better than anyone else.



OUR MISSION

Working Together to Consistently to Provide Exceptional Customer Experience and Superior Financial Solutions.

We will achieve our vision by "Working Together to Consistently Provide Exceptional Customer Experience and Superior Financial Solutions". We will succeed as a team and every day we will work to win and keep our customers' trust and loyalty. Respect is earned not freely given. We will be respected for our integrity and dependability and commitment to excellence

OUR CORE VALUES

Our values are the driving force for all that we do. They influence and direct every decision, every transaction and all our relationships. They make us who we are.

Our CORE VALUES are Leadership, Excellence, Attitude & Ethics, People Development, Teamwork.



LEADERSHIP - We are called to be leaders.

- We demand of ourselves decisiveness, courage, vision and integrity
- We share the credit for successes and hold ourselves accountable for our missteps

EXCELLENCE - We deliver what we promise to our stakeholders and add value beyond what is expected. We achieve excellence through:

- Creativity
- Competence
- Superior Quality
- Solution Orientation
- Continuous Learning and Improvement
- Discipline

ATTITUDE AND ETHICS - We recognize that a positive attitude, honesty, trust, fairness and integrity are essential for meeting the highest level of ethical behaviour.

- We are positive, helpful and supportive of each other.
- We are honest straightforward, responsible and accountable for our actions.
- We keep confidential matters confidential.
- We have the courage to express alternative viewpoints in a positive manner.

- We are fair and transparent. We avoid any actual or perceived conflict of interest.
- We value and reward open, honest, two way communication.
- We make only promises we intend to keep.

We acknowledge and apologize for our mistakes, and learn from our errors so we don't make them again.

PEOPLE DEVELOPMENT - We value our people.

- We value and support our people as a competitive advantage therefore we must attract, retain, develop and motivate the most talented people.
- We are caring people who work together as partners towards our shared successes.

TEAMWORK - We depend on each other to succeed.

- We share information and keep each other informed
- We respect diversity
- We encourage team members to do their best.
- We are passionate about teamwork which drives our commitment to perform.
- We collaborate with clients.
- We show mutual respect, compassion and genuine appreciation for each other.



Succeeding Together

We will succeed as a team
and every day we will
work to win and
keep our customers'
trust and loyalty.

Community

SPONSORSHIP AND CHARITABLE DONATIONS

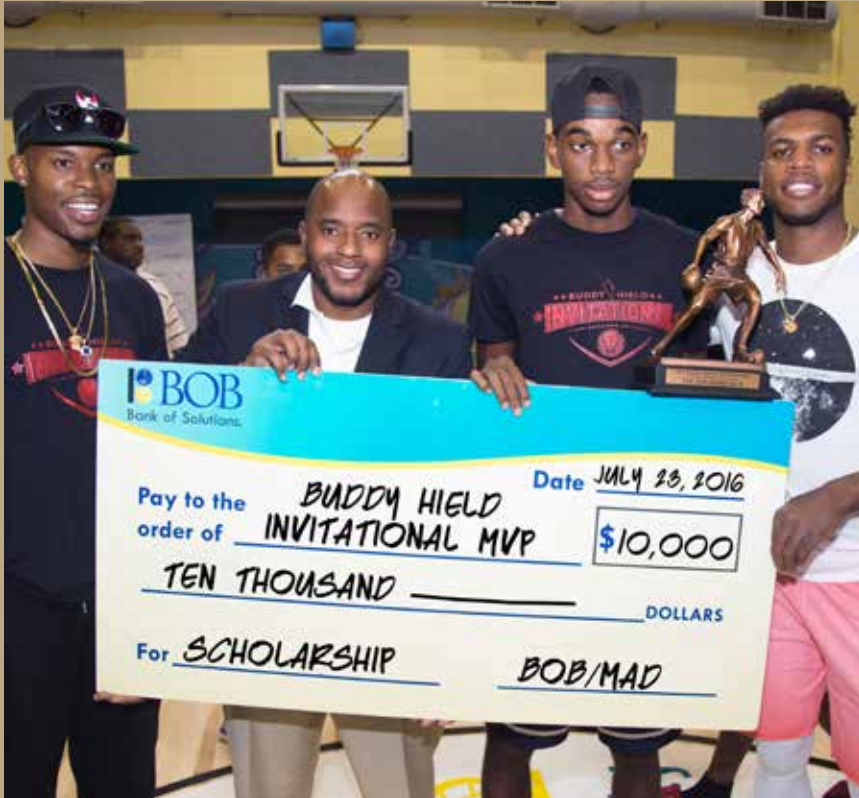


NBA Star Buddy Hield Visits BOB

In FY2017 Bank of The Bahamas continued to make a difference in communities across The Bahamas by giving back through sponsorships and charitable donations. BOB, “the bank with a heart” made significant contributions in these key areas of Bahamian life:

Education, Sports & Youth Development

- Partnered with Mad Events Presents to co-sponsor a \$10,000 Education Scholarship and Trophy for the MVP of the First Buddy Hield Bahamas Invitational Basketball Tournament
- Assisted top athletes, Chris Brown and Leevan Sands, in their journey to the 2016 Olympics
- Sponsored the Royal Bahamas Police Force Summer Youth Camps, helping to keep hundreds of youths engaged in positive activities and out of trouble during the risky summer months.
- Donated supplemental Back-to-School supplies to schools adopted by BOB branches
- Donated funds to The National L.E.A.D. Institute to assist with its programs for “at risk” juveniles and former inmates of prison and correctional facilities.
- Sponsored S.T.R.A.W. Inc.’s Centre for Women’s 13th Annual Girls Leadership Conference for girls from New Providence and The Family Islands.
- Helped to purchase musical instruments for the Boys Club of The Bahamas
- Provided support to the Gentleman’s Club and the National Debutante Foundations in their scholarship fundraising efforts
- Supported the National Youth Choir in its 27th season.



BOB Co-Sponsors \$10,000 MVP Scholarship in Buddy Hield Invitational



BOB Supports Salvation Army's Christmas in July Initiative



Trophies purchased for the Kevin Johnson Basketball Camp



A Helping Hand for National Women's Volleyball Team



Freeport Branch donates school supplies



BOB Sponsors T.G. Glover's Junior Junkanoo Group

Humanitarian and Social Needs

- Partnered with the Bahamas Feeding Network to provide \$5,000 in food vouchers to 50 single mothers with three or more dependents
- Provided continued support for programmes of The Bahamas Red Cross Society and the
- Salvation Army through sponsorship and volunteerism.
- Helped the AIDS Foundation raise funds for medications to combat HIV & AIDS
- Donated Funds to the Ranfurly Home for Children and the Children's Emergency Hostel

- Supported Fundraising efforts of The Bahamas National Council for Disability, The Bahamas
- Heart Association, The Kingdor Parkinson Foundation and the Cancer Society of The Bahamas

Festivals & Regattas

- BOB provided banking and cash management services for the International Culture Wine & Food Festival, a commitment of more than 80 staff working over two days.
- The Bank co-sponsored B class sloop sailing in the 60th Cat Island Regatta, helping to preserve an important Bahamian tradition and support the Cat Island economy.



BOB Summer Sponsorships Impact 8,000 Youth



BOB gives to the Children's Emergency Hostel



BOB supports RBP Summer Camps



BOB and Bahamas Feeding Network Team up to fight Hunger



Village Road presents school supplies to adopted school



BOB Sponsors S.T.R.A.W. 13th Annual Girls' Leadership Conference



A festival patron receives a gift bag



Friendly BOB Service at the Cultural Festival

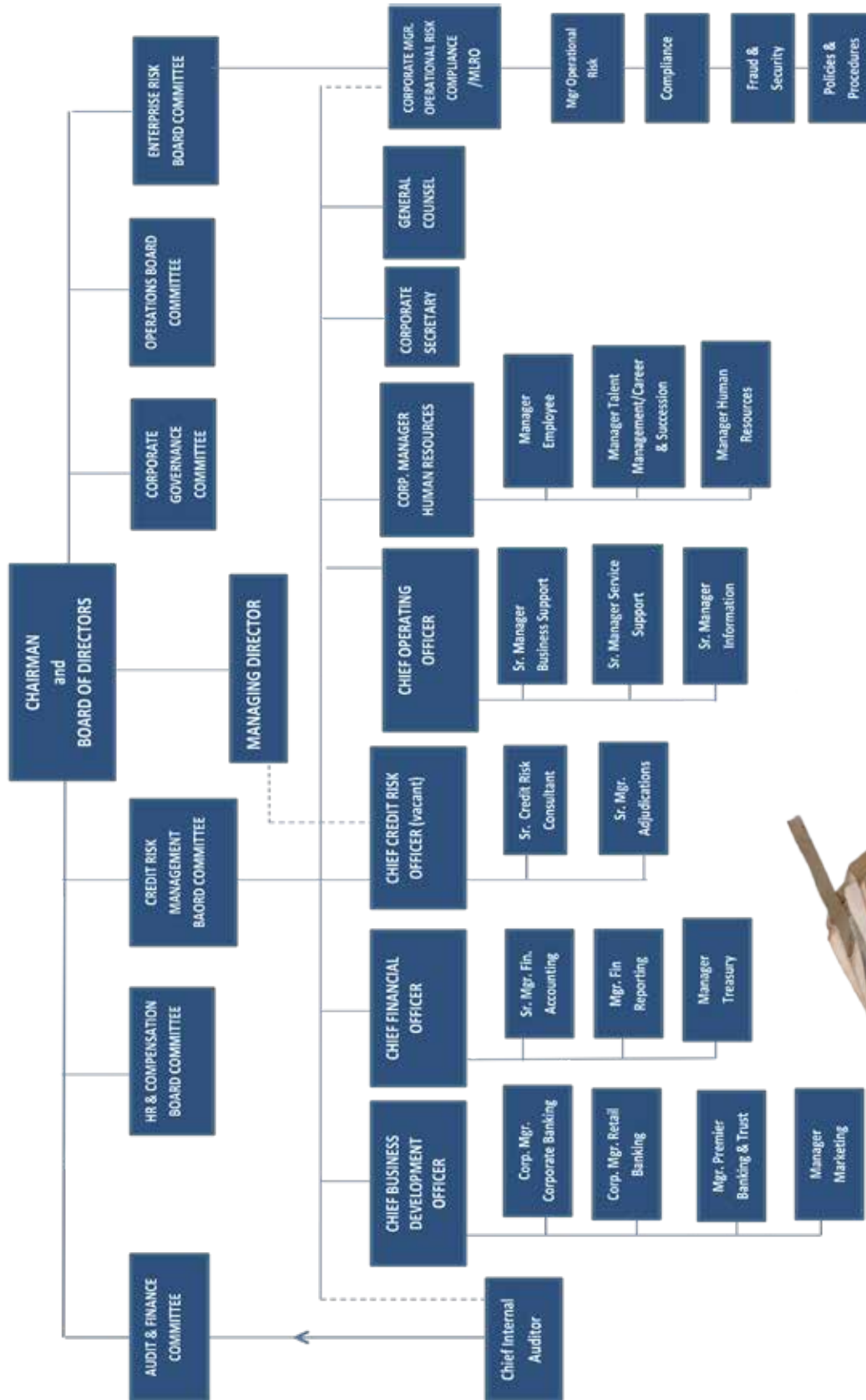


All smiles at the Cultural Festival



Volunteers at the BOB Marketing Booth

ORGANIZATIONAL CHART



EXECUTIVE MANAGEMENT

Renee Davis, Acting Managing Director
Hubert Edwards, Chief Business Development Officer

SENIOR MANAGERS

Earl Beneby - Corporate Manager, Corporate & Commercial Services
Barbara Ferguson - Senior Manager, Internal Audit
Patrice Gardiner - Corporate Manager, Human Resources
Jihanne Hosmillo-Williams - Financial Controller
Davine Rolle - Corporate Manager, Operational Risk
Kelvin Briggs - Senior Manager, Retail Collections & Recoveries
Byron Miller - Senior Manager, Business Development
Elnora Major - Senior Manager, Business Support
Vanessa Taylor - Senior Manager, Operations
Ian Thompson - Senior Manager, Credit Adjudication
Maureen Turnquest - Senior Manager, Financial Accounting
Laura Williams - Manager, Corporate Affairs

TRIBUTE TO DEIRDRE BETHEL



Deirdre Bethel
Former Manager, Harrold Road

In 2017 we lost a valuable member of our team. Though only with us for three years (September 2015 - August 2017) Deirdre Bethel, former Manager of Thompson Blvd and Harrold Road Branches, quickly absorbed the BOB values of leadership and teamwork and lived them by example.

At each branch she managed she kept a disciplined environment, demanding no less of herself than she demanded of others. Her staff respected her for her

energetic and bold leadership and loved her for her compassion, warmth and humor. At the same time her customers appreciated her down-to-earth personality, approachability and passionate pursuit of service excellence.

BOB mourns the loss of Deirdre Bethel, a true leader and a one of a kind original. We are grateful to have known her and thankful for her contribution to BOB. We will never forget her.

CORPORATE GOVERNANCE PRINCIPLES



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

ROLE OF BOARD OF DIRECTORS

The Bank’s corporate governance structure seeks to protect the stakeholders of the Bank to ensure a lasting legacy for its shareholders, staff and the Bahamian community. The Board is ultimately responsible for the conduct of the Bank’s affairs and operations. In light of this mandate, the Board provides oversight of the risks identified and ensures that they are adequately monitored and managed. And whilst the management of the day-to-day operations are delegated to the Bank’s executives, the Board reviews policies and procedures and monitors to ensure that operations are carried out in compliance with applicable laws and regulations and are consistent with sound banking practices.

The Corporate Governance Handbook addresses the powers, duties, responsibilities and roles of Directors such as:- the appointment of the Managing Director and all other Board appointments, approvals of the Budget, Strategic Plan, Remuneration policies and Business plans, 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

Board Committees

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

The Bank has six Board Committees which are as follows:-

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

Restructuring Sub-Committee

In early 2016 it was determined that a major restructuring of the Bank was required in order to guide it towards a sustainable path of profitability,

Therefore, a Transformation Plan was developed and a Restructuring Committee ("RC"), which was a sub-committee of the Board, was formed to provide oversight of the Plan. The RC was comprised of a representative of management (the Acting Managing Director), a major shareholder representative (the Financial Secretary), a representative from the Central Bank, two external persons of the business and financial services community and the Central Bank's Monitor.

The term of the RC was a temporary one and expected to exist for 18 to 24 months. By March 2017 approximately 70% of the Transformation Plan had been achieved. Therefore, it was determined that the RC could be dissolved and the remaining objectives of the plan would come under the umbrella of the Enterprise Risk 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 the course of their term and attestations which seek to confirm their fiduciary responsibility to provide the necessary corporate governance oversight required.

Compensation of Directors

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

Director Education

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

Independence of Directors

As part of its evaluation process, each candidate nominated to serve on the board completes a document to determine their independence in accordance with best practices and within the Central Bank of The Bahamas Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business within and from within The Bahamas. Therefore, we can attest that the Board is comprised of a substantial majority of Directors who meet The Central Bank of The Bahamas' criteria for independence. Should a Director not meet these criteria during the course of the year of service on the Board, said Director is required to update the Board with any new information in relation to interests or relationships relevant to independence.

BOARD MEETINGS

Frequency of Meetings

Board Committee meetings held during fiscal 2017 were as follows:-

Summary of Board Committee Meetings Held for the Year Ended June 30, 2017

- Corporate Governance Board Committee 2
- Audit & Finance Board Committee 6
- Operations Board Committee 4
- Human Resources & Compensation Board Committee 4
- Enterprise Risk Board Committee 4
- Credit Adjudications Committee (met as necessary)

Attendance at Meetings

Regular attendance at all Board meetings, together with committee meetings and the AGM, is expected of all Directors. Following is a record of attendance during the 2017 fiscal year:

Attendance at Meetings

For the period July 1, 2016 to June 30, 2017

Director	BOD Sept. 9, 2016	BOD Dec. 9, 2016	BOD March 10, 2017	Extra. BOD March 21, 2017
Richard C. Demeritte	✓	✓	✓	✓
Alexander Reckley	✓	✓	✓	✓
Don Davis	×	✓	✓	×
Donna Harding-Lee	✓	✓	×	✓
Eric Gibson, Jr.	✓	✓	✓	✓
Errol McKinney	×	✓	×	✓
Bishop Roston Davis	✓	✓	✓	✓
Renee L. Davis, Acting MD	✓	✓	✓	✓

✓ = Present × = Apologies

Preparation for Meetings

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

Board reports are uploaded to a portal in advance of Board meetings to give Directors an opportunity to review reports and, where possible, to obtain additional information from management or pose any questions or concerns they may have prior to the meetings.

Board Certification

Each year the Board is required to issue a Corporate Governance Statement to The Central Bank of The Bahamas confirming that it is familiar with the contents of the Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within

and from Within The Bahamas, and is adhering to the guidelines as outlined. As part of this exercise, key areas of the Bank developed 'In-Control' statements. The Internal Audit Department reviews and tests the attestations made by management in this regard. Essentially, these documents capture the specific minimum reporting requirements for each division and its internal control systems, which ensure that each area is 'in control'. These reports are generated quarterly and presented at each Board meeting for review and ratification.

On 22nd May, 2017 the Board submitted its Annual Certification (see letter below) to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines.

May 22, 2017

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

RE: BANK OF THE BAHAMAS LIMITED –
BOARD OF DIRECTORS' ANNUAL CERTIFICATION
TO THE CENTRAL BANK OF THE BAHAMAS - DECEMBER 31, 2016

- a. The Board of Directors (the Board) of Bank of The Bahamas Limited (the Bank) is familiar with the contents of the Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within The Bahamas (the Guidelines), issued by The Central Bank of The Bahamas on May 8, 2013, and acknowledges its role and responsibilities under the Guidelines.
- b. The Independent Non-Executive Directors of the Board (INED) as listed below, for the period December 31, 2016, met some independence requirements as outlined in Section VII of the above guidelines.

Dr. Richard C. Demeritte, Chairman	Mr. Don S. Davis
Mrs. Donna M. Harding-Lee	Bishop Roston L. Davis
Mr. Eric Gibson, Jr.	Mr. Errol J. McKinney
Mr. Alexander Reckley	Miss. Renae McKay [1]

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

- c. The Bank's environment was assessed by external consultants during the period. At present, there is a major restructuring exercise taking place to ensure we operate as efficiently and effectively as possible. As a result, we will continue to improve systems, processes and people in an effort to improve the Bank's control environment.
- d. The Board has carefully considered the reporting of Senior Management and other information provided in determining whether the Bank is following the Guidelines and further encourages Management to ensure reporting is complete and timely;
- e. The Board has reviewed key policies and procedures of the Bank and will continue to implement the necessary policies and procedures in compliance with the Guidelines and during the current Bank-wide transformational change;
- f. The Board is of the opinion that the Bank is materially compliant with the principles of the Guidelines. Deficiencies noted are discussed with the Bank's regulators and key stakeholders in accordance to the Guidelines.
 - i. While we acknowledge that significant progress has been made, we do recognize that continued attention and progress are required in the following areas in order to further enhance the control environment of the Bank and improve the enterprise risk management process:

[1] Mrs. McKay represents the National Insurance Board, as major shareholder of the Bank. Therefore, she is classified as a Non-Independent Non-Executive Director. Further, her tenure of Director ended upon her resignation in October 2016.

- Enhanced training efforts to ensure that all key stakeholders are proficient in their knowledge of the Bank's risks, products and operating standards and adherence to Bank policies;
 - Enhancement of the Banks core banking systems;
 - Implementation of automated tools and reports to better monitor and assess the key risk areas within the Bank's control environment; and
 - Continued focus on improving data quality, information security and customer service standards.
- ii. Executive and Senior Management have been assigned to address the areas with deficiencies and we are confident that these areas will continue to be addressed with determination. An action plan to correct those deficiencies has been prepared and is being implemented; and
- g. The Board previously reviewed the Bank's comprehensive Business Continuity Plan (BCP) Policy. The Board will review the Plan once further enhanced to reflect the Bank's environment. We will further seek to ensure that the recovery strategies adopted within that plan are valid and the plan will be tested moving forward;
- h. The Board will seek to perform its functions and fulfilling its obligations under the Guidelines for the Minimum Standards for the Outsourcing of Material Functions. While the process was formalized, it could be further enhanced. Executive Management will seek to enhance this process so that it operates effectively moving forward;
- i. The Board has taken account of its obligations to comply with the Guidelines for Licensees on the Prevention of Money Laundering and Countering the Financing of Terrorism. Executive Management continues to enhance this process so that it operates effectively;
- j. The Board notes that internal audits were completed and issues were identified. We will seek to ensure that there is active monitoring of action plans to ensure timely resolution;
- k. An action plan to remedy the deficiencies stated in the Central Bank's Report of Examination has been prepared and submitted to the Inspector and the agreed remedial actions are being addressed;
- l. The Board is satisfied that the Bank has policies, procedures, processes and controls in place to ensure that key inherent business risks, where they exist, are effectively managed. Moving forward, the Board will proactively ensure all risks are appropriately addressed through the Bank's Enterprise Risk Management program and control gaps noted will be resolved efficiently and effectively;
- m. The Bank is enhancing its large exposure policy to ensure the effects of the transformational changes and new strategic initiatives are captured. We will continue monitoring the Bank's credit operations to ensure the adherence to the policy; and
- n. The Bank has been granted the necessary approval for the appointment of a member of senior management as a Compliance Officer/Money Laundering Reporting Officer.

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

Yours faithfully,

On behalf of Bank of The Bahamas Limited Board of Directors:



Renee Davis
Managing Director



Don Davis
Chairman,
Audit & Finance Board Committee

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) OF
 FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR
 FINANCIAL YEAR END JUNE 30, 2017

FINANCIAL HIGHLIGHTS					
	2017	2016	2015	2014	2013
Interest and Similar Income	\$ 38.83	\$ 40.01	\$ 42.74	\$ 49.82	\$ 65.70
Net Interest Income	\$ 26.54	\$ 24.34	\$ 26.21	\$ 31.49	\$ 43.61
Net Non-Interest Income	\$ 10.05	\$ 9.29	\$ 6.79	\$ 6.15	\$ 6.37
Operating Expenses	\$ 31.24	\$ 32.53	\$ 37.27	\$ 34.20	\$ 32.53
Net Credit Loss Expense	\$ 51.96	\$ 24.50	\$ 26.12	\$ 69.72	\$ 21.82
Net Loss	\$ (46.49)	\$ (23.41)	\$ (30.40)	\$ (66.28)	\$ (4.37)
Loss per Share (LPS)	\$ (1.43)	\$ (1.09)	\$ (1.42)	\$ (3.21)	\$ (0.43)
Total Assets	\$ 755.81	\$ 853.42	\$ 811.70	\$ 771.07	\$ 890.04
Loans and Advances to Customers, net	\$ 448.12	\$ 509.88	\$ 569.41	\$ 660.55	\$ 734.48
Total Liabilities	\$ 691.91	\$ 789.33	\$ 720.91	\$ 701.33	\$ 747.87
Shareholders Equity	\$ 63.91	\$ 64.09	\$ 90.79	\$ 69.74	\$ 142.17
Share Closing Price	\$ 1.47	\$ 5.22	\$ 5.22	\$ 5.22	\$ 5.23
Risk Adjusted Capital Ratio	13.9	11.7	17.40	11.13	22.44
Efficiency Ratio	84.64	94.35	106.31	90.86	65.08

\$ amounts are stated in Millions. The LPS in \$, Capital and Efficiency Ratios are %.

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

Overview

The Bank embarked on its transformation which commenced in the prior year, and recognizes that a complete transformation requires that nothing be taken for granted; that all procedures and processes be examined and that more efficient and cost effective methods of doing business are incorporated. However, in the midst of change, our one constant priority remains our customers. We recommit to building relationships by working together to ensure that each customer experience is exceptional and that the solutions we provide are cutting edge, relevant and applicable to the current and future needs of our customers. Profitability and the maintenance of adequate capital reserves can engender confidence in the stability and soundness of the Bank and can provide assurance that the Bank will continue to provide positive returns for our investors and a stable and safe institution for depositors.

The Bank recorded net interest income and net non-interest income of \$2.2 million and \$0.8 million, respectively, higher than prior year, which resulted in \$3.0 million positive variance in the Bank's total operating income from \$33.6 million in prior year to \$36.6 million for the year ended June 30, 2017.

Operating expenses continued to decrease year on year from \$32.5 million during prior year to \$31.2 million for the year ended June 30, 2017. Consequently, the Bank's net income before credit loss expense was \$1.1 million and \$5.3 million for the years ended June 30, 2016 and 2017, respectively.

However, due to the significant amount of net credit loss expense, the Bank's results of operations reported an increased net loss from \$23.4 million for the year ended June 30, 2016 to \$46.5 million for the year ended June 30, 2017.

The Bank's year-end results and financial position are indicative of the challenges with systematically high loan delinquencies coupled with slow repayment, recoveries and asset realization while credit losses directly affect the Bank's overall profitability.

During the year, despite the profitability challenges, the Bank's focus on its capitalization initiatives resulted in improvement in its eligible capital base, reflective of the Bank's capital ratio exhibiting an overall increase since prior year as discussed below. Moreover, subsequent to the year ended June 30, 2017, all of the Bank's key capital ratios have been restored to compliance.

Interest and Similar Income

Interest income for the year ended June 30, 2017 was \$1.2 million or 2.94% lower than prior year as interest income from loans and advances to customers decreased by \$1.3 million primarily driven by the decline in the Bank's gross loan portfolio by \$14.8 million or 2.47%. Interest income earned for notes receivable also fell by \$0.3 million, which was fully offset by \$0.4 million higher interest income on cash and investment securities.

Interest and Similar Expense

Interest and similar expense trended lower by \$3.4 million or 21.55% compared to prior year. The reduction in interest expense is indicative of the decrease in the deposit base of approximately \$100.4 million or 13.14% as at year end and a reduction of interest rates in February 2017 following the decrease of the prime rate.

Net Interest Income

Net interest income represents the amount by which income on interest earning assets exceeds interest expense incurred on interest bearing deposits. The Bank's net interest income increased by \$2.2 million or 9.04% during the year despite the decreases in the Bank's loans and deposits portfolio and the reduced prime rate in the middle of the Bank's fiscal year, as the Bank effectively managed these changes.

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 Bank's net non-interest income increased by \$0.8 million or 8.23% during the year, which ended with \$10.1 million compared to \$9.3 million in the prior year. This increase was driven by higher revenue from credit and cards services' fee income for the administration of several government initiatives. The Bank continues to strengthen its revenue streams from its auxiliary services.

Net Credit Loss Expense

Net credit loss expense of \$52.0 million is \$27.5 million or 112.08% higher than prior year. Overall, the movement in credit loss expense is parallel to the change in non-performing loans which increased by \$12.6 million or 5.37% from \$234.3 million as at June 30, 2016 to \$246.8 million as at June 30, 2017. The significant additional credit loss expense is also a result of the Bank's stringent assessment of specific credit losses as the Bank, like the industry, continues to be challenged by high loan delinquencies, reduced values on collateral holdings and difficulty to realize on the collateral as experienced within the present economic environment. While a slight improvement in the Bank's portfolio assessment is noted by a decrease of \$1.9 million, this was mainly driven by more specific provisions being identified and the unemployment rate decrease.

Operating Expenses

Operating expenses before impairment losses fell by \$0.8 million or 2.38% year on year, ending at \$30.9 million versus \$31.7 million in the prior year, as the Bank continues to focus on cost optimization measures. The Bank incurred lower salaries, termination and settlement expenses during the year. Depreciation expenses declined across all categories namely, mechanical and computer equipment as several items were fully depreciated during the year. Occupancy, other administrative expenses, marketing, telecommunication, travel and entertainment expenses – all trended lower than prior year. The Bank also recognized lower non-recurring impairment loss from a non-financial asset.

Efficiency ratio based on operating expenses before impairment losses improved from 94.35% in the prior year to 84.64% for the year ended June 30, 2017. Management continues to seek and implement cost control measures in line with the Bank's plan to manage its costs and return to profitability.

Statement of Financial Position

The Bank's risk management structure promotes sound business decisions. Investment securities consist primarily of government bonds, and cash and due from banks have been placed with high quality reputable institutions. Strategic reviews of the loan portfolio are performed to minimize the Bank's exposure to those balances where collectability may be uncertain.

Total Assets

Total assets stood at \$755.8 million, a decrease of \$97.6 million or 11.44% compared to the prior year's total assets of \$853.4 million. This decrease is primarily owing to a reduced net loans and advances to customers, down by \$61.8 million or 12.11%, from \$509.9 million as at June 30, 2016 to \$448.1 million as at June 30, 2017. The decline in net loans and advances was largely due to higher provisions for credit losses on commercial and mortgage loans. Provisions for credit losses moved from \$94.8 million to \$142.6 million, an increase of \$47.8 million or 50.36%. Furthermore, gross loans and advances fell by \$14.8 million or 2.47% year over year. Meanwhile, investment securities grew by \$10.2 million or 32.68% due to the purchase of additional Bahamas Government Registered Stock. Cash and account with The Central Bank decreased by \$52.9 million or 35.07% while Due from banks increased by \$5.5 million.

Total Liabilities

Total liabilities stood at \$691.9 million, a decrease of \$97.4 million or 12.34% compared to prior year's total liabilities of \$789.3 million. Deposits from customers and banks, which account for about 95.95% of total liabilities, decreased by \$100.4 million or 13.14%, from \$764.4 million as at June 30, 2016 to \$663.9 million as at June 30, 2017. The decline in the Bank's deposit base primarily stemmed from a net decrease in term deposits, despite an increase in demand deposits and savings accounts. Notable decreases were seen in business term deposits and related party term deposits, while increases were noted in business demand deposit accounts. The Bank continues with its initiatives in creating and implementing sales and service strategies and ensuring successful execution to achieve optimal growth.

Total Shareholders' Equity

Total shareholders' equity stood at \$63.9 million, a slight decrease of \$0.2 million or 0.28% compared to prior year equity of \$64.1 million. The Bank's share capital and share premium increased as a result of \$40.0 million rights offering and ordinary shares issuance in September 2016 plus another \$10.0 million ordinary shares issuance upon conversion of convertible bond in June 2017, partially by the annual \$3.4 million redemption of preference shares in December 2016. However, the Bank's accumulated deficit increased by \$46.5 million as a result of the net loss for the year.

Effective September 30, 2016, Central Bank increased the Bank's key Basel III ratio, the Total

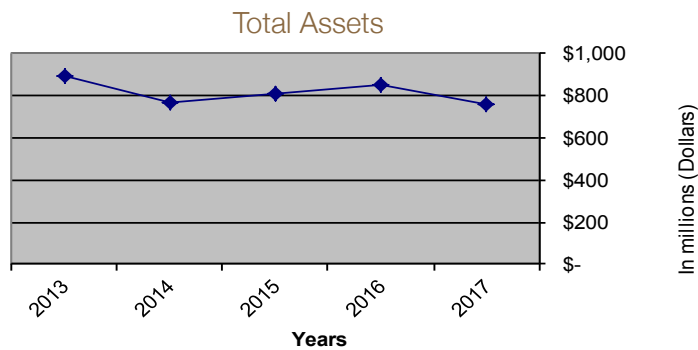
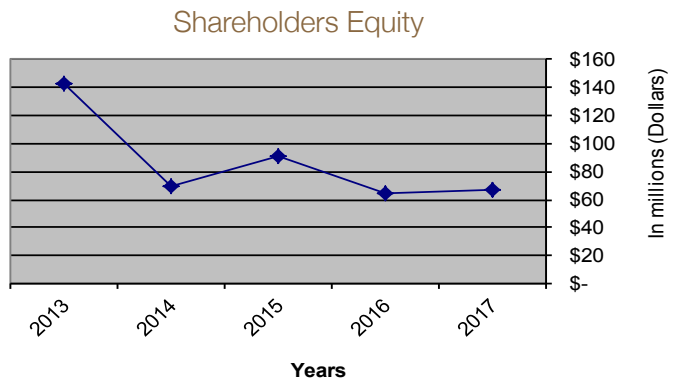
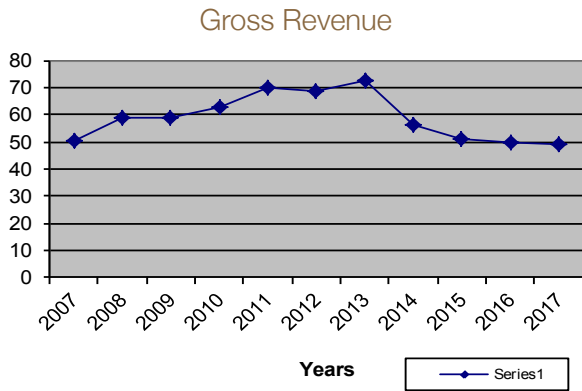
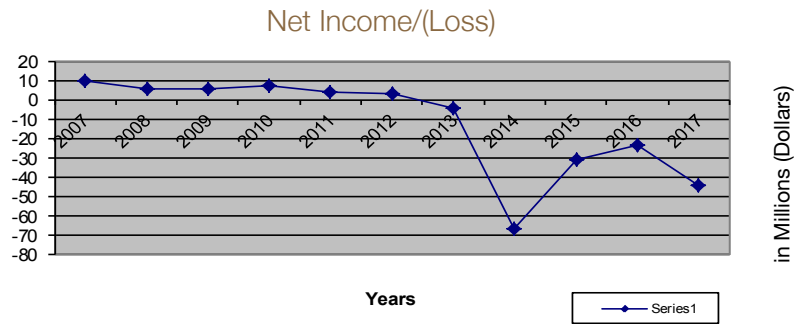
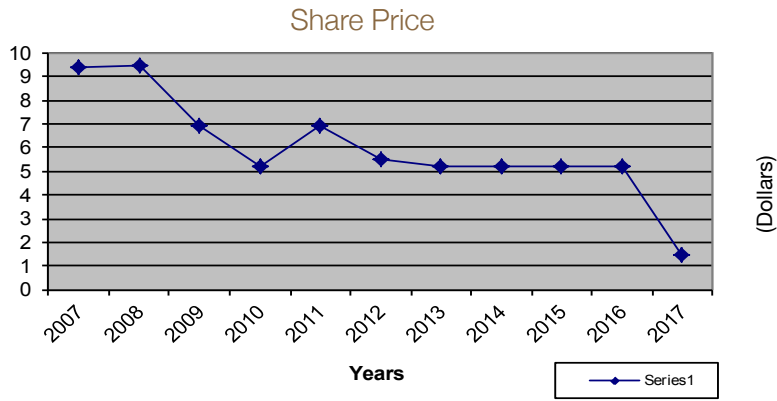
Capital to Total Risk Weighted Assets ratio, from a minimum of 17.00% to a minimum of 18.00%. As at June 30, 2016, the Bank's Total Capital ratio of 11.7% showed improvement to a ratio of 13.9% as at June 30, 2017, primarily as a result of additional eligible capital discussed above.

Subsequent to June 30, 2017, as a result of the subsequent events disclosed in the accompanying Audited Financial Statements (Note 33), all of the Bank's key capital ratios have been restored to compliance, with Total Risk Adjusted Capital ratio of 41.60% as at September 30, 2017 compared to a minimum requirement of 18.00%.

Conclusion

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

A comprehensive transformation exercise has been underway and continues to be our focus. We at BOB, are joining forces, the best of each of us, to create a stronger, better BOB as we make progress towards our vision: to be the best and most respected financial enterprise in the Bahamas.





Financial Statements

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

Year ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Bank of The Bahamas Limited Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of The Bahamas Limited and its subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at June 30, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at June 30, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to Notes 2(a) and 30 in the consolidated financial statements. The Bank has experienced continuing operating losses for the last several years and was also non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2017 and 2016. These events and conditions, along with other matters as set forth in Notes 2(a) and 30, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Management does not expect that the continued operating losses or regulatory capital deficiencies will impact the Bank's continuing ability to operate as a going concern. Our opinion is not modified in respect of this matter.

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.

Provision for loan losses (\$142,599,409, see note 7)	
The risk	Our response
<p>Significant estimates are made in valuing the Bank's loan portfolio and determining the adequacy of the provision for loan losses.</p> <p>The valuation of the loan portfolio and determination of the amount of the provision for loan losses is considered a significant risk because inadequate estimates of the required provisions could have a material financial impact on the consolidated financial statements should a material loan loss occur without adequate provisions.</p>	<p>In this area, our audit procedures included:</p> <ul style="list-style-type: none">• Reviewing the internal controls and testing the key controls;• Re-performance of the calculation of the allowance for loan losses and challenging management's judgment and assumptions used in calculating the provision for loan losses; and• Assessment of the methodology used to determine the allowance for loan losses

Regulatory capital (see note 30)	
The risk	Our response
<p>The Bank is subject to a variety of laws and regulations and operates in a highly regulated environment. The Bank is also subject to a number of reporting requirements by the Central Bank of the Bahamas.</p> <p>Management of regulatory capital is considered a significant risk because failure to comply with Central Bank guidelines and regulations may result in penalties, revocation of license, and/or serious reputational damage to the Bank.</p>	<p>In this area, our audit procedures included:</p> <ul style="list-style-type: none"> • Reviewing all correspondence between the Bank and the Central Bank to identify instances of non-compliance with the Central Bank's guidelines and to determine the impact thereof during the year and to identify any specific regulatory stipulations imposed on the Bank. • We inspected the annual corporate governance certification sent by the Board of Directors to the Central Bank and obtained confirmation of compliance from the Central Bank and The Securities Commission of The Bahamas. • We inquired of the Acting Managing Director and the Director of Compliance as to any issues relating to compliance with existing and new regulations and considered the adequacy of the Bank's disclosures in respect of regulatory capital.

Interest income (\$38,830,908, see note 19)	
The risk	Our response
<p>Interest income is the Bank's primary source of revenues.</p> <p>The existence and accuracy of interest income are considered to be a key audit area due to the material financial impact of this account on the Bank's consolidated financial statements.</p>	<p>In this area, our audit procedures included:</p> <ul style="list-style-type: none"> • Reviewing the internal controls and testing the key controls; • Confirmation of principal balances and terms of interest bearing assets and vouching interest bearing assets to supporting documentation evidencing amounts, interest rates and payment terms; and • Substantive analytical procedures and re-performance of the calculation of interest accruals to test the accuracy of interest income.

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 IFRS, 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 skepticism 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.

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, related safeguards.

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.

Other information

We expect to receive other information from the Bank on November 30, 2017, which will comprise the information to be included in the Bank's annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not and will not cover other information and we do 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 and, in doing so, consider whether there are indications that 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. If, based on the work we have performed, we determine that there is a material misstatement of this other information, we would be required to report that fact.

The engagement partner on the audit resulting in this independent auditors' report is Lambert D. Longley.



Nassau, Bahamas
October 30, 2017

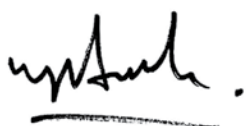
BANK OF THE BAHAMAS LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

June 30, 2017, with corresponding figures for 2016
(Expressed in Bahamian Dollars)

	Notes	2017	2016
ASSETS			
Cash and account with The Central Bank	5, 25	\$ 97,969,652	\$ 150,891,387
Due from banks	5	47,981,770	42,486,741
Investment securities	6, 25	41,392,518	31,198,018
Loans and advances to customers, net	7, 25	448,124,914	509,884,153
Non-current assets held for sale	8	925,000	-
Investment property	9	6,463,000	4,340,000
Other assets	10, 25	8,873,414	6,296,220
Property and equipment, net	11	3,056,345	6,828,712
Computer software, net	12	1,026,580	1,498,596
Notes receivable	13, 25	100,000,000	100,000,000
TOTAL ASSETS		\$ 755,813,193	\$ 853,423,827
LIABILITIES			
Deposits from customers and banks	14, 25	\$ 663,903,707	\$ 764,352,914
Other liabilities	15, 25	22,167,898	18,830,998
Deferred loan fees	3	5,833,983	6,149,779
Total liabilities		691,905,588	789,333,691
EQUITY			
Share capital	16	64,010,505	45,838,935
Share premium	16	81,950,384	54,004,621
Treasury shares	17	(1,318,224)	(1,318,224)
Reserves	18	5,140,730	4,946,230
Special retained earnings	13	54,622,532	54,622,532
Accumulated deficit		(140,498,322)	(94,003,958)
Total equity		63,907,605	64,090,136
TOTAL LIABILITIES AND EQUITY		\$ 755,813,193	\$ 853,423,827

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on October 27, 2017 and are signed on its behalf by:



Director



Director

BANK OF THE BAHAMAS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

June 30, 2017, with corresponding figures for 2016

(Expressed in Bahamian Dollars)

	Notes	2017	2016
Interest and similar income	19, 25	\$ 38,830,908	\$ 40,009,145
Interest and similar expense	19, 25	(12,294,233)	(15,672,224)
Net interest income		26,536,675	24,336,921
Fees and commission income	20	6,919,145	5,886,655
Fees and commission expense	20	(515,661)	(656,970)
Net fees and commission income		6,403,484	5,229,685
Other operating income	21	3,650,175	4,059,390
Total operating income		36,590,334	33,625,996
Credit loss expense, net	7	(51,957,793)	(24,499,006)
Net operating income/(loss)		(15,367,459)	9,126,990
Operating expenses	22, 25	(31,244,588)	(32,533,625)
Government subsidy	25	117,683	-
Net loss		(46,494,364)	(23,406,635)
Other comprehensive income			
Net gain on available-for-sale financial assets	6, 18	194,500	110,634
Total comprehensive loss for the year		\$ (46,299,864)	\$ (23,296,001)
Earnings/(loss) per share			
Basic loss per ordinary share	28	\$ (1.43)	\$ (1.09)

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

June 30, 2017, with corresponding figures for 2016

(Expressed in Bahamian Dollars)

	Share Capital	Share Premium	Treasury Shares	Reserves	Special Retained Earnings	Accumulated Deficit	Total Equity
Balance, June 30, 2015	\$ 49,238,935	\$ 54,004,621	\$(1,318,224)	\$4,835,596	\$ 54,622,532	\$ (70,597,323)	\$ 90,786,137
<i>Total comprehensive loss:</i>							
Net loss for the year	-	-	-	-	-	(23,406,635)	(23,406,635)
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets (Note 18)	-	-	-	110,634	-	-	110,634
<i>Transactions with owners of the Bank:</i>							
Redemption of preference shares (Note 16)	(3,400,000)	-	-	-	-	-	(3,400,000)
Balance, June 30, 2016	45,838,935	54,004,621	(1,318,224)	4,946,230	54,622,532	(94,003,958)	64,090,136
<i>Total comprehensive loss:</i>							
Net loss for the year	-	-	-	-	-	(46,494,364)	(46,494,364)
<i>Other comprehensive income:</i>							
Net gain on available-for-sale financial assets (Note 18)	-	-	-	194,500	-	-	194,500
<i>Transactions with owners of the Bank:</i>							
Issuance of ordinary shares (Note 16)	21,571,570	27,945,763	-	-	-	-	49,517,333
Redemption of preference shares (Note 16)	(3,400,000)	-	-	-	-	-	(3,400,000)
Balance, June 30, 2017	\$ 64,010,505	\$ 81,950,384	\$ (1,318,224)	\$ 5,140,730	\$ 54,622,532	\$ (140,498,322)	\$ 63,907,605

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS**

June 30, 2017, with corresponding figures for 2016

(Expressed in Bahamian Dollars)

	Notes	2017	2016
Cash flows from operating activities:			
Net loss		\$ (46,494,364)	\$ (23,406,635)
Adjustments for:			
Depreciation and amortisation	22	2,278,007	2,576,199
Impairment losses	22	273,568	806,113
Gain on revaluation of investment property	21	(739,545)	-
Gain on disposal of fixed assets		-	(5,752)
Net provision for loan losses	7	51,957,793	24,499,006
		7,275,459	4,468,931
Change in operating assets and liabilities		2,780,970	5,382,591
Decrease in loans and advances to customers, net		9,801,446	35,027,826
(Decrease)/increase in deposits from customers and banks		(100,449,207)	66,970,403
Net cash (used in)/provided by operating activities		(80,591,332)	111,849,751
Cash flows from investing activities:			
Acquisition of property and equipment	11	(583,367)	(67,241)
Acquisition of intangible assets	12	(32,280)	(743,240)
Purchase of investment securities	6	(10,000,000)	-
Proceeds from disposal of property and equipment		-	18,000
Proceeds from maturity of investment securities	6	-	459,900
Net cash used in investing activities		(10,615,647)	(332,581)
Cash flows from financing activities:			
Issuance of ordinary shares	16	49,517,333	-
Redemption of preference shares	16	(3,400,000)	(3,400,000)
Net cash provided by/(used in) financing activities		46,117,333	(3,400,000)
Net (decrease)/increase in cash and cash equivalents		(45,089,646)	108,117,170
Cash and cash equivalents, beginning of year		166,554,048	58,436,878
Cash and cash equivalents, end of year	5	\$ 121,464,402	\$ 166,554,048
Supplemental information:			
Interest received		\$ 37,943,229	\$ 39,344,474
Interest paid		13,067,350	15,698,668
Non-cash transaction:			
Reclassification to non-current assets held for sale	8	\$ 1,198,568	\$ -
Reclassification to investment property	9	1,383,455	-
Reclassification from fixed assets	11	2,582,023	-

See accompanying notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

1. Corporate information

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

The Bank’s shares are publicly traded and listed on The Bahamas International Securities Exchange.

During the year, pursuant to a rights offering in September 2016, the Government of The Commonwealth of The Bahamas (the “Government”) acquired the majority of an additional 14,814,814 ordinary voting shares issued by the Bank (Note 16). The Government also purchased \$10 million of convertible bonds pursuant to the Bank’s private placement in December, 2016. Effective June 30, 2017, this bond was converted to 6,756,756 ordinary voting shares (Note 16). As a result of these transactions, the ownership interest of the Government and NIB in the Bank increased. As at June 30, 2017, the Government and The National Insurance Board (“NIB”) owned approximately 82.6% (2016 - 65%) of the issued common shares. The remaining common shares are owned by approximately 3,000 Bahamian shareholders.

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

The Bank’s services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded stored value, prepaid and credit cards. As at June 30, 2017, the Bank has thirteen branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua, one in Cat Island and one in Eleuthera. Subsequently, the Bank opened a new branch in Bimini in August 2017 and closed one of the Grand Bahama branches in September 2017, while the Exuma branch is planned to be closed by December 31, 2017.

The Bank is an agent for American Express and for MoneyGram.

2. Basis of preparation

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

2. Basis of preparation (continued)

(a) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern. The Bank has experienced continuing operating losses for the last several years and has an accumulated deficit at June 30, 2017 of \$140,498,322 (2016 - \$94,003,958).

As disclosed in Note 30, the Bank was non-compliant with certain of its externally imposed regulatory capital requirements as at June 30, 2017 and 2016.

Management has developed a strategic plan intended to improve the operations and financial viability of the Bank that will support the Bank's continuing ability to operate as a going concern.

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

As discussed in Note 33, subsequent to year end, the Bank transferred to Resolve (Note 13) loans with outstanding principal and accrued interest of \$162 million, and a net book value of \$49 million, in exchange for a \$162 million promissory note and recognized the difference of approximately \$113 million as special retained earnings. This transaction is expected to restore the Bank's regulatory capital ratios to compliance.

(b) New and amended standards and interpretations

The accounting policies adopted are consistent with those used in the previous financial year. The Bank has adopted the following amendments to the standards during the year. Adoption of these amendments did not have any effect on the financial performance or position of the Bank.

- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 16 and IAS 38 – Classification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-2014 Cycle

Standards issued but not yet effective

Up to the date of issue of these consolidated financial statements, the IASB has issued several amendments, new standards and interpretations that are not yet effective for the year ended June 30, 2017 and that have not been adopted in these consolidated financial statements. Those which may be relevant to the Bank but which have not been early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2017:

- Amendments to IAS 7 - Disclosure Initiative

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

2. Basis of preparation *(continued)*

(b) New and amended standards and interpretations *(continued)*

Standards issued but not yet effective *(continued)*

Effective for annual periods beginning on or after January 1, 2018:

- IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009) and IFRS 9 *Financial Instruments* (2013) (together IFRS 9)
- IFRS 15 Revenue from Contracts with Customers

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

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (Note 32) as at June 30, 2017 and 2016. Subsidiaries are entities controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee, 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
- The Bank's voting rights and potential voting rights

The Bank re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation. The financial statements of subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies.

(d) Change in accounting policy

During the prior year, the Bank made a change in accounting policy to align the general ledger classification of overdraft accounts with overdue interest of 90 days or more to the Bank's credit policy on causes of non-accrual, stating that they are to be classified as non-current overdrafts. This change had no effect on the consolidated financial position or results of operations for the current or corresponding reporting period.

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Bahamian Dollars)

3. Critical accounting judgments and key sources of estimation uncertainty

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Management evaluates such estimates on an ongoing basis based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances.

Property and equipment

Property and equipment are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management’s evaluations and assumptions may give rise to impairment losses in the relevant future periods. During the year ended June 30, 2017, the Bank recognized impairment losses of \$273,568 (Note 11) (2016: \$Nil).

Depreciation and amortisation

Depreciation and amortisation are based on management estimates of the future useful lives of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful lives and in the amortisation or depreciation charges. The Bank reviews the future useful lives of property and equipment and intangible assets periodically taking into consideration the factors mentioned above and all other important factors.

Estimated useful lives for similar types of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, and climate, among others. In case of significant changes in the estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

Impairment losses on loans and advances to customers and banks

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

Investments

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

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

Deferred loan fees

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

4. Summary of significant accounting policies

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

(a) Revenue and expense recognition

Interest and similar income and expense

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

Fee and commission income

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

Fee income earned from services that are provided over a certain period of time

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

Fee income from providing transaction services

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

(b) Cash and cash equivalents

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
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4. Summary of significant accounting policies *(continued)*

(c) Financial instruments

All financial assets and liabilities are initially recognised on the trade date, that is, the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Financial assets

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

(i) Loans and receivables

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

(ii) Held-to-maturity financial assets

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

(iii) Available-for-sale financial assets

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

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

(c) Financial instruments *(continued)*

Financial liabilities

The Bank's financial liabilities include deposits from customers and banks and other liabilities. Deposits from customers and banks represent demand and time deposits held by the Bank for the benefit of third parties, except as disclosed in Note 25. The deposits are carried at amortised cost.

(d) Impairment of financial assets

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level; and
- Economic conditions in The Bahamas.

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

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

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

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

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

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

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

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

Provision for loan losses

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

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

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Bahamian Dollars)

4. Summary of significant accounting policies (continued)

(d) Impairment of financial assets (continued)

Provision for loan losses (continued)

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

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

Renegotiated loans

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

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

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

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

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Bahamian Dollars)

4. Summary of significant accounting policies (continued)

(d) Impairment of financial assets (continued)

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

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

Held-to-maturity financial assets

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

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

(e) Derecognition of financial assets and financial liabilities

Financial assets

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

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

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

(e) Derecognition of financial assets and financial liabilities *(continued)*

Financial assets (continued)

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

Financial liabilities

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

(f) Foreign currency

The reporting and functional currency of the Bank is the Bahamian dollar (B\$). Transactions in foreign currencies are converted to B\$ at the rates of exchange prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are converted into B\$ at rates of exchange prevailing on the reporting date. Realized and unrealized foreign exchange gains and losses are included in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost or amortised cost are recorded at the exchange rate ruling at the date of transaction.

(g) Property and equipment

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
(Expressed in Bahamian Dollars)

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

(g) Property and equipment *(continued)*

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

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

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

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

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Provisions

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

(j) Related parties

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

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Bahamian Dollars)

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

(k) Employee benefits

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

The Bank operates an Employee Share Ownership Plan (“ESOP”) where the Bank matches employees’ share purchases up to 25%. The matching contributions vest over 5 years. The costs of the ESOP are charged to general administrative expenses.

(l) Earnings/(Loss) per share

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

(m) Fiduciary activities

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

(n) Taxes

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

(o) Investment property

Investment property, which is property that management intends to develop for rental purposes, is measured initially at cost, including transaction costs and thereafter it is stated at fair value based on an appraisal by a local real estate appraiser.

BANK OF THE BAHAMAS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Bahamian Dollars)

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

(o) Investment property *(continued)*

Additions to investment property are also recorded at cost. On an annual basis, the investment property is assessed for impairment with gains and losses arising from changes in the fair value of the investment property included in the consolidated statement of comprehensive income for the period in which they arise. The impairment assessment is based on fair values as determined by an independent appraisal performed every three years, and as determined by management in intervening years.

(p) 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 a maximum expected useful life of 10 years.

(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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and included in 'operating expenses', in the consolidated statement of comprehensive income.

(t) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated

BANK OF THE BAHAMAS LIMITED
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4. Summary of significant accounting policies (continued)

(t) Offsetting of financial instruments (continued)

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, 2017 and 2016, 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

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

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

5. Cash and cash equivalents

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas ("the Central Bank") of \$24,487,020 (2016: \$26,824,080). 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.

	2017	2016
Cash	\$ 10,623,566	\$ 10,045,505
Deposits with the Central Bank non-interest bearing (Note 25)	87,346,086	140,845,882
Due from banks	47,981,770	42,486,741
Cash and due from banks (Note 31)	145,951,422	193,378,128
Less: mandatory reserve deposits with the Central Bank	24,487,020	26,824,080
Cash and cash equivalents	\$ 121,464,402	\$ 166,554,048

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6. Investment securities

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

	2017	2016
Available-For-Sale		
Bahamas Registered Stock (Note 25)	\$ 23,079,946	\$ 13,194,500
Equity Securities	1,477,972	1,168,918
Debt Securities	3,000,000	3,000,000
	<u>27,557,918</u>	<u>17,363,418</u>
Held-To-Maturity		
Bahamas Registered Stock (Note 25)	13,698,100	13,698,100
Bridge Authority Bond (Note 25)	136,500	136,500
	<u>13,834,600</u>	<u>13,834,600</u>
Total investment securities	\$ 41,392,518	\$ 31,198,018

As at year end, government securities mainly comprise of Bahamas Registered Stock which are variable rate bonds tied to the Bahamian \$ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.30% to 5.50% per annum (2016: from 4.80% to 6.00% per annum) and scheduled maturities between 2017 and 2035 (2016: between 2016 and 2035).

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

	Available-for-sale	Held-to-maturity	Total
At July 1, 2015	\$ 17,252,784	\$ 14,294,500	\$ 31,547,284
Maturities	-	(459,900)	(459,900)
Net fair value gain (Note 18)	110,634	-	110,634
At June 30, 2016	\$ 17,363,418	\$ 13,834,600	\$ 31,198,018
At July 1, 2016	\$ 17,363,418	\$ 13,834,600	\$ 31,198,018
Additions	10,000,000	-	10,000,000
Net fair value gain (Note 18)	194,500	-	194,500
At June 30, 2017	\$ 27,557,918	\$ 13,834,600	\$ 41,392,518

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7. Loans and advances to customers, net

Loans and advances to customers are as follows:

	2017	2016
Mortgage residential loans	\$ 270,943,623	\$ 285,660,778
Mortgage commercial loans	55,487,291	67,634,900
Commercial loans	174,005,998	178,064,579
Consumer loans	68,629,640	50,302,933
Credit cards	1,295,620	2,009,501
Business overdrafts	5,094,803	6,344,992
Personal overdrafts	494,311	597,978
Government guaranteed student loans	6,885,517	6,988,774
	\$ 582,836,803	\$ 597,604,435

Loan loss provisions are as follows:

	2017	2016
Less: Provision for loan losses		
At beginning of year	\$ 94,836,742	\$ 72,441,789
Amount written-off	(4,195,126)	(2,104,053)
Net provision charged to expense	51,957,793	24,499,006
At end of year	142,599,409	94,836,742
Accrued interest receivable	7,887,520	7,116,460
Loans and advances to customers, net	\$ 448,124,914	\$ 509,884,153

	2017	2016
Specific Provisions		
Mortgage residential loans	\$ 42,566,985	\$ 28,410,287
Mortgage commercial loans	13,457,873	21,250,696
Commercial loans	73,428,754	28,483,255
Consumer loans	10,048,558	11,201,888
Credit and prepaid cards	145,356	590,952
	139,647,526	89,937,078
Portfolio assessment	2,951,883	4,899,664
	\$ 142,599,409	\$ 94,836,742

BANK OF THE BAHAMAS LIMITED

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Year ended June 30, 2017

(Expressed in Bahamian Dollars)

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

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

	2017	2016
Provisions as a percentage of the net loan portfolio	31.82%	18.60%
Provisions and equity reserves as a percentage of the net loan portfolio	32.71%	19.38%
Provisions and equity reserves as a percentage of non-accrual loans	59.36%	42.08%

Non-accrual (impaired) loans are as follows:

	2017	2016
Mortgage residential loans	\$ 84,794,684	\$ 82,222,789
Mortgage commercial loans	44,037,880	41,259,737
Commercial loans and overdrafts	103,494,244	92,869,464
Consumer loans and overdrafts	14,519,099	17,913,456
Credit cards	127,492	620,955
	\$ 246,973,399	\$ 234,886,401

Percentage of loan portfolio (net)	55.11%	46.07%
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Percentage of total assets	32.68%	27.52%
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During June 2016, the Bank termed out certain non-performing overdrafts to non-performing mortgage, commercial or consumer loans amounting to \$38 million.

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

		2017		2016	
		Value	No. of Loans and Overdrafts	Value	No. of Loans and Overdrafts
\$0	- \$ 10,000	\$ 6,238,443	5,199	\$ 7,431,095	5,572
\$10,001	- \$ 25,000	17,343,941	1,031	18,435,222	1,104
\$25,001	- \$ 50,000	26,856,894	738	23,788,118	668
\$50,001	- \$ 100,000	59,025,175	827	43,021,789	585
Over	\$ 100,000	473,372,350	1,430	504,928,211	1,508
		\$ 582,836,803	9,225	\$ 597,604,435	9,437

BANK OF THE BAHAMAS LIMITED
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Year ended June 30, 2017
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7. Loans and advances to customers, net (continued)

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

	2017	2016
In (\$000s)		
Mortgage residential loans		
Neither past due or impaired	\$ 160,862	\$ 176,848
Past due but not impaired	25,287	26,590
Impaired	84,795	82,223
	<u>\$ 270,944</u>	<u>285,661</u>
Mortgage commercial loans		
Neither past due or impaired	\$ 2,105	\$ 16,380
Past due but not impaired	9,344	9,995
Impaired	44,038	41,260
	<u>\$ 55,487</u>	<u>67,635</u>
Commercial loans and overdrafts		
Neither past due or impaired	\$ 51,493	\$ 70,980
Past due but not impaired	24,114	20,560
Impaired	103,494	92,869
	<u>\$ 179,101</u>	<u>\$ 184,409</u>
Consumer, GG student loans and overdrafts		
Neither past due or impaired	\$ 54,589	\$ 35,769
Past due but not impaired	6,901	4,208
Impaired	14,519	17,913
	<u>\$ 76,009</u>	<u>\$ 57,890</u>
Credit cards		
Neither past due or impaired	\$ 1,036	\$ 1,138
Past due but not impaired	133	250
Impaired	127	621
	<u>\$ 1,296</u>	<u>\$ 2,009</u>

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

BANK OF THE BAHAMAS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017

(Expressed in Bahamian Dollars)

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

2017, In (\$000s)	Principal	Restructured	Total
Mortgage residential loans	\$ 215,193	\$ 55,751	\$ 270,944
Mortgage commercial loans	37,504	17,983	55,487
Commercial loans and overdrafts	85,480	93,621	179,101
Consumer loans, GG student loans and overdrafts	71,846	4,163	76,009
Credit cards	1,296	-	1,296
	\$ 411,319	\$ 171,518	\$ 582,837

2016, In (\$000s)	Principal	Restructured	Total
Mortgage residential loans	\$ 235,607	\$ 50,054	\$ 285,661
Mortgage commercial loans	46,929	20,706	67,635
Commercial loans and overdrafts	93,394	91,015	184,409
Consumer loans, GG student loans and overdrafts	54,370	3,520	57,890
Credit cards	2,009	-	2,009
	\$ 432,309	\$ 165,295	\$ 597,604

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

2017						
In (\$000s)	Mortgage Residential	Mortgage Commercial	Commercial	Consumer	Credit Card	Total
Past due up to 29 days	\$ 13,100	\$ 373	\$ 17,375	\$ 3,540	\$ -	\$ 34,388
Past due 30 - 59 days	9,037	251	5,590	1,917	112	16,907
Past due 60 - 89 days	3,150	8,720	1,149	1,444	21	14,484
	\$ 25,287	\$ 9,344	\$ 24,114	\$ 6,901	\$ 133	\$ 65,779

2016						
In (\$000s)	Mortgage Residential	Mortgage Commercial	Commercial	Consumer	Credit Card	Total
Past due up to 29 days	\$ 16,439	\$ 699	\$ 7,121	\$ 1,574	\$ -	\$ 25,833
Past due 30 - 59 days	7,504	551	12,071	1,371	180	21,677
Past due 60 - 89 days	2,647	8,745	1,368	1,263	70	14,093
	\$ 26,590	\$ 9,995	\$ 20,560	\$ 4,208	\$ 250	\$ 61,603

BANK OF THE BAHAMAS LIMITED
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8. Non-current assets held for sale

During June 2017, management determined that land and building which were conveyed to the Bank's subsidiary, BOB Property Holdings Ltd., in December 2013 will be recovered principally through a sale transaction rather than through continuing use. Accordingly, this land and building have been reclassified from property and equipment to non-current assets held for sale in the consolidated statement of financial position as at June 30, 2017. Management committed to a plan to sell the assets and a sales agreement was signed on June 22, 2017. Impairment losses of \$273,568 for write-down of the assets to the lower of its carrying amount and its fair value less costs to sell have been included in other expenses (Note 22). The impairment loss has been applied to reduce the carrying amount of property, plant and equipment within the disposal group. At June 30, 2017, non-current assets held for sale were stated at fair value less costs to sell of \$925,000 and have been classified as Level 3 in the fair value measurement hierarchy. There is no cumulative income or expenses included in other comprehensive income relating to the assets held for sale.

9. Investment property

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

During the prior year, it was management's intention to construct a commercial office complex on this land: 30% of the complex to be used to house the Bank's headquarters and a retail branch, and the remaining 70% to be used for commercial rental. As a result, management had classified the portion of land that had been allocated for use as its headquarters as fixed assets in accordance with IAS 16: Property, Plant and Equipment and the portion of land that had been allocated for commercial rental as investment property in accordance with IAS 40: Investment Property.

During the current year, management has determined that the Bank no longer plans to construct on the 30% portion of this land for its headquarters and that having this land for capital appreciation is more in line with the Bank's strategic goals. As a result, this portion of land was reclassified from property and equipment to investment property, and as at June 30, 2017, the entire land property is accounted for in accordance with IAS 40: Investment Property.

During June 2017, 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 appraised value of \$6,463,000 was allocated to the investment property.

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

	2017	2016
Balance as at June 30, 2016	\$ 4,340,000	\$ 4,340,000
Reclassification (Note 11)	1,383,455	-
Revaluation gains (Note 21)	739,545	-
Balance as at June 30, 2017	\$ 6,463,000	\$ 4,340,000

BANK OF THE BAHAMAS LIMITED
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Year ended June 30, 2017
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9. Investment property (continued)

This investment property has been classified as Level 3 in the fair value measurement hierarchy and there were no transfers from or to Level 3 during the period. The fair value of the investment property is based on the appraisal value using the sales comparison approach where the average sales price approximated \$1,150,000 per acre.

Under the sales comparison approach, fair value is estimated using the assumption that title to the property is good and marketable and clear of any or all liens or encumbrances. All engineering is assumed to be correct and that there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. It is assumed that all applicable zoning, regulations and restrictions have been complied with and that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no trespass or encroachment.

10. Other assets

Other assets are comprised of the following:

	2017	2016
Prepaid assets	\$ 5,117,758	\$ 4,438,386
Accrued interest receivable (Notes 6 and 13)	1,203,235	1,109,385
Accounts receivables	1,004,605	328,187
Clearing in transit	870,847	117,705
Other assets	676,969	302,557
	\$ 8,873,414	\$ 6,296,220

Included in other assets is the Bank's investment in the Bahamas Automated Clearing House Limited in the amount of \$209,215 (2016: \$209,403).

Included in Clearing in transit is a debit balance for USD cheque clearing of \$ 1,076,517 (2016: \$920,677) with a provision for impairment loss of \$675,306 (2016: \$806,113).

BANK OF THE BAHAMAS LIMITED
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11. Property and equipment, net

The movement in property and equipment during the year is as follows:

	Land and Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost				
Balance as at June 30, 2015	\$ 5,011,815	\$ 6,560,683	\$ 10,669,886	\$ 22,242,384
Additions	-	-	67,241	67,241
Disposal	-	(225,080)	(59,257)	(284,337)
Transfers	-	204,308	(441,095)	(236,787)
Balance as at June 30, 2016	5,011,815	6,539,911	10,236,775	21,788,501
Additions	-	39,969	543,398	583,367
Reclassification (Note 8)	(2,464,000)	-	-	(2,464,000)
Reclassification (Note 9)	(1,383,455)	-	-	(1,383,455)
Balance as at June 30, 2017	\$ 1,164,360	\$ 6,579,880	\$ 10,780,173	\$ 18,524,413
Accumulated Depreciation				
Balance as at June 30, 2015	\$ 818,807	\$ 4,760,082	\$ 6,493,771	\$ 12,072,660
Depreciation (Note 22)	35,276	713,447	1,296,642	2,045,365
Disposal	-	(225,080)	(47,009)	(272,089)
Balance as at June 30, 2016	854,083	5,248,449	7,743,404	13,845,936
Depreciation (Note 22)	32,336	689,747	1,051,628	1,773,711
Disposal	-	-	-	-
Reclassification (Note 8)	(151,579)	-	-	(151,579)
Balance as at June 30, 2017	\$ 734,840	\$ 5,938,196	\$ 8,795,032	\$ 15,468,068
Accumulated Impairment				
Balance as at June 30, 2016 and 2015	\$ 1,113,853	-	-	\$ 1,113,853
Impairment loss (Note 22)	273,568	-	-	273,568
Reclassification (Note 8)	(1,387,421)	-	-	(1,387,421)
Balance as at June 30, 2017	\$ -	\$ -	\$ -	\$ -
Net book value:				
Balance as at June 30, 2017	\$ 429,520	\$ 641,684	\$ 1,985,141	\$ 3,056,345
Balance as at June 30, 2016	\$ 3,043,879	\$ 1,291,462	\$ 2,493,371	\$ 6,828,712

Land in the amount of \$44,565 (2016: \$1,997,495) is included in land and building.

Included as a part of property and equipment is work in progress and on which no depreciation has been charged in the amount of \$803,252 (2016: \$491,750).

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12. Computer software, net

	2017		2016	
At beginning of year	\$	1,498,596	\$	1,049,403
Additions		32,280		743,240
Amortisation (Note 22)		(504,296)		(530,834)
Transfers		-		236,787
At end of year	\$	1,026,580	\$	1,498,596

13. Notes receivable 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 certain of its non-performing loans to Resolve, resulting in the following:

- Non-performing loans with a face value of \$100 million and a net book value of approximately \$45 million were derecognized.
- \$100 million in unsecured promissory notes (the “Notes”) were received for the non-performing loans and was recognized as an asset.
- The net difference of approximately \$55 million between the Notes received and the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank’s regulatory capital.
- The Bank has transferred all of its rights relating to the non-performing loans to Resolve and the Bank 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 Notes. Further, the Bank will not be providing any form of future direct or indirect financing to the customers and loans 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 support of Resolve to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.

BANK OF THE BAHAMAS LIMITED
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13. Notes receivable and special retained earnings *(continued)*

The Notes may not be redeemed prior to October 30, 2016. After such date, redemption may be made at any time prior to maturity in whole or from time to time in part at Resolve's option. The notes have a final maturity date of October 30, 2024. No redemptions were made in 2016 or 2017. As more fully described in Note 33, the notes became subject to early retirement between August 2017 and May 2018.

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

As at June 30, 2017, accrued interest receivable amount to \$625,000 (2016: \$708,333).

14. Deposits from customers and banks

Deposits from customers and banks are as follows:

	2017	2016
Term deposits	\$ 349,008,544	\$ 488,829,556
Demand deposits	229,270,391	202,988,625
Savings accounts	82,919,241	69,056,085
	661,198,176	760,874,266
Accrued interest payable	2,705,531	3,478,648
	\$ 663,903,707	\$ 764,352,914

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

		2017		2016	
		Value	No. of Deposits	Value	No. of Deposits
\$0	- \$ 10,000	\$ 32,608,505	58,970	\$ 27,763,617	50,101
\$10,001	- \$ 25,000	23,165,786	1,515	20,802,842	1,344
\$25,001	- \$ 50,000	23,121,634	655	20,489,385	588
\$50,001	- \$100,000	28,768,068	424	27,474,158	404
Over	\$100,000	553,534,183	626	664,344,264	620
		\$ 661,198,176	62,190	\$ 760,874,266	53,057

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$164,685 (2016: \$188,495) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of \$50,000.

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15. Other liabilities

Other liabilities consist of the following:

	2017	2016
Accounts Payable	\$ 6,944,257	\$ 2,017,806
Other Liabilities	4,024,017	4,171,070
Clearing in transit	1,052,750	837,893
Cardholders Liability	5,094,899	6,726,407
Cheques and other items in transit	5,051,975	5,077,822
	<u>\$ 22,167,898</u>	<u>\$ 18,830,998</u>

16. Share capital

Share capital at par value consists of the following:

	2017	2016
Authorized:		
45,000 preference shares of B\$1,000 each (2016: 45,000)	\$ 45,000,000	\$ 45,000,000
105,000,000 Ordinary shares (voting) of B\$1 each (2016: 105,000,000)	105,000,000	105,000,000
10,000,000 Ordinary shares (non-voting) of B\$1 each (2016: 10,000,000)	10,000,000	10,000,000
	<u>\$ 160,000,000</u>	<u>\$ 160,000,000</u>
Issued and fully paid:		
20,815.99 preference shares of B\$1,000 each (2016: 24,215.99)	\$ 20,815,990	\$ 24,215,990
36,936,549 Ordinary shares (voting) of B\$1 each (2016: 15,364,979)	36,936,549	15,364,979
6,022,945 Ordinary shares (non-voting) of B\$1 each (2016: 6,022,945)	6,022,945	6,022,945
Treasury shares		
235,021 issued previously at B\$1 each (2016: 235,021)	235,021	235,021
	<u>\$ 64,010,505</u>	<u>\$ 45,838,935</u>

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16. Share capital (continued)

Ordinary shares

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

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

During the period from September 6 - 12, 2016, the Bank entered into an ordinary shares rights offering for an aggregate amount of \$40 million for 14,814,814 ordinary voting shares. For each 1.44 ordinary shares held as at record date of September 5, 2016, shareholders had the right to purchase an additional 1 share. At the end of the offer period, the Government subscribed for the majority of the offering, and the Bank issued a total of \$39,517,333 in voting shares to its shareholders at a price of \$2.70 per share. Costs totaling \$482,667 related to this ordinary share offering were netted against the proceeds 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 ordinary voting shares at a price of \$1.48 per share which resulted in additional share premium of \$3,243,244.

Preference shares

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

During the year, \$3,400,000 (2016: \$3,400,000) of preference shares were redeemed.

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16. Share capital (continued)

Class B Ordinary shares

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

17. Treasury shares

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at that time was 3,855 for \$30,244, maintained until June 30, 2010. During 2011 and 2013, the Bank's Board of Directors approved the repurchase of \$750,000 and \$750,000 respectively of the Bank's own shares. The implementation of the share repurchase plan is a strategy to enhance the shareholder value to existing shareholders. There were no repurchase of shares during fiscal 2017 and 2016.

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

	No. of Shares	Value
Balance as at June 30, 2017 and 2016	235,021	\$ 1,318,224

18. Reserves

Reserves are comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date and regulatory credit reserves for loan loss provisions. In circumstances where the Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is accounted for as an appropriation of retained earnings and is included in a non-distributable regulatory credit reserve in retained earnings. Banking regulations of the Central Bank require a general provision in respect of the Bank's loans of at least 1%. As of June 30, 2017, the regulatory credit reserves amount to \$4,000,000 (2016: \$4,000,000).

Reserves were comprised of:

	2017	2016
Net gain on remeasurement of available-for-sale securities	\$ 1,140,730	\$ 946,230
Regulatory credit reserves allocated from retained earnings	4,000,000	4,000,000
	\$ 5,140,730	\$ 4,946,230

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18. Reserves (continued)

Movement in reserves for the year was as follows:

	2017		2016	
Balance, beginning of year	\$	4,946,230	\$	4,835,596
Fair value gains, net during the year (Note 6)		194,500		110,634
Balance, end of year	\$	5,140,730	\$	4,946,230

19. Net interest income

	2017		2016	
Interest and similar income				
Cash and short term investments	\$	123,869	\$	73,324
Investment securities		1,764,457		1,423,733
Notes receivable		4,000,000		4,250,000
Loans and advances to customers		32,942,582		34,262,088
		38,830,908		40,009,145
Interest and similar expense				
Banks and customers		(12,294,233)		(15,672,224)
Total net interest income	\$	26,536,675	\$	24,336,921

20. Fees and commission income and expense

	2017		2016	
Card services fees and commissions	\$	2,890,773	\$	2,627,865
Deposit services fees and commissions		2,832,583		2,636,528
Credit services fees and commissions		690,938		193,783
Other fees and commissions		504,851		428,479
Total fee and commission income	\$	6,919,145	\$	5,886,655

Included in total fee and commission expense are fines and penalties paid to the Central Bank of The Bahamas for administrative monetary penalties and secondary reserve breaches of \$228,829 (2016: \$273,847).

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21. Other operating income

	2017	2016
Foreign exchange	\$ 2,161,066	\$ 2,016,364
Other	749,564	2,043,026
Revaluation gain on investment property (Note 9)	739,545	-
Total other operating income	\$ 3,650,175	\$ 4,059,390

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

22. Operating expenses

	2017	2016
Staff costs	\$ 16,279,377	\$ 16,739,267
Licenses and other fees	4,567,787	4,263,702
Occupancy	3,506,103	3,596,804
Information technology	1,999,630	1,854,408
Other administrative expenses	1,311,771	1,516,400
Advertising, marketing and donations	481,894	505,047
Telecommunication and postage	367,342	420,957
Travel and entertainment	179,109	254,728
Impairment losses (Note 11)	273,568	806,113
Operating expenses	\$ 28,966,581	\$ 29,957,426
Depreciation of property and equipment (Note 11)	\$ 1,773,711	\$ 2,045,365
Amortisation of software (Note 12)	504,296	530,834
Depreciation and amortisation	2,278,007	2,576,199
Total operating expenses	\$ 31,244,588	\$ 32,533,625

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.

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23. Contingencies *(continued)*

Legal claims

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

24. Commitments

The approximate minimum rental commitments (exclusive of the effect of escalation clauses as to taxes, maintenance, etc.) under operating leases for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
No later than 1 year	\$ 502,430	\$ 735,951
Later than 1 year and no later than 5 years	670,865	1,224,976
Total	\$ 1,173,295	\$ 1,960,927

Rental expense (including service charges) totaled \$1,825,470 (2016: \$1,833,239) and is included in occupancy costs within operating expenses (Note 22).

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

The commitments for loans and advances at June 30, 2017 were \$7,455,948 (2016: \$8,745,926).

The Bank has a commitment for future capital expenditure of \$53,556 (2016: \$97,198).

The Bank has letters of credit and guarantees outstanding of \$1,215,503 (2016: \$1,095,900).

25. Transactions and balances with related parties

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2017 (2016: Nil). No provision expense has been recognised in these consolidated financial statements on loans to related parties.

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25. Transactions and balances with related parties (continued)

	Government	Other Government Entities	Key Management	Total 2017	Total 2016
Assets					
Deposits with the Central Bank (Note 5)	\$ -	\$ 87,346,086	\$ -	\$ 87,346,086	\$ 140,845,882
Investment securities (Note 6)	36,914,546	-	-	36,914,546	27,029,100
Loans and advances to customers	50,557	3,168,151	\$1,535,224	4,753,932	5,754,336
Notes receivable (Note 13)	-	100,000,000	-	100,000,000	100,000,000
Other assets	576,484	625,000	-	1,201,484	1,107,885
Liabilities					
Deposits from customers and banks	\$ 73,943,336	\$ 174,060,409	\$ 522,496	\$ 248,526,241	\$ 403,931,534
Other liabilities	-	3,210,721	-	3,210,721	3,349,533
Revenues					
Interest Income	\$ 1,728,247	\$ 4,323,079	\$ 70,640	\$ 6,121,966	\$ 5,920,214
Total	\$ 1,728,247	\$ 4,323,079	\$ 70,640	\$ 6,121,966	\$ 5,920,214
Expenses					
Interest Expense	\$ 1,824,652	\$ 4,659,834	\$36,446	\$ 6,520,932	\$ 9,021,328
Directors fees	-	-	208,544	208,544	275,000
Other operating expenses	3,620,529	-	-	3,620,529	3,685,627
Short-term employee benefits	-	-	1,546,007	1,546,007	1,896,127
Pension expense	-	-	81,594	81,594	97,089
Termination benefits	-	-	26,012	26,012	69,686
Total	\$ 5,445,181	\$ 4,659,834	\$ 1,898,603	\$ 12,003,618	\$ 15,044,857

The Government paid \$117,683 in director fees.

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 assets are managed by an independent third party investment manager. Contributions for the year ended June 30, 2017 totaled \$645,373 (2016: \$681,680).

As at June 30, 2017, the Plan owns 152,986 (2016: 154,986) shares of the Bank. The holdings represent approximately 2.55% (2016: 8.72%) of the Plan's net assets.

As at June 30, 2017, the Plan has deposits totaling \$215,759 (2016: \$341,417) with the Bank.

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

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27. Assets under administration

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

	2017	2016
Government guaranteed student education loans	\$ 67,875,134	\$ 70,771,304
Government guaranteed hurricane relief loans	\$ 41,785,536	-
Trust assets	\$ 102,364,827	\$ 122,255,987

During the period, the Bank recognised fees totaling \$165,092 (2016: \$171,364) for the administration of the Government Guaranteed Student Loans program and \$510,900 (2016: \$Nil) for the administration of the Government Guaranteed Hurricane Relief Loans program.

28. Dividends and loss per share

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

Due to the Bank's accumulated deficit position, commencing July 2014 the Government in its capacity as the major shareholder of the Bank agreed to deploy a part of its treasury deposits directly to the paying agent for semi-annual disbursements to the preference shareholders. During the year ended June 30, 2016, a total of \$1,846,000 was paid in respect of the preference dividends. There is no obligation for the Bank to repay the amount remitted. For the year ended June 30, 2017 the Government discontinued the semi-annual disbursements to the preference shareholders.

	2017	2016
Net loss attributable to ordinary shareholders	\$ (46,494,364)	\$ (23,406,635)
Weighted average number of ordinary shares outstanding	32,527,693	21,387,924
Basic loss per ordinary share	\$ (1.43)	\$ (1.09)

29. Fair value of financial assets and liabilities

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

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

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

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

As of June 30, 2017 the Bank held equity securities classified as available-for-sale totaling \$1,477,972 (2016: \$1,168,918) which have been valued as a Level 1 investment. All other available-for-sale investments totaling \$26,079,946 (2016: \$16,194,500) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy. Non-currents asset held for sale and investment property has been classified as Level 3 (Notes 8 and 9).

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

Loan and advances to customers

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

Deposits

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

Non-currents asset held for sale

The estimated fair value of non-currents assets held for sale is based on a sales transaction. The fair value of non-currents assets held for sale reflects the market conditions at the date of the consolidated statement of financial position.

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

Investment property

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

30. Regulatory capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank. As at June 30, 2017 and 2016, as a result of the significant loan loss provisions recognised since prior and during the current fiscal years and the subsequent effects on retained earnings and the Bank's equity, the Bank was non-compliant with certain of its externally imposed capital ratio requirements.

Capital risk management

The primary objectives of the Bank's capital management are to comply with externally imposed capital requirements, maintain strong capital ratios to support its business and to maximize 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 maximize the return for shareholders. The Bank utilizes a balance of equity and debt issuances to achieve an ideal capital structure.

At June 30, 2017 and 2016, the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares, special retained earnings and accumulated deficit. Ongoing capital management includes the payment of dividends, common share issuances, redemption of preference shares, maintenance of reserves and special retained earnings.

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30. Regulatory capital (continued)

Capital risk management (continued)

(in \$'000s)	2017	2016
Tier 1 capital	\$ 36,925	\$ 33,430
Tier 2 capital	27,038	31,292
Total capital	\$ 63,963	\$ 64,722
Risk weighted assets	\$ 461,789	\$ 554,813
CET1 must be at least 9.6% (2016: 9.6%) of		
Total Risk Weighted Assets	8.0%	6.0%
Total Tier 1 Capital must be at least 12.8% (2016: 12.8%) of		
Total Risk Weighted Assets	8.0%	6.0%
Total Capital must be at least 18.0% (2016: 17.0%) of		
Total Risk Weighted Assets	13.9%	11.7%
CET1 must be at least 75% (2016: 75%) of		
Total Tier 1 Capital	100.0%	100.0%
Total Tier 1 Capital must be a minimum of 75% (2016: 75%) of		
Total Tier 1 Capital	57.7%	51.7%

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

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

As of June 30, 2017 and 2016, the Bank was not in compliance with regulatory minimum requirements for the following ratios primarily due to the significant net losses recorded by the Bank and the consequential accumulated deficit position:

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

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

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

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31. 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 notes receivable as low, as the interest and principal sum is payable by Bahamas Resolve Limited ("Resolve"), which is a company wholly owned and controlled by the Government. An impairment analysis is performed at each reporting date by assessing the Government's ability to make the interest payments due on the Note, given that the Government has undertaken to support Resolve as more fully described in Note 13.

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 collateralized and guaranteed, thus providing further mitigation of credit risk.

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

The credit worthiness of most borrowers is not constant over 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. 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.

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31. Risk management (continued)

Credit risk (continued)

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

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

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

In (\$000s)	2017	2016
Cash and due from banks		
Neither past due or impaired	\$ 145,951	\$ 193,378
Investment securities		
Neither past due or impaired	\$ 41,393	\$ 31,198
Loans and advances to customers		
Neither past due or impaired	\$ 270,085	\$ 301,115
Past due but not impaired	65,779	61,603
Impaired	246,973	234,886
	\$ 582,837	\$ 597,604
Notes receivable		
Neither past due or impaired	\$ 100,000	\$ 100,000

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

Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently, the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to

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31. Risk management (continued)

Foreign exchange risk (continued)

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, 2017 and 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

(in \$000s)	2017					
	BS	US\$	CAD\$	GBP£	Other	Total
Assets						
Cash and central bank balances	\$ 93,486	\$ 51,166	\$ 310	\$ 2	\$ 987	\$ 145,951
Financial assets - available for sale	23,080	4,478	-	-	-	27,558
Financial assets - held to maturity	13,835	-	-	-	-	13,835
Loans and advances, net	435,578	12,547	-	-	-	448,125
Notes receivable	100,000	-	-	-	-	100,000
Total financial assets	\$ 665,979	\$ 68,191	\$ 310	\$ 2	\$ 987	\$ 735,469
Liabilities						
Deposits from customers and banks	\$ 629,704	\$ 33,363	\$ 427	\$ 35	\$ 375	\$ 663,904
Cheques and other items in transit	3,384	1,462	116	88	2	5,052
Total financial liabilities	\$ 633,088	\$ 34,825	\$ 543	\$ 123	\$ 377	\$ 668,956
Net financial position	\$ 32,891	\$ 33,366	\$ (233)	\$ (121)	\$ 610	\$ 66,513
2016						
(in \$000s)	BS	US\$	CAD\$	GBP£	Other	Total
Total financial assets	\$ 769,046	\$ 63,367	\$ 701	\$ 81	\$ 1,265	\$ 834,460
Total financial liabilities	738,703	29,638	608	125	357	769,431
Net financial position	\$ 30,343	\$ 33,729	\$ 93	\$ (44)	\$ 908	\$ 65,029

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.

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31. Risk management *(continued)*

Interest rate risk

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

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 \$0.7 million (2016: \$1.3 million).

Liquidity risk

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

The following tables summarize the carrying amount of consolidated financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The actual maturity dates could be significantly different from the amounts in the table.

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31. Risk management (continued)

Liquidity risk (continued)

2017					
(in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	\$ 142,640	\$ 3,311	\$ -	\$ -	145,951
Investment securities	65	3,244	9,952	28,132	41,393
Loans and advances to customers, net	3,355	7,236	48,112	389,422	448,125
Notes receivable	-	-	-	100,000	100,000
Total financial assets	\$ 146,060	\$ 13,791	\$ 58,064	\$ 517,554	\$ 735,469

2017					
(in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	\$ 475,631	\$ 145,815	\$ 26,625	\$ 15,833	663,904
Cheques and other items in transit	5,052	-	-	-	5,052
Total financial liabilities	\$ 480,683	\$ 145,815	\$ 26,625	\$ 15,833	\$ 668,956
Net position	\$ (334,623)	\$ (132,024)	\$ 31,439	\$ 501,721	\$ 66,513

2016					
(in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	\$ 249,023	\$ 6,431	\$ 66,896	\$ 512,110	834,460
Total financial liabilities	565,917	156,062	30,520	16,932	769,431
Net position	\$ (316,894)	\$ (149,631)	\$ 36,376	\$ 495,178	\$ 65,029

BANK OF THE BAHAMAS LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017
 (Expressed in Bahamian Dollars)

32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2017 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
Bank of The Bahamas Trust Ltd.	Commonwealth of The Bahamas	100%	Trust Company
BAHTCO Holdings Ltd.	Commonwealth of The Bahamas	100%	Nominee Holding Company
BOB Property Holdings	Commonwealth of The Bahamas	100%	Property Holding

33. Subsequent events

On August 31, 2017, Resolve purchased loans from the Bank at a price equivalent to the gross book value of those loans before provisions. This transaction consists of three tranches, with the first tranche effective August 31, 2017, the second tranche effective September 18, 2017 and the third tranche to be completed during November 2017. The results of tranches 1 and 2 are as follows:

- A portfolio of non-performing loans with principal amount of \$131 million and accrued interest receivable of \$31 million, with a total net book value of approximately \$49 million were derecognized.
- \$162 million in unsecured promissory notes (the "Notes") was received for these loans and was recognized as an asset. The remaining \$5.7 million from the total \$167.7 million notes will be recognised during the third tranche.
- The net difference of approximately \$113 million between the Notes received and the net book value of the derecognised assets was recognized directly in equity as Special Retained Earnings and is considered to be a part of the Bank's regulatory capital.
- The Bank has transferred all of its rights and obligations relating to the non-performing loans to Resolve without recourse and will have no rights to future cash flows from the non-performing loans.
- As a part of the transaction, the Bank received an irrevocable Letter of Support from the Government. The Letter of Support pledged the Government's support of Resolve to enable it to satisfy its obligations under the Notes and confirms that, in the event of default by Resolve, the Bank can seek to recover outstanding balances from the Government.
- The Notes bear fixed interest at 3.5%, payable semi-annually on the 28th day of February and the 31st day of August, commencing in 2018.
- It is expected that this transaction will restore all of the Bank's regulatory capital ratios to compliance.

In addition, the Government has agreed to redeem the entire \$100 million of the promissory notes from the first Resolve transaction (Note 13) between August 2017 to May 2018. The first \$50 million principal redemption was made on August 31, 2017.

NOTES



Bank of The Bahamas
L I M I T E D

Together

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Straw Photos provided by
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