# STRENGTH

Bank of The Bahamas
LIMITED

2009 Annual Report

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## Bank of The Bahamas Limited Annual Report 2009



Bank of The Bahamas
INTERNATIONAL

# STRENGTH

**The ability to succeed by not submitting to the temptation to fail.**

**The concept of strength is a paradox.**

Strong implies independence. It connotes power. Yet the reality is that strength is meaningless as an independent entity for it can only be calculated when tested by a counterforce.

Take everyday examples. The strength of a tree to withstand a storm, the strength of a roof to survive a Category 4 hurricane, the strength of an immune system to fight a cold. Tangible or intangible, the principle of strength is resistance—power to resist force.

The strength of a dollar is only meaningful when measured against another currency or gold. The strength of a material can only be detected when tensile, compression or shear force is mounted against it, when it is stressed.

The strength of friendship, the strength of marriage, the strength of a person's beliefs—unnoticed unless tested.

Never has the strength of more economic factors and financial principles been tested more than in the last year with the freefall of the global economy.

During the year, we in The Bahamas watched partly on the sidelines, partly in the ring as the strength of financial markets was sorely tested elsewhere. We saw what job loss and a crumbling housing market did to so many hard-working people in the U.S. Just recently, we saw strength begin to rebuild as bailed-out banks loosened their death grip on credit and lending. Those whose job it was to monitor the system said certain banks had passed their stress test.

Throughout recent months, the banking community in The Bahamas showed its strength, holding its own against outside economic forces, including sliding visitor numbers that impacted the country's main economic engine, tourism. Bank of The Bahamas is proud to be part of such a strong banking community and pleased to bring you this Annual Report 2009 dedicated to the strength it takes to face challenge head on, re-align accordingly and move resolutely ahead with conviction of purpose and determination to succeed.

We can say that we are strong because of our standards, or because of our locations, or because of our history, or because of our assets, our vision, our awards. But our real strength lies in our people and so it is to them that we dedicate this annual report—to the 341 persons who work in every aspect of Bank of The Bahamas from those who open the doors to greet customers with a smile to those upon whose shoulders decisions affecting shareholder value rests.

Just as we thank our shareholders and our customers for their trust and pledge to earn it with every transaction, we thank the staff of Bank of The Bahamas and our branches from San Salvador in the south to Coral Gables in Florida. They are our strength.

## MISSION STATEMENT

To be the institution of first choice in the provision of financial services through the proficient delivery of customer friendly products and services, supported by innovative business and technological solutions, and driven by a team of astute and dedicated professionals.

## OBJECTIVES

- To become a one-stop financial service provider
- To achieve strategic integration throughout the Americas
- To create commercially viable synergies with dependent business sectors
- To establish a healthy, wholesome and opportunity-filled work environment for employees
- To maintain the highest level of fiscal and regulatory standards and best practices
- To provide intrinsic value for shareholders by becoming the unique provider of financial support services at the local level

# Board of Directors


Macgregor Robertson


Paul J. I. McWeeney


Marvin V. Bethell


Patricia Hermanns


Patrick Ward


Robert D. L. Sands


Ruth Bowe-Darville


Ruth Millar


Wesley J. Bastian


Hartis Pinder


Dr. Pandora Johnson

### Macgregor Robertson – Chairman

A founding partner of the firm that evolved into Deloitte and Touche, Mr. Robertson served as its Managing Partner for The Bahamas and Caribbean until 2004. He is a member of both the Nova Scotia Institute and Canadian Institute of Chartered Accountants.

### Paul J. I. McWeeney

Starting his career at Chase Manhattan, N.A., Mr. McWeeney has more than 27 years experience in the financial services industry. Joining Bank of The Bahamas in 1993, he was appointed Managing Director in 2001.

### Marvin V. Bethell

Currently the Managing Director of J.S. Johnson, Mr. Bethell has 39 years experience in the insurance industry. He is a Fellow of the Chartered Insurance Institute, London England as well as a Chartered Insurance Practitioner.

### Patricia Hermanns

President and CEO of Family Guardian Insurance Company and President of its parent company FamGuard Ltd., Mrs. Hermanns holds an MBA from the University of Miami. Before joining the insurance industry she gained broad experience in the local and offshore banking sectors. She currently sits on the board of the Governor General's Youth Award.

### Patrick Ward

President and CEO of Bahamas First Holdings Ltd., Mr. Ward has more than 23 years experience in the insurance industry. Achieving his MBA with honours in 1994 from the University of Miami, Mr. Ward also serves as Chairman of the National Insurance Board.

### Robert D. L. Sands

Mr. Sands is the Senior Vice President of Administration and External Relations at Baha Mar Resorts Ltd. The former chairman of the Bahamas Hotel Association, Mr. Sands has been a Director of the Bank since December 2002 and is also an active member and supporter of many community boards and projects.

### Ruth Bowe-Darville

Currently Managing Partner at Commonwealth Law Advocates, formerly known as The Law Partnership/Bannister and Co., Mrs. Bowe-Darville was called to the Bahamian Bar in 1985. Currently President of the Bahamas Bar Association, Mrs. Darville also serves as a tutor at the Etienne Dupuch Law School.

### Ruth Millar

A former Hospital Administrator and Deputy Permanent Secretary in the Ministries of Health and Housing, Mrs. Millar was appointed to the office of Financial Secretary in 1994, a position that she has now retired from. She also holds an MBA from the University of Miami.

### Wesley J. Bastian

Mr. Bastian began his professional career at the Bank of Nova Scotia in 1966. Since 1997, he has been the Managing Director of Sewma Holdings Ltd. Real Estate and Subway Sandwiches & Salads Ltd. Mr. Bastian is also a Director on the Board of Security & General Insurance Company and the Chairman of the St. Joseph's Parish Finance Council.

### Hartis Pinder

Mr. Pinder was admitted to the Bahamian Bar in 1972, and currently serves as a partner at Mckinney, Bancroft and Hughes. Previously the Chairman of the Real Property Tax Appeals Tribunal for The Bahamas, Mr. Pinder has also served as a lecturer in the law of Real Property for the Bahamas Bar Association.

### Dr. Pandora Johnson

Dr. Pandora Johnson is the Vice President for Outreach at The College/University of The Bahamas. A seasoned educator, she studied Politics and International Relations at the undergraduate level and Educational Administration at the graduate level.


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# History of Bank of The Bahamas

**Strength is the ability to break a chocolate bar into four pieces with your bare hands... and then eat just one of those pieces.**

**— Judith Viorst**

Since its creation through the acquisition of an established Canadian bank in 1988, Bank of The Bahamas has grown from $90 million in assets to over $758 million as of June 30, 2009, from a single location to 13, from serving one island to a presence on seven, from providing the most basic of retail banking services to the most comprehensive of financial solutions. Share value stands at $6.94 as of June 30, 2009. In less than a decade, shareholder equity has mushroomed from $19 million in 2000 to $114 million by 2009.

Bank of The Bahamas Limited's record of firsts, highlighted throughout this report, includes first to provide trust services for Bahamians, first to offer full, comprehensive online banking complete with cheque imaging, first to comply with Check 21 Procedures using electronic images to clear U.S. dollar deposits in three days, first to offer VISA pre-paid and gift cards, first to host a major mortgage fair attracting thousands and first to launch a unique VISA card for medical services with negotiated rates enabling cardholders to benefit from reduced cost medical care at top facilities in The Bahamas and South Florida.

In 2007, it became the first Bahamian bank with a financial services centre in Florida where Bahamians who do business there every day are able to do so with greater efficiency and ease.

In 2007 and again in 2008, it was the first—and remained the only—publicly-held Bahamian company to produce an annual report on CD.

From the start, Bank of The Bahamas did not just operate. It changed the domestic banking landscape.

From out of the box thinking to over the top training, from searching for opportunities to acquisition of expertise, the bank has taken its unlikely beginnings into new fields of exploration and along the way lived up to its original belief—that what really sets one financial institution apart from another is people. How staff feel, how customers feel. Banking, it's not just about money, it's about people—and it has been since the beginning.

## The Beginning

The Bank was incorporated in The Commonwealth of The Bahamas on April 17, 1970 as Bank of Montreal (Bahamas & Caribbean) Limited. In 1983, its name was changed to Bank of Montreal Bahamas Limited. 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, which was appropriately renamed Bank of The Bahamas Limited.

**There are two ways of exerting one's strength, one is by pushing down, the other is by pulling up.**

**— Booker T. Washington**

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.

## Today, the Bank's Shareholder base exceeds 4,000 private and corporate Bahamian investors.

The Bank continued to experience extraordinary success as it was able to announce an oversubscribed rights offering of $25 million in late 2005 and a subsequent $15 million private placement preference share offering in 2006. Since then and through the end of the fiscal 2009 year, the Bank has had several private placement offerings in order to sustain growth. Each offering was almost immediately over-subscribed, including the most recent offering of $20 million which sold out in 48 hours despite the economic climate, reaffirming public trust in the Bank. The Authorized Capital of the Bank is at 15,600,000 Shares of B$1 par value.

By expanding its Capital and continuously upgrading services and products, the Bank has steadily pioneered the way financial business is conducted in The Bahamas.

### Growing service by service

The bank provides retail and commercial services. Its full range of products includes deposit accounts, credit, commercial and residential mortgages, Trust and fiduciary services and foreign exchange. It has strengthened its relationship with American Express, becoming the exclusive representative of American Express membership, MoneyGram, pre-paid VISA cards, cheque imaging for online banking and most recently it has been recognized as the first bank to offer three day clearance of U.S. dollar deposits.

Because of its commitment to help grow the economy and a growing international client base, it has become known as:

## The Bahamian Bank with the Broadest Reach

In September 2000, it launched a wholly-owned subsidiary, Bank of The Bahamas Trust Limited, becoming the first financial services center to offer trust services for Bahamians. Trust services have subsequently been assumed by the Private Banking and Trust division that was launched a few years later. The Bank also provides related fiduciary functions, including estate management for local residents and citizens as well as company incorporation.

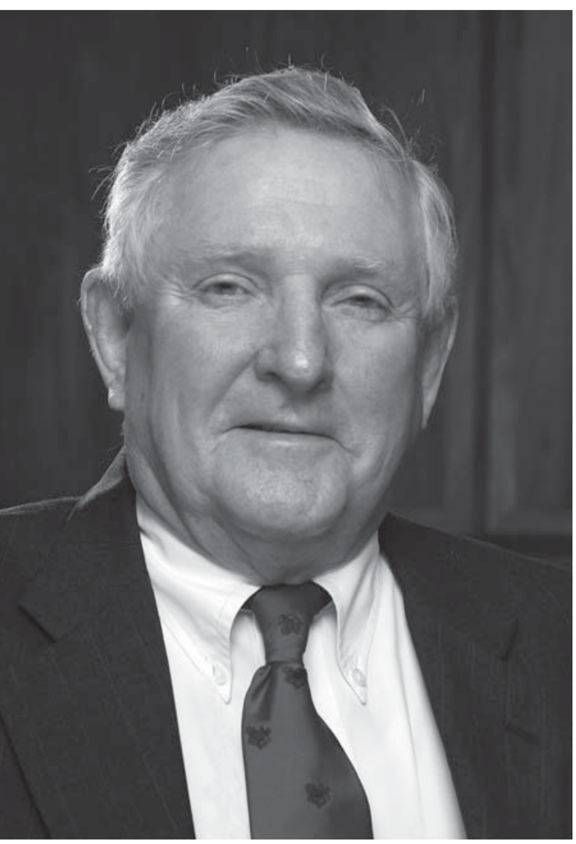
In 2001, the Bank acquired the business assets of Workers Bank Limited, increasing its branches in New Providence to four. Again, as it had at its creation, it offered employment to all who had been part of the acquired bank.

When the trading name Bank of The Bahamas International, and new logo, was introduced in 2002 to reflect the expanding direction of the institution, it marked one of many milestones in a history of notable changes.

In 2005, the Bank hosted an Incredible Dream Mortgage Fair, the first of its kind in the nation. The fair was a success, resulting in a doubling of the Bank's loan portfolio.

In 2006, the Bank embarked on a multimillion technology investment that will completely overhaul the back end of data entry and storage and enable Bank of The Bahamas to provide the best possible business solutions with ongoing real time analysis.

# Letter to Shareholders



**Macgregor Robertson, Chairman of the Board**

I am pleased to report that the Bank is weathering the worldwide financial storm quite well. Net income of $5.8 million is flat compared to last year but in current economic circumstances a net profit is equivalent to success.

On behalf of the Board, I wish to thank the management team and our staff throughout The Bahamas and Florida for their efforts during what has been a demanding year. They have remained focused on quality service and customer relationships and the Board is most appreciative of their efforts.

While The Bahamas' economy continues to feel the effects of the worldwide recession and we remain vigilant in our determination to meet and immediately deal with any inherent dangers. I believe that our continued prudent lending practices combined with our focus on new and innovative products will allow us to mitigate the risks and keep the Bank profitable and growing.

In closing, I must thank my fellow Board members for their support, good counsel and commitment both in the various committee meetings and at our quarterly Board meetings. This Board is committed to sound corporate governance practices, with particular reference to the management of risk in these trying times and to strict adherence to Central Bank guidelines and regulations.

Macgregor Robertson,
Chairman of the Board

# Executive Statement

**Paul J. I. McWeeney**
**Managing Director**


In his thoughtful and thought-provoking book, *The World is Flat*, *New York Times* Pulitzer Prize-winning columnist Thomas L. Friedman describes a future in which success is fuelled by those who grasp and harness the unlimited strength of technology. Individuals, companies and nations who pounce on the power of the Internet, use it for data collection, distribution and sales, understand the appetites of clients not around the block but around the world, realise it is just as easy to sell dog food through dogfood.com as it is through Publix, will become the 21st century captains of industry. Stretched across 450 fact-packed pages, Friedman argues the go-getter of the future may be as singular as an individual working in a basement or as great as a nation like India which understands that technology is to tomorrow what the factory was to the mid-19th century. The world is flat, not from a geophysical standpoint, but because the information available and the ability to use and transfer it is levelling the playing field around the globe.

The book is important because it is a comprehensive collection of irrefutable evidence that the way business is done is changing before our very eyes and those companies who cling to the past will have the past as their epitaph. Successful companies will move forward carving out a legacy; unsuccessful companies will fade away with a eulogy on the Business pages.

The book is important, too, because it encapsulates the vision of Bank of The Bahamas. Last year, on these pages, we talked of a synergistic force, of the energy that propelled the Bank along a five-year strategic plan that enabled us to double our growth in four years. This year, as we near the end of that strategic plan, we continue the odyssey begun in 2005.

In a year of extreme challenges, we succeeded. Net income of $5.8 million showed relative stability from the previous year, an undeniable success in a year when unemployment hit double digits and we worked with customers on an individual basis to ensure that every attempt was made not to displace someone from his or her home or destroy their dreams of educating their children. Loan loss provision of $2.6 million remained almost static with the $2.7 million figure of 2008. The loan portfolio increased 7% or $33.3 million, a deliberate curtailing of the rapid growth the Bank had experienced in order to allow us to 'catch up' with the galloping growth experienced in the three previous years.

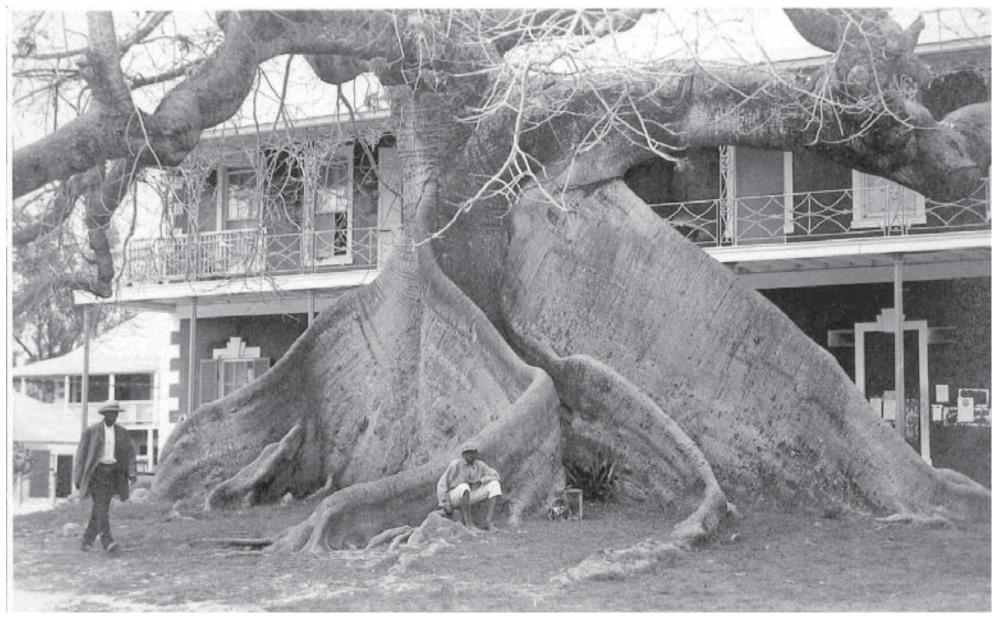
As a result of lower yields on investments, interest income stood at $49.8 million, a slight decline of less than 1% year-over-year. The Bank opted for safe low risk vehicles and managed investments prudently. Total assets topped the $750 million mark for the first time in the Bank's history, ending the year at $758 million, up $24 million from the close of fiscal 2008 and nearly double the assets of $385 five years ago. These relatively small movements in both directions along with stability in shareholder value should be viewed in the broader context of a global economic meltdown. Mammoth financial houses whose names had been synonymous with the power of Wall Street and seemed as permanent as Mount Rushmore teetered on the

**Storms make trees take deeper roots.**
**—Dolly Parton**

brink, facing the worst struggle since the banking collapse of 1929 and the Great Depression that followed. In relative terms, Bank of The Bahamas enjoyed success. It was not the best of years but 2009 was a very good year, indeed. It was a year in which we demonstrated that STRENGTH is not always tied to growth, but is inevitably tied to values that withstand negative forces and foundations that survive the threatening storm.

All of that is background for what this report is about and why, under the theme of STRENGTH, I began this statement with a brief discussion of the powerful volume, *The World is Flat*. To say that we survived a very tough time and came out the other side intact (though the end is not quite yet in sight) is one thing. To say we are moving forward with more strength than we have ever enjoyed before is another and yet that is the most important news contained in this document.

Thus, I conclude with news of the next steps. In 2009, the Bank invested $1.2 million in technology that will enable us to trot onto the level playing field of the future and compete with the biggest players no matter how large their financial or physical assets or where in the Western Hemisphere they call home. The technology is so comprehensive that it will carry us forward for years to come. In the past year, it allowed us to slice U.S. cheque clearing time from as many as 40 days to three days. It enabled us to be among the first ready for the Automated Clearing House. Most significantly, it has now allowed us to bring all credit card processing in-house and to do so with so many accoutrements that not only were



we able to eliminate the processing fees through a third party in Panama and able to answer our own customers' inquiries in a more personalized manner, we will be able to provide and sell the service to other financial institutions. Like the little red engine that could, Bank of The Bahamas is now one of only a very few institutions in the region so comprehensively equipped.

Inspired by vision, funded with a commitment to be ready for a changing world, technology for tomorrow powers Bank of The Bahamas as we move from a bank largely dependent on lending to a full financial enterprise, offering innovative products and services to other providers as well as to clients and to recognising the immense market for fee-based, ongoing revenue. That is STRENGTH.

Strength lies in a category that is routinely reported and often overlooked, but more important in these times of economic challenge. That strength is our capital base and risk adjusted capital ratio which at June 30, 2009 stands at 25%, nearly triple that required at that time by The Central Bank.

Strength grows from within, from the dedication of management and staff at every level, from Directors who bring wisdom and uncommon guidance to the table, to loyal shareholders who continue to invest despite the weather outside and to customers who know that strength within gives Bank of The Bahamas the strength they need when they choose a financial partner for life.

Paul J.I. McWeeney
Managing Director

# STRENGTH

## In Our Products, Our Services

**Let me tell you the secret that has led me to my goal. My strength lies solely in my tenacity.**

**—Louis Pasteur**

Economic challenges can make or break companies whether they are in the business of manufacturing mega cruise ships or building a better mouse trap. Small inefficiencies casually absorbed by high volume suddenly become glaring and unacceptable in lower volume business cycles. Conversely, superior products and exceptional service pay off with a better bottom line when competition is at its toughest.

In 2008, Bank of The Bahamas was in that exact position—faced with increasing competition in a market it had developed and all but owned at a time when the words economically challenged were an understatement on the order of calling Kobe beef a hunk of meat.

The realm was electronic payment cards. From the time the Bank introduced VISA pre-paid and gift cards in November 2005, it had allowed thousands of Bahamians to pay for goods and services without taking the risk of carrying excessive cash, to travel with a sense of security or to send a child off to college with a way to pay for tuition, books and more. Since the cards' introduction, their popularity has soared. Some 21,000 cards have been issued. Over 200,000 transactions have been completed with more than $30 million loaded. But now, suddenly, competition was heating up in the electronic payment card market. Large banks with foreign advertising underpinnings were unleashing a slew of credit and debit cards on the local market, some with sophisticated services including online loading. As the Bank explored ways to reduce costs and build value, a thorough review was undertaken. Should BOB continue to outsource card payment processing when the contract with a particular company ended in December, 2008 or bring processing in-house now that a new core operating system was completely installed and would provide for it? Bids were requested for both. In-house won out and the Bank projects a significant return in the near future on the initial investment of $1.2 million to make the transition possible.


In addition to cost-effectiveness, bringing card processing in-house allows for several other improvements, speeding up the time it takes to sign on a new merchant or provide a card to a new cardholder, allowing customers to speak to a representative in The Bahamas, adding online services for reviewing, loading and bill payment and what could be the most significant change of all, putting Bank of The Bahamas in the unique position of being the only bank in The Bahamas to be able to handle credit card processing for other financial institutions and card providers.

None of the processing debate was a coincidence. In 2004, developing fee-based services as part of a life cycle of innovative products that would serve clients and build shareholder value was part of the

five-year plan that concludes this year. A new plan is under development.

During 2008, development also rapidly progressed for the introduction of BOB MEDLINE VISA, introduced just after the close of the fiscal year with a series of partners in The Bahamas and South Florida joining hands to bring quality medical care at beneficial rates to those holding the medical-purpose VISA. Not intended to replace health insurance, BOB MEDLINE supplements and complements it, covering services that insurance often does not—a pre-existing condition or elective surgery. It also acts as a buffer for those who are not covered, opening doors to ensure treatment in an emergency. Local BOB MEDLINE VISA founding partners include The Medical Pavilion and Doctors Hospital with U.S. partners including Baptist Hospital, Broward Health System, Cleveland Clinic Florida, Jackson Memorial, Miami Children's and the University of Miami Health System.

In order to further facilitate the overall health of clients, Bank of The Bahamas offers an extensive collection of products and services suited for every life cycle.

Bank of The Bahamas has:

- Developed the nation's most comprehensive online banking with such features as cheque imaging and ability to reconcile accounts daily;
- Launched pre-paid VISA and gift cards, making card access available to all, regardless of established credit;
- Increased its branch network to seven islands with the opening of the Cat Island branch in Knowles, Cat Island;
- Opened BOB Financial Services in Coral Gables. Florida, the first international presence of a Bahamian retail bank. Customers are able to:
  - Withdraw U.S. funds from their Bahamian account
  - Receive U.S. dollar drafts to facilitate larger purchases
  - Open a BOB account
  - Use U.S. property as collateral for a loan
- Been awarded Exclusive status for American Express Platinum
- Expanded Merchant Services including Discover, MasterCard, VISA, American Express acceptance and merchant consulting to maximize benefits
- Pioneered the way for 3-day Clearance of U.S. $ Deposits
- Introduced Private Banking
- Provided Personal Attention for Wide Range of Trust Services
- Launched Series of Age-Oriented High Interest Rate Savings Plans to Meet Individualized Personal Goals under the umbrella of Savings Culture
- Answered the Need and Request for Pension Fund Management

# STRENGTH

## In Our People

**An organization's strength comes from its diversity of people and their unity of purpose.**

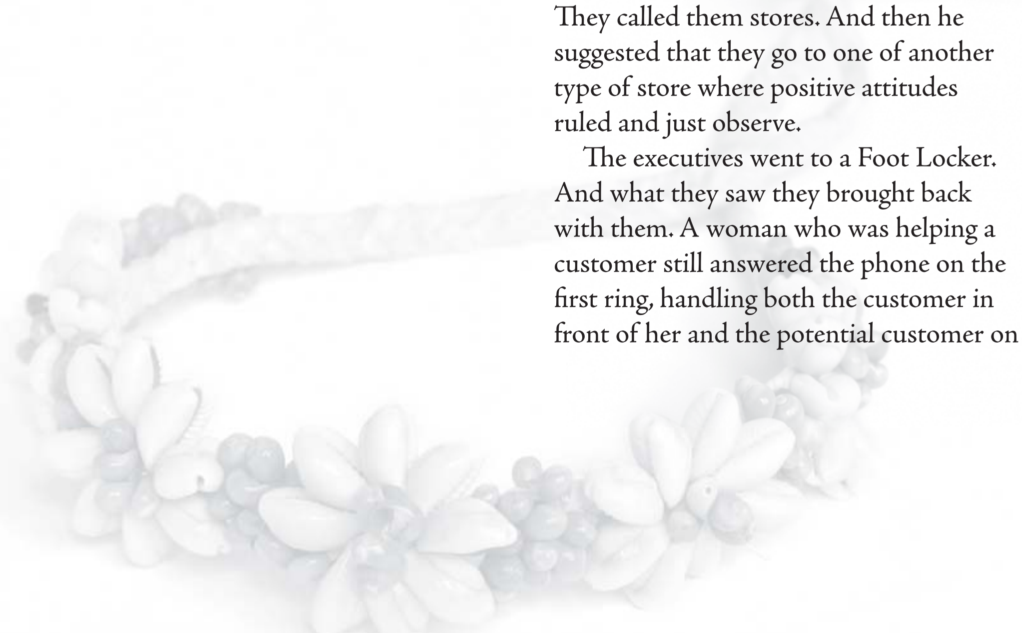
**—Rev. Darrell W. Boswell**

On a business trip to Boston, Bank of The Bahamas executives had the good fortune to meet with the CEO of TD Bank, a U.S.-based bank that has experienced dramatic growth and succeeded beyond its own projections despite gloom and doom surrounding financial circles in the past two years. "How did you do it?" the executives asked. And the answer was "We celebrate every chance we get. And we know that we are not only in the banking business. We are in the business of sales, selling our services." He told them that what they knew was that TD Bank was largely Internet-based, but what they probably did not know was that where there were kiosks—and there were many—they did not call them kiosks. They did not call them banks or branches or mini-banks. They called them stores. And then he suggested that they go to one of another type of store where positive attitudes ruled and just observe.

The executives went to a Foot Locker. And what they saw they brought back with them. A woman who was helping a customer still answered the phone on the first ring, handling both the customer in front of her and the potential customer on the phone with the same focused attention and smiling all the while. She knew the value of service.

Impressed, the executives returned to Nassau and said what they saw and experienced only served to reinforce what Bank of The Bahamas has been moving toward since its new mission statement was adopted nearly five years ago—to provide an atmosphere in which opportunity for growth inspires, human capital is developed and the work environment is so positive that it spills over in the way that staff members treat customers.

Toward that end, the Bank has continued to develop personnel. In fiscal 2008, a substantial investment was made in creating and equipping a full-service training facility which now operates sessions and workshops all day, every day, from sophisticated facilities on the second floor above the Village Road branch. A new Human Resources and Training Department replaced a Human Resources officer who operated from a single desk. This investment was made despite a challenging economy because it was considered integral to the Bank's success.



Also in line with its progressive posture, reaffirmed by the fortunate meeting with the CEO of one America's fastest growing banks, the Bank restructured, reorganizing Marketing, streamlining and folding it into a Business Development team. An outside consulting firm was brought on. The new mantra is sales through service. In Operations, changes were made to ensure not only efficiency, but long-term effectiveness. The largest investment for future business, however, was made in technology and in fiscal 2009, the Bank completed initial training on the new i-Flex core software, a massive, but essential, undertaking.

The improvements—expansion of training, restructuring of key departments—reflect a single motive and mirror a single appreciation—that the best ideas in the world cannot be realized and the best plans cannot become reality unless the people driving the process make it happen.

It is because of the strength of the people of Bank of The Bahamas that a year that posed economic challenges became a year of economic strength and shareholder loyalty.

It is the strength of the people of Bank of The Bahamas that the Bank will continue to grow, to excel, to accomplish and achieve a singular place in domestic banking history.

**Strength does not come from physical capacity. It comes from an indomitable will.**

**—Mohandas Gandhi**

# STRENGTH

## Through Our Outreach of Branches, Locations

**Far and away the best prize that life has to offer is the chance to work hard at work worth doing.**

**—Theodore Roosevelt**

As with root systems that burrow to support the life that depends on them, so has Bank of The Bahamas stretched itself to support the Commonwealth of The Bahamas. With branches not just where it is convenient but in the farthest-reaching regions of the country and a full services centre in Coral Gables, the Bank is answering the call, supporting life and commerce here and in South Florida where Bahamians travel daily for business, shopping, medical attention, leisure and events.

The presence of the Bank on the islands of New Providence, Grand Bahama, Andros, Exuma, Inagua, San Salvador and Cat Island provides an opportunity for Bank of The Bahamas to impact and strengthen the communities of which it is a part, not only providing financial services to clients on these islands cultivating long-lasting relationships with communities. In many of the settlements it serves, Bank of The Bahamas has earned loyalty through professional service while demonstrating corporate commitment to facilitate meaningful growth and development in the society.

Such was the case in Cat Island where before the Bank opened the only banking facility on the island, persons had to fly to Nassau or send paycheques to be cashed with others. Weekly or bi-weekly trips were expensive, time-consuming, and disruptive. Since its opening in 2008, Bank of The Bahamas has become a welcomed partner, a major sponsor of the Cat Island Regatta, a place where Cat Islanders turn whether for a back-to-school low interest loan or a medical VISA card. Youngsters have proudly opened savings accounts with as little as $10, learning the importance of putting money aside for something special.

In South Florida, where Bank of The Bahamas became the first bank from The Bahamas to open in a foreign territory, BOB Financial Services, Inc. in Coral Gables, allows BOB customers to purchase U.S. dollars drafts for multiple purposes, all within exchange control guidelines. Growth in the Bank's two most recent additions, Coral Gables and Cat Island, has proved the Bank made the right decisions, for even during the challenges of the past two years, Cat Island has thrived and BOB Financial Services in Coral Gables has continued to grow, contributing to the Bank's growth in total assets from $734 million in 2008 to $758 million in fiscal 2009 with continued growth in new accounts.

# Private Banking, Wealth Management, Trust Services

**Only one who devotes himself to a cause with his whole strength and soul can be a true master. For this reason mastery demands all of a person.**

**—Albert Einstein**

Fostering a financially consistent and secure future requires steadfast guidance and a personalized, professional approach. Since inception of its Trust services in 2000, Bank of The Bahamas has been a leading institution in the provision of trust services for Bahamians, providing insight into global and local currents and high standards along with years of experience to individuals and families seeking to manage and sustain their wealth for future generations.

The first to introduce a wide range of Trust products for a local market, the bank has established itself as the entity of expertise for Bahamian citizens and residents in testamentary trusts, estate planning and administration as well as other corporate services including company incorporation and administration.

Testament to its singular position in the realm of domestic Trusts, the Bank has been charged with oversight responsibility for Bahamian pension funds managed by other financial entities. That assignment speaks volumes.

Bank of The Bahamas launched Private Banking as an expansion of its Trust services to assist high net worth clients.

Bank of The Bahamas International Private Banking has experienced tremendous growth, even in otherwise financially challenging times. In fiscal 2008-2009, Private Banking increased assets entrusted to its care with its book of business as of June 30, 2009, exceeding $45 million.

Private Banking entitle members to the following services:

- Convenience Banking—Your time, your place
- VIP Treatment and Concierge Services
- Access to Enhanced Financial Solutions
- Enterprise-Wide Team Support
- Confidential & Exclusive Banking
- Valuable Time Savings
- Bill Payment
- Trust Services

**Private banking is guided by the mission statement a relationship you can trust and a service you can rely on**

# Strength in Our Support for Community

**The strength of a nation derives from the integrity of the home.**

**—Confucius**

As financial institutions around the world guarded assets, tightened belts, slashed operating costs and often scaled back responses to a never-ending stream of requests for support, Bank of The Bahamas International saw needs mount—and answered with compassion and strength.

From providing funds for fighting cancer to funding a major literacy research project, the Bank's outreach stretched across the nation and a broad spectrum of needs.

The primary focus of community-building was the Bank's commitment to a $50,000-a-year, five-year pledge to establish the Literacy Diagnostic Research Centre at The College of The Bahamas. The motivation was long-term. In the Bank's Managing Director's words: Because the key to the future of this nation lies in having an educated population and the key to an educated population is teachers and volunteers who understand the nuances of teaching reading, to students, young and old, who come from diverse backgrounds. The findings and results of the diagnostic research centre are expected to filter down into classrooms across the nation to improve the most basic skill required for success, the ability to read and write.

The second largest contribution, $25,000, was presented to the Downtown Nassau Partnership, the public-private sector organisation charged with revitalizing historic Nassau. Economic benefits of cities that have re-invented themselves are well documented. Cities come to life with book stores, art galleries,


In fiscal 2009, Bank of The Bahamas made the largest donation in its history, a $250,000 pledge over five years to fund the first national literacy support and diagnostic centre at The College of The Bahamas.


The Bank's second major commitment is to the restoration and revitalization of historic Nassau, an effort it supported with a donation of $25,000 to the Nassau Tourism Development Board which helped to launch the public-private sector organisation the Downtown Nassau Partnership. Pictured L to R: Paul McWeeney Managing Director BOB; Ashli Munnings, Project Coordinator, DNP;Vernice Walkine, Director General of Tourism and Co-chair, DNP; Charles Klonaris, DNP Co-chair; Vaughn Roberts Managing Director, DNP.

restaurants and a residential population. Property values skyrocket, entertainment abounds. Empty storefronts are suddenly sought- after and old newsprint in store windows is replaced with high-end fashion. Benefits accrue to government. Real property tax increases. In countries where Customs duties apply, revenue grows because more goods are imported. Less quantitative, but no less important is the impact on the quality of life with residents and visitors enjoying their downtown and the sense of community they experience in a walking environment. For Nassau, restoration holds particularly unique promise for the city itself is one of the oldest in the Western Hemisphere and is filled with historic architecture that has drawn admiration from critics around the world.

While the Bank's two main sponsorships were the Downtown Nassau Partnership and the College of The Bahamas literacy research centre, dozens of other sponsorships helped to fund organisations and worthy efforts from the Bahamas Association for the Physically Disabled to One Bahamas. The Bank was, once again, a Gold Sponsor of the Mark Knowles Celebrity Invitational with proceeds going toward charities, and a Platinum Sponsor of the Errol Brown Golf Tournament with proceeds going to children's homes and to feed the poor. The Salvation Army, the Red Cross and so many others benefited from the generosity of Bank of The Bahamas which recognised that true strength is the ability to give freely in challenging times because it is in those times when needs are greatest.

# Strategic Management

## Executive Management


Paul McWeeney


Beverley A. Farquharson


Vaughn W. Delaney


Hubert Edwards


Dario Lundy-Mortimer


Renee Davis

### Executive Committee

Paul McWeeney
Managing Director

Beverley Farquharson
Deputy Managing Director

Vaughn Delaney
Deputy Managing Director

Hubert Edwards
Sr. Manager, Business & Strategic Planning

Dario Lundy-Mortimer
Chief Financial Officer

Renee Davis
Sr. Manager, Operations, Risk

Laura A. Williams
Manager, Corporate Affairs & Company Secretary

### Senior & Strategic Management

Darryl Bartlett*
Sr. Manager, Credit Risk

Vanessa Taylor*
Chief Internal Auditor

George Thompson
Sr. Manager, Credit - Grand Bahama & Family Islands

Carlton Neymour
Sr. Manager, Corporate Credit - New Providence

Selvin Basden
Sr. Manager, Human Resources & Training

Renee Ijeoma
Manager, Information & Technology

Dianne Bingham
Manager, Private Banking & Trust

Ian Thompson
Manager, Retail Business - Credit

Leashawn McPhee
Financial Controller

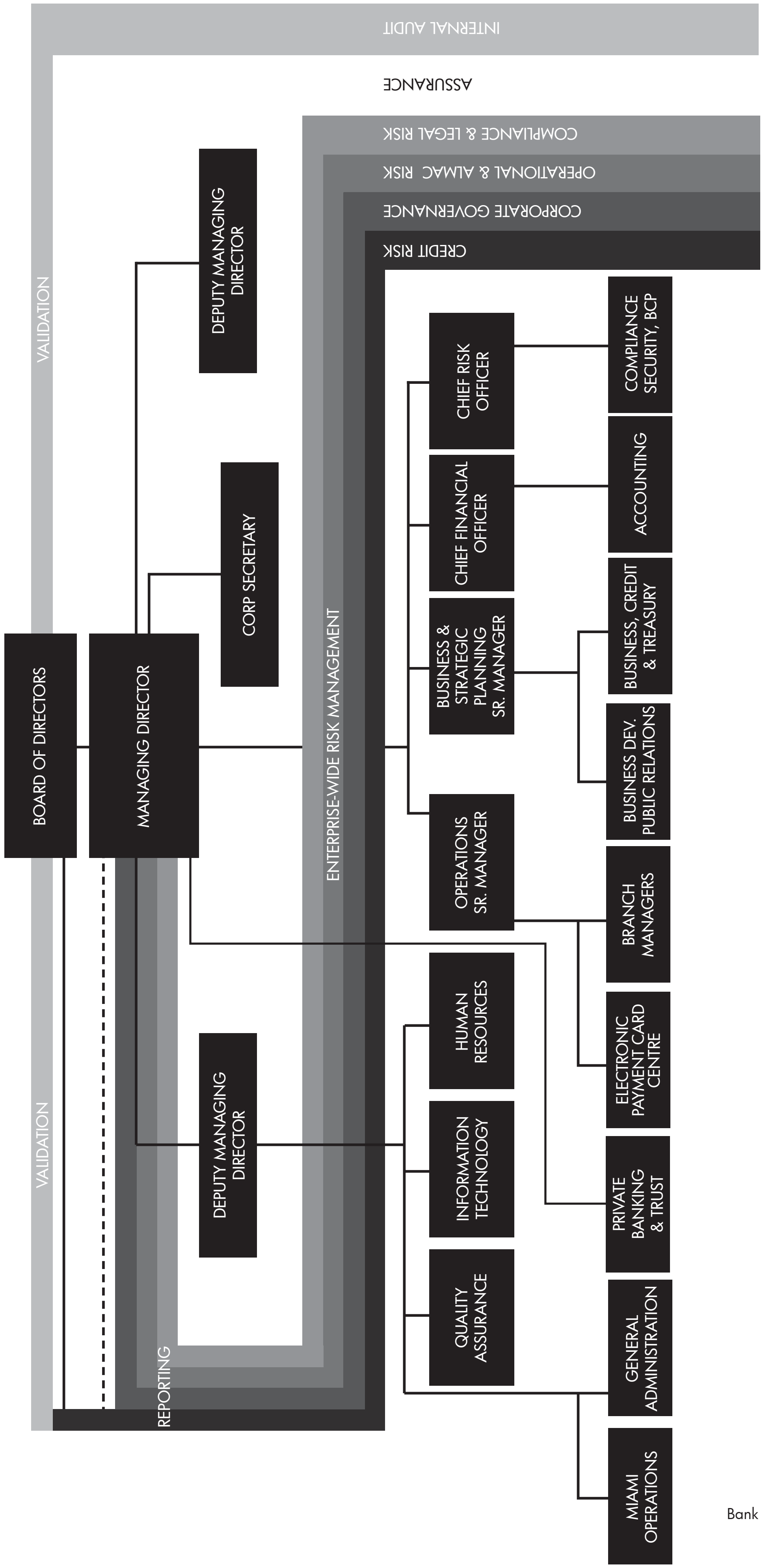
Patrice Gardiner
Manager, Operations (Head Office)

Elnora Major
Manager, Operations (Family Islands)

Yvette Johnson
Assistant Company Secretary

*Executive Committee Participation by Invitation

# Organizational Chart



# Corporate Governance Principles

## Bank of The Bahamas Limited

**In union there is strength.**

**—Aesop**

**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 Board is accountable to its shareholders and therefore, ultimately responsible for the conduct of the Bank's affairs and operations. In light of this mandate, the Board is responsible for identifying risk and ensuring that it is 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 Board's overall conduct is guided by its Corporate Governance Handbook which details the duties and potential liabilities of Directors and Officers of the Bank. Further, in order to evaluate the performance of Directors and the Board as a whole, the Board also participates in an assessment process which is directed and analyzed by the Bank's external auditors.



### BOARD COMPOSITION, STRUCTURE AND POLICIES

#### Board Membership

The Board is currently comprised of 10 non-executive Directors and one executive Director, the Managing Director, who is responsible for the general supervision of the business, affairs and concerns of the day-to-day operations of the Bank.

#### Director Conflict of Interest

The Bank has adopted a strict policy as it relates to conflict of interest issues and members of the Board as well as management and staff are expected to adhere to these policies. A Director who has a direct or indirect interest in a matter before the Board, is expected to disclose this information and should abstain from voting or participating directly or indirectly in the deliberations requiring approval.

#### Compensation of Directors

The total remuneration of the Board is approved at the Bank's AGM and may be divided among members as they see fit. Each non-executive Director, with the exception of the Chairman and Deputy Chairman, is paid a fee of $8,000 per annum for his/her services and additional compensation of $1,000 for attendance at quarterly Board or Extraordinary meetings. The Executive Director receives no remuneration for services performed in his/her capacity as Director.

#### 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 education opportunities for its Directors through seminars, trade publications and regulatory updates.

#### Independence of Directors

The Board is aware of the Bank's unique position as it relates to the National Insurance Board and The Government as it major shareholders. However, the Board is comprised of a substantial majority of Directors who meet The Central Bank of The Bahamas' criteria for independence.

**From July 1, 2008 to June 30, 2009**

| Name | October 24, 2008 | December 12, 2008 | February 13, 2009 | May 16, 2009 |
|---|---|---|---|---|
| Macgregor Robertson | ✓ | ✓ | ✓ | ✓ |
| Ruth Millar, CMG | ✓ | ✓ | ✓ | ✓ |
| Robert Sands | ✓ | ✓ | ✓ | ✓ |
| Patrick Ward | x | ✓ | x | ✓ |
| Marvin Bethell | ✓ | ✓ | ✓ | ✓ |
| Wesley J. Bastian | ✓ | ✓ | ✓ | ✓ |
| Pandora Johnson | ✓ | ✓ | ✓ | ✓ |
| Patricia Hermanns | ✓ | ✓ | ✓ | x |
| Hartis Pinder | ✓ | ✓ | ✓ | ✓ |
| Ruth Bowe-Darville | ✓ | ✓ | ✓ | ✓ |
| Paul McWeeney | ✓ | ✓ | ✓ | ✓ |

✓ = Present ✗ = Apologies

**A nation' s strength ultimately consists in what it can do on its own, and not in what it can borrow from others.**

**—Indira Gandhi**

## BOARD MEETINGS

### Frequency of Meetings

Board meeting dates are scheduled and communicated with Directors at least a year in advance. In fiscal year 2009, four regular Board meetings and one extraordinary Board meeting were held. Generally, the Board Committees of The Bank meet on a quarterly basis.

### Summary of Board Committee Meetings Held for the Year Ended June 30, 2009:

- Audit, Controls, & Procedures Board Committee ....................10
- Credit Risk Board Committee ....4
- Operations, Marketing & Business Development, Private Banking and International Operations Committee.....................4
- Finance & Capital Development Board Committee ..............4
- Information & Technology Board Committee.....................4
- Human Resources Board Committee.....................4
- Risk Management Board Committee.....................4

### Attendance at Meetings

Regular attendance at all Board meetings, together with committee meetings and the AGM, is expected of all Directors.

### Preparation for Meetings

The Chairman along with the Managing Director prepares the agenda for each meeting. In addition, the Executive Committee and Strategic Management provide 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 materials are distributed 3-7 days in advance of a meeting 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, each division of the Bank developed 'In-Control' statements. 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 April 23, 2009, the Board submitted its Annual Certification to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines.

April 23, 2009

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

Dear Sirs,

CORPORATE GOVERNANCE CERTIFICATION – DECEMBER 31, 2008

- 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 December 13, 2001, and acknowledges its role and responsibilities under the Guidelines;
- While the Bank recognizes the importance of strengthening its systems and procedures to ensure a stronger corporate governance environment on an ongoing basis, the Board believes that the systems and procedures that are currently in place are appropriate and, accordingly, is satisfied that the Board of Directors is performing its functions and fulfilling its responsibilities under those Guidelines;
- The Board has carefully considered the reporting of Senior Management and other information provided in determining whether the Bank is following the Corporate Governance Guidelines and,
- The Board is of the opinion that the Bank is fulfilling the principles of the Guidelines.

  However, while we acknowledge that significant progress has been made, we do recognize that continued attention is required to maintain the level of performance necessary to ensure that the desired results are achieved. We have noted the following areas requiring further attention to ensure an enhanced control environment and improved enterprise risk management process:

  - Review and update of our policies and procedures documentation.
  - Improvements to the systems and procedures related to strengthening our disaster recovery and business continuity planning
  - Continued efforts to address post-implementation challenges of the new core banking system.
  - Enhanced monitoring of credit portfolio to ensure that the quality of the Bank's assets remain strong during this period of economic uncertainty.

Executive and Senior management have been assigned to enhance areas with deficiencies.

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 'In-Control' with no material reservations.

We are confident that these areas will continue to be addressed with determination.

Yours faithfully,

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

Paul McWeeney – Managing Director

Macgregor Robertson - Chairman

## FINANCIAL HIGHLIGHTS

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Interest Income | $ 49.80 | $ 52.64 | $ 42.92 | $ 35.39 | $ 27.24 | $ 26.67 |
| Net Interest Income | $ 26.40 | $ 29.44 | $ 25.13 | $ 21.96 | $ 16.19 | $ 15.81 |
| Non Interest Income | $ 9.25 | $ 6.15 | $ 7.59 | $ 9.30 | $ 6.91 | $ 5.45 |
| Operating Expense | $ 26.60 | $ 26.50 | $ 21.28 | $ 17.84 | $ 15.21 | $ 12.98 |
| Net Income | $ 5.80 | $ 6.10 | $ 10.48 | $ 10.72 | $ 7.01 | $ 6.03 |
| Earnings per Share (EPS) | $ 0.28 | $ 0.32 | $ 0.61 | $ 0.78 | $ 0.59 | $ 0.50 |
| Total Assets | $ 758.30 | $ 734.41 | $ 658.30 | $ 545.76 | $ 453.15 | $ 384.78 |
| Loans and Advances to Customers | $ 555.60 | $ 522.11 | $ 486.92 | $ 454.78 | $ 352.43 | $ 299.32 |
| Total Liabilities | $ 644.35 | $ 640.51 | $ 565.48 | $ 470.41 | $ 408.83 | $ 345.45 |
| Shareholders Equity | $ 114.00 | $ 94.00 | $ 92.77 | $ 75.35 | $ 44.32 | $ 39.33 |
| Capital Ratio | 15.50 | 13.11 | 14.55 | 13.81 | 9.78 | 10.22 |
| Efficiency Ratio | 74.61 | 74.54 | 64.48 | 58.07 | 65.86 | 61.05 |

With the exception of EPS, dollar amounts are stated in millions. Capital and Efficiency Ratios are percentages.

# Management Discussion

**Good actions give strength to ourselves and inspire good actions in others.**

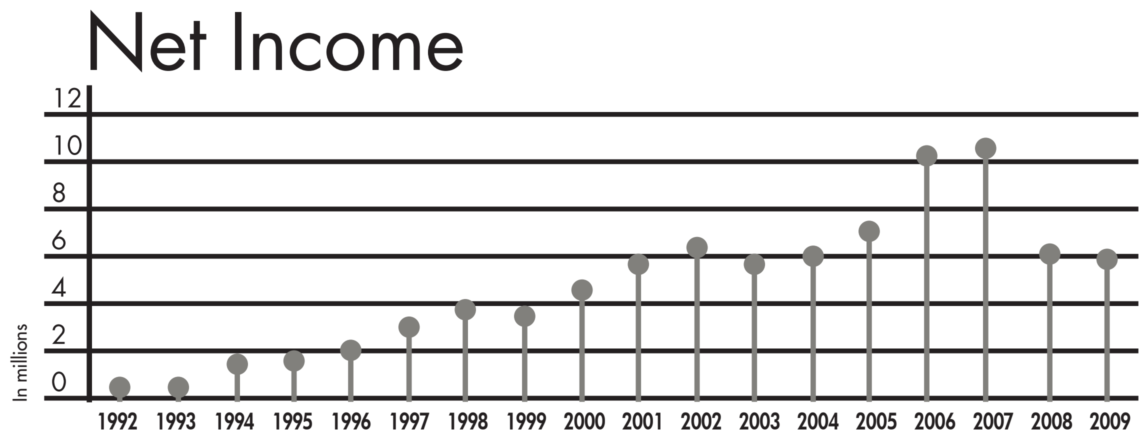
**—Plato**

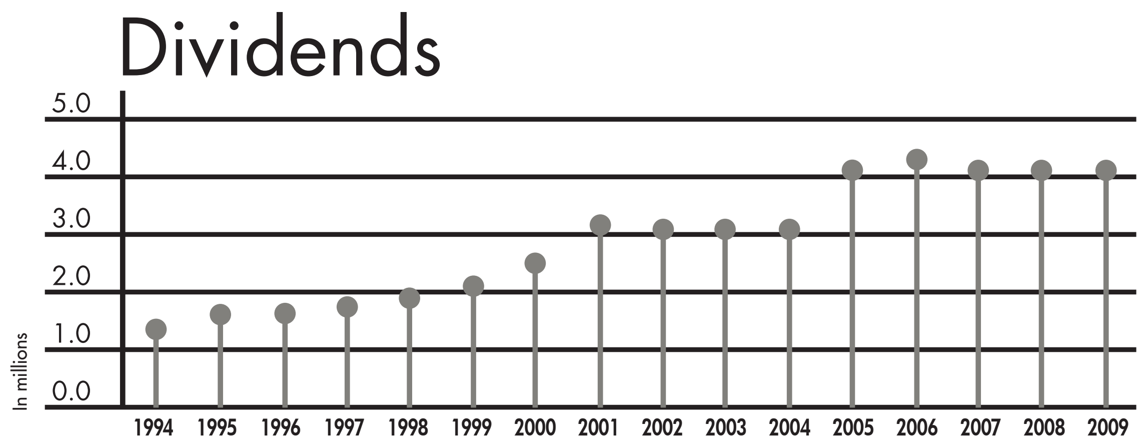
### AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR FINANCIAL YEAR ENDING JUNE 30, 2009

The Bahamian economy has been adversely affected as a result of the trickle down effects from the global recession. The resulting fall-off in tourism and direct foreign investment has caused a significant increase in unemployment levels within the country with some estimates extending south of 12%. To assist in stabilizing the economic environment, the Government implemented several noble initiatives including massive infrastructural road repairs, the on-going major renovation of the Lynden Pindling International Airport and a comprehensive social assistance program. Collectively, these, amongst other public and private sector projects, have tempered the negative affects on the broader economy from the worst recession since the great depression.

The contraction in the local economy has exerted multiple negative influences on business and communities across the archipelago. Consequently, loan delinquencies have increased significantly. Therefore, systemic credit risk is receiving the highest level of attention as the maintenance of manageable asset quality levels is top priority. In these circumstances, adequate capital is the key mitigant with the capacity to absorb business risk. It is within this context that the Bank's chief strategy was aimed at increasing its capital base and loan loss reserves to levels necessary to provide the highest degree of comfort in these highly vulnerable conditions and times. The Bank has accomplished this. In fact, since 2000 the Bank's capital base has grown from B$19 million to B$114 million with the risk adjusted capital ratio now standing in the range of 25%, well ahead of the newly published target and trigger ratios of 17% and 14% respectively.

The Bank takes the view that the present recession is a temporary correction in global economic activities. Therefore, its philosophy of long term value creation is embedded in all strategic initiatives. However, the economic pressures has necessitated careful assessment, creation and implementation of strategies aimed



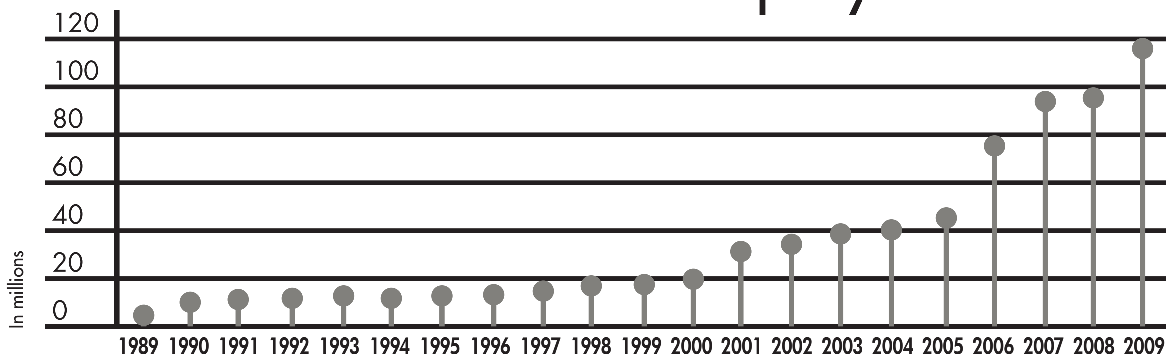




specifically at streamlining operations while building capacity with a clear focus on future prospects and opportunities. To this end, and despite the adverse pressures from the current environment the Bank maintained its strategic imperatives directed at transforming its business model to that of a financial enterprise. Although the external conditions created internal challenges, unique opportunities were identified and exploited. Within this framework, the Bank has taken significant steps to improve its internal processes through the reengineering of key workflows and migrating previously outsourced functions. During the fiscal year the Bank made capital investments totaling approximately $1.2 million to enhance our existing platforms. These investments will provide the foundation for the future strategic direction of the Bank. As the economic environment picks up, the Bank will be well positioned to exploit the new investments in our technology platform to ensure sustained growth.

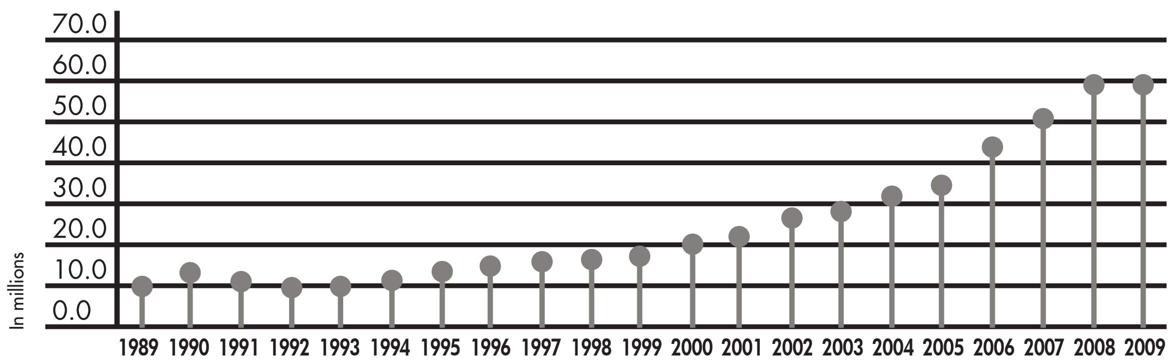
In spite of moving cautiously, in response to the current environment, the Bank still experienced a number of significant positive achievements. Within the context of a contracting economy the Bank continued to grow. Not only did it significantly increase its capital base, it remained profitable, increased overall revenue, increased total assets and expanded its customer base. These indicators reflect well the commitment and expertise of the Bank' staff and is a clear demonstration of the mushrooming of public confidence in the Bank, its strategies, its products and services and more importantly its people.

Against the challenging backdrop of the current economic environment, the Bank was able to report net income of $5.8 million versus $6.1 million in the prior year. By remaining disciplined to our core strategies, the Bank continues to sustain profitability and enhance shareholder value. Despite systemic pressures and due to consistency in profits, the Bank has been able to maintain the level of dividends paid out to its shareholders, as shown in the graph above. This was achieved while implementing successful initiatives which resulted in an expansion of the total shareholder equity of the Bank, therefore providing greater protection against concentrated risks as a result of the global economic downturn.

## Total Shareholder Equity Growth




## Gross Revenue




**One who gains strength by overcoming obstacles possesses the only strength which can overcome adversity.**

**—Albert Schweitzer**

### Total Shareholder Equity

The Bank's total capital ratio ended at 15.5% for 2009, or 24% on risk rated basis, well above the requirement defined by The Central Bank of The Bahamas. The Bank's Tier I capital stood at 14.8% versus The Central Bank's mandate of 4% and continues to reflect ongoing strategies to maintain and exceed prudent capital standards. The capital of the Bank is stronger following the preference issue and more than adequate to preserve the position of the Bank mitigating against any dislocations which may occur as a result of the current economic environment. Total shareholder equity now stands at $114 million compared to $94 million in prior year.

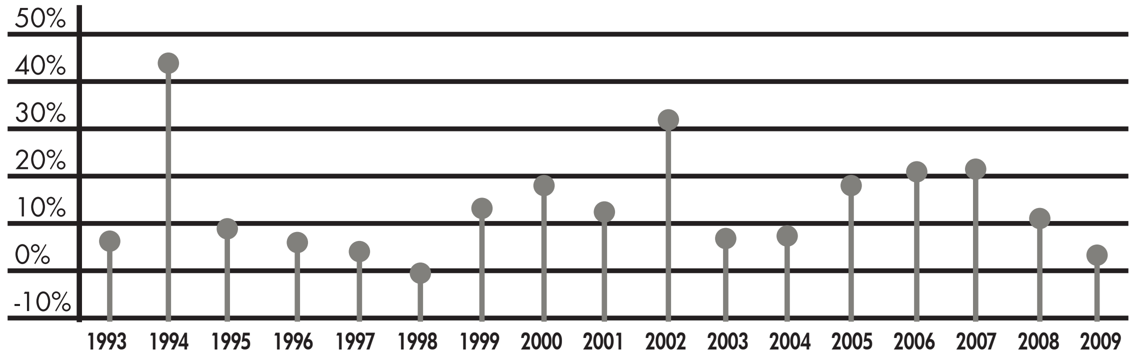
The conservative approach being adopted in the current situation is, in our opinion, one of the hallmarks of good corporate governance. Effective governance dictates prudent but dynamic actions and decisions. With decisions that revolve around the overarching obligation to protect and enhance shareholder value, The Bank remains cognizant of the need to effectively manage the risks of the business. Given the current conditions, The Bank is specifically focusing on credit and liquidity risks, maintaining or reducing recurring administrative expenses, while remaining innovative in product offerings with a view of growing revenue streams.

Having regard for increased pressures on the Bank's credit portfolio, loan loss provision, discussed more broadly below, is reflective of the inherent risk of the broader economic environment and the relatively unchanged conditions while also signaling the outlook for the short-term. Management remains very optimistic that the new fiscal year will provide greater opportunities for rewards. With our continued proactive and innovative approach to the competitive environment, we believe in our ability to formulate and implement winning strategies based on our long term goals and objectives. Specific aspects of the Bank's performance are discussed in greater details below.

### Interest Income

Faced with the impact of the global economic downturn, the Bank adopted a very balanced approach to its growth strategy for credit. The loan portfolio increased by $33.5 million or 7%. While our loan portfolio increased, the Bank experienced a decline in interest income of 6% from the prior year, ending at $49.8 million as of June 30, 2009. The decline in interest income translated into lower absolute yields as the average yield

# Asset Growth




**It does not take much strength to do things, but it requires great strength to decide on what to do.**

**—Elbert Hubbard**

declined to 7.8% from 8.7% in prior year. To counter the current pressures, the Bank continues to aggressively manage its loan portfolio with a view of enhancing asset quality measures and to secure high quality growth thereby positively influencing the yields on the Bank's credit assets.

## Non Interest Income

The Bank was able grow non-interest income to $9.3 million or approximately 51% over prior year. Higher revenues from deposit transaction services and card fees fueled the increase in income. As the Bank moves forward, more emphasis will be placed on key revenue streams from non-interest income with a view of further expanding revenue generating activities.

## Interest Expense

Interest expense trended consistently with amounts reported in the previous year, increasing by approximately 1%. While interest expense was in line with previously reported amounts, deposits grew only marginally being reflective of both environment factors and the restrained growth in loans. Management believes the cost of funds remains relatively high, despite reported favourable system liquidity levels, and continues to seek the best combination of funds to ensure balanced growth relative to return for our shareholders and capital requirements.

## Net Provision for Loan Losses

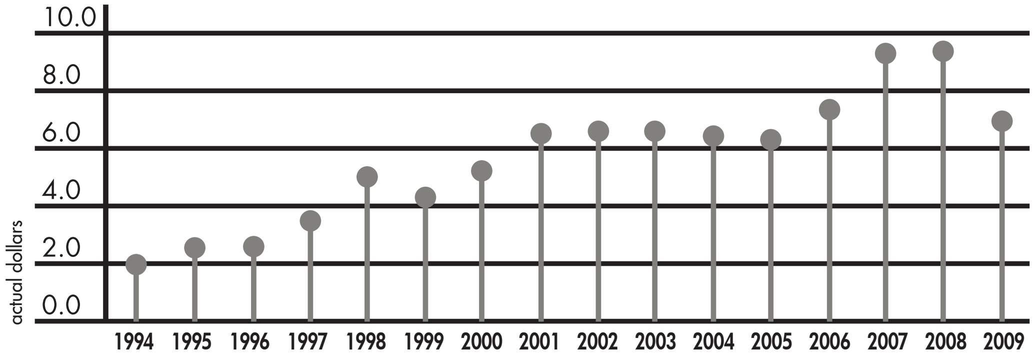
The significant change in the economic environment has resulted in an increase in the net provision for loan losses. Net provisions settled at $2.6 million or 2% lower than the prior year. The Bank employed a number of strategies designed to manage our loan portfolio and assist in mitigating the potential losses as has been observed in the global and local financial sectors. The aggregate amount of the provision for loan losses at June 30, 2009, totaled $9.2 million or a 12% increase from the $8.2 million in the prior year.

## Non Interest Expense

As a result of changes to its information technology infrastructure, the Bank was able to successfully migrate its card processing unit to an in-house solution. This will enable the Bank to better manage the services and revenue generated by the Card Center Unit. The new processing unit sets the foundation for several significant strategic opportunities which will expand the product and service range of the card unit as well as provide additional opportunities to further grow and develop the expertise of our human capital within the Bank's continually expanding profit centers.

The Bank was able to contain operating expenses during the period, which grew marginally by 1% for the year. As a result, the efficiency ratio remained at 75% for the current as well as prior year. The stabilization in operating expenses was supported by declines through attrition in the number of employees, which totaled 307 permanent and 34 temporary staff at the end of June 30, 2009. The operating expenses and revenue per employee stood at $78 thousand and $173 thousand, respectively. Management continues to seek further means of reducing or containing expenses through capital infrastructural investments and

# Share Price






enhancements in operational processes. While these enhancements were implemented towards the end of the fiscal year, it is management's expectation that the Bank should gain economies of scale in the near future.

## Balance Sheet

The Bank's balance sheet remains robust and we continue to focus our efforts toward strong financial and capital management. Investment securities consist primarily of government bonds and we have taken a careful review of all our loans and advances exposures so as to maintain a conservative stance with regards to those balances where collectability may be uncertain.

Total assets improved ending at $758 million despite the economic challenges of the current environment. This represents a 3% growth over the prior year's balance of $734 million. The two areas of significant asset growth were investment securities and loans and advances to customers, which grew 101% and 7% respectively.

## Liquidity

The Bank's total deposits from customers grew by approximately 2% to $588 million. The Bank continues its initiative to grow its customer base. During the year, the Bank was able to transfer a significant amount of cash reserves into interest bearing instruments, namely government bonds, taking advantage of the slow down in the economy and the demand for liquidity by the Government. The shift into higher interest earning assets provides for better utilization of the Bank's resources and positively affects the interest income line.

While declining, compared to the prior period, the Bank's share price has shown a significant level of robustness and is demonstrative of the fact that there is a high level of investor confidence in the Bank. Economic conditions appear to have influenced investment decisions for cash flow purposes. Despite declines, the shares have maintained a significant portion of their value still reflecting a more than 100% capital appreciation over their average initial issue value. Initiatives discussed above coupled with inevitable economic turn around will see the shares rise to former highs.

Our Bank was built and is sustained by a tradition of financial integrity, quality and excellence. Through product innovation, diversification, enhanced customer service, a proactive outlook and competitive advantage, coupled with continual human capital development and new technology, the Bank will continue to enhance value to its existing shareholders and stakeholders.

The Management's discussion and analysis of the Bank's financial condition and results of operations is provided to enable the reader to assess the financial condition, material changes in the Bank's financial condition and results of operations including liquidity and capital resources for the fiscal year ended June 30, 2009. For a complete understanding of trends, events uncertainties and the effects of critical accounting estimates on the results of operations and financial conditions, this Management Discussion and Analysis should be read carefully together with the Bank's Consolidated Financial Statements and related notes.

ERNST & YOUNG

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bank of The Bahamas Limited:

We have audited the consolidated financial statements of Bank of The Bahamas Limited (the "Bank") which comprise the consolidated balance sheet as of June 30, 2009, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Bank as at June 30, 2008 were audited by another auditor, whose opinion dated October 24, 2008, expressed an unqualified opinion.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

**October 7, 2009**

A member firm of Ernst & Young Global Limited

# BANK OF THE BAHAMAS LIMITED

## CONSOLIDATED BALANCE SHEET
## AS OF JUNE 30, 2009
### *(Expressed in Bahamian dollars)*

| | NOTE | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and account with The Central Bank | 5 | $ 29,944,137 | $ 59,929,652 |
| Due from banks | 5 | 100,612,566 | 107,197,737 |
| Investment securities | 6 | 50,679,783 | 25,323,000 |
| Loans and advances to customers, net | 7 | 555,612,338 | 522,111,807 |
| Investment property | 8 | 3,876,052 | 3,601,500 |
| Other assets | 9 | 8,690,850 | 7,285,752 |
| Property and equipment | 10 | 4,505,107 | 5,061,859 |
| Intangible assets, net | 11 | 4,378,289 | 3,901,693 |
| **TOTAL** | | **$ 758,299,122** | **$ 734,413,000** |
| **LIABILITIES** | | | |
| Deposits from customers and banks | 12 | 588,089,178 | 580,168,906 |
| Other borrowed funds | 13 | 37,000,000 | 37,000,000 |
| Cheques and other items in transit | | 7,561,710 | 11,564,332 |
| Other liabilities | 14 | 7,683,686 | 8,134,034 |
| Deferred loan fees | | 4,011,894 | 3,642,413 |
| **Total liabilities** | | **644,346,468** | **640,509,685** |
| **EQUITY** | | | |
| Share capital | 15 | 50,015,990 | 30,364,990 |
| Share premium | | 28,587,866 | 28,587,866 |
| Treasury shares | 16 | (30,244) | (30,244) |
| Revaluation reserve | 17 | 22,694 | - |
| Retained earnings | | 35,356,348 | 34,980,703 |
| **Total equity** | | **113,952,654** | **93,903,315** |
| **TOTAL** | | **$ 758,299,122** | **$ 734,413,000** |

These consolidated financial statements were approved by the Board of Directors on October 7, 2009, and are signed on its behalf by:

Director　　　　Director

See accompanying notes.

# BANK OF THE BAHAMAS LIMITED

## CONSOLIDATED STATEMENT OF INCOME
## YEAR ENDED JUNE 30, 2009
### *(Expressed in Bahamian dollars)*

| | NOTE | 2009 | 2008 |
|---|---|---|---|
| Interest and similar income | 18 | $ 49,754,803 | $ 52,638,682 |
| Interest and similar expense | 18 | 23,349,444 | 23,199,204 |
| Net interest income | 18 | 26,405,359 | 29,439,478 |
| Fees and commission income | 19 | 5,798,602 | 4,264,474 |
| Fees and commission expense | | 694,265 | 369,362 |
| Net fees and commission income | | 5,104,337 | 3,895,112 |
| Other operating income | 20 | 3,454,891 | 1,885,602 |
| Total operating income | | 34,964,587 | 35,220,192 |
| Credit loss expense, net | | (2,596,254) | (2,658,095) |
| Net operating income | | 32,368,333 | 32,562,097 |
| Operating expenses | 21 | 26,580,416 | 26,461,903 |
| **NET INCOME** | | **5,787,917** | **6,100,194** |
| Dividends paid on preference shares | | (1,357,274) | (1,125,000) |
| **NET INCOME AVAILABLE TO COMMON SHAREHOLDERS** | | **$ 4,430,643** | **$ 4,975,194** |
| Earnings per share | | | |
| Basic earnings per ordinary share | 27 | $ 0.28 | $ 0.32 |

See accompanying notes.

# BANK OF THE BAHAMAS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED JUNE 30, 2009
### *(Expressed in Bahamian dollars)*

| | Share Capital | Share Premium | Treasury Shares | Revaluation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| Balance at June 30, 2007 | $ 30,364,990 | $ 28,587,866 | $ (237,329) | $ - | $ 34,060,507 | $ 92,776,034 |
| Net income for the year | | | | | 6,100,194 | 6,100,194 |
| Sale of treasury shares | - | - | 207,085 | - | - | 207,085 |
| Dividends on preference shares | - | - | - | - | (1,125,000) | (1,125,000) |
| Dividends paid to ordinary shareholders | - | - | - | - | (4,054,998) | (4,054,998) |
| Balance at June 30, 2008 | $ 30,364,990 | $ 28,587,866 | $ (30,244) | $ - | $ 34,980,703 | $ 93,903,315 |
| Net income for the year | - | - | - | - | 5,787,917 | 5,787,917 |
| Net gains on remeasurement of available-for-sale securities to fair value | - | - | - | 22,694 | - | 22,694 |
| Preference share issuance | 19,651,000 | - | - | - | - | 19,651,000 |
| Dividends on preference shares | - | - | - | - | (1,357,274) | (1,357,274) |
| Dividends paid to ordinary shareholders | - | - | - | - | (4,054,998) | (4,054,998) |
| **Balance, June 30, 2009** | **$50,015,990** | **$28,587,866** | **$ (30,244)** | **$22,694** | **$35,356,348** | **$113,952,654** |

See accompanying notes.

# BANK OF THE BAHAMAS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS
## YEAR ENDED JUNE 30, 2009
***(Expressed in Bahamian dollars)***

| | NOTE | 2009 | 2008 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | | $ 5,787,917 | $ 6,100,194 |
| Adjustments for: | | | |
| Depreciation and amortization | | 1,757,534 | 2,148,666 |
| Gain on revaluation of investment property | | - | (45,313) |
| Gain on disposal of fixed assets | | (13,545) | (49) |
| Net provision for loan losses | | 3,205,261 | 2,975,095 |
| Net provision for other impairments | | (165,000) | 890,822 |
| | | 10,572,167 | 12,069,415 |
| Change in operating assets and liabilities | | (4,607,108) | 2,828,991 |
| Increase in loans and advances to customers, net | | (36,705,792) | (38,165,730) |
| Increase in deposits from customers and banks | | 7,920,272 | 71,074,799 |
| Net cash (used in)/provided by operating activities | | (22,820,461) | 47,807,475 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Acquisition of property and equipment | | $ (812,815) | $ (2,105,925) |
| Acquisition of intangible assets | | (880,418) | (496,533) |
| Purchase of investments | | (25,334,089) | (3,120,000) |
| Proceeds from disposal of property and equipment | | 29,401 | 50 |
| Proceeds from maturity of investments | | - | 5,700,000 |
| Investment property additions | | (274,552) | (476,187) |
| Net cash (used in)/provided by investing activities | | (27,272,473) | (498,595) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Preference shares issuance | 15 | $ 19,651,000 | $ - |
| Dividends paid on common stock | | (4,054,998) | (4,054,998) |
| Dividends on preference shares | | (1,357,274) | (1,125,000) |
| (Decrease)/increase in interest payable on bonds | | (716,480) | 161,665 |
| Sale of treasury shares | | - | 207,085 |
| Net cash provided by/used in financing activities | | 13,522,248 | (4,811,248) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(36,570,686)** | **42,497,632** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | | **167,127,389** | **124,629,757** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 5 | **$ 130,556,703** | **$ 167,127,389** |
| SUPPLEMENTAL INFORMATION: | | | |
| **Interest received** | | **$ 48,467,594** | **$ 47,607,097** |
| **Interest paid** | | **$ 23,516,509** | **$ 17,522,096** |
| **Dividends paid** | | **$ 5,412,272** | **$ 5,179,998** |

See accompanying notes.

# BANK OF THE BAHAMAS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT
## YEAR ENDED JUNE 30, 2009
***(Expressed in Bahamian dollars)***

### 1. GENERAL INFORMATION

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

The Bank's shares are publicly traded and listed on The Bahamas International Securities Exchange. The Government of The Commonwealth of The Bahamas and The National Insurance Board own 51% of the issued common shares. The remaining common shares are owned by approximately 4,000 Bahamian shareholders. The Bank's head office is located at Claughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, The Bahamas.

The Bank's services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded stored value, prepaid and credit cards. The Bank has twelve branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua and one in Cat Island. A subsidiary named BOB Financial Services Inc. was incorporated in Coral Gables, Florida on June 30, 2005 and commenced operations December 10, 2007. The main activities of BOB Financial Services Inc. are the provision of trade financing and other financial services.

The Bank carries out international business through its correspondent banking relationships with Bank of America, JP Morgan Chase, Bank of Montreal, Standard Charter Bank, Citibank NA and Lloyds Bank PLC. The Bank is also an agent for American Express and MoneyGram.

### 2. BASIS OF PREPARATION

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment property. The preparation of 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.

**(a) Adoption of new and revised international financial reporting standards**

The accounting policies adopted are consistent with those used in the previous financial year. The following International Accounting Standards (IAS) issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Interpretations Committee ("IFRIC") are relevant to the Bank, however, have not been early adopted in these consolidated financial statements:

*IAS 1 - Presentation of financial statements (Revised).* The revised is effective for annual periods after July 1, 2009, standard prohibits the presentation of items of income and expense (that is non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Bank has not implemented the changes required by the standard but does not expect the new standard to have an impact on consolidated operations.

*IFRS 8 - Operating Segments.* This new standard replaces IAS 14 'Segment Reporting' and requires reporting of financial and descriptive information about operating segments which are based on how financial information is reported and evaluated internally. The new standard is effective for annual periods after January 1, 2009. The Bank is presently not organized on a segment basis and therefore no segment information is presented in these consolidated financial statements.

*IAS 23 - Borrowing Costs* - is applicable for annual periods beginning on or after January 1, 2009. The revised standard eliminates the option of recognizing borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The Bank does not expect adoption of the revised standard to have a significant effect on the consolidated financial statements.

*IFRS 3 (Revised 2008) - Business Combinations' and IAS 27 (Revised 2008) 'Consolidated and Separate Financial Statements* - The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Bank's 2010 financial statements. The Bank does not expect adoption of these revised standards to have a significant effect on the consolidated financial statements.

*Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements* - Puttable Financial Instruments and Obligations Arising on Liquidation - Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for annual periods beginning on or after January 1, 2009 with early application permitted. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity. The amendments to IAS 32 and IAS 1 are not expected to have any impact on the financial performance of the Bank as the Bank has not issued such instruments.

*IFRIC 15 Agreements for the Construction of Real Estate* - IFRIC 15 is effective for accounting periods beginning January 1, 2009. The interpretation applies to revenue recognition in entities associated with real estate construction. This interpretation is not expected to have an effect on the Bank's consolidated financial statements.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation* - IFRIC 16 is effective for accounting periods beginning on or after October 1, 2008 with early application permitted. The interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. This interpretation will have no effect on the Bank's consolidated financial statements.

*IFRIC 17 Distributions of Non-cash Assets to Owners* – IFRIC 17 is effective for accounting periods beginning July 1, 2009. The interpretation applies to non-cash dividends to shareholders. This interpretation is not expected to have an effect on the Bank's consolidated financial statements.

*Improvements to IFRSs* - In May 2008 the IASB issued its second annual set of non-urgent amendments to the standards, primarily with a view to removing inconsistencies and clarifying wording. The Bank has decided not to early adopt the amendments and does not expect that their application to have a significant effect.

### (b) Basis of consolidation

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

These consolidated financial statements include the financial statements of the Bank's wholly-owned subsidiary BOB Financial Services Inc, Coral Gables, Florida.

## 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The consolidated financial statements have been prepared in accordance with IFRS as promulgated by the IASB and with the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one which is both important to the portrayal of the Bank's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. 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, as well as the forecasts as to how these might change in the future.

### Impairment

*Tangible assets*

The Bank has made significant investments in physical assets. These 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. As at June 30, 2009, no impairment losses were recorded for the reporting period.

*Depreciation and amortization*

Depreciation and amortization is based on management estimates of the future useful lives of property and equipment. 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 amortization or depreciation charges. The Bank reviews the future useful lives of property and equipment periodically taking into consideration the factors mentioned above and all other important factors. Estimated useful lives for similar types of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate etc. In case of significant changes in the estimated useful lives, depreciation and amortization charges are adjusted prospectively.

*Impairment losses on loans and advances to customers and banks*

The Bank has significant investments in loans receivable. These assets are assessed for impairment at least on a quarterly basis. Management's process for this assessment is presented in Note 4d. 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*
The Bank has significant investment holdings. These investments 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 4d. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods.

*Goodwill*
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The impairment test calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Cash flows are determined by using the projected inflows and adjusting for non-cash transactions primarily depreciation and loan losses, less projected capital outflows.

The impairment charge is determined by taking the difference between the present value of the unit's projected cash flow and its book value. As of June 30, 2009 no impairment loss was recognized for the reported period.

Further details are presented in Note 11.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a. Revenue recognition

*Interest and similar income*
For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate. The calculation of amortized 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 recognized on an accrual basis when the service has been provided. .

### b. Cash and cash equivalents

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

### c. Financial 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.

*(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 amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization 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 recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the consolidated income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in the consolidated income statement.

## d. Impairment of financial assets

The Bank assesses at each balance sheet 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; and
- Downgrading below investment grade level.

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 recognized 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 recognized in the consolidated income statement. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Non-accrual loans and overdrafts are identified as impaired and placed on a cash (non-accrual) basis when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principal is past due 90 days or more, except for loans that are fully secured and in the process of collection, and loans to or guaranteed by The Government of The Commonwealth of The Bahamas. 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 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 recognized as income, but rather is suspended.

Cash basis loans are returned to accrual status when all contractual principal and interest amounts 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 expense net of recoveries. Provision for loan losses is comprised of specific and general provisions.

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 net realizable value of the collateral. Net realizable value represents the discounted market price 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.

The general provision represents management's estimate of probable but unrealized losses inherent in the loan portfolio against which specific provisions have not been established.

Consumer loans that are not fully secured by real estate are fully provided for when they are contractually in arrears more than 180 days. All other loans are provided for when the following conditions exist: i) contractually in arrears; ii) underlying collateral has been exhausted; and iii) no payment has been received within 180 days thereafter. Where a loan is being provided for, specific provision is increased to the principal amount of the loan.

## e. Foreign currency

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

## f. Property and equipment

Property and equipment (excluding the building) are stated at historical cost less accumulated depreciation. The 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 recognized as a separate asset, as appropriate, only when it is probably 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 charge to the consolidated statement of income during the financial period in which they are incurred.

Depreciation and amortization are calculated on a straight-line basis using the following annual rates:

| | |
|---|---|
| Building | 2% |
| Leasehold improvements | 20 - 33.33% |
| Furniture, fixtures and equipment | 20 - 50% |

Leasehold improvements are amortized 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 amortization term however does not exceed five years. Land is not depreciated.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

## g. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## h. Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, 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 recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

## i. Related parties

Related parties include all Ministries and Departments of The Bahamas 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 the Bank's personnel's borrowings.

## j. Employee benefits

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's current plan (the "Plan") allows eligible employees (those who have attained 25 years of age and confirmed in their positions) to contribute a minimum of 3.5% of their annual salaries and the Bank contributes 6.5%. Employees become fully vested after 2 years of plan membership. The Plan's costs are charged to general and administrative expenses and are funded as accrued.

## k. Earnings per share

Earnings per share is computed by dividing the net income attributable to common shareholders by the weighted average number of shares outstanding during the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

**l. 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.

**m. Taxes**

A subsidiary of the Bank is required to comply with United States Federal and State tax laws. The accounts for the tax effect of the subsidiary in accordance with IAS 12 Accounting for Taxes on Income. Accordingly deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and Laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**n. 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 appraisals by recognized valuation experts. 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 income for the period in which they arise.

**o. Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**p. Amortization of software**

Costs relating to software are stated at costs less amortization. Amortization is calculated on a straight-line basis using the annual rate of 10 – 33.33%.

**q. Borrowings**

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

**r. Group insurance funds**

Provisions are made for claims notified and for claims incurred but which have not yet been notified. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

**s. Share capital**

*(i) Share issue costs*
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, from the proceeds.

*(ii) Dividends on ordinary shares*
Dividends on common and preferred shares are recognized in equity in the period in which they are approved by the Bank's Directors.

*(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.

## 5. CASH & CASH EQUIVALENTS

The following is an analysis of cash and cash equivalents.

Included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas of $19,680,312 (2008: $17,667,400). All balances with The Central Bank of The Bahamas are non-interest bearing.

| | 2009 | 2008 |
|---|---|---|
| Cash | $ 5,820,598 | $ 6,667,999 |
| Due from banks | 100,612,566 | 107,197,737 |
| Cash and due from banks | 106,433,164 | 113,865,736 |
| Account with The Central Bank of The Bahamas | 24,123,539 | 53,261,653 |
| | **$ 130,556,703** | **$ 167,127,389** |

## 6. INVESTMENTS

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

| | 2009 | 2008 |
|---|---|---|
| **AVAILABLE-FOR-SALE** | | |
| Bahamas Registered Stock | $ 25,111,400 | $ - |
| Equity Securities | 245,383 | - |
| | **$ 25,356,783** | **$ -** |
| **HELD TO MATURITY** | | |
| Bahamas Registered Stock | $ 25,186,500 | $ 25,186,500 |
| Bridge Authority Bond | 136,500 | 136,500 |
| | **$ 25,323,000** | **$ 25,323,000** |
| **TOTAL INVESTMENT SECURITIES** | **$ 50,679,783** | **$ 25,323,000** |

As of the year-end reporting date, government securities mainly comprise variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 5.59% to 7% per annum (2008: from 5.59% to 7.% per annum) and scheduled maturities between 2010 and 2033 (2008: between 2010 and 2033).

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

| | Available-for-sale | Held-to maturity | Total |
|---|---|---|---|
| At July 1, 2007 | $ - | $ 27,903,000 | $ 27,903,000 |
| Additions | - | 3,120,000 | 3,120,000 |
| Maturities | - | (5,700,000) | (5,700,000) |
| **At June 30, 2008** | **$ -** | **$ 25,323,000** | **$ 25,323,000** |
| At July 1, 2008 | $ - | $ 25,323,000 | $ 25,323,000 |
| Additions | 25,334,089 | - | 25,334,089 |
| Net fair value gain | 22,694 | - | 22,694 |
| **At June 30, 2009** | **$ 25,356,783** | **$ 25,323,000** | **$ 50,679,783** |

## 7. LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers are as follows:

| | 2009 | 2008 |
|---|---|---|
| Mortgage loans | $ 248,935,228 | $ 266,176,954 |
| Commercial loans | 175,689,311 | 152,114,774 |
| Consumer loans | 53,230,865 | 38,086,053 |
| Credit cards | 1,364,024 | 278,110 |
| Business overdrafts | 57,267,028 | 43,628,337 |
| Personal overdrafts | 16,925,294 | 17,889,847 |
| Government guaranteed student loans | 7,626,571 | 8,031,362 |
| | 561,038,321 | 526,205,437 |
| **LESS: PROVISION FOR LOAN LOSSES:** | | |
| At beginning of year | 8,220,745 | 6,040,225 |
| Amount written-off | (2,253,621) | (794,575) |
| Recoveries | 609,007 | 317,000 |
| Provision charged to expense | 2,596,254 | 2,658,095 |
| At end of year | 9,172,385 | 8,220,745 |
| Accrued interest receivable | 3,746,402 | 4,127,115 |
| **Loans and advances to customers, net** | **$ 555,612,338** | **$ 522,111,807** |

During the year, the Bank wrote-off loans totaling $2,253,621 (2008: $794,575) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts.

Loan loss provisions are as follows:

| **SPECIFIC PROVISIONS** | 2009 | 2008 |
|---|---|---|
| Mortgage loans | $ 1,103,340 | $ 776,416 |
| Commercial loans | 1,354,948 | 551,180 |
| Consumer loans | 1,712,609 | 2,266,871 |
| Credit cards | 120,000 | 120,000 |
| | 4,290,897 | 3,714,467 |
| General provision | 4,881,488 | 4,506,278 |
| **TOTAL** | **$ 9,172,385** | **$ 8,220,745** |

Non-accrual loans are as follows:

| | 2009 | 2008 |
|---|---|---|
| Mortgage loans | $ 9,950,985 | $ 11,493,098 |
| Commercial loans | 13,090,646 | 8,973,758 |
| Consumer loans | 1,799,778 | 4,849,411 |
| Credit card loans | 320,458 | 153,434 |
| **TOTAL** | **$ 25,161,867** | **$ 25,469,701** |
| **NON-ACCRUAL LOANS AS A PERCENTAGE OF LOAN PORTFOLIO** | **4.48%** | **4.84%** |
| **NON-ACCRUAL LOANS EXPRESSED AS A PERCENTAGE OF TOTAL ASSETS** | **3.32%** | **3.47%** |

*continued*

## 7. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

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

| | 2009 Value | 2009 No. of Loans | 2008 Value | 2008 No. of Loans |
|---|---|---|---|---|
| $0 - $10,000 | $ 16,273,003 | 2,856 | $ 17,977,746 | 3,055 |
| $10,001 - $20,000 | 20,905,947 | 1,847 | 28,777,139 | 1,846 |
| $20,001 - $30,000 | 29,297,967 | 1,147 | 26,965,680 | 1,057 |
| $30,001 - $40,000 | 21,409,408 | 593 | 19,157,951 | 539 |
| $40,001 - $50,000 | 16,337,988 | 363 | 15,029,442 | 336 |
| Over $50,000 | 456,814,008 | 2,075 | 418,297,479 | 2,007 |
| | **$ 561,038,321** | **8,881** | **$ 526,205,437** | **8,840** |

The table below shows the distribution of loans and advances to customers that are neither past due or impaired:

| | 2009 | 2008 |
|---|---|---|
| Satisfactory Risk | $ 408,783,687 | $ 291,600,400 |
| Watch List | 22,287,638 | 20,979,496 |
| Sub-standard but not impaired | 27,359,919 | 65,752,444 |
| | **$ 458,431,244** | **$ 378,332,340** |

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

| | 2009 Principal Balance | 2009 Restructured | 2009 Total | 2008 Principal Balance | 2008 Restructured | 2008 Total |
|---|---|---|---|---|---|---|
| **MORTAGES** | | | | | | |
| Neither past due or impaired | $ 195,812 | $ 3,478 | $ 199,290 | $ 184,582 | $ 1,093 | $ 185,675 |
| Past due but not impaired | 34,963 | 4,731 | 39,694 | 69,009 | - | 69,009 |
| Impaired | 5,844 | 4,107 | 9,951 | 11,493 | - | 11,493 |
| | $ 236,619 | $ 12,316 | $ 248,935 | $ 265,084 | $ 1,093 | $ 266,177 |
| **COMMERCIAL** | | | | | | |
| Neither past due or impaired | $ 129,424 | $ 2,523 | $ 131,947 | $ 99,559 | $ 108 | $ 99,667 |
| Past due but not impaired | 29,675 | 977 | 30,652 | 43,474 | - | 43,474 |
| Impaired | 12,665 | 426 | 13,091 | 8,974 | - | 8,974 |
| | $ 171,763 | $ 3,926 | $ 175,689 | $ 152,007 | $ 108 | $ 152,115 |
| **CONSUMER** | | | | | | |
| Neither past due or impaired | $ 51,639 | $ 556 | $ 52,195 | $ 31,172 | $ 220 | $ 31,392 |
| Past due but not impaired | 6,004 | 859 | 6,863 | 9,876 | - | 9,876 |
| Impaired | 931 | 869 | 1,800 | 4,849 | - | 4,849 |
| | $ 58,573 | $ 2,284 | $ 60,857 | $ 45,897 | $ 220 | $ 46,117 |
| **CREDIT CARDS** | | | | | | |
| Neither past due or impaired | $ 807 | $ - | $ 807 | $ 81 | $ - | $ 81 |
| Past due but not impaired | 236 | - | 236 | 44 | - | $ 44 |
| Impaired | 320 | - | 320 | 153 | - | $ 153 |
| | $ 1,364 | $ - | $ 1,364 | $ 278 | $ - | $ 278 |
| **BUSINESS OVERDRAFTS** | | | | | | |
| Neither past due or impaired | $ 57,267 | $ - | $ 57,267 | $ 43,628 | $ - | $ 43,628 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 57,267 | $ - | $ 57,267 | $ 43,628 | $ - | $ 43,628 |
| **PERSONAL OVERDRAFTS** | | | | | | |
| Neither past due or impaired | $ 16,925 | $ - | $ 16,925 | $ 17,890 | $ - | $ 17,890 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | $ 16,925 | $ - | $ 16,925 | $ 17,890 | $ - | $ 17,890 |

*continued*

## 7. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

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

| | 2009 | | | | |
|---|---|---|---|---|---|
| In ($000s) | **Residential Mortgage** | **Commercial** | **Consumer** | **Credit Card** | **Total** |
| Past due up to 29 days | $ 14,058 | $ 7,994 | $ 1,870 | $ 144 | $ 24,066 |
| Past due 30 - 59 days | 15,070 | 11,229 | 2,955 | 58 | 29,312 |
| Past due 60 - 89 days | 10,566 | 11,429 | 2,038 | 35 | 24,068 |
| | **$ 39,694** | **$ 30,652** | **$ 6,862** | **$ 236** | **$ 77,445** |

| | 2008 | | | | |
|---|---|---|---|---|---|
| In ($000s) | **Residential Mortgage** | **Commercial** | **Consumer** | **Credit Card** | **Total** |
| Past due up to 29 days | $ 25,170 | $ 11,000 | $ 4,813 | $ - | $ 40,983 |
| Past due 30 - 59 days | 29,134 | 13,965 | 2,491 | 25 | 45,615 |
| Past due 60 - 89 days | 14,749 | 18,510 | 2,527 | 19 | 35,805 |
| | **$ 69,053** | **$ 43,474** | **$ 9,832** | **$ 44** | **$ 122,403** |

## 8. INVESTMENT PROPERTY

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

It is management's intention to construct a commercial office complex on this land. 30% of the complex will be used to house the Bank's headquarters and the remaining 70% will be available for commercial rental. Management has allocated the land using these percentages and in accordance with IAS 16 Property, Plant and Equipment management has classified the portion of that land that has been allocated to be used for its headquarters as fixed assets and that portion of the land that has been allocated for commercial rental as investment property in accordance with IAS 40: Investment Property. During the year, the land was appraised by a qualified appraiser who provided the valuation of the land.

The movement in investment property during the year is as follows:

| | **2009** | **2008** |
|---|---|---|
| Beginning balance | $ 3,601,500 | $ 3,080,000 |
| Additions | 274,552 | 476,187 |
| Revaluation gain | - | 45,313 |
| | **$ 3,876,052** | **$ 3,601,500** |

## 9. OTHER ASSETS

Other assets are comprised of the following:

| | **2009** | **2008** |
|---|---|---|
| Accounts receivables | $ 1,735,246 | $ 603,303 |
| Prepaid assets | 1,510,703 | 937,146 |
| Cheque clearing account | 3,496,166 | 497,263 |
| Other assets | 1,948,734 | 5,248,040 |
| | **$ 8,690,849** | **$ 7,285,752** |

### 10. PROPERTY AND EQUIPMENT, NET

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

| | Land and Building | Leasehold Improvements | Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|
| **COST:** | | | | |
| Balance as at June 2007 | $ 2,396,675 | $ 4,166,471 | $ 6,040,784 | $ 12,603,930 |
| Additions | 204,080 | 1,078,334 | 823,511 | 2,105,925 |
| Disposals | - | - | (1) | (1) |
| Balance as at June 2008 | 2,600,755 | 5,244,805 | 6,864,294 | 14,709,854 |
| Additions | 117,021 | 152,332 | 543,462 | 812,815 |
| Disposals | - | - | (117,178) | (117,178) |
| **Balance as at June 2009** | **$ 2,717,776** | **$ 5,397,137** | **$ 7,290,578** | **$ 15,405,491** |
| **ACCUMULATED DEPRECIATION:** | | | | |
| Balance as at June 2007 | $ 872,594 | $ 2,613,771 | $ 4,223,050 | $ 7,709,415 |
| Depreciation | 25,384 | 698,773 | 1,214,423 | 1,938,580 |
| Disposals | - | - | - | - |
| Balance as at June 2008 | 897,978 | 3,312,544 | 5,437,473 | 9,647,995 |
| Depreciation | 5,278 | 581,956 | 766,478 | 1,353,712 |
| Disposals | - | - | (101,322) | (101,322) |
| **Balance as at June 2009** | **$ 903,256** | **$ 3,894,500** | **$ 6,102,629** | **$ 10,900,384** |
| **NET BOOK VALUE:** | | | | |
| **Balance as at June 30, 2009** | **$ 1,814,519** | **$ 1,502,637** | **$ 1,187,949** | **$ 4,505,107** |
| **Balance as at June 30, 2008** | **$ 1,702,777** | **$ 1,932,261** | **$ 1,426,822** | **$ 5,061,859** |

Land in the amount of $1,105,281 (2008: $1,105,281) is included in land and building.

### 11. INTANGIBLE ASSETS, NET

| | Goodwill | Software | Total |
|---|---|---|---|
| Balance as at June 30, 2007 | $ 1,075,759 | $ 2,539,487 | $ 3,615,246 |
| Additions | - | 496,533 | 496,533 |
| Amortisation | - | (210,086) | (210,086) |
| Balance June 30, 2008 | 1,075,759 | 2,825,934 | 3,901,693 |
| Additions | - | 880,418 | 880,418 |
| Amortisation | - | (403,822) | (403,822) |
| **Balance June 30, 2009** | **$ 1,075,759** | **$ 3,302,530** | **$ 4,378,289** |

Goodwill arose during the bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the Harrold Road Branch where the book of business is managed. As at June 30, 2009, management determined that goodwill was not impaired (2008: $0)

## 12. DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers and banks are as follows:

| | 2009 | 2008 |
|---|---|---|
| Term deposits | $ 457,221,372 | $ 444,920,044 |
| Demand deposits | 83,164,614 | 91,280,562 |
| Savings accounts | 41,810,215 | 38,624,738 |
| | 582,196,201 | 574,825,344 |
| Accrued interest payable | 5,892,977 | 5,343,562 |
| | **$ 588,089,178** | **$580,168,906** |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Value** | **No. of Deposits** | **Value** | **No. of Deposits** |
| $0 - $10,000 | $ 22,443,053 | 29,662 | $ 22,157,936 | 31,336 |
| $10,001 - $20,000 | 12,064,740 | 875 | 11,811,456 | 864 |
| $20,001 - $30,000 | 8,230,141 | 338 | 8,291,330 | 341 |
| $30,001 - $40,000 | 6,823,077 | 198 | 6,811,581 | 198 |
| $40,001 - $50,000 | 2,939,516 | 123 | 5,795,908 | 131 |
| Over $50,000 | 529,695,674 | 865 | 519,957,133 | 854 |
| | **$582,196,201** | **32,061** | **$ 574,825,344** | **33,724** |

In 1999, The Central Bank of The Bahamas established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $188,801 (2008:$ 125,222) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

## 13. OTHER BORROWED FUNDS

### BONDS PAYABLE

Bonds payable were issued to the National Insurance Board on May 1, 2002, and bear interest at the Bahamian dollar prime rate which at year-end was 5.50% (2008: 5.50%). Interest expense during the year totaled $935,000 (2008: $935,000). These bonds are secured under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifiable assets which include Government registered stock and cash.

The amounts and maturity dates are as follows:

| Description | Maturity | 2009 | 2008 |
|---|---|---|---|
| Prime bond series A | Due December 31, 2012 | $ 3,500,000 | $ 3,500,000 |
| Prime bond series B | Due December 31, 2013 | 4,800,000 | 4,800,000 |
| Prime bond series C | Due December 31, 2014 | 2,600,000 | 2,600,000 |
| Prime bond series D | Due December 31, 2015 | 6,100,000 | 6,100,000 |
| | | **$ 17,000,000** | **$ 17,000,000** |

### MORTGAGE BACKED BONDS

Mortgage backed bonds bearing interest of 1.75% above Bahamian dollar prime rate which at year-end was 7.25% were issued in a private placement on January 1, 2007. Interest expense during the year 2009 totaled $1,450,000 (2008: $1,450,000). In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio.

| Description | Maturity | 2009 | 2008 |
|---|---|---|---|
| Mortgage backed bonds Series F | 2022 | $ 4,000,000 | $ 4,000,000 |
| Mortgage backed bonds Series G | 2023 | 4,000,000 | 4,000,000 |
| Mortgage backed bonds Series H | 2024 | 4,000,000 | 4,000,000 |
| Mortgage backed bonds Series I | 2025 | 4,000,000 | 4,000,000 |
| Mortgage backed bonds Series J | 2026 | 4,000,000 | 4,000,000 |
| | | **$ 20,000,000** | **$ 20,000,000** |

## 14. OTHER LIABILITIES

Other liabilities consist of the following:

| | 2009 | 2008 |
|---|---|---|
| Accounts Payable | $ 1,755,904 | $ 2,709,890 |
| Other Liabilities | 3,103,750 | 2 ,207,271 |
| Due to Education Loan Authority | 557,951 | - |
| Cardholders Liability | 1,491,906 | 2 ,419,564 |
| Group Insurance Funds | 774,175 | 797,309 |
| | **$ 7,683,686** | **$ 8,134,034** |

## 15. SHARE CAPITAL

Share capital consists of the following:

**EQUITY CAPITAL**

| | 2009 | 2008 |
|---|---|---|
| **Authorized:** | | |
| 150,000, preference shares of B$1,000 each (2008: 15,000) | $ 150,000,000 | $ 15,000,000 |
| 25,000,000 Ordinary shares of B$1 each (2008: 25,000,000) | $ 25,000,000 | $ 25,000,000 |
| **Issued and fully paid:** | | |
| 34,415.99 preference shares of B$1,000 each (2008:14,764.99) | $ 34,415,990 | $ 14,764,990 |
| 15,596,145 Ordinary shares of B$1 each (2008: 15,596,145) | $ 15,569,756 | $ 15,569,756 |

*Preference shares*

The Bank's shareholders have 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 2009 the Bank issued a total of B$15,000,000 and B$20,000,000 in redeemable preference shares at a rate of 7.5% and 8% 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.

## 16. TREASURY SHARES

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at June 30, 2009 was 3,855 (2008: 3,855).

## 17. REVALUATION RESERVE

The revaluation reserve is comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date.

| | 2009 | 2008 |
|---|---|---|
| Balance, beginning ing of year | $ - | $ - |
| Fair value gains, net during the year | 22,694 | - |
| **Balance, end of year** | **$ 22,694** | **$ -** |

## 18. NET INTEREST INCOME

| | 2009 | 2008 |
|---|---|---|
| **Interest and similar income** | | |
| Cash and short term investments | $ 1,011,856 | $ 3,753,789 |
| Investment securities | 1,989,831 | 1,541,757 |
| Loans and advances to customers | 46,753,116 | 47,343,136 |
| | 49,754,803 | 52,638,682 |
| **Interest and similar expense** | | |
| Banks and customers | 20,964,444 | 20,144,300 |
| Debt securities | 2,385,000 | 3,054,904 |
| | 23,349,444 | 23,199,204 |
| **Total net interest income** | **$ 26,405,359** | **$ 29,439,478** |

## 19. FEE AND COMMISSION INCOME

| | 2009 | 2008 |
|---|---|---|
| Deposit services fees and commissions | $ 2,100,960 | $ 1,417,379 |
| Credit services fees and commissions | 1,991,283 | 1,242,891 |
| Card services fees and commissions | 1,617,928 | 1,543,304 |
| Other fees and commissions | 88,431 | 60,900 |
| **Total fee and commission income** | **$ 5,798,602** | **$ 4,264,474** |

## 20. OTHER OPERATING INCOME

| | 2009 | 2008 |
|---|---|---|
| Foreign exchange | $ 1,222,219 | $ 1,551,744 |
| Gain on property revaluation | - | 45,313 |
| Other | 2,232,672 | 288,545 |
| **Total other operating income** | **$ 3,454,891** | **$ 1,885,602** |

## 21. OPERATING EXPENSES

| | 2009 | 2008 |
|---|---|---|
| Staff costs | $ 15,276,840 | $ 13,324,121 |
| Occupancy | 3,123,478 | 3,491,854 |
| Information technology | 898,755 | 1,250,618 |
| Depreciation and amoritzation | 1,757,534 | 2,148,666 |
| Provision against other assets | (165,000) | 890,821 |
| Travel and stationery | 794,189 | 759,405 |
| Licenses and other fees | 1,871,272 | 1,556,827 |
| Advertising, marketing and donations | 868,195 | 696,598 |
| Other expenses | 2,155,153 | 2,342,993 |
| **Total operating expenses** | **$ 26,580,416** | **$ 26,461,903** |

## 22. CONTINGENCIES

Various legal proceedings are pending that challenge certain actions of the Bank. Most of these proceedings are loan-related and are reactions to steps taken by the Bank to collect delinquent loans and enforce its rights against collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

## 23. COMMITMENTS

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

| | |
|---|---|
| No later than an 1 year | $ 1,218,356 |
| Later than 1 year and no later than 5 years | 1,925,510 |
| **Total** | **$ 3,143,866** |

Rental expense (including service charges) totaled $1,570,879 (2008:$1,220,220) net of rental income of $20,698 (2008: $19,800).

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

(b) The commitment for loans at June 30, 2009 was $23,856,882 (2008: $21,410,495).

(c) The Bank has a commitment for future capital expenditure of $282,293 (2008:$259,976).

(c) The Bank has a commitment with Visa of $450,000 (2008: $450,000).

## 24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2009 (2008: Nil). No provision expense has been recognized in these financial statements on loans to related parties.

| | Government | Other Government Entities | Key Management | Total 2009 | Total 2008 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ - | $ 24,123,539 | $ - | $ 24,123,539 | $ 53,261,653 |
| Investment securities | $ 50,434,400 | $ - | $ - | $ 50,434,400 | $ 25,323,000 |
| Loans and advances to customers | $ 5,030,340 | $ 7,034,981 | $ 2,887,779 | $ 14,953,100 | $ 20,681,339 |
| Other Assets | $ 848,960 | | $ - | $ 848,960 | $ 584,095 |
| **Liabilities** | | | | | |
| Deposits from customers and banks | $ 24,102,216 | $ 123,575,680 | $ 858,690 | $ 148,536,586 | $ 145,063,700 |
| Other borrowed funds | $ - | $ 17,000,000 | $ - | $ 17,000,000 | $ 17,000,000 |
| Other liabilities | $ - | $ 12,808 | $ - | $ 12,808 | $ 1,250,623 |

| | Government | Other Government Entities | Key Management | Total 2009 | Total 2008 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Interest Income | $ 2,314,831 | $ 415,267 | $ 148,943 | $ 2,879,041 | $ 3,112,239 |
| **Total** | **$ 2,314,831** | **$ 415,267** | **$ 148,943** | **$ 2,879,041** | **$ 3,112,239** |
| **Expenses** | | | | | |
| Interest Expense | $ 1,015,410 | $ 6,141,161 | $ 33,403 | $ 7,156,571 | $ 5,278,648 |
| Directors fees | $ - | - | 164,760 | 164,760 | 159,841 |
| Share compensation | $ - | - | - | - | 159,500 |
| Short-term employee benefits | $ - | - | 2,512,838 | 2,512,838 | 1,669,053 |
| Post employment benefits | $ - | - | 129,842 | 129,842 | 97,734 |
| Termination benefits | $ - | - | 490,035 | 490,035 | - |
| **Total** | **$ 1,015,410** | **$ 6,141,161** | **$ 3,330,878** | **$ 10,487,449** | **$ 7,364,776** |

## 25. EMPLOYEE BENEFITS

The Bank has a defined contribution plan (the "Plan") in which eligible employees (those having attained 25 years of age and confirmed in their positions) contribute a minimum of 3.5% of their annual salaries and the Bank contributes 6.5%. Employees become fully vested after 2 years of plan membership. The plan assets are managed by an independent third party investment manager.

Contributions for the year ended June 30, 2009 totaled $583,568 (2008: $517,410). The Plan owns 210,826 (2008: 210,856) shares of the Bank. The holdings represent approximately 17% (2008: 30%) of the Plan's net assets.

The Plan has deposits totaling $5,687,956 (2008: $5,907,638) with the Bank.

The Bank serves as the Trustee of the Plan.

## 26. ASSETS UNDER ADMINISTRATION

Assets under administration for clients in the Bank's fiduciary capacity are as follows:

| | 2009 | 2008 |
|---|---|---|
| Government guaranteed student education loans | $ 81,209,420 | $ 64,422,582 |
| Trust assets | $ 45,399,863 | $ 43,106,288 |

## 27. DIVIDENDS AND EARNINGS PER SHARE

Dividends to the Bank's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid by the Company to ordinary shareholders in 2009 totaled $4,054,998 or $0.26 per share (2008: $4,054,998 or $0.26 per share).

During the year the Bank paid dividends on its preference shares of $1,357,274 (2008:$1,125,000).

| | 2009 | 2008 |
|---|---|---|
| Net income attributable to equity shareholders | $ 5,787,917 | $ 6,100,194 |
| Preference share dividends | (1,357,274) | (1,125,000) |
| Net income attributable to ordinary shareholders | $ 4,430,643 | $ 4,975,194 |
| Weighted average number of ordinary shares outstanding | 15,596,145 | 15,586,073 |
| Basic earnings per ordinary share | $ 0.28 | $ 0.32 |

## 28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The estimated fair values 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.

The following methods and assumptions have been used in determining fair value:

**Cash and cash equivalents, other assets and other liabilities**
Due to their short-term maturity, the carrying values of these financial instruments are assumed to approximate their fair values.

**Investments**
The estimated fair values of investments are based on quoted market prices, when available. If quoted market prices are not available the estimated fair value of investments are deemed to reflect cost or amortized cost.

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

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

## 29. REGULATORY CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank of The Bahamas.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

**Capital risk management**
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objective, policies and processes from the previous years.

The capital structure is designed to provide optimal risk absorption consistent with the risk profile of the Bank's balance sheet which therefore ensures that the Bank has the ability to continue as a going concern. 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 as shown in Note 15.

At June 30, 2009 the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares and retained earnings. The Bank's Board and Asset/Liability management committee monitor the capital structure and review the structure at least quarterly, reviewing the capital mix and the cost of capital for each class of capital. Ongoing capital management includes the payment of dividends, new share issuances, redemptions of preferences shares and common share issuances.

*continued*

## 29. REGULATORY CAPITAL (CONTINUED)

### Regulatory capital

| (In $000s) | Actual 2009 | Actual 2008 |
|---|---|---|
| Tier 1 capital | 113,001 | 92,828 |
| Tier 2 capital | 5,726 | 4,506 |
| **Total capital** | **118,727** | **97,334** |
| **Risk weighted assets** | **449,031** | **433,264** |
| Tier 1 capital ratio | 14.75% | 12.50% |
| Total capital ratio | 15.50% | 13.11% |

Regulatory capital consists of Tier 1 capital, which comprises share capital, less goodwill and retained earnings including current year profit. The other component of regulatory capital is Tier 2 capital, which comprises long term debt, revaluation reserves on available-for-sale securities and general reserves.

The Central Bank of The Bahamas regulations requires, consistent with international best practice, as defined by the Bank of International Settlements Basel 1 Capital Accord, that the Bank maintains a risk adjusted capital to asset ratio equal to or greater than 8%. The Bank's risk adjusted capital ratio at the end of the fiscal year was 25.17% (2008: 21.43%).

## 30. COMPARATIVES

In Note 10, computer software classified within the furniture, fixtures and equipment category representing a balance of $181,098 in property and equipment was reclassified to Intangible Assets, net. Also reclassified was a credit of $2,170,387 from Other Assets to Other Liabilities, and a $3,500 debit from Other Liabilities to Other Assets.

## 31. RISK MANAGEMENT

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

***Credit risk***

Credit risk arises from the failure of counterparty to perform according to the terms of the contract. From this perspective, the Bank's significant exposure to credit risk is primarily concentrated in cash and due from banks, investments and loans. The cash, due from banks and investments are predominantly in Bahamian and United States dollars and have been placed with high quality institutions. The Bank maintains deposits in foreign currencies with top rated corresponding banks in the United States, Canada and the United Kingdom. Credit risk arising from loans is mitigated through the employment of a comprehensive 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, credits are subject to regular review by the Bank's credit risk management department, internal audit department and annual review by credit officers. The vast majority of the Bank's loans are collateralized and guaranteed thus providing further mitigation of credit risk.

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

The credit worthiness of most borrowers is not constant over a period of time. For this reason changes in ratings must reflect changes in the relative strength of the borrowers and their obligations. Appropriate credit ratings must be assigned to every borrowing relationship. A rating must be assigned at the time of credit extension and reviewed and updated in each periodic review or if the situation warrants a change at any other time. A rating change highlights a change in the credit worthiness, or corrects a previous rating that did not fully reflect the quality of the credit. Because of their very nature, changes are to be expected more frequently among credits with lower ratings that among credits of higher ratings. Typically loans within a retail credit portfolio which are performing are not assess for changes in ratings unless the customer approaches the Bank for additional credit.

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

The Bank conducts an impairment assessment on each of its loans. The main considerations for the loan impairment assessment included 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.

*continued*

## 31. RISK MANAGEMENT (CONTINUED)

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

| In ($000s) | 2009 Principal Balance | 2009 Restructured | 2009 Total | 2008 Principal Balance | 2008 Restructured | 2008 Total |
|---|---|---|---|---|---|---|
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Neither past due or impaired | $ 130,568 | $ - | $ 130,568 | $ 167,127 | $ - | $ 167,127 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | **$ 130,568** | **$ -** | **$ 130,568** | **$ 167,127** | **$ -** | **$ 167,127** |
| **INVESTMENT SECURITIES** | | | | | | |
| Neither past due or impaired | $ 50,680 | $ - | $ 50,680 | $ 25,323 | $ - | $ 25,323 |
| Past due but not impaired | - | - | - | - | - | - |
| Impaired | - | - | - | - | - | - |
| | **$ 50,680** | **$ -** | **$ 50,680** | **$ 25,323** | **$ -** | **$ 25,323** |
| **LOANS AND ADVANCES TO CUSTOMERS** | | | | | | |
| Neither past due or impaired | $ 451,874 | $ 6,557 | $ 458,431 | $ 376,911 | $ 1,421 | $ 378,332 |
| Past due but not impaired | 70,878 | 6,567 | 77,445 | 122,403 | - | 122,403 |
| Impaired | 19,760 | 5,402 | 25,162 | 25,470 | - | 25,470 |
| | **$ 542,512** | **$ 18,526** | **$ 561,038** | **$ 524,785** | **$ 1,421** | **$ 526,205** |

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

### 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 rigorous risk-based internal audit regime.

### Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarized the Bank's exposure to foreign currency exchange risk at June 30, 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

### Concentrations of currency risk

| As at June 30, 2009 | B$ | US$ | CAD$ | GPB£ | Other | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and central bank balances | $ 28,110,178 | $ 93,146,713 | $ 5,966,157 | $ 2,956,446 | $ 377,209 | $ 130,556,703 |
| Financial assets - held to maturity | 25,323,000 | - | - | - | - | 25,323,000 |
| Financial assets - available for sale | 25,111,400 | 245,383 | - | - | - | 25,356,783 |
| Loans and advances | 527,680,662 | 27,931,676 | - | - | - | 555,612,338 |
| **Total financial assets** | **$ 606,225,240** | **$121,323,772** | **$ 5,966,157** | **$ 2,956,446** | **$ 377,209** | **$ 736,848,824** |
| **LIABILITIES** | | | | | | |
| Deposits from customers and banks | $ 485,182,016 | $ 95,396,207 | $ 5,611,148 | $ 1,936,997 | $ 10,228 | $ 588,136,596 |
| Other borrowed funds | 37,000,000 | - | - | - | - | 37,000,000 |
| Cheques and other items in transit | 2,779,627 | 4,018,426 | 363,152 | 381,335 | 19,170 | 7,561,710 |
| **Total financial liabilities** | **$ 524,961,643** | **$ 99,414,633** | **$ 5,974,300** | **$ 2,318,332** | **$ 29,398** | **$ 632,698,306** |
| **Net on-balance sheet financial position** | $ 81,263,597 | $ 21,909,139 | $ (8,143) | $ 638,114 | $ 347,811 | $ 104,150,518 |
| **AS AT JUNE 30, 2008** | | | | | | |
| Total financial assets | $ 580,311,905 | $ 131,463,446 | $ 6,882,880 | $ 487,554 | $ 566,486 | $ 719,712,271 |
| Total financial liabilities | 507,296,030 | 109,339,633 | 6,709,513 | 430,943 | 54,296 | 623,830,415 |
| **Net on-balance sheet financial position** | **$ 73,015,875** | **$ 22,123,813** | **$ 173,368** | **$ 56,611** | **$ 512,190** | **$ 95,881,856** |

*continued*

## 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 pricing, renewal of existing positions, and capital funding. Based on these scenarios, the bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders equity of a 100 basis point shift would be a maximum increase or decrease of $1.8 million (2008:$2.0 million).

### *Liquidity risk*

Liquidity risk reflects the risk that the Bank will not be able to meet an obligation when it becomes due or honors a deposit withdrawal request or service loans. The Bank maintains a portion of its deposits in cash and other liquid assets to mitigate this risk. On a daily basis, the Bank monitors its cash and other liquid assets to ensure 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 summarizes the carrying amount of consolidated financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date.

| **June 30, 2009**<br>In ($000s) | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 130,557 | $ - | $ - | $ - | $ 130,557 |
| Investment Securities | $ - | - | 16,588 | 34,092 | $ 50,680 |
| Loans and advances to customers, net | $ 45,705 | 44,092 | 102,182 | 363,633 | $ 555,612 |
| **Total financial assets** | **$ 176,262** | **$ 44,092** | **$ 118,770** | **$ 397,725** | **$ 736,849** |

| **June 30, 2009**<br>In ($000s) | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Deposits from customers and banks | $ 385,767 | $ 154,469 | $ 15,098 | $ 32,802 | $ 588,136 |
| Other borrowed funds | $ - | - | 37,000 | - | 37,000 |
| Cheques and other items in transit | $ - | 7,562 | - | - | 7,562 |
| **Total financial liabilities** | **$ 385,767** | **$ 162,031** | **$ 52,098** | **$ 32,802** | **$ 632,698** |
| | | | | | |
| **Net on balance sheet position** | **$ (209,505)** | **$ (117,939)** | **$ 66,672** | **$ 364,923** | **$ 104,151** |

| **June 30, 2008**<br>In ($000s) | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Total financial assets | $ 206,735 | $ 58,339 | $ 55,672 | $ 393,854 | $ 714,600 |
| Total financial liabilities | $ 350,441 | 235,517 | 39,836 | 2,939 | 628,733 |
| **Net on balance sheet position** | **$ (143,706)** | **$ (177,178)** | **$ 15,836** | **$ 390,915** | **$ 85,867** |

# STAFF MEMBERS

**HEAD OFFICE - EXECUTIVE OFFICE**
Davis, Mrs. Renee
Delaney, Mr. Vaughn
Edwards, Mr. Hubert
Farquharson, Mrs. Beverley
Johnson, Miss Anshena
Lundy-Mortimer, Mr. Dario
McWeeney, Mr. Paul
Williams, Miss Laura

**HEAD OFFICE - OPERATIONS DEPARTMENT**
Adderley, Miss Qutell
Darville, Mrs. Suzette
Ferguson, Mr. David
Gardiner, Ms. Patrice
Johnson, Mrs. Yvette
Major, Miss Elnora
Varence, Mrs. Clarice

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Basden, Mr. Selvin
Knowles, Mrs. Pandora
Newbold, Mrs. Keilya
Nixon, Mrs. Gloria

**HEAD OFFICE - TRAINING DEPARTMENT**
Brown, Mrs. Elricha
Brown, Mrs. Gena
Missick, Miss Macquel

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Burnside, Mr. Jeffery
Laing, Mrs. Karen
Rolle, Miss Desma
Rolle, Miss Shera
Sherman, Mr. Xavier O'Neil
Turnquest, Mr. Jermaine
Ward, Miss Kaye
Wilkinson, Ms. Mary

**HEAD OFFICE - RISK DEPARTMENT**
Cash, Mrs. Kandi
Christie, Miss Florence
Newry, Mr. Gamal

**HEAD OFFICE - BUSINESS DEPARTMENT**
Basden, Mr. Michael
Ferguson, Miss Dania
Rolle, Mr. Doyle

**HEAD OFFICE - PRIVATE BANKING & TRUST DEPARTMENT**
Beneby, Mrs. Sherry
Bingham, Mrs. Dianne
Carey, Mr. Adrian
Munroe, Miss Thea
Sturrup, Miss Sinta

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Graham, Mr. Jhomo
Hawkins, Miss Candice
Mcphee, Miss Leashawn
Roberts, Mrs. Deshaun
Roberts, Miss Nairoshee
Saunders, Mr. George Wescott
Smith, Mrs. Tamuery
Symonette, Mrs. Tammi
Thompson, Miss Monique
Winder, Miss Nyochea
Woodside-Turnquest, Mrs. Maureen

**HEAD OFFICE - TREASURY DEPARTMENT**
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Hanna, Mr. Kevin
James, Mrs. Patricia

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Bonamy, Mr. Steve
Chisholm, Mrs. Geletha
Coakley, Miss Nadia
Dorsett, Mr. Daryl
Neymour, Mr. Carlton
Percentie, Ms. Monica
Roberts, Mrs. Ingrid
Smith, Mrs. Lesley
Thompson, Mr. Dominic

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Bodie, Miss Edith
Burke, Miss Donzella
Colebrooke, Miss Michaella
Davis, Mrs. Tanya

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Sawyer, Miss Shiann
Thompson, Mr. George

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Dean, Miss Zovia
Duncombe, Mrs. Ashquel
Johnson, Mr. Moses
Rolle, Mrs. Davine
Taylor, Miss Vanessa

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Bartlett, Mr. Darryl
Johnson, Mr. Anthony
Murray, Mrs. Sherrice
Rigby, Mr. Franklyn
Urich, Mr. George Dave

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Conliffe, Mr. Nigel
Curry, Mrs. Mildred
Eve, Miss Narissa
Higgs, Mr. Anton
Knowles, Mr. Clarence
McBride, Mr. Gayland
Newbold, Mr. Raynard
Owen, Mr. Llewellyn
Sturrup, Mr. Mordell
Taylor, Mr. Javon
Thompson, Mr. Perry

### HEAD OFFICE - COLLECTIONS DEPARTMENT, GRAND BAHAMA & FAMILY ISLANDS DIVISION
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Rolle, Miss Lanese
Smith, Miss Shantel
Vilbrun, Mr. Nelson

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Barr, Miss Evardneke
Braynen Pratt, Miss Shanovia
Brown, Mrs. Milisha
Cartwright, Miss Olga
Charlton, Mrs. Deborah
Cooper, Miss Joan
Dames, Mrs. Julia
Hamilton, Mrs. Sherrell
Johnson, Mrs. Kotora
Knowles, Mr. Torri
Miller, Miss Judy
Smith, Mrs. Chivonne
Taylor, Miss Sherise

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Evans, Mr. Shervin
Ferguson, Mr. Taurian
Ferreira, Ms. Jillian
Forbes, Mrs. Diana
Ijeoma, Mrs. Renee
Kawaguchi-Fleming, Mrs. Keiko
McIntosh, Mrs. Anya
Richards, Mr. Bernard
Rolle, Miss Patrice
Rolle, Mr. Wayne
Longley, Miss Sheena

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Clarke, Miss Asteen
Josey, Mrs. Alice
Peterson, Mrs. Pamela
Russell, Miss Marietta
Saunders, Mr. William
Virgil, Mr. Devaughn
White, Miss Dawn Marie

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Basden, Miss Miriam
Bethel, Miss Shanequia
Collie, Miss Shakera
Dean, Mrs. Gilda
Douglas, Miss Tianya
Elliott, Miss Sedika
Garraway, Miss Annamaria
Hanna, Ms. M'khel
Lightbourne, Mr. Kenton
Louis, Ms. Mirda
Rolle, Mrs. Susanna
Sands, Miss Yvette
Smith, Mr. Desario

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Smith, Miss Brickell

### INAGUA BRANCH
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Gardiner, Miss Dornica
Hanchell, Mrs. Norma
Missick, Mrs. Judith
Pierre, Miss Lynette Andrea

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Armbrister, Miss Diana
Bastian, Miss Sharell
Carey-Bowe, Mrs. Racquel
Carter, Miss Amber
Cartwright, Mrs. Camille
Cooper, Mrs. Marguerite
Dames, Mrs. Stacia
Hepburn, Mr. Jermaine
Knowles, Miss Alysia
Lamb, Miss Samantha
Major, Miss Laurie
Major, Miss Marcia
McSweeney, Miss Felicia
Moncur, Mr. Robert
Mott, Mrs. Marachelle
Musgrove, Miss Shanique
Osoria, Miss Coolie
Peet, Mrs. Vernincha
Rahming, Mr. Albert
Seymour, Miss Vanessa
Smith, Miss Shandia
Smith, Miss Toosda
Symonette, Miss Crystal
Thompson, Mr. Ian
Whylly, Miss Tyrese
Wilkinson, Mr. Renaldo
Zonicle, Miss Whilliamae

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Major, Mr. Terrance I.
Maycock, Mr. Damien
Storr, Miss Ingrid
Walker, Mrs. Amanda
Williams, Mrs. Nyoka

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Baker, Miss Tarj
Bethel, Miss Anaisha
Braynen, Mr. Alaasis
Carey, Miss Stacey
Manickam, Mrs. Ruth Ann
Cooper, Mr. Philip
Culmer, Mr. Rory
Curtis, Miss Tekera
Davis, Mrs. Kertorra
Ferguson, Mrs. Tamara
Ferguson, Mrs. Wendy
Fox, Mrs. Lillian
Higgs, Mrs. Monique
Johnson, Miss Clayre
Knowles, Mrs. Marolyn
Lewis, Mr. Jayson
McCardy, Antoinette
Oliver, Mrs. Carolyn
Pratt, Mr. Marcantell
Rolle, Miss Andrea
Rolle, Mr. Jabari
Small, Mrs. Florence
Williams, Ms. Cheralda
Williams, Mr. Kassim
Wilson, Miss Louise

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Capron, Miss Pamela
Charite, Mrs. Kira
Davis, Mrs. Beverley
Edwards, Mrs. Berthalee
Ferguson (Cash), Mrs. Aneatra
Henfield, Miss Jennifer
Ingraham, Miss Shemika
Johnson, Mrs. Misty
Kelly, Ms. Monique
McIntosh, Mrs. Nio-Schienique
McGregor, Mrs. Bridgette
Moxey, Mr. Clifford
Newry, Mrs. Demitra
Parker, Mrs. Lucianna
Pierre, Ms. Lolita
Poitier, Mrs. Kamia
Pratt, Mr. Dion
Russell, Mrs. Suzette
Sands, Mr. John H.
Sands, Mrs. Carolyn
Seymour, Mrs. Sonya
Thompson, Ms. Tiffany
Whylly, Mrs. Delores
Wright, Miss Henrietta

**EIGHT MILE ROCK SERVICE CENTRE**
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Kelly, Miss Wendy
Rahming-Bowe, Mrs. Samantha
Ritchie, Ms. Jennifer
Russell, Mr. Bill Clinton

**HAROLD ROAD BRANCH**
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Bullard, Mr. Gregory
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Cooper, Miss Valangel
Farrington, Miss Richardette
Heastie, Mr. Riel
Hepburn, Mrs. Gayle
Johnson, Miss Linda

Kelly, Miss Deagre
Leadon, Miss Doynell
Mitchell, Miss Ambrosine
Mitchell, Mrs. Deborah
Moss, Miss Nadia
Nabbie, Miss Tawana
Newbold, Miss Mitzi
Rahming, Miss Lavonya
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Roberts, Mrs. Verona
King, Mrs. Sharmaine
Saunders, Mrs. Nadane
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Greene-Symonette
Moxey, Miss Shantell
Rolle, Mr. Norris

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Bowe, Mrs. Sheena
Brown, Mrs. Beatrice
Burton, Mrs. Rosemary
Cartwright, Miss Prescola
Clarke, Mrs. Jessica
Daxon, Mr. Kevin
Delancy, Miss Daynell
Goodman, Miss Donette
Hepburn-Newbold, Miss Patricia
Knowles, Mrs. Berthia
Marshall, Miss Mychaelle
McKenzie, Mr. Siran
Miller, Miss Jemma
Moncur, Miss Marica
Moss, Miss Cassandra
Nesbitt, Ms. Antoinette
Rhodriquez, Mr. John

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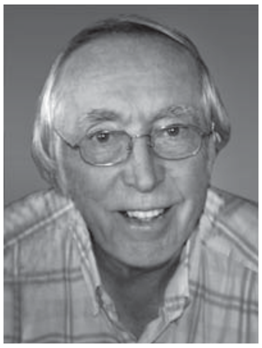
Bacchus, Mrs. Gaynor
Blatch, Mrs. Elda
Clarke, Mr. Wenrick
Curtis, Miss Anniffa Janeen
Fisher, Miss Tiffany
Rolle, Miss Celcier
Romer, Mrs. Tamika
Toney, Mr. James
Williams, Mrs. Desiree

**CAT ISLAND BRANCH**
Armbrister, Mr. Atwell
Brown, Miss Letitia
Burrows, Kjanna
King, Mrs. Anishka
Hunter, Mrs. Pertrease Monique
King, Miss Silva
Rolle-Seymour, Mrs. Cammelar

*List does not include contract, non-permanent, or student employees

Images in The Bank of The Bahamas Limited 2009 Annual Report STRENGTH were provided by three artists whose skills demonstrate that strength resides in ordinary places and in the extraordinary, a piece of driftwood that weathers storms and tides, in trees once thought dead brought back to life in the shape of African women welcoming visitors, in a photo of two nuns resolute in their faith regardless of harsh winds. We thank them for their contributions and applaud their talent.

**Roland Rose**



Roland Rose has long been considered the dean of Bahamian photography and his works in black and white hold a singular place in Bahamian history. He began shooting at the age of 12 as a hobby, working furiously to support buying film and equipment. By 1951, he was hired as a professional in the Bahamas Development Board, the precursor of the Ministry of Tourism. He has spent the past half century promoting The Bahamas in the best possible photographic sense. We can never know the millions of visitors that this artist, through his skills, has brought to these 700 islands in the sun. Such a contribution culminated in Rose receiving the prestigious Cacique Award in 1996. His photographic exhibitions, which started in 1996 at the Marlborough Gallery In recent years he has moved into the digital world and expanded his horizons commenting that it is the best thing that ever happened to photography. Mr. Rose's photos appear on the cover and pages 6, 11, 18, 20, 24, 26 & 30.

**Antonius Roberts**

For 30 years Antonius Roberts has been crossing boundaries, balancing, juggling, often struggling with the distinction between art and life. To Roberts, each medium is alive. It speaks to him and directs him. In wood, he sees the life that formed it, in rocks and stone and trees, he sees multiple layers of their evolution. Antonius Roberts made his name through his paintings - rebelliously colourful ethereal images made with acrylic on canvas and paper. His evolution to sculpting was inspired by his desire to utilize the woefully overlooked indigenous material in The Bahamas. Terrified that Bahamians are beginning to believe the message pounded into us by the tourism industry that "foreign is better", Roberts hopes that truly native art will help himself, and his audience, figure out who they are, and where they're supposed to be. Mr. Roberts' work appears on the cover, pages 2, 3, 4, 14 & 21.

**Fleur Melvill-Gardner**

Raised in The Bahamas and educated in Switzerland, Melvill-Gardner never forgot the adventurous childhood of her homeland where she was influenced by her love of Nature and the power of the sea. From poverty-stricken Namibian villages to well-heeled European yachting circles, Melvill-Gardner's collection of work reveals insights that are as much about similarities as they are about differences. But for all the strength it shows, the woman behind the camera never knew it was professional quality until she returned home to Nassau to live and friends who saw what she had shot around the globe persuaded her of its value. Fleur's work can be seen on pages 22 & 34.

Bank of The Bahamas

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