


Momentum



Bank of The Bahamas
L I M I T E D

2007 Annual Report



GE, once known for light bulbs, has mushroomed into a \$163 billion conglomerate with divisions from financial services to jet engine parts. With 319,000 employees, the giant that owns NBC was voted the world's most admired company in a 2007 Forbes magazine poll. Some say its success was driven by vision and speed. Change is hurling at the business world faster than anyone predicted. Even Nike is producing a "green" tennis shoe with recyclable laces and 95% fewer toxins in the rubber. In the future, the companies that do well will be those that marry pace with purpose...Welcome to MOMENTUM.

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Bank of The Bahamas
INTERNATIONAL



Mome

There are six billion people in the world. Imagine if gathered together, each and every one moved in the same direction at the same time, gaining speed, running faster with every step. The surging mass of humanity would produce a forward-moving force of unimaginable power. Now imagine if all six billion, still gathered as closely together as possible, were ordered to move but given no direction, just told to go. The swirling mass could turn on itself and each other, one billion running east, colliding with another billion running in the opposite direction, others criss-crossing.

The example is exaggerated, but the imagery it portrays is real. Without direction, the concept of momentum is without merit. It is as useless in reaching a goal as momentum in a closed environment when no external forces interact upon it to push it.

With direction, goal and purpose, the preparation that precedes movement readies the participant for the momentum that lies ahead. For an athlete, that momentum is the difference between victory and defeat. With the Beijing Olympics less than a year away, with our own competitors in track and field, tennis and sailing, Bahamians will calculate and debate who has the training and drive to bring home the gold.

In the world of financial services, the medals are not televised. The audience does not put down its soda, beer, chips and fritters to scream and jump for joy. Tears do not well up in the eyes of those who watch victory and hear the stirring words 'Lift up your head to the rising sun, Bahamaland...'

But the concept of momentum is equally important and thus, the 2007 Bank of The Bahamas Limited Annual Report is dedicated to Momentum, movement prepared for by innovation and success, moving forward, taking the strength of its 'training' and readiness to heights that match its goals and direction.

Pace with purpose. That is what Managing Director Paul McWeeney calls it.

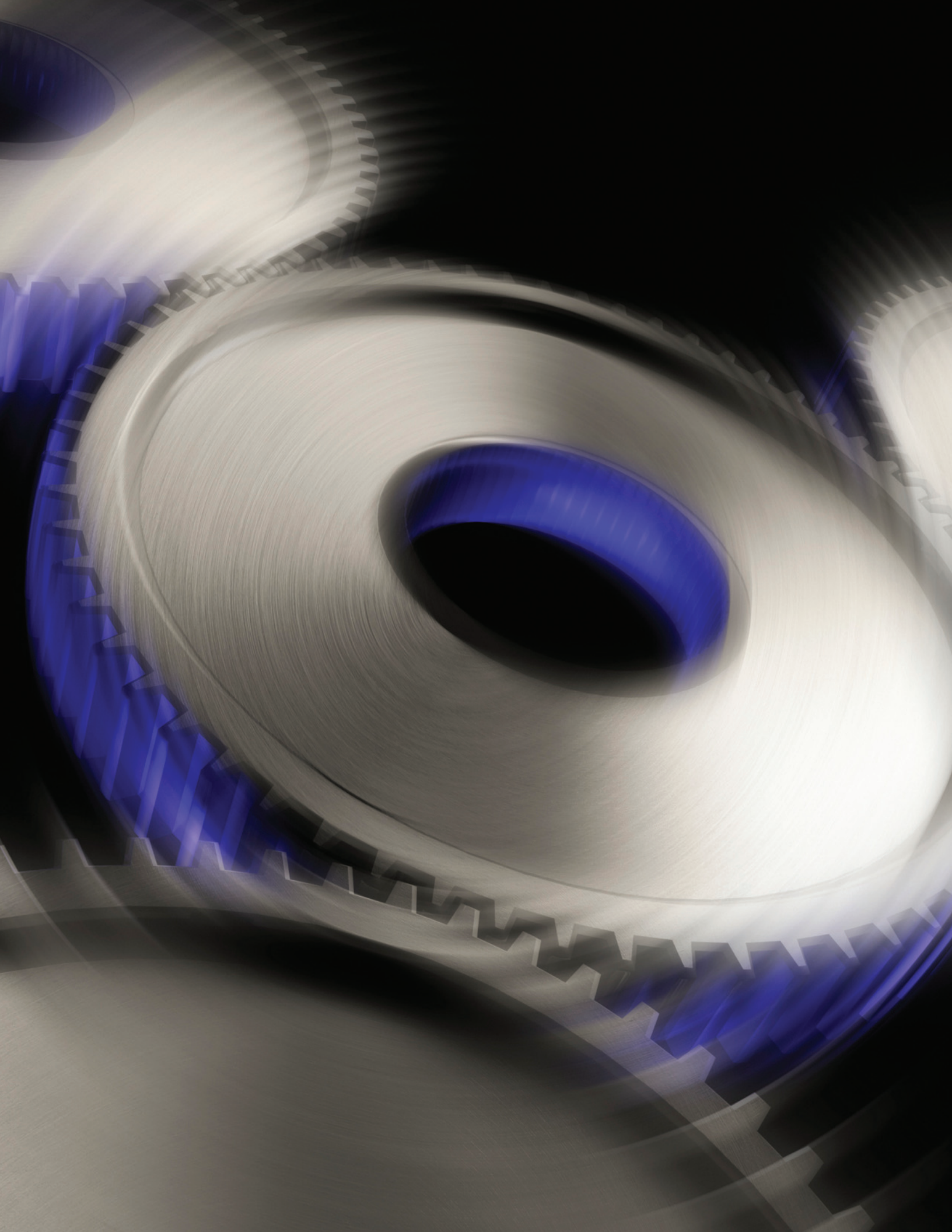
The groundwork has been laid. In the past year, the bank achieved record results in substantially every category of performance. It invested heavily in new core banking system that aligns it technologically with banks like Citigroup and Bank of America. It expanded branches even as it prepares to become the first Bahamian bank to have a physical presence outside the country. It has formed strategic alliances with well-established banks elsewhere in the Caribbean. It introduced a Savings Culture while continuing its financial support for local music culture. Its launch of Private Banking was met with such success that assets in the division exceeded first-year expectations in less than six months.

For its vision, for taking courageous steps particularly noteworthy for a Bank less than 20 years old, Bank of The Bahamas International has been the recipient of more awards than any other indigenous financial institution in the country's history.

The vision. The development. The planning. The products. The services. The people who made it happen. A powerhouse of ingredients that propelled BOB to new heights. Forward moving matching pace with purpose, diligence with direction. That's *Momentum*.



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History Of The Bank

The year was 1988 and the world was buzzing. Michael Jackson ruled the music charts, the Jamaican Bobsled team made their inspiring debut at the Winter Olympics in Canada, pop star Sonny Bono was the mayor of Palm Springs and the TAT-8 became the first optical fibre transatlantic telephone cable to carry simultaneous calls between the U.S., England and France.

The year was 1988 and The Bahamas was buzzing as a new era in banking was born. For the first time in the nation's history, the Government on behalf of the people of The Bahamas took ownership of a bank, assuming the local book of business of the Bank of Montreal, a once-thriving institution that was leaving The Bahamas. Taking over the local portfolio which had not been the major strategic arm of the bank's operations was anything but a sure bet. Under-funded but with strong management and vision, the new institution called Bank of The Bahamas Limited has become a sterling storybook success. In less than 20 years, it has grown from under \$90 million in assets to nearly \$700 million. Share price went from \$2 to just shy of \$10 a share. Initial public offerings and two subsequent private placement offerings were quickly and vastly oversubscribed. Capital increased by nearly 1,000%.

But most impressive is the returns it earned for its over 4,000 shareholders. Following the Government of The Bahamas sale of \$11.5 million in shares, the Bank has paid out \$38 million in dividends and achieved \$150 million in market capitalization. In just over 10 years, Bank of The Bahamas International created shareholder value of over \$190 million while consistently improving its contribution to the economy, factors that justify the confidence and strong support extended by its diverse range of shareholders. From an underfunded infancy Bank of The Bahamas International has mushroomed into a formidable Bahamian financial institution.

The Bank has etched its way into Bahamian history with several major firsts for the financial industry. It was the first bank to offer Trust services for Bahamians and the first to apply for a financial services provider license outside the country, the inspiration for its name change in 2002 to include the word International. It was the first bank to introduce pre-paid Visa and gift cards and first to cooperate with a major church in providing financial services. Bank of The Bahamas International

“The difference between today and 20 years ago is the speed.”
—Alex Perriello, CEO, Reology

was the first to offer to take Trust and money management seminars to the workplace and first to partner with insurance companies, furniture stores, law firms and others to host a mortgage fair that drew thousands of people. It was also the first to create Junkanoo dollars, a form of currency expendable during a summer-long series of Ministry of Tourism events to avoid cash-related issues, and first Bahamian-owned bank to serve in the capacity of pension fund oversight.

Paving the Bank's path to the future continued with milestones in online banking. In today's click this, download that, moving at your own pace in your own time cyber world, customers who have adapted to the technological times now find themselves visiting www.bankbahamasonline.com to pay bills, order U.S. currency, apply for loans and for the first time in Bahamian financial services history, track cheques and deposits as they clear and plan financial business accordingly.

The investment in cheque imaging technology also allowed Bank of The Bahamas International to slice waiting time for U.S. deposits to clear from up to 40 days to as fast as three days, another major first.

Today, the Bank supports Visa, Discover and MasterCard merchant services, and is the exclusive representative for the prestigious American Express Platinum member services.

Highlights of 2006-2007

The highlights of fiscal 2007, beginning July 1, 2006 and ending June 30, 2007 were deep and varied, ranging from products that made banking more customer-friendly to programs that enabled Bahamians to save or invest with greater incentives and rewards. A new division, Private Banking, was launched and by fiscal year end it had doubled its anticipated assets. Long-planned and conceived products, services and initiatives were introduced in roll-outs that at times overlapped—slicing U.S. dollar cheque deposit clearance from up to 40 days to as fast as three days, investing in new technology to prepare for the next two decades of banking, introducing private banking, hosting a major design competition for new headquarters, expanding merchant credit card services, launching a series of age-relevant high interest rate savings accounts under the umbrella Savings Culture to help change the spending and saving habits of Bahamians. These were only some of the accomplishments of the past year.

It was during the past year that plans for the South Florida service centre received final approval and the Miami office, located on the ground floor of a stunning SunTrust skyscraper in Coral Gables on historic Alhambra Circle is due to open by calendar year-end.

The fiscal year was also marked by further demonstration of the success of the Bank's progressive policies and its willingness to invest in technology, human capital, infrastructure, products and services for the future. New products and services or improvements on existing ones are detailed throughout this report to shareholders. A full section of the report is devoted to the development of plans for a commercial centre to be built on nearly six acres of prime harbour front real estate in the heart of Nassau. The project—the single largest undertaking in the Bank's history—is inclusive of new headquarters, full service financial centre, revenue-generating rental space, a banking museum and a host of amenities including fitness centre, indoor and outdoor eating areas and child care facilities never before offered in The Bahamas by a Bank for its staff members.

In 2006, the Bank launched Savings Culture, a series of attractive interest rate accounts appealing to persons of all ages with incentives geared to what makes saving worthwhile. Through Savings Culture, the Bank expressed commitment to national culture, respecting heroes in sports, entertainment and the arts. Among those supported and recruited as spokesmen or voices for the Bank and specific products is cultural icon Ancient Man.

During the year 2006, the Bank hosted a design competition for its new headquarters, a multi-purpose financial centre. The winning design of Michael J. Moss of the Architectural Studio and Alexiou & Associates' second and third place designs were featured in a major Caribbean architectural publication.

The fiscal year saw many other changes, including one of the largest investments by any bank in the history of Bahamian banking, converting its present-day operations platform to the highly sophisticated Flexcube, a core banking system manufactured by i-Flex, positioning the Bank to be ready for ACH (Automated Clearing House) status when it comes into play. The process of conversion took more than one year, involving the extensive and comprehensive re-training of more than 300 persons. So all-encompassing was the transformation in systems that one executive compared it to teaching the Dallas Cowboys how to play football with a tennis ball while speaking Portuguese.

Bank employees worked overtime to handle work that accumulated during training hours. The level of dedication throughout this period spoke volumes about the loyalty and professionalism of Bank staff, re-affirming Executive Management's belief that those who are treated with respect and whose opinions are valued return the trust a thousand times over.

Bank of The Bahamas International achieved a feat that placed it among the first banks in The Bahamas and Caribbean in technology when it completed conversion to an i-Flex core banking system that prepares it for the next generation of financial services. I-Flex is doing for banking what the microwave did for the kitchen or the cell phone did for communications. Its installation places BOB on a technology par with Bank of America and Citigroup.

BOB has set the standard among its corporate peers. For its vision and performance, for its forward-thinking and investment, it has been awarded a record number of honours, receiving recognition after prestigious recognition. In 2006, the Bahamas Financial Services Board presented Bank of The Bahamas International with two of its top honours, for promotion and development of financial services in The Bahamas and to the Bank's Managing Director Paul McWeeny as Executive of the Year.

You will see many of the awards in this report. What you will not see, what you cannot feel is the collective pride of those persons who are Bank of The Bahamas who made the financial institution the star that it is, who helped it achieve an honour it never expected—the Bahamas Chamber of Commerce awardee for Business of the Year.



***One kernel is felt in a hogshead; one
drop of water helps to swell the ocean;
a spark of fire helps to give light to the
world. None are too small, too feeble,
too poor to be of service.***

***—Hannah More
1745-1833***



Letter to Shareholders



When I assumed the Chairmanship of Bank of The Bahamas International in June 2007, more than three-quarters of the fiscal year had passed. Thus, it is only fitting that much of this message is a thank you to those persons who made fiscal 2006-2007 one of the most successful years ever in the Bank's history. It was a year in which assets neared the \$700 million mark, an amazing feat for an institution that had started life less than 20 years before with all odds against it, significantly undercapitalized with just \$3 million in liquidity and burdened with high overheads.

By every measure of bank performance, from share value which reached its highest price to date at \$9.55, to introduction of new products, from handsome dividend payments to new technology platforms for more efficient delivery of services, from the launch of the design competition for headquarters and commercial complex to the many awards it received, fiscal 2006-2007 was a banner year for Bank of The Bahamas International.

Such a phenomenal performance would not have been possible without the loyalty, vision and dedication of the Bank's staff and Strategic Management Team.

On behalf of the Board of Directors on which I have been privileged to serve for 15 years, I would like to extend thanks first and foremost to the dynamic executive management team led by Mr. Paul McWeeney, Managing Director. In nearly half a century of involvement in the Bahamian business community, I do not believe I have ever encountered a team comparable to the Bank's, inspired by a clear vision of the future and driven by a common desire to prepare in order to lead the way. Much of this I do believe is inspired by the Managing Director whom I am pleased to acknowledge was named 2006 Executive of the Year by the Bahamas Financial Services Board.

I would also like to extend sincere appreciation to the immediate past Chairman Mr. Alfred Jarrett, MBA, who led the Bank's Board admirably for more than two and a half years of outstanding growth and development.

To all of our three hundred valued employees throughout the archipelago goes my most heartfelt appreciation for your hard work and, in this past year, your long hours as you balanced your regular workload with extensive training to prepare for conversion to a new banking system that differs dramatically from the old.

Finally to our customers and shareholders, many of you who are both, on behalf of all the Directors, I pledge our commitment to continue to deliver the kind of innovative, progressive financial services that have made us The Bahamas Chamber of Commerce Business of the Year 2007. To have been selected as the best business in the nation, not just the best bank or the best large business or the best professional services provider, but the single best business in the country is an honour without par. We are deeply grateful and shall always be mindful of the responsibility it generates as we look to the future when we open our next branches, the first in Cat Island, later we hope in Abaco and Eleuthera and before the end of the calendar year, our much-anticipated service centre in Coral Gables, Florida.

As we thank the members of the Chamber of Commerce and all those within the Bank who made the prestigious Chamber award possible, this is our solemn pledge, our commitment to you—to continue to live up to the high standards you have come to expect and our united effort has delivered, thanks to all our staff, customers, shareholders and friends, thanks to you.

A handwritten signature in black ink, appearing to read 'T. Maitland Cates', with a stylized flourish at the end.

T. Maitland Cates, Chairman, JP, CA, SACCA, TEP

Executive Statement



When we reported unprecedented growth of 45.4% in total assets in last year's Annual Report with \$10.2 million in net income, we were delighted to deliver the news but inwardly harboured a touch of concern. Even with our long-term strategic plan, how would we sustain that level of growth while maintaining the now-expected level of delivery of service? We had raised the bar, both in what we offered and in financial results we experienced. Business, individual and institutional customers had never had so many options in the variety of services and products available. Our loan portfolio was never greater. Our share price was at the highest ever, \$7.49. Our assets had climbed to \$545.76 million, a growth of 20.3% over the previous year. How would we handle that growth that included a near-doubling of our loan portfolio while remaining consistent in service, without discouraging those who deliver the service, our 300 professional employees? By implementing our strategic planning over several years, we were reaping results that were exceeding our expectations. How would we continue what we had started?

The answer came in a single word. Momentum.

We at Bank of The Bahamas International had entered a new era and having pushed through the barrier kept the momentum going with more innovative services and products, new operating infrastructure and a foundation that kept gaining in strength, depth, texture and timbre.

Planning, research and development, strategy, investment in human capital and in a new core banking system, introduction of private banking, slashing U.S. dollar deposit clearance from up to 40 days to as fast as three days, the launch of a Savings Culture to alter the consciousness of Bahamians about the need to save for the future all combined to pay off significantly. The figures reflected the success. And thus, it gives me great pleasure to reveal that fiscal 2007 was a record-setting year for Bank of The Bahamas International, recording the strongest performance in our history. That performance was reflected in dividend payments to our 4,000 shareholders.

Indeed, record performance was reported in substantially every category. Net Income rose to \$10.8 million, topping the previous year in which phenomenal growth resulted in earnings of \$10.2 million. The latter result was prior to a restatement which caused approximately \$500 thousand to be reallocated from current year earnings to the previous year due to a reclassification from fixed assets to an investment the property acquired to construct the bank's new headquarters and commercial complex. As a result previous year's net income was restated to \$10.7 million. Prudent investment led to a substantial increase in interest income from \$35.3 million in 2006 to \$41.7 million in 2007. Total assets rose from \$545.76 million to \$658.26 million, an increase of 20.6%. Shareholder equity was even more impressive, climbing from \$75.4 million in 2006 to \$95.8 million. Earnings per share settled at 62 cents per share from 78 cents per share a year earlier due in part to an increase in common shares issued. The strength in total shareholder's equity supported a major capital investment in an advanced core banking system called i-Flex that will do for banking what the automobile did for transportation. Not only does its implementation open a wide range of financial product options while freeing staff time previously required for repetitive tasks such as data entry, it gives the Bank tremendous competitive advantages. I am proud to report that Bank of The Bahamas is among the first financial institutions in The Bahamas and the Caribbean region to have completed the conversion to the new technology that is used by such global major players as Bank of America and Citigroup.

It is my view that the true test of shareholder confidence is reflected in the ever-increasing price of Bank shares which rose from \$7.49 at the close of the last fiscal year to \$9.55 as of June 30.

In other areas of performance, loan portfolio growth stood at 7%, still multiple times GDP growth, and a planned move to contain growth at a sustainable level. Also significant is the substantial decrease in charges for loan losses, from \$2.7 million in 2006 to \$951,000 in 2006. Due to the need to plough significant resources into ensuring the success of the conversion to our new core banking solution as anticipated, the efficiency ratio slipped to 64.48%. However, a closer analysis would reveal that the increased cost of funds played a more significant role in this as opposed to growth in non-interest expenses.

What the review of a single fiscal year with year-over-year comparisons fails to show is an overall pattern.



Viewing the past two years, Bank of The Bahamas International's performance has been nothing short of stellar with net income growing at a rate of 53.7%, outstanding by any measure or standard.

It is not only our performance which gives all of us at Bank of The Bahamas International a reason to be proud. Being named the Bahamas Chamber of Commerce Business of the Year was one of the most extraordinary moments in our history. The honour was especially significant because we were not being compared to others in our industry but to all businesses in The Bahamas—retail, wholesale, manufacturing, professional services, transportation, resorts and related hospitality businesses, for-profit educational institutions. To be named number one in a nation is an honour that cannot be duplicated.

At the same time, we take great pride in having been named Best Bank in the Country by *Euromoney* magazine. And to have been selected by our peers from among industry partners for the two top Bahamas Financial Services Board awards in one year was breathtaking.

How do you say thank you in a way that is sufficient, appropriate? Perhaps the best way is to pledge to keep the momentum going for our customers, our employees and our shareholders.

It is the shareholders, including the Government of The Bahamas which owns 51% of the Bank who benefit. In fact, the Bank has earned more than \$100 million through dividends, sale of shares and share appreciation for the Government in the past 10 years. Those earnings are used in a myriad of ways, helping to educate our children, provide health care, pay pensioners. They are funds that could ensure the presence of a doctor being available to perform life-saving surgery or a working fire truck on a Family Island. At the same time, we are constantly aware of our responsibility to all shareholders, the 4,000 individuals who have placed their trust in the Bank and our vision.

***Speed without direction has no use;
its purpose is fallow. But with direction and
a powerful goal, speed builds upon itself.
Studied pace with positive purpose propels
itself forward. That is momentum.
—Paul McWeeney, Managing Director***

We look forward to continuing the momentum with the imminent opening of our long-awaited Miami service centre and our Cat Island branch. As we maintain our march toward becoming the full life cycle partner and transformation from bank to financial enterprise, we remain keenly aware of our responsibility to you, our shareholders. And so, as we thank our staff who worked exceptionally hard this year, balancing training for new operating systems with their workload. We thank our customers for their loyalty. We thank you, our shareholders for your trust. And this we pledge: to do all we can as a responsible financial enterprise to maintain the highest standards of corporate governance while delivering the ultimate in financial services. We pledge to keep the momentum going.

Paul J.I. McWeeney
Managing Director

Our behaviour influences others through a ripple effect. A ripple effect works because everyone influences everyone else. Powerful people are powerful influences.

If your life works, you influence your family.

If your family works, your family influences the community.

If your community works, your community influences the nation.

If your nation works, your nation influences the world.

If your world works, the ripple effect spreads throughout the cosmos.

—John Heider, author of The Tao of Leadership



Vision + Mission + Planning + People = Momentum



Staff meetings offer opportunities for camaraderie as well as information sharing.

Vision

Financial fulfillment.

Mission

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.

Planning

Bank of The Bahamas International moves beyond the traditional to become a full life-cycle partner, a compassionate corporate citizen and a financial enterprise without parallel.

People

In every galaxy, there are shining stars. On our shores, our branches, offices, support and service centres from Inagua in the south to Grand Bahama in the north are filled with our own shining stars.

Every one of our 300+ employees is a valuable member of the Bank of The Bahamas International family. Together, they make us what we are and help take us where we are going. Their contribution is not confined to helping us grow, but extends to helping us serve you in new and innovative ways with expanded financing, banking, insurance, mortgage and other relationships that will help take you where you need to go while guarding the investment of all our shareholders.

Shining Stars



Yvette Johnson, CPS/CAP

Her smile could melt the snow in Denver, but that's only the outward expression of the joy she feels helping others. Her title, Executive Assistant to the Deputy Managing Director, Operations, and the Internet Banking Administrator at Bank of The Bahamas International Corporate Office, is an indication of how broad Johnson's responsibilities are. Yet she never appears or sounds ruffled and is always ready, wanting to assist, switching at a moment's notice from sorting out a challenge in Operations to making Internet banking a bit easier for the customer who is just becoming accustomed to it. On top of all that, she's president of the International Association of Administrative Professionals. Yvette Johnson—a Bank star with a heart of gold.

Shining Stars



Jabari D. Rolle

Of all the stars highlighted in this annual report, Jabari Rolle is the youngest and it's his youthful enthusiasm with a vision for the future that makes him intriguing. A teller at the Harrold Road branch, Rolle was selected for the galaxy of stars who are making it happen not only because of his over-the-top dedication, but because he pairs his future with the Bank's. "I see the Bank going globally and I think we are accelerating at a good pace," says the young man only two years on the job and pursuing a degree in Human Resources Management. With the freedom to move around in the industry, Jabari says he's picked the institution that he believes is where the future of banking is headed—exploring, perfecting, never limited by history's boundaries, but learning from its lessons how best to go forward.

Ian Thompson

From literally giving credit where credit is due as Senior Assistant Manager, Corporate Credit to the position he holds now, Branch Manager, Shirley Street, Ian Thompson has worked his way up and into the Bank's galaxy of stars with his unwavering diligence, loyalty and dedication. His pleasant demeanour and the respect with which he treats co-workers and customers alike are exemplary and fill the main branch with a sense of calm. But don't be fooled. Thompson may be cool on the outside, but he's anything but a pushover. He earned accreditation in Credit Risk Analysis and is a Certified Advanced Credit Analyst. Despite his responsibilities, he is pursuing a Master's degree in Business and Finance through the University of Phoenix online.



Throughout this report, you will meet just a few of our shining stars, those who continually go the extra mile with an extra smile who, with their own enthusiasm, inspire others. You'll meet Renee Davis, Senior Manager, Risk and Compliance. You'll meet Jabari D. Rolle, a young teller as studious about his responsibilities as a graduate student about a thesis. You'll meet the ever cheerful and helpful Ian Thompson, Branch Manager at Shirley Street and Yvette Johnson, who can make you feel better just by being there and along with Internet Banking Administrator serves as Executive Assistant to the Deputy Managing Director, Operations.

There are many more behind the scenes who help guide the Bank, working, strategizing, inspiring, preparing, maintaining today's portfolio and stirring tomorrow's dreams.

A family of shining stars. On our shores. Looking forward, beyond borders to a world of helping Bahamians in a way no bank has ever done before, by becoming a full financial partner for life.

A family of shining stars. Helping Bahamians in a way no bank has ever done before, by becoming a full financial partner for life.

Renee Davis, BBA, C.P.A.

The role of Senior Manager of Risk and Compliance is of critical importance in the world of banking where knowing your client and the source of deposits is not only law, it is essential for good corporate governance and long-term reputation. Risk and Compliance are so important an institution's sheer survival could spin on it. Finding the right combination of characteristics in a person to fill such a demanding position is a challenge. But Bank of The Bahamas International found the ideal candidate in Renee Davis, certified public accountant who worked with a Big 5 accounting firm performing audits for international firms in New York and elsewhere before returning home. Two years after joining the Bank, she was promoted to the position of Senior Manager of Risk and Compliance in May and she has impressed co-workers and executives with her energy, drive, instinct and absolute vigilance. A petite powerhouse with strong leadership and communications skills, Davis is a go-getter who defines professionalism and has earned her place in the galaxy of BOB's shining stars.



Marguerite Cooper

When Marguerite Cooper was growing up all she ever wanted to be was a teacher. She went into banking instead and after 19 years in the industry, believes her career dream did come true in a roundabout way. But instead of standing in a classroom, she's dealing with customers, explaining, helping to answer their questions. Nothing gives her greater satisfaction than what she calls 'quick resolution,' watching a look of stress or worry transform into a broad smile. Nothing gives her more satisfaction, that is, except maybe her family that includes four children ages 5-18, all of whom were born in December. Marguerite, Senior Customer Supervisor, Main Branch, Shirley Street, another reason Bank of The Bahamas International shines.



More Than a Bank, a Financial Enterprise



Top: Momentum continues with the introduction of Private Banking when all the stars came out for the event at Mountbatten House, l to r, Managing Director Paul McWeeney, Central Bank Governor Wendy Craigg, then Minister of State for Finance James Smith, former Chairman Alfred Jarrett and Senior Manager, Private Banking, Samuel Haven.

As our days become busier and the demands on our resources greater, we rely more on those partners who can satisfy multiple needs and by so doing, help simplify—and improve—our lives. At Bank of The Bahamas International, it is our mission to reach beyond one-time banking borders as a secure holding place for money. It is our commitment to be a true financial partner in life, from being the bank a child opens his or her first savings account in to the professional who ensures the assets you have accumulated throughout your life will be protected in a Golden Trust. It is our pledge to fulfil your needs by being there every step of the way, from approving your first business loan to congratulating you on your venture's success and letting you know it is time to move up to Private Banking and all the personal attention associated with it.

That is why we at BOB are moving beyond banking, becoming a financial enterprise.



Bank of The Bahamas

EASY BANKING CENTRE

THIS ROOM IS UNDER
CAMERA SURVEILLANCE

Easy Banking

Please Insert Card For Service

Mortar and block do not make award-winning companies, people do. It's the people at Bank of The Bahamas International who have built a storybook success story.



It is simply the way we do business—not as a repository, but as an active full life cycle partner. To accomplish this, we update services and create new products, we open branches and service centres in anticipation of needs and we constantly search for solutions.

- ▶ *Online banking*
- ▶ *Pre-paid Visa*
- ▶ *American Express Platinum*
- ▶ *Merchant services including Discover, MasterCard, Visa, American Express*
- ▶ *3-day clearance of U.S. \$ deposits*
- ▶ *Visa credit card*
- ▶ *Private banking*
- ▶ *Trust services*
- ▶ *New branches opening late 2007*

The route to a mortgage need not take a different path than the route to enjoying the privileges of credit.



***There are no speed limits
on the road to excellence.***

—David W. Johnson, Author

Visa Pre-Paid Card



Visa Credit Cards



Why Wonder...

See the World for Yourself with a Bank of The Bahamas International **Vacation Club Account**

Oh What a Night!

Celebrate with a Bank of The Bahamas International **Milestones Account**



All Grown Up

Time for a Bank of The Bahamas International **Junior Account**

Students Rule!

Feel Like Royalty with a Bank of The Bahamas International **High School Royalty Account**





Community Strides

***If we have the opportunity
to be generous with our
hearts, ourselves, we have
no idea of the depth and
breadth of love's reach.***

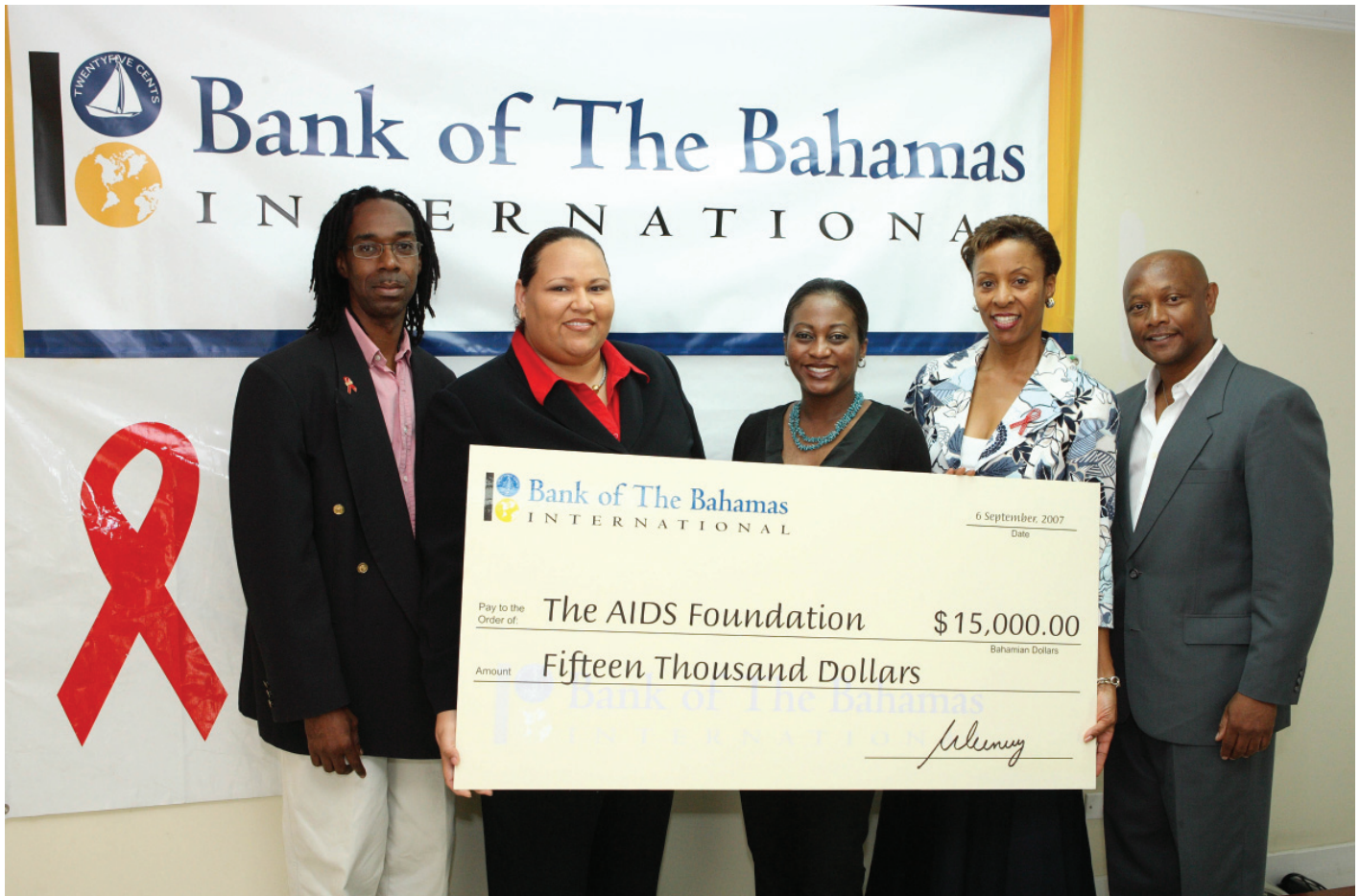
—Margaret Cho

Rendering assistance to those who need it most is part of Bank of The Bahamas International's commitment to community. The Bank has demonstrated that commitment in a myriad of non-traditional ways, including through the support of Bahamian culture, incorporating unique voices and icons in the Bank's commercials, credit cards, brochures and collateral.

While strengthening the voice of culture with commercial support has been the Bank's most recognised contribution, its largest community effort has been a largely silent one.

For three years, the Bank's single greatest effort has been the role it played soldiering alongside others in the costly and imperative battle against HIV/AIDS, a disease that attacks victims from all walks of life and has left too many children in The Bahamas orphans.

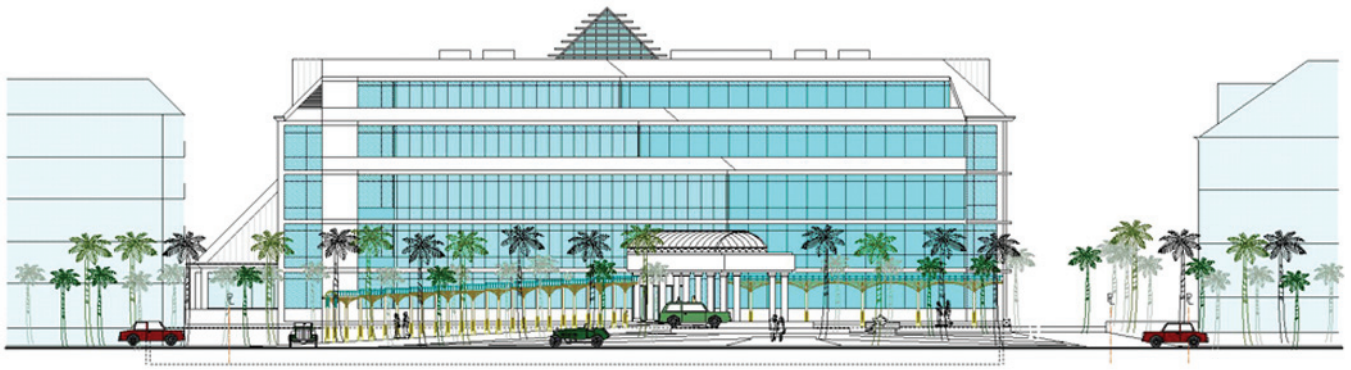
In 2004, the Bank donated \$60,000 through the Clinton HIV/AIDS Initiative. Last year, it continued its support and in the fiscal year that just ended, the Bank added another substantial sum. But this year's donation came with a different aim—to create a warm, loving home for those children whose parents had lost their battle with the dreaded disease. The Bank approved a low-interest loan with favourable terms to the AIDS Foundation to purchase the house it had been renting.



Making the AIDS Foundation's dream of a home for innocent children orphaned by the disease a reality. That is community involvement. Momentum with meaning.

The Bank's commitment to community continued this year, bringing its contribution to the fight against HIV/AIDS to nearly \$100,000 over three years. In addition to this year's donation, the Bank granted a low interest rate loan to provide a home for children orphaned because a parent has fallen victim to the deadly disease.

The Bank also launched Savings Culture to encourage better saving habits with high interest rate, age-appropriate accounts. Officials, students and celebrities including Miss Bahamas, Uriah McPhee Steel Pan Band and Minister of Social Services Melanie Griffith helped celebrate the campaign with the former Minister making the first deposit into the symbolic piggy bank.



NASSAU
PALM RESORT

BANK OF BAHAMAS
HEAD OFFICE

DOCKENDALE
HOUSE

NORTH ELEVATION



DOCKENDALE
HOUSE

BANK OF BAHAMAS
HEAD OFFICE

NASSAU
PALM RESORT

SOUTH ELEVATION



EAST ELEVATION

Bank Moves to Build Headquarters & Commercial Centre



The Vision

With the securing of nearly six acres of prime real estate on West Bay Street adjacent to the heart of historic Nassau, the Bank took steps in 2006 to turn the project of building new corporate headquarters and a commercial centre from dream to reality with the launch of a design competition.

The competition drew public, professional and media attention both in The Bahamas and the Caribbean region. Fifty-four boards were submitted by 13 architects, including a winning design that featured a sophisticated glass-ceiling centre lobby with an interior mall approach. Other designs ranged from the exotic to the traditional; none lacked imagination.

From launch to exhibition of entries and awarding of prizes, the competition demonstrated the Bank's willingness to go the extra distance in its quest for best solutions to real challenges.

Managing Director Paul McWeeney explained the reasoning, calling the project a national landmark and describing the genesis of creativity:

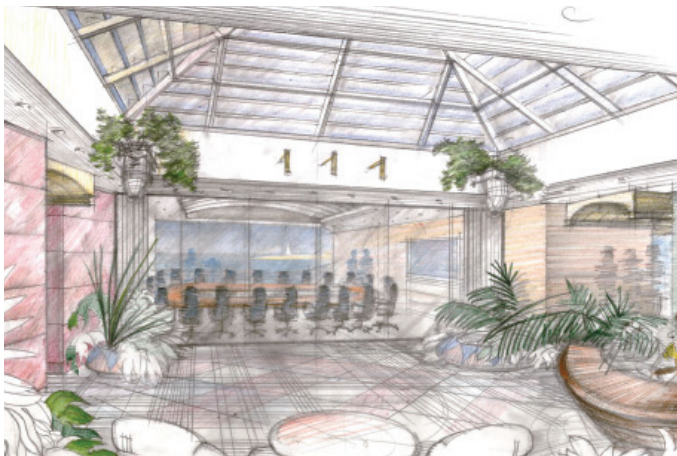
"This project that will rise on a very unique site—almost six acres with hills to the south and panoramic views of Nassau harbour to the north—has the potential to be a national landmark. Because of the site, the scope of work, the exciting possibilities and because the Bank is truly a public entity, we wanted to open up the design element to all Bahamian architects and architecture students to cull from a wide range of talent the best of the best. This is a rare opportunity to make a lasting difference in the skyline of Nassau, to create an office complex that takes advantage of the views, the elevation and that takes into consideration the vegetation, landscaping and lighting potential for a dramatic gateway to the heart of historic Nassau."

In the end, the selected design of a major competition is about more than the appearance of a building. It is about an environment where hundreds of people work, conduct business, exchange ideas, develop professionally and individually. It is where friendships are formed, values reinforced.

The winning design is the birth of a habitat where creativity thrives.

The Site

While there is a great deal of underdeveloped property remaining on the Nassau harbour front, the site selected by the Bank is the last remaining undeveloped prime land of significant size. Bordered on the east by the mango-hued Nassau Palm Resort and on the west by island contemporary Dockendale House, it is located just west of Nassau Street and within easy walking distance of the British Colonial Hilton to the east. The plot rises on a steady incline to a height of almost 40 feet above sea level at the southern end bordering Dean's Lane, affording dramatic possibilities that become part of the visual



Top: Head judge Mark Raymond, R.I.B.A.



memory bank of more than two million cruise passengers who visit The Bahamas by sea every year aboard vessels tied up at nearby Prince George Wharf.

In choosing the site with high visibility, adjacent to the unique architectural character of downtown Nassau, the Bank felt a responsibility that extended beyond constructing structures to satisfy its own needs to creating a physical environment with ample green space that blended with and brought out the best in the community around it.

The Project

The overall concept is a multi-purpose commercial complex with four buildings in a campus-style design, providing abundant open areas, landscaping and on-site parking.

The main building will have 75,000 square feet with 10,000 square feet for Bank of The Bahamas on the ground floor, 10,000 square feet for the Bank's head office on the top floor, a 10,000-square-foot meeting room to be utilized in full or in part by appointment by tenants. The remaining 45,000 square feet were to be designed for rental space to be divided as needed. A major tenant has been identified and others are pursuing the Bank, hoping for space availability.

The second building is a 13,000 square foot purpose-built building to be used for human resources and training, archives, dry storage and other general support functions.

The third building is much smaller, 3,000 square feet serving as a Data Centre. It will be independent of all other structures with its own power source and controls in case of natural disaster, attack, hurricane or other emergency in which the contingency plan swings

into full operation, allowing the Bank and other tenants to continue operation uninterrupted and with no loss of back-up information. The parallel operation will be secure.

The fourth building is a 10,000 square foot staff facility housing a fitness centre, cafeteria and day or after school care centre for children of Bank staff. All three facilities will be leased, presumably to individual tenants, creating a need for each to have its own access and utilities.

In addition to the buildings that will be staggered throughout the grounds, competing architects had to make provision for additional amenities and requirements, including parking of approximately 500 vehicles, an outdoor eating area, jogging trail, park and playground equipment for children.

The Design Competition

Design competition guidelines and packages were developed by a professional with years of experience. A panel of five judges, four architects from around the Caribbean and one Bahamian engineer, was selected to review and adjudge the entries based on very specific, detailed criteria. The Bank brought the judges to The Bahamas, housed them, provided a meeting room for them daily and included in their information briefings a tour of historic Nassau filled with information about design details and architectural history.

The identity of the judges was not released until all entries were in and every entry was assigned a number so that at no time did any judge have any means by which to identify a design with an architect or architectural firm. Only Bahamian registered architects or architecture students were eligible to enter. Each firm was limited to three entries.



The Judges

Five judges constituted the panel. Head judge Mark Raymond, R.I.B.A., of Trinidad is former president of the Trinidad and Tobago Institute of Architects. His firm had recently completed the design for that nation's Prime Minister's new offices. Gustavo Moré of the Dominican Republic came to the competition with more than 25 years experience, including first place prizes in numerous national competitions and as the publisher of *Archivos de Arquitectura Antillana*, a widely-respected journal for architecture and engineering. Robert Woodstock of Jamaica whose firm also practices in Barbados is the current chairman of the Association of Commonwealth Societies of Architects in the Caribbean. He graduated from New York's Cornell University first in his class. Ronny O. Lobo of Curacao has won numerous awards and specialises in project management, restoration and quantity surveying. He is a frequent lecturer and speaks eight languages. Respected Bahamian engineer Harold Munnings, Sr. whose career spanned five decades was the only local member of the judges' panel.

The judges took their assignments seriously. As they pored over large plans of 59 boards submitted by the 13 firms, they also were able to work with Project Manager DHP Associates and specifically with Paul Worrell who noted on more than one occasion how dedicated each of them was to their mission. Hours turned into days, days into nights and the judging process alone, on the third and final visit to the country, took a total of more than 200 professional hours.

Above: Former Financial Services and Investment Minister Vincent Peet, far right, presents trophy to symbolize winning design to Michael Moss, The Architectural Studio, as Paul McWeeney looks on.

The Winners

"It is increasingly popular for architecture to bridge tradition with modernity," head judge Mark Raymond, R.I.B.A., told a crowd of more than 150 persons who gathered for the unveiling of the designs and to hear the selection of the judges. He spoke of the benefits of an architectural competition to what he called "the architectural culture," emphasized the importance of the spaces between buildings, saying they were as significant as the buildings themselves and praised Bank of The Bahamas for undertaking a competition. Harmony with surroundings, maximising light, respecting architectural culture, increasing productivity of staff and satisfaction of visitors were all elements to be considered.

First prize went to Michael Moss of The Architectural Studio; second and third prizes went to Alexiou & Associates with a special Honorary Mention that had not been pre-scheduled to Doug Smith for a design that judges kept coming back to but could not select as the winner because it did not fully match competition specifications.

The first prize was the Bank of The Bahamas Gold Certificate of Excellence and the contract for the design of the headquarters and multi-use commercial office space project. Second prize was the Bank's Silver Certificate of Excellence and \$7,500. The third prize was the Bronze Certificate and \$5,000.

Moss received his mobilisation fee in September 2007 and the Bank hopes to break ground in 2008.

The concepts for the new corporate headquarters, commercial complex, banking museum and ancillary support buildings, including a financial centre that would be instantaneously operable as a back-up in case of emergency.

Awards & Honours



Former Managing Director Pauline Allen-Dean and Managing Director Paul McWeeney were individually honoured when they were named Honorary Fellows of the Bahamas Institute of Financial Services.

Over the last three years, Bank of The Bahamas International has been honoured to have been the recipient of more than one dozen national and international awards.

Beginning with the Bracken Award in 2005 when the Bank was named Country Bank of the Year by *The Banker*, part of the Financial Times Group, and extending to July of 2007 when the Bank received the coveted Bahamas Chamber of Commerce Business of the Year award, it has been a phenomenal period of recognition. After the end of the fiscal year, two more individual awards would come to those connected with the Bank. Former Managing Director Pauline Allen-Dean and present Managing Director Paul McWeeney were named honorary Fellows of the Bahamas Institute of Financial Services.

In the instances of international recognition, the Bank with the unlikely beginnings and global perspective found itself being honoured among the top banks in the world.

Each award brings renewed commitment by the Bank to maintain the constant search for innovation in banking, to keep abreast of developments on and beyond our shores. By so doing we ensure that our employees enjoy the greatest satisfaction for their contributions, our customers are treated with the highest level of personal service and our shareholders are rewarded with the maximum return on their investment.



Prime Minister Hubert A. Ingraham presented the coveted Bahamas Chamber of Commerce Business of the Year award to Deputy Managing Director Beverley Farquharson. Chamber President Dionisio D'Aguilar looks on.



Business
of the Year

Bank of The Bahamas
2007

April 2004
IAAP 2004-2005 Corporate Excellence Award
International Association of Administrative Professionals awards its Corporate Excellence Award to Bank of The Bahamas International. The IAAP's members make up an integral force of what makes companies flourish.

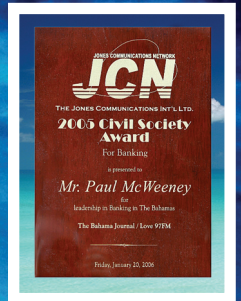
September 2005
2005 Bracken Award
Headlines announce *The Banker*, one of the oldest and best respected magazines serving the industry, has selected Bank of The Bahamas International as Country Bank of the Year, naming it the Best Bank in The Bahamas, the first time a Bahamian institution has qualified for the coveted award presented by a member of the Financial Times Group.

January 2006
2005 JCN Civil Society Award
At a ceremony in January 2006, Jones Communications Network presents BOB Managing Director Paul McWeeney with its Civil Society Award in Banking. It is a distinctive honour, not only because JCN is an influential voice in print and electronic media, but because the concept of civil society is critical to the advancement and enhancement of any culture.

July 2006
Euromoney Award
BOB receives a second international honour when Euromoney, the prestigious publication considered the authoritative voice in world currency and global trends, votes Bank of The Bahamas International Best Bank in the Country. The Bank's thank you reflected the humility it felt: 'At Bank of The Bahamas, we wear our Euromoney Award with great pride and strive to be deserving of it every day in every transaction. Thank you, *Euromoney*, for honouring us as among the world's premier financial institutions.'

October 2006
BFSB Industry Excellence Awards
BOB took top honours in two categories in the 2006 Bahamas Financial Services Board Awards, a double honour the Bank said "was made more significant because it was decided and awarded by our peers, the executives and professionals who work alongside us, who know the industry best and felt us worthy of recognition." The Bank won the BFSB Financial Services Development and Promotion Award "in recognition of the outstanding contribution to the viability and strength of the financial services sector in The Bahamas." Managing Director Paul McWeeney, who was out of the country at the time of the presentation, was named Executive of the Year.

July 2007
Bahamas Chamber of Commerce Business of the Year
Less than one year later, Bank of The Bahamas International receives what in some ways it considers the most flattering award, if not stunning, when it is named the Bahamas Chamber of Commerce Business of the Year, stunning because of the breadth and depth of the arena of competition. Again, the Bank's response was one of surprise and humility: "It could have been a resort, an airline, a retail or wholesale chain, restaurant, tourist attraction, cultural or artistic entity, For the Chamber to have selected Bank of The Bahamas as the best business in the nation is a tribute for which we shall always be grateful."





Corporate Governance Principles

Bank Of The Bahamas Limited

The toughest thing about success is that you've got to keep on being a success. Talent is only a starting point in this business. You've got to keep on working that talent.

—Irving Berlin

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. The Board recognizes that corporate governance matters continue to evolve and therefore keeps abreast of new codes and rules established both internationally and locally by regulatory bodies in order to maintain best practices.

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 is 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 analyzed by the Bank's external auditors.

Board Composition, Structure And Policies

Board Membership

The Articles of the Bank provide that the Board shall consist of a minimum of 5 and a maximum of 15 Directors. The Board is currently comprised of 9 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.

All Directors, with the exception of the Managing Director, are elected annually at the Bank's AGM. Any casual vacancy may be filled during the course of the year; however, such appointed Directors serve only until the next AGM, when they must stand for election by the shareholders and must be approved and/or ratified by The Central Bank of The Bahamas. The shareholders, on a majority basis, have the right, in accordance with procedures detailed in the Articles of Association, to request the removal of any appointed Director.

***To follow, without halt, one aim:
There's the secret of success.***

—Anna Pavlova

Within the last fiscal period, several changes have occurred with regard to the Board's membership. On November 21, 2006 the Bank lost one of its longstanding members, Mr. Patrick Bain, due to a prolonged illness. Mr. Bain served on the Human Resources and Risk Management Board Committees and provided invaluable advice and counsel to the Bank during his tenure. On February 9, 2007 Mr. Raymond Jones, Chief Operating Officer of the Freeport Container Port Ltd., Freeport Harbour Company Ltd. and the Grand Bahama Airport Company Ltd. was appointed to the Board. On May 11, 2007, Mr. Maxwell Gibson who served on the Human Resources, Information & Technology and Operations Marketing & Business Development Board Committees resigned from the Board. On June 8, Mr. Alfred Jarrett resigned as a Director and Chairman of the Board. Subsequently, an extraordinary Board of Directors meeting was called on June 11, and Mr. T. Maitland Cates was appointed as Chairman.

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 special meetings. The Chairman and Deputy Chairman's annual remuneration is \$65,000 and \$25,000 respectively. The Executive Director receives no remuneration for services performed in his 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 its major shareholders. However, the Board is comprised of a substantial majority of Directors who meet The Central Bank of The Bahamas' criteria for independence.

Board Meetings

Frequency of Meetings

Board meeting dates are scheduled and communicated with Directors at least a year in advance. In fiscal year 2007, four regular Board meetings and two extraordinary Board meetings were held. Generally, Board Committee meetings are held quarterly, with the exception of the Corporate Governance and Executive Compensation Committees which are held annually.

Attendance at Meetings

Directors are expected to attend all Board meetings in order to keep informed and provide the opportunity for meaningful input into the decision-making process. Regular attendance at all Board meetings, together with committee meetings and the AGM, is expected of all Directors. On the right is a record of attendance:

Preparation for Meetings

The Chairman along with the Managing Director prepares the agenda for each meeting. In addition, Strategic Management provides reports on key issues to their respective Board Committees relative to the various departments 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.

Structure Of The Board

Board Committees

The Board established a number of standing committees as follows:

- ▶ Audit, Controls, & Procedures Board Committee
- ▶ Operations, Marketing & Business Development, Private Banking and International Operations Committee
- ▶ Credit Risk Board Committee
- ▶ Finance & Capital Development Board Committee
- ▶ Risk Management Board Committee
- ▶ Information & Technology Board Committee
- ▶ Human Resources Board Committee
- ▶ Corporate Governance Board Committee
- ▶ Executive Compensation Committee

The Board currently has three Ad Hoc Committees, which were formed to address special projects which require the Board's oversight. These Committees include the Headquarters Building Board Committee, Miami Project Board Committee and the Annual Report Board Committee.

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.

Name	BOARD MEETING ATTENDANCE					
	Aug 11	Nov 10	Feb 9, Ex.	Feb 9	May 11 BOD 06	June 11 Ex. BOD 07
Alfred Jarrett, MBA	✓	✓	✓	✓	✓	n/a
Lourey Smith	✓	✓	✓	✓	✓	✓
T. Maitland Cates	✓	✓	✓	✓	✓	✓
Lennox McCartney	✓	✓	✓	✓	✗	✗
Robert Sands	✗	✓	✓	✓	✓	✓
Allan Benjamin	✓	✓	✓	✓	✓	✓
Ruth Millar, CMG	✗	✓	✓	✓	✓	✓
Patrick Bain	✗	✓	n/a	n/a	n/a	n/a
Maxwell Gibson	✓	✓	✓	✗	✓	n/a
Dr. L. Barry Russell	✗	✗	✓	✓	✗	✓
William Wallace	✓	✓	✓	✓	✓	✓
Raymond Jones	n/a	n/a	n/a	n/a	✓	✓
Paul McWeeney	✓	✓	✓	✓	✓	✓

Name	COMMITTEE MEETING ATTENDANCE				
	July 06	Oct 06	Jan 07	Apr 07	July 07
T. Maitland Cates	Audit ✓	Audit ✓	Audit ✓	Audit ✓	Audit ✓
Lourey Smith	Risk ✓ Audit ✓	Risk ✓ Audit ✓	Risk ✓ Audit ✓	Risk ✓ Audit ✓	Risk ✓ Audit ✓
Lennox McCartney	Finance ✗ Credit ✗ IT ✓ Operations ✗	Finance ✓ Credit ✓ IT ✓ Operations ✗	Finance ✓ Credit ✓ IT ✓ Operations ✓	Finance ✗ Credit ✗ IT ✗ Operations ✗	Finance ✓ Credit ✓ IT ✓ Operations ✓
Robert D.L. Sands	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓
Allan Benjamin	Risk ✓	Risk ✓	Risk ✓	Risk ✓	Risk ✓
Ruth Millar	Audit ✓	Audit ✓	Audit ✓	Audit ✓	Audit ✓
Patrick Bain	HR ✗ Risk ✗	HR ✗ Risk ✓	n/a n/a	n/a n/a	n/a n/a
Maxwell Gibson	HR ✓ IT ✓ Operations ✓	HR ✓ IT ✓ Operations ✓	HR ✓ IT ✓ Operations ✓	HR ✗ IT ✗ Operations ✗	n/a n/a n/a
Dr. L. Barry Russell	HR ✗ IT ✗	HR ✗ IT ✗	HR ✓ IT ✗	HR ✓ IT ✓	HR ✓ IT ✗
Raymond Jones	n/a n/a n/a	n/a n/a n/a	n/a n/a n/a	Risk ✓ IT ✓ Operations ✓	Risk ✓ IT ✗ Operations ✗
William Wallace	Audit ✓ Finance ✓ Credit ✓ Operations ✓	Audit ✓ Finance ✓ Credit ✓ Operations ✓	Audit ✓ Finance ✓ Credit ✓ Operations ✓	Audit ✓ Finance ✓ Credit ✓ Operations ✓	Audit ✗ Finance ✓ Credit ✓ Operations ✓

✓ = Present ✗ = Absent/Apologies n/a = Mr. Patrick Bain passed away on November 21, 2006. Raymond Jones was appointed to the Board at the February 9, 2007 extra ordinary Board of Directors meeting. Mr. Maxwell Gibson resigned from the Board in May 2007. Mr. Alfred Jarrett resigned from the Board in June 2007.

On May 11, 2007, the Board submitted its Annual Certification to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines. That Certification follows:

May 11, 2007

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

Dear Sirs,

Corporate Governance Certification – 31 December 2006

- ▶ The Board of Directors (the Board) of the Bank of The Bahamas (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 13th December, 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.

In support of its dynamic growth and prospects the Bank has advanced the introduction of a new and comprehensive financial services software application. The objective of this exercise is to enhance the effectiveness of the control environment, and its enterprise-wide risk awareness and mitigation procedures.

The migration to the new financial application is nearing completion and while the Bank is in this “transition” stage there exists certain limitations in the current operating framework.

In the interim the Bank has assigned specific executive/senior management personnel, and where necessary, external consultants to augment less than robust areas. We are confident that these areas will continue to be addressed with determination.

Yours faithfully,

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



Paul McWeeney – Managing Director



Alfred Jarrett – Chairman

Board of Directors

Bank of The Bahamas Limited



T. Maitland Cates
Chairman, JP, CA, SACCA, TEP



Lourney Smith
Deputy Chairman



Paul J.I. McWeeney
Managing Director



Allan J. Benjamin
Director



Lennox Clayton McCartney
Director



Raymond Jones
Director



Ruth R. Millar, CMG
Director



Dr. L. Barry Russell
Director



Robert D.L. Sands
Director



William Wallace
Director

Strategic Management Team

Bank of The Bahamas International



Beverley A. Farquharson



Vaughn W. Delaney

Paul J. I. McWeeney, Managing Director

Beverley A. Farquharson, Deputy Managing Director, Operations

Vaughn W. Delaney, Deputy Managing Director, Information & Technology & Human Resources

Tameka S. Forbes, Sr. Manager, Business Development, Public Relations & Legal Affairs

Samuel Haven, Sr. Manager, Private Banking, BBT & International Operations

Hubert Edwards, Sr. Manager, Corporate Finance

Renee Davis, Sr. Manager, Risk & Compliance

Kiry Ferguson, Sr. Manager, Operations

Darryl Bartlett, Sr. Manager, Credit Risk

Emily A. Demeritte, Sr. Manager, Human Resources & Training

George Thompson, Sr. Manager, Corporate Credit, Freeport & the Family Islands

Dandria Miller-Bowe, Financial Controller

Renee Ijeoma, Manager, Information & Technology

Vanessa Taylor, Chief Internal Auditor

Laura A. Williams, Sr. Executive Asst. Corporate Affairs



Management Discussion

AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR FINANCIAL YEAR ENDING JUNE 30, 2007

Bank of The Bahamas Limited continues on a path of successfully implementing major strategic imperatives as it moves along the planned continuum to becoming a full life-cycle financial services provider and model enterprise.

Substantive primary organizational and strategic objectives established for the fiscal year were achieved. At the same time, the Bank enjoyed significant advancements in its underlying organizational infrastructure resulting in improvement in financial performance and further positioning the Bank for future growth in products, services and financial solutions.

The Bank successfully executed very well-calculated and timed capital and money market transactions which served to:

- ▶ Fortify Shareholders' Equity
- ▶ Improve competitive position
- ▶ Enhance standards
- ▶ Strengthen funding mechanisms
- ▶ Solidify core customer liabilities.

The combination of these components created, inter alia, a precision guidance system capable of managing potential systemic liquidity challenges while achieving greater competitive positioning and strengthening the framework for planned prudent expansion.

Numerous elements associated with the Bank's strategic transformation from bank to full life cycle financial enterprise are intrinsically linked to higher operating expenses. This increase also contains significant non-recurring realignment costs. Additionally, the allocation of human capital

OVERVIEW

DESCRIPTION

	2007	2006	Change
Interest Income	\$ 41.70	\$ 35.30	\$ 6.40
Net Interest Income	\$ 23.92	\$ 21.96	\$ 1.96
Non Interest Income	\$ 9.03	\$ 8.77	\$ 0.26
Non Interest Expense	\$ 21.28	\$ 17.84	\$ 3.44
Net Income	\$ 10.77	\$ 10.72	\$ 0.05
Earnings per Share (EPS)	\$ 0.62	\$ 0.78	\$ (0.16)
Total Assets	\$ 658.26	\$ 545.76	\$ 113.50
Loans and Advances to Customers	\$ 486.92	\$ 454.78	\$ 32.14
Total Liabilities	\$ 562.48	\$ 470.41	\$ 92.07
Shareholders' Equity	\$ 95.78	\$ 75.35	\$ 20.43
Capital Ratio	19.67	13.72	5.95
Efficiency Ratio	64.48	58.07	6.41

Dollar amounts are stated in millions. The EPS, Capital and Efficiency Ratios are percentages.

from normal business duties to secure the effective implementation of these important planned initiatives influenced a rise in the Bank's operating efficiency ratio. Despite these events, Net Income for the fiscal year amounted to a record B\$ 10.77 million (before preference dividends), an achievement made even more significant given the parameters and restraints on human and other capital under which it was achieved.

Within the context of the forgoing, especially the almost year-long systemic tightening of liquidity and the attendant rise in the cost of funds, Bank of The Bahamas Limited's 2007 fiscal year result is undoubtedly impressive.

With multiple systemic economic challenges and increased cost on planned strategic initiatives the Bank was able to maintain its overall level of profit, in absolute terms, on par with 2006. Note that 2006 performance resulted in an unprecedented growth rate of 45.38% with profits growing from \$7 million to \$10.2 million. The stability in profit from 2006 to 2007 compares very favorably with the challenging interim results recently reported by industry participants.

The financial highlights detailed below evidence the strength of the Bank's financial performance. Positive growth has once again been recognized in substantially all fundamental components. Specifically significant growth is evident in Total Assets (20%); Customer Deposits (14%); and importantly Shareholders' Equity which realized an increase of 27%. The latter measure signals the continued significant increase in shareholders value. With a concurrent growth strategy, this augers well for the sustainable creation of greater long-term value for the Bank's current and future investors and other stakeholders.

Continued growth in interest income, supported by non-interest revenue together with increases in the capital structure through the combination of market activities, and continued profitability has positioned the Bank for consistent value delivery to all stakeholders. With the successful implementation of a new banking platform, the creation and enhancement of service delivery channels, the fostering of wider strategic alliances positions the Bank to achieve all of its planned strategic objectives and importantly to improve its competitive stance.

The following segment discusses the specific performance and results as represented by major line items in the Income Statements and Balance Sheet of the Bank.

Interest Income

While the growth in the loan portfolio was deliberately more subdued than in 2006 in order to accommodate the dramatic increase in customer base generated by the mortgage campaign the previous year, interest income still grew by 18.13% to \$41.7 million. Corresponding growth in the loan portfolio was 7.04%. The strong results in Net Income of nearly \$11 million was the result of effective risk analysis and prudent portfolio management which sought to ensure optimal balance in the composition of the portfolio relative to the risk reward profile of each category of loans.

Interest Expense

System wide liquidity constraints resulted in the cost of funds increasing at a greater rate than in the prior year both in relative and absolute terms. While there was absolute growth in Interest Expense management was able to, through the employment of very definitive, disciplined and focused funding strategies, restrict the overall growth in this crucial business element to 33.34% over fiscal year 2006, a reasonable increase given market conditions, while the corresponding growth in Customer Liabilities was multiple times that.

Net Interest Income

The significant increase in Interest Income coupled with careful management of Interest Expense resulted in an increase of 8.94% in Net Interest Income to \$23.92 million. This result was directly impacted by the growth in the loan portfolio together with a controlled credit risk management process. The protection and improvement of the asset quality of the loan portfolio not only helped in realizing the healthy increase in Net Interest Income but also secures its sustainability.

Net Provision For Loan Losses

Despite a net growth of 7% in Loans and Advances, the charge for loan losses decreased from \$2.7 million in 2006 to \$951 thousands, a reduction of approximately 64.82%. This impacted the Bank's total Provision for Loan Losses which at the end of the year reduced to \$6.04 million (compared to \$6.51 million in 2006). Provision as a percentage of Loans and Advances now stands at 1.23%

compared to 1.42% in 2006. Management is confident that with the Bank's conservative approach to determining the general and specific provisioning is adequate to address expected losses in the loan portfolio and is compliant with regulatory requirements, prudential norms and International Accounting Standards.

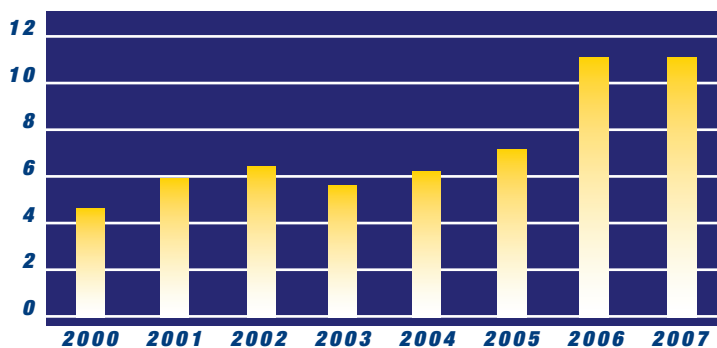
Non Interest Income

Management continues to recognize the need to grow the Bank's Non Interest Income as a means for furthering its profitability. In fiscal 2006 focus on this aspect of the business together with the launch of new products such as the prepaid credit card further enhanced the Bank's performance in this area. Over the last two fiscal periods Non Interest Income increased by 30.45% largely due to commitments associated with loan portfolio growth plus fees associated with the expanded portfolio. Management's ongoing activities to identify additional streams of income will see continued focus on new or re-branded products together with initiatives to expand the usage, by our customers, of the various services and products currently within our suit.

Non Interest Expenses

Non Interest Expenses increased by 19.3% largely due to the non-recurrent costs associated with the successful migration to a new comprehensive banking solution, opening of new branches, the development costs involved in the introduction of new products, increased marketing and competitive positioning of the Bank and incremental organizational strengthening to facilitate the sustainability of our growth. These elements dictated the rise in the operating efficiency which turned out to be within 119 basis points of the Bank's budgeted expectation. Management is confident that the robust features of the new banking platform will enable the Bank to execute strategic initiatives aimed at tremendously improving operating efficiency over the course of the next 24 months.

Net Income



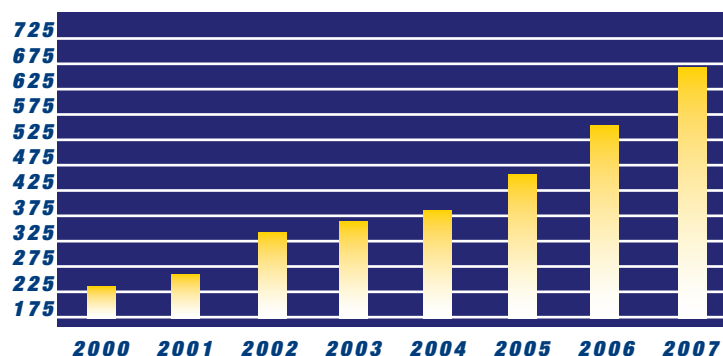
Net Income

As a result of a prior year adjustment, necessitated by a reclassification of the property earmarked for the constructions of the Bank's new headquarters and commercial complex from Fixed Assets to Investment Property, Net Income for financial year 2006 was restated from \$10.2 million to \$10.7 million. Therefore, the Net Income increase for the noted period has now been restated at an astounding 53.64%. Consequently the 2007 financial year growth in Net Income to \$10.8 million was negligible (or 6% prior

to the restatement). However, over the last 24 months Net Income recognized an excellent 53.64% growth rate.

Earnings per share settled at 62 cents per share from 78 cents per share a year earlier due in part to an increase in common shares issued.

Total Assets



Total Assets

The Bank continues to see significant growth in its balance sheet. Total assets increased by just over 20% when compared to 2006. Total asset increased from \$545.76 million to \$658.26 million, an increase of approximately \$112.5 million. This increase, despite control in loan growth, signals the confidence of the Bank. It also evidences the effectiveness of the strategies employed for growing its overall risk asset base.

The increase in total asset was impacted by growth in deposits garnered near to the end of the year. Consequently their impact on Net Income was very negligible. The resulting effect is that the Bank's ROA, before preference dividends, (Net Income divided by Total Assets) reduced from 1.96 to 1.64 a change of 19.51%. This change approximates the increase in total assets and therefore within the context of a calculation negates actual gains resulting from increased (unadjusted) profitability.

Loans And Advances To Customers

Loans and Advances grew by 7.07% and multiple times GDP economic expansion. Following the phenomenal growth experience in 2006, management took a strategic position to curtail loan growth. This decision was significantly influenced by management's projection in the further tightening of liquidity and also in response to certain sector-wide regulatory signals. These calculations proved correct and consequently the Bank was able to maintain its level of profitability in the face of very restrictive economic conditions. The Bank continues to focus on lending for productive purposes. As at June 30, 2007 mortgages and commercial loans accounts for 82% of the Bank's loan portfolio. Further analysis shows that mortgages accounts for just over 53% of the portfolio. This position stood at 52% in 2006. Consumer loans continue to represent less than 10% of total loans. This mix of the loan portfolio demonstrates the conservative approach the bank employs in its credit activities. It also highlights the effectiveness of the credit risk management efforts. Despite a relatively low risk portfolio, and the very limited growth in the current fiscal year, the Bank's level of profitability remains comparable with 2006.

Never measure the height of a mountain until you have reached the top. Then you will see how low it was.
—Dag Hammarskjöld
UN Secretary General 1953-1961 (dec.)

Liquidity

Total deposits from customers and banks grew by \$64.4 million or 14.48%. This growth was \$4 million greater than that realized in 2006. Despite the significant liquidity challenges experienced by the industry the bank was able to keep pace and surpass, on an absolute basis, its 2006 historic performance in this area. This repeat performance continues to validate strategic initiatives employed during 2006 which are still actively employed, on a disciplined basis, by the Bank.

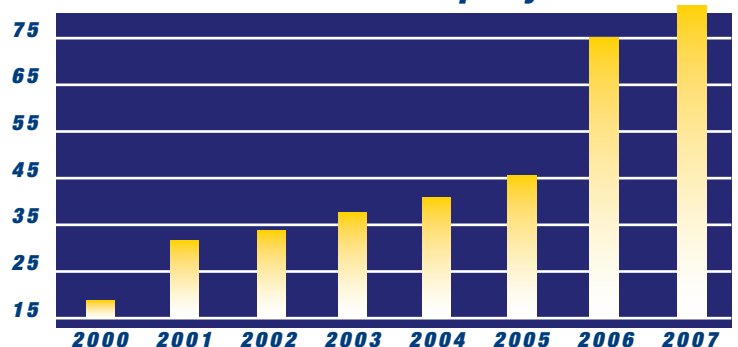
Total Shareholders Equity

The Bank's Capital ratio settled at 19.67% for 2007, well in excess of the regulatory capital requirement imposed by The Central Bank. The Bank's Tier I capital stood at 21.16% and continues to reflect prudent practices and strategies designed to deepen the Bank's ability to absorb unforeseeable risks.

The future prospects of the Bank are very bright. Management is satisfied that with the continued implementation of strategic initiatives approved by the Board of Directors current growth and profitability will continue and improve for the foreseeable future. The continued growth of the Bank's Balance Sheet along with strengthening of its profitability will not only facilitate further deepening Shareholder value, but help to influence the continuing development of the financial services sector and, by extension, the economic diversity of the country.

The Management's Discussion and Analysis of our financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the fiscal year ended June 30, 2007. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition, this Management's Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related notes. This Management's Discussion and Analysis is dated October 26, 2007.

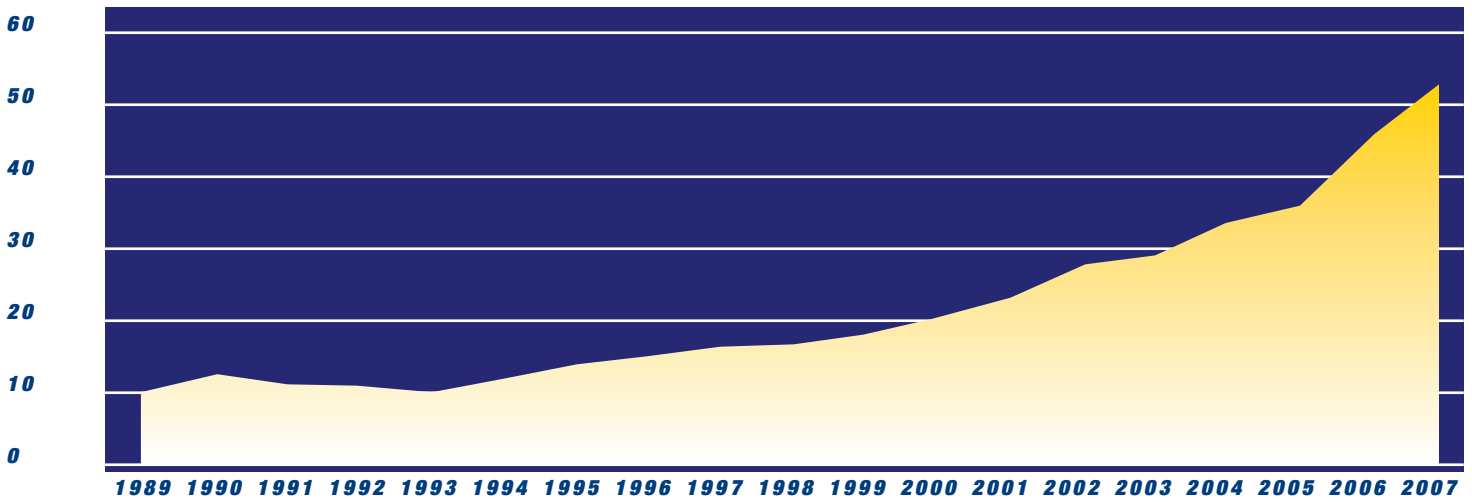
Total Shareholders' Equity



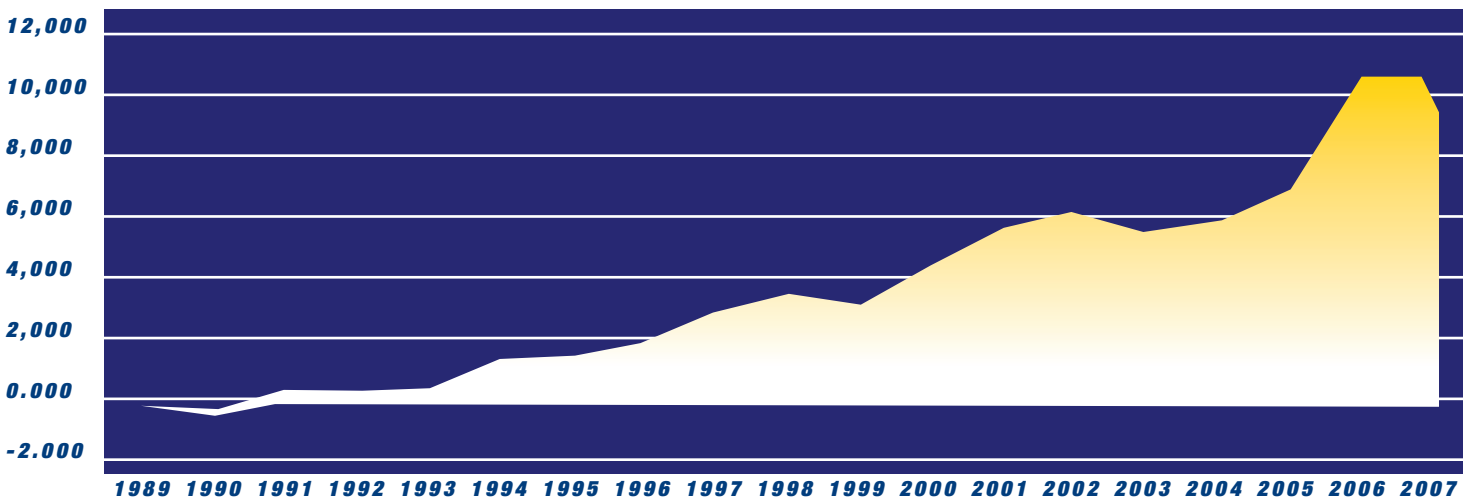
Financial History

Inception to Present

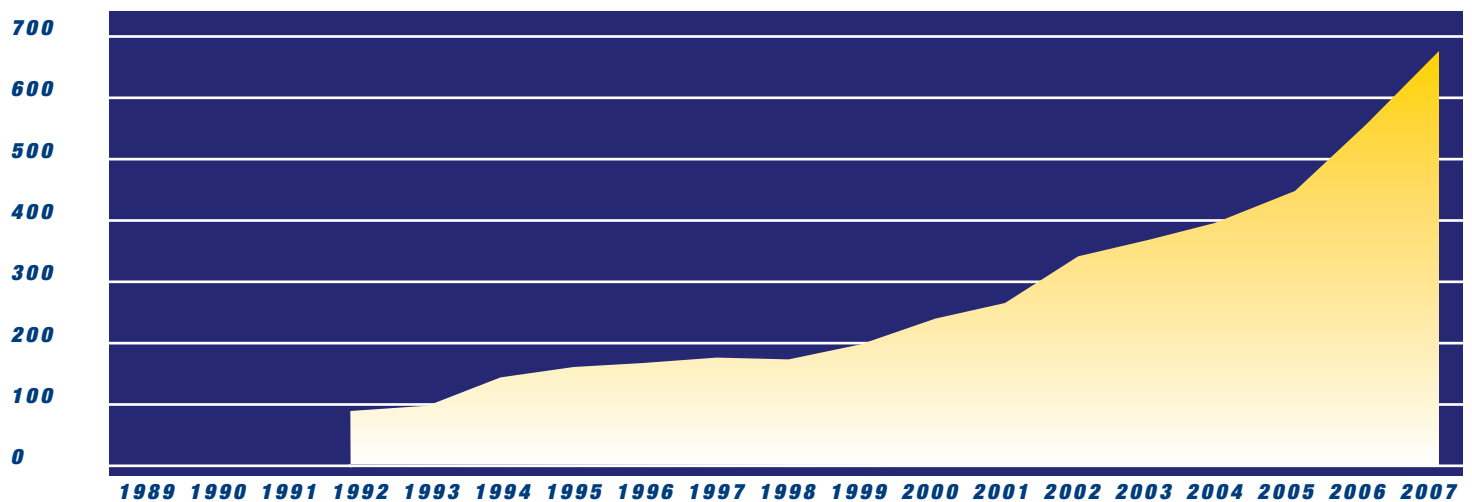
Gross Revenue



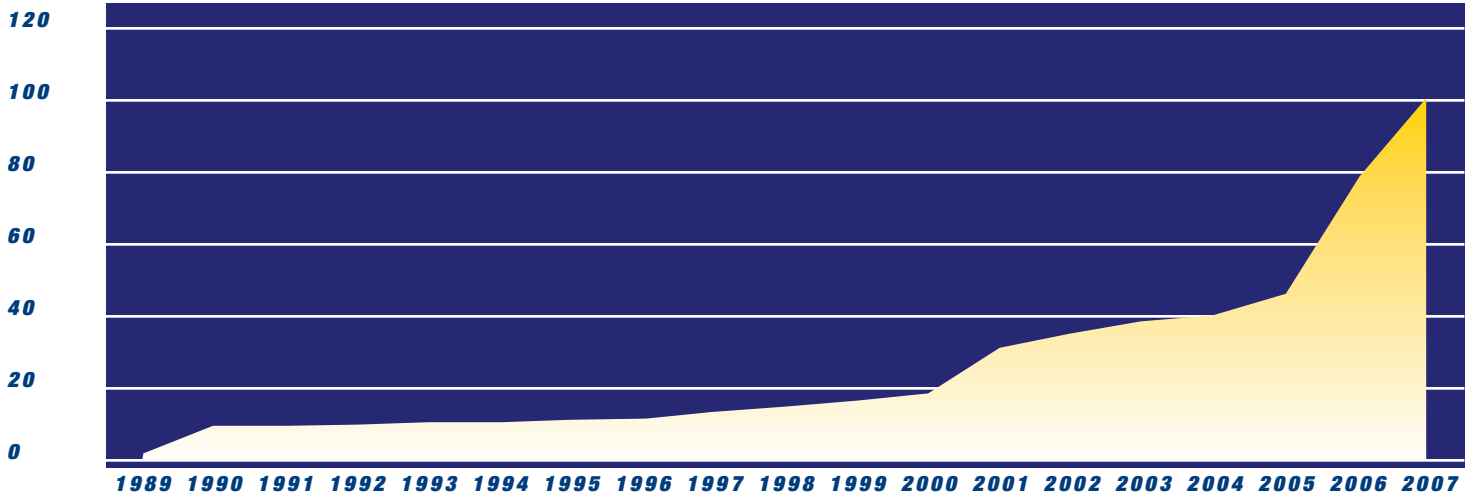
Net Income



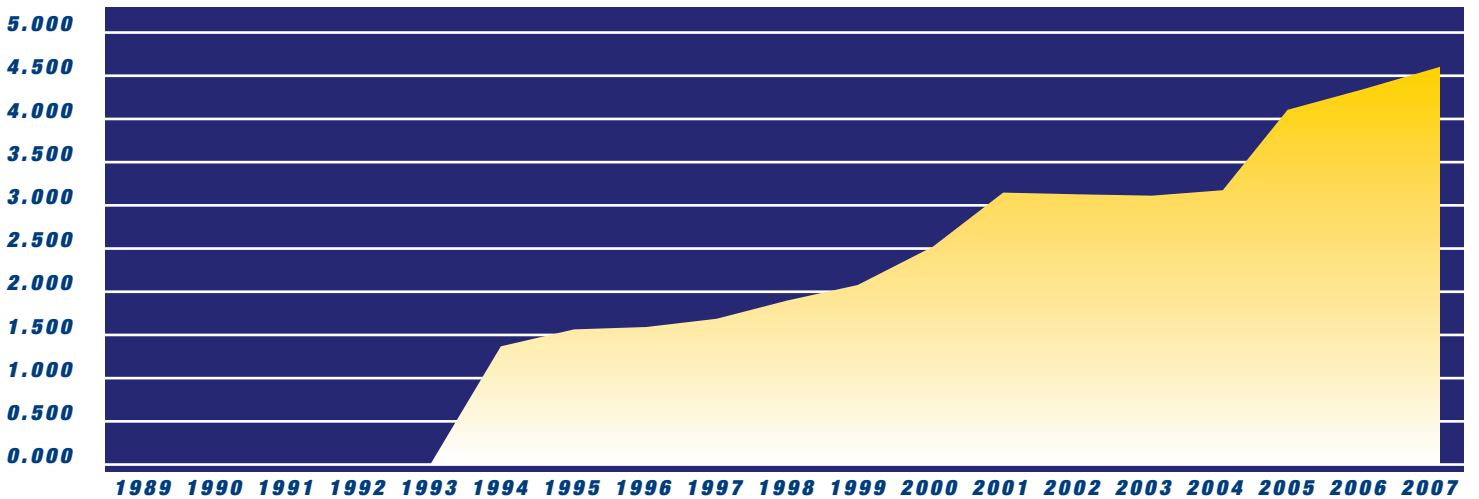
Total Assets



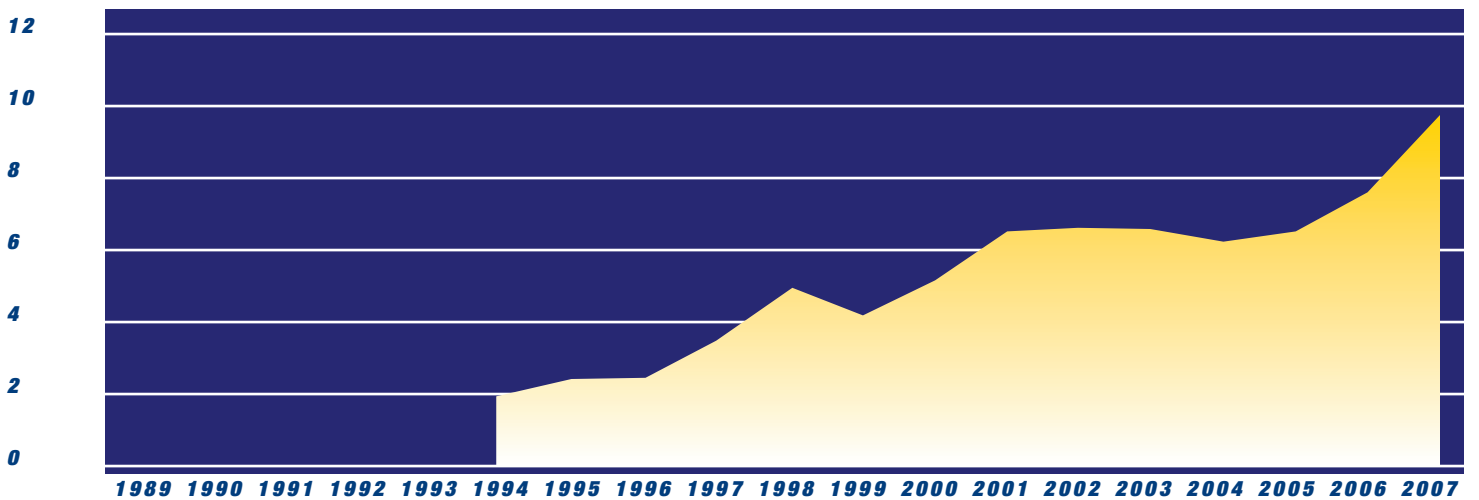
Total Shareholder Equity



Dividend



Share Price Growth







**Consolidated Financial Statements
For The Year Ended June 30, 2007
And Independent Auditors' Report**

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, 2007, 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.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. 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

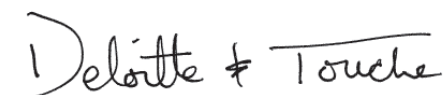
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



September 27, 2007

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2007

(Expressed in Bahamian dollars)

	2007	2006 (As Restated)
ASSETS		
Cash and due from banks (Note 5)	\$ 75,853,807	\$ 28,978,706
Account with The Central Bank of The Bahamas (Note 5)	48,775,950	15,220,224
Investments (Notes 6 and 19)	27,903,000	28,903,000
Loans and advances to customers, net (Notes 7 and 19)	486,921,172	454,780,689
Accrued interest receivable (Note 19)	691,819	515,621
Prepaid expenses and other assets (Note 19)	2,488,729	2,941,098
Investment property (Notes 8 and 16)	3,080,000	3,010,000
Goodwill, net (Note 10)	1,075,759	1,115,277
Fixed assets, net (Notes 9 and 16)	7,434,002	6,458,570
Customers' liabilities under acceptances, guarantees and letters of credit	4,038,434	3,840,839
TOTAL	\$658,262,672	\$545,764,024
LIABILITIES		
Deposits from customers and banks (Notes 11, 19 and 20)	\$509,094,107	\$444,695,877
Bonds payable (Notes 12 and 19)	17,000,000	17,000,000
Mortgage backed bonds (Note 13)	20,000,000	-
Cheques and other items in transit	7,565,470	2,093,391
Accounts payable and other liabilities (Note 19)	4,212,579	2,778,943
Interest payable on bonds (Note 19)	567,623	2,561
Acceptances, guarantees and letters of credit	4,038,434	3,840,839
Total liabilities	562,478,213	470,411,611
EQUITY		
Share capital (Note 14)	30,364,990	15,600,000
Share premium	28,587,866	28,587,866
Treasury shares (Note 15)	(237,329)	(245,739)
General reserve (Note 14)	-	1,400,000
Retained earnings	37,068,932	30,010,286
Total equity	95,784,459	75,352,413
TOTAL	\$658,262,672	\$545,764,024

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on September 27, 2007, and are signed on its behalf by:



Director



Director

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED JUNE 30, 2007

(Expressed in Bahamian dollars)

	2007	2006 (As Restated)
NET INTEREST AND OTHER INCOME:		
Interest income (Note 19)	\$41,704,298	\$35,295,125
Interest expense (Note 19)	17,786,319	13,339,216
Net interest income	23,917,979	21,955,909
Less net provision for loan losses (Note 7)	951,134	2,692,382
Net interest income after net provision for loan losses	22,966,845	19,263,527
Service fees and commissions	5,235,792	4,510,154
Interest income from investments (Note 19)	1,719,748	1,975,417
Net foreign exchange gains	1,395,145	1,291,167
Gain on revaluation of investment property (Note 8 and 16)	70,000	534,602
Other banking income	666,027	990,348
TOTAL	32,053,557	28,565,215
NON-INTEREST EXPENSES:		
General and administrative (Notes 19, 20, 21 and 24)	19,708,441	16,152,146
Depreciation and amortization (Note 9)	1,531,939	1,689,358
Impairment loss on goodwill (Note 10)	39,518	-
TOTAL	21,279,898	17,841,504
NET INCOME	\$10,773,659	\$10,723,711
EARNINGS PER SHARE CALCULATION:		
NET INCOME	\$10,773,659	\$10,723,711
PREFERENCE SHARE DIVIDENDS (Note 14)	(1,064,897)	-
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 9,708,762	\$10,723,711
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	15,557,613	13,757,613
EARNINGS PER SHARE	\$ 0.62	\$ 0.78

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED JUNE 30, 2007

(Expressed in Bahamian dollars)

	Share Capital	Share Premium	Treasury Shares	General Reserve	Retained Earnings	Total
Balance at June 30, 2005	\$12,000,000	\$ 7,589,064	\$(264,270)	\$1,400,000	\$23,592,139	\$44,316,933
Net income (as restated) (Note 16)	-	-	-	-	10,723,711	10,723,711
Dividends (Note 25)	-	-	-	-	(4,305,564)	(4,305,564)
Rights offering issuance (Note 14)	3,600,000	20,998,802	-	-	-	24,598,802
Sale of treasury shares	-	-	18,531	-	-	18,531
Balance at June 30, 2006 (as restated) (Note 16)	15,600,000	28,587,866	(245,739)	1,400,000	30,010,286	75,352,413
Net income	-	-	-	-	10,773,659	10,773,659
Transfer of general reserve (Note 14)	-	-	-	(1,400,000)	1,400,000	-
Sale of treasury shares (Note 15)	-	-	8,410	-	-	8,410
Preference shares issuance (Note 14)	14,764,990	-	-	-	-	14,764,990
Dividends on preference shares (Note 14)	-	-	-	-	(1,064,897)	(1,064,897)
Dividends (Note 25)	-	-	-	-	(4,050,116)	(4,050,116)
Balance at June 30, 2007	\$30,364,990	\$28,587,866	\$(237,329)	\$ -	\$37,068,932	\$95,784,459

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2007

(Expressed in Bahamian dollars)

	2007	2006 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,773,659	\$10,723,711
Adjustments for:		
Depreciation and amortization (Note 9)	1,531,939	1,689,358
Gain on revaluation of investment property (Note 8)	(70,000)	(534,602)
Loss on disposal of fixed assets	-	18,639
Impairment loss on goodwill (Note 10)	39,518	-
Net provision for loan losses (Note 7)	951,134	2,692,382
	<u>13,226,250</u>	<u>14,589,488</u>
Change in operating assets and liabilities (Note 22)	7,181,886	(985,016)
Increase in loans and advances to customers, net	(33,091,617)	(102,950,165)
Increase in deposits from customers and banks	64,398,230	60,336,499
Net cash from (used in) operating activities	<u>51,714,749</u>	<u>(29,009,194)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets (Note 9)	(2,507,371)	(1,677,283)
Purchase of investments	-	(3,462,000)
Proceeds from disposal of fixed assets	-	2,700
Proceeds from maturity of investments	1,000,000	86,300
Net cash used in investing activities	<u>(1,507,371)</u>	<u>(5,050,283)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage backed bonds (Note 13)	20,000,000	-
Preference shares issuance (Note 14)	14,764,990	-
Rights offering issuance (Note 14)	-	24,598,802
Dividends paid on common stock	(4,050,116)	(4,305,564)
Dividends on preference shares (Note 14)	(1,064,897)	-
Increase (decrease) in interest payable on bonds	565,062	(444,566)
Sale of treasury shares (Note 15)	8,410	18,531
Net cash from financing activities	<u>30,223,449</u>	<u>19,867,203</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	80,430,827	(14,192,274)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	44,198,930	58,391,204
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	\$124,629,757	\$44,198,930
SUPPLEMENTAL INFORMATION:		
Interest received	\$ 43,087,446	\$35,208,904
Interest paid	\$ 16,170,159	\$13,783,782
Dividends paid	\$ 4,552,513	\$ 4,305,564

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

YEAR ENDED JUNE 30, 2007

(Expressed in Bahamian dollars)

1. GENERAL

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 shares. The remaining shares are owned by approximately 4,000 Bahamian shareholders. The Bank's head office is located at Cloughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, Bahamas.

The Bank's services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded prepaid cards. The Bank has eleven branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma and one in Inagua. A subsidiary named BOB Financial Services Inc. was incorporated in Coral Gables, Florida on June 30, 2005. As of year end this subsidiary has not commenced operations. The main activities of BOB Financial Services Inc. will be the provision of trade financing, debit card 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, Citibank NA and Lloyds Bank PLC. The Bank is also an agent for American Express and MoneyGram.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, management has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2006.

Management has selected to present information regarding the objectives, policies and processes for managing capital (see Note 27) required by amendments to IAS 1 Presentation of Financial Statements that became effective as of January 1, 2007.

The directors anticipate that the adoption of this standard will have no material impact on the Bank's consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as promulgated by the International Accounting Standards Board ("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.

Depreciation and amortization

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

Loans and advances to customers and banks

The Bank has significant investments in loans receivable. These assets are assessed for impairment on an ongoing basis. Management's process for this assessment is presented in Note 4d. Loans receivable will continue to be 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 holdings in held to maturity investments. These investments are assessed for impairment on an ongoing basis. Management's process for this assessment is presented in Note 4e. 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 branch's projected cash flow and its book value.

Further details are presented in Note 10.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- a. **Revenue recognition** - Income is recognized on an accrual basis, except for loans and advances to customers placed on non-accrual basis and fees, which are recognized on a cash basis.
- b. **Subsidiaries** - Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

These consolidated financial statements include the financial statements of the Bank's wholly-owned subsidiaries, BAHTCO Ltd. (the Bank's Trust Company) and BOB Financial Services Inc.

Upon consolidation, all significant intercompany balances and transactions are eliminated.

- c. **Cash and cash equivalents** - Cash and cash equivalents consist of cash and due from banks and accounts with The Central Bank of The Bahamas.

- d. **Loans and advances to customers and banks** - Loans and advances to customers and banks are stated at the principal amounts outstanding including accrued interest net of provisions for losses on loans and advances.

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. When there is doubt regarding the ultimate collectibility of principal, all cash receipts are applied to reduce the principal. Further, while interest continues to accrue, 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.

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. 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. **Investments** - Investments classified as held-to-maturity are carried at amortized cost. Investments are assessed for impairment using qualitative factors including the creditworthiness of the counterparty.
- f. **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.

- g. **Fixed assets** - Fixed assets (excluding building) are stated at cost less accumulated depreciation and amortization. Building is stated at estimated salvage value of \$290,150 with subsequent additions at cost less accumulated depreciation.

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.

- h. **Accounts payable and other liabilities** - Accounts payable and other liabilities are recognized in the consolidated balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.
- i. **Acceptances, guarantees and letters of credit** - The contingent liability of the Bank under acceptances, guarantees and letters of credit is recorded as a liability in the consolidated balance sheet. An offsetting asset is recorded to reflect the Bank's recourse against customers in the case of a call on any of these commitments.
- j. **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 key management personnel's borrowings.
- k. **Savings plan costs** - Savings plan costs are charged to general and administrative expenses and are funded as accrued.
- l. **Earnings per share** - Earnings per share is computed by dividing the net income less dividends to preference 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.
- m. **Assets and liabilities under administration** - Assets and liabilities under administration on behalf of clients are not included in the consolidated balance sheet.
- n. **Taxes** - The Bank's subsidiary, BOB Financial Services Inc. is required to comply with United States Federal and State tax laws, regulatory and reporting requirements.
- o. **Investment property** - Investment property, which is property that management intends to develop for rental purposes, is measured initially at cost, including transaction costs and thereafter it is stated at fair value based on appraisals by recognized valuation experts. Gains and losses arising from changes in the fair value of the investment property are included in the consolidated statement of income for the period in which they arise.
- On an annual basis the investment property will be assessed for impairment.
- p. **Goodwill** - Goodwill arising on the acquisition of the Harold Road branch represents the excess of the cost of the acquisition over the fair value of the net assets acquired by the Bank. Goodwill is tested annually for impairment and is stated net of any impairment loss at year end. Any impairment in goodwill is included in the consolidated statement of income in the period in which it arose.

5. CASH & CASH EQUIVALENTS

The following is an analysis of cash and cash equivalents in order of maturity:

	2007	2006
Under 16 days	\$ 67,473,268	\$27,190,330
16 - 30 days	16,006,489	9,016,178
31 - 90 days	39,605,000	7,642,422
91 -180 days	1,545,000	350,000
	\$124,629,757	\$44,198,930

Included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas of \$15,649,520 (2006: \$14,213,100). All balances with The Central Bank of The Bahamas are non-interest bearing.

The following is an analysis of cash and cash equivalents by geographical location:

	2007	2006
Bahamas	\$ 59,385,661	\$25,675,718
United Kingdom	458,175	233,990
North America	64,785,921	18,289,222
	\$124,629,757	\$44,198,930
Cash	\$ 4,822,662	\$ 4,665,848
Balances with banks and The Central Bank of The Bahamas	119,807,095	39,533,082
	\$124,629,757	\$44,198,930

6. INVESTMENTS

Investments, which are classified as held to maturity, are held with related parties and consist of the following:

			2007	2006
HELD TO MATURITY				
BAHAMAS MORTGAGE CORPORATION BONDS				
Maturity	Interest Rate	Series		
2007	5.000% effective rate	K	\$ 2,000,000	\$ 2,000,000
2007	3.500% effective rate	K	700,000	700,000
			2,700,000	2,700,000
BAHAMAS GOVERNMENT REGISTERED STOCKS				
MATURITY	INTEREST RATE			
2007	1% above prime		-	1,000,000
2008	6.375%		3,000,000	3,000,000
2010	.625% above prime		683,500	683,500
2011	7.000%		3,000,000	3,000,000
2012	.750% above prime		4,000,000	4,000,000
2013	1% above prime		675,000	675,000
2015	.1875% above prime		459,900	459,900
2018	.5625% above prime		244,000	244,000
2021	.15625% above prime		328,100	328,100
2022	.1875% above prime		642,100	642,100
2023	.21875% above prime		400,300	400,300
2024	.25% above prime		795,400	795,400
2024	.25% above prime		290,100	290,100
2025	.28125 above prime		787,700	787,700
2025	.28125 above prime		218,300	218,300
2019	.46875% above prime		273,600	273,600
2019	.25% above prime		1,546,100	1,546,100
2020	.5% above prime		1,600	1,600
2020	.34375% above prime		884,600	884,600
2021	.1875% above prime		723,200	723,200
2021	.21875% above prime		650,700	650,700
2021	.375% above prime		869,000	869,000
2022	.25% above prime		65,200	65,200
2021	.3125% above prime		2,352,300	2,352,300
2022	.40625% above prime		216,000	216,000
2022	.34375% above prime		1,418,400	1,418,400
2023	.28125% above prime		79,600	79,600
2024	.31250% above prime		110,700	110,700
2022	.2500% above prime		223,900	223,900
2023	.2813% above prime		102,000	102,000
2024	.31250% above prime		25,200	25,200
			25,066,500	26,066,500
BRIDGE AUTHORITY BOND				
Maturity	Interest Rate			
2019	1.25% above prime		136,500	136,500
AVAILABLE FOR SALE				
1 share held in The Bahamas International Securities Exchange (fully written off)			-	-
Total investments			\$27,903,000	\$28,903,000

At year-end the Bahamian prime rate was 5.5% (2006: 5.5%).

7. LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers are as follows:

	2007	2006
Mortgage loans	\$260,534,541	\$239,900,873
Commercial loans	142,830,084	143,830,078
Consumer loans	36,218,498	35,899,021
Business overdrafts	30,575,473	19,312,694
Personal overdrafts	12,204,748	9,210,408
Government guaranteed student loans	8,349,121	11,044,893
	490,712,465	459,197,967
LESS: PROVISION FOR LOAN LOSSES:		
At beginning of year	6,505,808	3,569,603
Amount written-off	(1,689,314)	(221,676)
Recoveries	272,597	465,499
Provision charged to expense	951,134	2,692,382
At end of year	6,040,225	6,505,808
Accrued interest receivable	2,248,932	2,088,530
Loans and advances to customers, net	\$486,921,172	\$454,780,689

During the year, the Bank wrote-off loans totaling \$1,689,314 (2006: \$221,676) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts.

PROVISION FOR LOAN LOSSES IS AS FOLLOWS:

	2007	2006
Specific provisions:		
Mortgage loans	\$ 229,853	\$ 357,538
Commercial loans	83,193	576,923
Consumer loans	1,465,413	1,648,387
	1,778,459	2,582,848
General provision	4,261,766	3,922,960
TOTAL	\$ 6,040,225	\$ 6,505,808

NON-ACCRUAL LOANS ARE AS FOLLOWS:

	2007	2006
Mortgage loans	\$ 6,604,121	\$ 5,078,591
Commercial loans	8,956,854	2,647,111
Consumer loans	2,358,481	3,483,695
TOTAL	\$ 17,919,456	\$ 11,209,397

EXPRESSED AS A PERCENTAGE OF LOAN PORTFOLIO

3.65%

2.44%

The following is an analysis of loans and advances to customers in order of maturity:

	2007	2006
0 -2 years	\$110,204,490	\$ 96,220,309
3 -5 years	32,380,668	52,405,073
6 - 10 years	128,783,771	123,043,069
Over 10 years	219,343,536	187,529,516
	\$490,712,465	\$459,197,967

7. CONTINUED

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

	2007		2006	
	Value	No. of Loans	Value	No. of Loans
\$0-\$10,000	\$ 9,110,778	4,248	\$ 11,901,426	2,272
\$10,001-\$20,000	12,702,595	846	16,006,764	1,083
\$20,001-\$30,000	11,569,251	477	14,442,006	586
\$30,001-\$40,000	9,233,705	266	9,837,813	281
\$40,001-\$50,000	9,920,079	221	10,914,379	243
Over\$50,000	438,176,057	1,841	396,095,579	1,834
	\$490,712,465	7,899	\$459,197,967	6,299

8. INVESTMENT PROPERTY

The Bank owns land which is located at West Bay Street, Nassau. This land, which was purchased in 2005 at a cost of \$3,536,283, was carried at historical cost since that date.

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 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.

As outlined in Note 16, a prior period adjustment has been made in the June 30, 2007, audited consolidated financial statements to restate the investment property at fair value instead of historical cost for 2006.

During the year, the land was appraised by a qualified appraiser who provided the valuation of the land for 2007 and 2006. Management has calculated the increase in value relative to the investment property as 70% of the total increase in value of land and has determined that the increase in value applicable to the investment property is \$70,000 for the current year and \$534,602 for the previous year.

9. FIXED ASSETS, NET

The movement of fixed assets during the year is as follows:

	Land and Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Work In Progress	Total
COST:					
Beginning balance (as restated)	\$2,396,675	\$3,999,615	\$7,762,683	\$1,004,891	\$15,163,864
Additions	-	166,856	987,017	1,353,498	2,507,371
Ending balance	\$2,396,675	\$4,166,471	\$8,749,700	\$2,358,389	\$17,671,235
ACCUMULATED DEPRECIATION AND AMORTIZATION:					
Beginning balance	\$ 828,770	\$2,112,184	\$5,764,340	\$ -	\$ 8,705,294
Depreciation and amortization	43,824	501,588	986,527	-	1,531,939
Ending balance	\$ 872,594	\$2,613,772	\$6,750,867	\$ -	\$10,237,233
NET BOOK VALUE:					
June 30, 2007	\$1,524,081	\$1,552,699	\$1,998,833	\$2,358,389	\$ 7,434,002
June 30, 2006 (as restated)	\$1,567,905	\$1,887,431	\$1,998,343	\$1,004,891	\$ 6,458,570

Land in the amount of \$1,105,281 (2005: \$1,105,281) is included in land and building.

10. GOODWILL

	2007	2006
Goodwill, cost	\$1,115,277	\$1,115,277
Less accumulated impairment loss	39,518	-
	\$1,075,759	\$1,115,277

Goodwill arose during the bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the Harold Road Branch where the book of business is being managed. As at June 30, 2007, management determined that goodwill was impaired by \$39,518 (2006: Nil).

11. DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers and banks are as follows:

	2007	2006
Term deposits	\$379,750,386	\$332,093,730
Demand deposits	86,880,633	77,750,754
Savings accounts	37,767,963	31,772,428
	504,398,982	441,616,912
Accrued interest payable	4,695,125	3,078,965
	\$509,094,107	\$444,695,877

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

	2007	2006
Under 31 days	\$ 91,302,411	\$191,544,443
31 - 90 days	103,526,669	50,447,857
91 - 180 days	73,460,386	72,136,323
Over 180 days	236,109,516	127,488,289
	\$504,398,982	\$441,616,912

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

	2007		2006	
	Value	No. of Deposits	Value	No. of Deposits
\$0-\$10,000	\$ 21,985,207	26,724	\$ 20,611,620	22,091
\$10,001-\$20,000	11,491,011	829	10,746,754	778
\$20,001-\$30,000	9,010,841	371	8,080,874	328
\$30,001-\$40,000	5,711,687	165	5,707,880	165
\$40,001-\$50,000	5,050,559	114	5,641,829	124
Over \$50,000	451,149,677	802	390,827,955	737
	\$504,398,982	29,005	\$441,616,912	24,223

In 1999, The Central Bank of The Bahamas established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$70,149 (2006: \$111,696) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of \$50,000.

12. 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% (2006: 5.50%). Interest paid during the year totaled \$935,000 (2006: \$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	2007	2006
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

13. 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 paid during the year totaled \$728,973. In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's portfolio.

Date Redeemable By Bank	Maturity Date		Amount
2011	2022	Series F	\$ 4,000,000
2011	2023	Series G	4,000,000
2011	2024	Series H	4,000,000
2011	2025	Series I	4,000,000
2011	2026	Series J	4,000,000
			\$20,000,000

14. EQUITY

Share capital consists of the following:

	2007	2006
Common shares:		
Authorized - 25,000,000 shares of B\$1 each		
Issued and fully paid - 15,600,000 shares (2006: 15,600,000)	\$15,600,000	\$15,600,000
Preference shares:		
Authorized - 15,000 shares of B\$1,000 each		
Issued and fully paid - 15,000 shares (2006: Nil)	14,764,990	-
	\$30,364,990	\$15,600,000

Rights offering

Effective January 2006, the Bank had a successful rights offering resulting in the sale of 3,600,000 shares and total proceeds of \$25 million. Costs related to the Rights Offering in the amount of \$401,198 were netted against the proceeds.

Preference shares

At the Bank's Annual General Meeting on November 18, 2004, the Bank's shareholders approved a resolution 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. Effective October 2006, the Bank issued a total of B\$15,000,000 in redeemable preference shares at a rate of 7.5% 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 which total \$235,010 related to the preference share offering were netted against the proceeds.

GENERAL RESERVE

The balance of \$1,400,000 was transferred to retained earnings during the year.

15. TREASURY SHARES

In 2004, the Bank acquired 45,000 of its shares for the purposes of establishing an employee stock incentive plan (see Note 24). The number of shares remaining at year end was 39,755 (2006: 41,205).

16. PRIOR PERIOD ERROR

The Bank owns land which has been carried at historical cost of \$3,536,283 since being acquired in 2005. It was management's intention to carry the property at fair value as determined by a valuation expert and disclose as investment property as it will be used to house the Bank's headquarters and the remaining 70% used for commercial rental. The property was incorrectly shown as fixed assets instead of investment property. As result of this error the Bank's earnings for the prior period was understated and has been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8").

The Bank's consolidated financial statements have been restated in accordance with IAS 8 and the summary of the restatement is as follows:

Increase in investment property	2006 \$3,010,000
Decrease in fixed assets	\$2,475,398
Increase in gain on revaluation of investment property	\$ 534,602
Increase in earnings per share	\$ 0.04

For additional details see note 8 above.

17. 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.

18. 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:

2008	\$1,119,161
2009	\$ 905,456
2010	\$ 712,616
2011	\$ 511,748
2012	\$ 372,068

Rental expense (including service charges) totaled \$1,228,053 (2006: \$1,067,665) net of rental income of \$35,489 (2006: \$38,481).

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, 2007 was \$19,719,110 (2006: \$29,883,039).
- c. The Bank has a commitment for future capital expenditure of \$1,607,273 (2006: \$2,975,000).
- d. The Bank has a commitment with Visa of \$250,000 (2006: \$250,000).

19. TRANSACTIONS AND BALANCES

Transactions and balances with related parties are as follows:

	2007	2006
Investments	\$ 27,903,000	\$ 28,903,000
Loans and advances to customers, net	\$ 18,034,944	\$ 39,355,317
Accrued interest receivable	\$ 691,819	\$ 515,621
Prepaid expenses and other assets	\$ 199,824	\$ 214,157
Deposits from customers and banks	\$137,516,277	\$118,869,947
Bonds payable	\$ 17,000,000	\$ 17,000,000
Accounts payable and other liabilities	\$ 630,628	\$ 409,703
Interest payable on bonds	\$ 5,123	\$ 2,561
Interest income	\$ 2,194,874	\$ 1,723,841
Interest expense	\$ 5,245,326	\$ 4,415,985
Interest income from investments	\$ 1,719,748	\$ 1,975,417
Key management compensation	\$ 1,611,472	\$ 1,453,782
Options exercised by key management	\$ -	\$ 7,395
Number of shares exercised	-	1,275
Rent paid to key management	\$ 2,752	\$ 6,530

Included in accrued interest receivable from related parties is interest receivable on Bahamas Government Registered Stocks, Bridge Authority Bonds, and Bahamas Mortgage Corporation Bonds.

All loans to related parties are secured in the regular course of business; there were no provision for doubtful debts against any of these balances as at June 30, 2007 (2006: Nil). No expense has been recognized in these financial statements on loans to related parties.

20. SAVINGS PLAN

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.

Contributions for the year ended June 30, 2007 totaled \$463,862 (2006: \$377,415).

The Plan owns 210,826 (2006: 210,856) shares of the Bank. The holdings represent approximately 30% (2006: 30%) of the Plan's net assets.

The Plan has deposits totaling \$4,726,410 (2006: \$3,766,859) with the Bank.

The Bank serves as the Trustee of the Plan.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
Staff costs	\$11,737,267	\$ 9,925,646
Other general and administrative	7,971,174	6,226,500
	\$19,708,441	\$16,152,146

22. CHANGES IN OPERATING ASSETS AND LIABILITIES

	2007	2006
Increase in accrued interest receivable	\$ (176,198)	\$ (86,221)
Decrease (increase) in prepaid expenses and other assets	452,369	(1,748,857)
Increase in accounts payable and other liabilities	1,433,636	155,634
Increase in cheques and other items in transit	5,472,079	694,428
	\$ 7,181,886	\$ (985,016)

23. ASSETS UNDER ADMINISTRATION

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

	2007	2006
Government-guaranteed student education loans	\$48,364,588	\$62,761,068
Trust assets	\$23,229,290	\$18,802,012
Fiduciary deposits	\$ 7,486,782	\$27,000,000

24. EMPLOYEE STOCK INCENTIVE PLAN

In 2004, the Bank established an Employee Stock Incentive Plan for all permanent employees of the Bank. Individuals who were employees at the time of the Plan's formation were eligible to purchase shares at the agreed option price of \$5.80 until the time of expiry. Each employee share option converts into one ordinary share of Bank of The Bahamas Limited. The options carry neither rights to dividends nor voting rights. Options may be exercised under the Plan from the time of vesting to the date of expiry.

The employee share options were exercised in July 2006 and in November 2005. The current market price at that time was \$7.23 and \$7.24 respectively. The original options expired on June 30, 2007.

The following share based payment arrangements were in existence during the current and comparative reporting periods:

	2007		2006	
	Number of Options	Exercise Price	Number of Options	Exercise Price
Balance at beginning of the financial year	41,205		44,400	
Granted during the financial year	-		-	
Forfeited during the financial year	-		-	
Exercised during the financial year	(1,450)	\$5.80	(3,195)	\$5.80
Expired during the financial year	(39,755)		-	
Balance at end of the financial year	-		41,205	

25. DIVIDENDS

During the year the Bank paid dividends as follows:

September 25, 2006	\$0.16
February 26, 2007	\$0.10

During the prior year the Bank paid dividends as follows:

August 19, 2005	\$0.16
November 4, 2005	\$0.07
January 27, 2006	\$0.10

26. 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 fixed assets, are not explained below.

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 repricing 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.

27. REGULATORY CAPITAL

The Bank is subject to regulatory capital requirements defined by The Central Bank of The Bahamas. Two measures of capital strength are employed, capital-to-asset ratio and risk-adjusted capital ratios.

The Bank's capital to asset ratio was 14.55%, (2006: 13.81%) at the end of the fiscal year, substantially above the 5% standard established by The Central Bank of The Bahamas.

In the evaluation of risk-adjusted capital ratios, best standards require the Bank to maintain Tier 1 and total capital ratios of 4% and 8% respectively. At June 30, 2007 the Bank's weighted capital ratio was 21.16% (2006: 20.18%).

28. COMPARATIVES

In Note 7, loans and advances to customers, net was disclosed in the prior year as \$452,692,159. This balance is now disclosed as \$454,780,689 due to the reclassification of accrued interest receivable of \$2,088,530 to loans and advances to customers, net.

In Note 9, a category termed Work in Progress has been added and a balance of \$1,004,891 reclassified from prepaid expenses and other assets to show appropriately as Work in Progress in the prior year.

In Note 11, deposits from customers and banks were disclosed in the prior year as \$441,016,912. This balance is now disclosed as \$444,695,877 due to the reclassification of accrued interest payable of \$3,078,965 to deposits from customers and banks.

29. SUBSEQUENT EVENTS

Subsequent to year end, 35,500 treasury shares were issued to employees including 27,500 issued to certain key executive management personnel. All of these treasury shares were issued at the option price of \$5.80 per share at a cost of \$205,900 with a market value of approximately \$333,700 at July 27, 2007, the date of issuance of the majority of the shares.

30. 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, and interest rate risks.

Capital risk management - The Bank's goal in managing capital risk is to exceed regulatory capital requirements. The capital structure is designed to provide an optimal risk absorption consistent with the risk profile of the Bank's balance sheet which therefore ensures 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 14.

At June 30, 2007, 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 preference shares and common share issuances.

Credit risk - Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. From this perspective, the Bank's significant exposure to credit risk is primarily concentrated in cash and current accounts, investments and loans. The deposits and investments are predominantly in Bahamian dollars and have been placed with high quality institutions. Credit risk arising from loans is mitigated through the employment of a comprehensive credit policy 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 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.

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.

Currency 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 currency 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.

Liquidity risk - Liquidity risk reflects the risk that the Bank will not be able to meet an obligation when it becomes due or honor a deposit withdrawal request or service loans. The Bank maintains a portion of its deposits in cash and other liquid assets to mitigate this risk. On a daily basis, the Bank monitors its cash and other liquid assets to 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.

Interest rate risk - Interest rate sensitivity or interest rate risk results from differences in the maturities or repricing 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.

As of June 30, 2007	Within 3 Months	3-6 months	7-12 months	1-5 Years	Over 5 years	Not Interest Rate sensitive	Total
ASSETS							
Cash and cash equivalents	\$ 74,308,635	\$ 1,545,000	\$ -	\$ -	\$ -	\$ 48,775,950	\$ 124,629,757
average yield	4.99%	3.28%	-	-	-	-	-
Investments	-	-	-	9,383,500	18,519,500	-	27,903,000
average yield	-	-	0.00%	5.96%	5.96%	-	-
Loans and advances to customers, net	49,819,163	32,431,517	12,538,000	44,005,185	348,127,307	-	486,921,172
average yield	12.52%	11.63%	9.16%	9.45%	8.35%	-	-
Fixed assets, net	-	-	-	-	-	7,434,002	7,434,002
Other assets	-	-	-	-	-	11,374,913	11,374,913
TOTAL	124,127,798	33,976,517	12,538,000	53,388,685	366,646,807	67,584,865	658,262,672
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits from customers and bank	298,467,359	73,460,386	44,019,000	90,363,956	2,783,406	-	509,094,107
average yield	3.13%	3.22%	3.47%	4.08%	4.98%	-	-
Bonds payable	-	-	-	-	17,000,000	-	17,000,000
average yield	0.00%	0.00%	0.00%	0.00%	5.50%	-	-
Mortgage backed bonds	-	-	-	-	20,000,000	-	20,000,000
average yield	-	-	-	-	7.25%	-	-
Other liabilities	-	-	-	-	-	16,384,106	16,384,106
Shareholders' equity	-	-	-	-	-	95,784,459	95,784,459
TOTAL	298,467,359	73,460,386	44,019,000	90,363,956	39,783,406	112,168,565	658,262,672
INTEREST RATE SENSITIVITY GAP	(174,339,389)	(39,483,869)	(31,481,000)	(36,975,271)	326,863,401	(44,583,700)	172
CUMULATIVE INTEREST RATE SENSITIVITY GAP	\$ (174,339,561)	\$ (213,823,430)	\$ (245,304,430)	\$ (282,279,701)	\$ 44,583,700	\$ -	\$ -
Average Yield - Earning Assets	8.01%	11.25%	9.16%	8.84%	8.23%		8.43%
Average Yield - Paying Liabilities	3.13%	3.22%	3.47%	4.08%	2.70%		3.30%
	4.88%	8.03%	5.69%	4.76%	5.53%		5.14%



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