



BANK OF THE BAHAMAS LIMITED

**Audited Consolidated Financial Statements
Year Ended June 30, 2012
with Independent Auditors' Report**

Ernst & Young



Bank of The Bahamas Limited
Audited Consolidated Financial Statements
Year ended June 30, 2012

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**Independent Auditors' Report to the Shareholders and Directors of
Bank of The Bahamas Limited**

We have audited the consolidated financial statements of Bank of The Bahamas Limited and its subsidiaries (the "Bank") which comprise the consolidated statement of financial position as of June 30, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other related 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 reasonableness of accounting 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.

**Independent Auditors' Report to the Shareholders and Directors of
Bank of The Bahamas Limited (continued)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Bank had understated its credit loss expense and overstated other operating income from the mortgage indemnity product. The corrections of these errors have been accounted for retrospectively and the corresponding figures have been restated to conform to this change.

Ernst + Young

September 19, 2012

Bank of The Bahamas Limited

Consolidated Statement of Financial Position
(Expressed in Bahamian dollars)

June 30, 2012

	Note	2012	2011 (As Restated)
ASSETS			
Cash and account with The Central Bank	5	\$ 57,827,169	\$ 46,009,883
Due from banks	5	34,756,798	40,638,307
Investment securities	6	59,174,584	48,868,456
Loans and advances to customers, net	7	687,623,605	668,710,840
Investment property	8	3,882,873	3,882,873
Other assets	9	4,881,860	4,320,511
Property and equipment, net	10	9,490,096	6,884,863
Intangible assets, net	11	3,621,049	4,045,361
TOTAL ASSETS		\$ 861,258,034	\$ 823,361,094
LIABILITIES			
Deposits from customers and banks	12	\$ 671,423,360	\$ 649,390,752
Other borrowed funds	13	37,000,000	37,000,000
Other liabilities	14	28,634,318	12,690,030
Deferred loan fees		7,083,064	7,693,096
Total liabilities		744,140,742	706,773,878
EQUITY			
Share capital	15	50,015,990	50,015,990
Share premium		28,587,866	28,587,866
Treasury shares	16	(531,768)	(473,822)
Reserves	17	4,266,896	4,117,767
Retained earnings		34,778,308	34,339,415
Total equity		117,117,292	116,587,216
TOTAL		\$ 861,258,034	\$ 823,361,094

These consolidated financial statements were approved by the Board of Directors on September 19, 2012 and are signed on its behalf by:

Director

Director

See accompanying notes and Independent Auditors' Report.

Bank of The Bahamas Limited

Consolidated Statement of Comprehensive Income
(Expressed in Bahamian dollars)

Year ended June 30, 2012

	Note	2012	2011 (As Restated)
Interest and similar income	18	\$ 61,993,019	\$ 63,253,869
Interest and similar expense	18	<u>24,510,596</u>	<u>27,217,237</u>
Net interest income	18	37,482,423	36,036,632
Fees and commission income	19	3,552,113	3,960,843
Fees and commission expense		<u>372,463</u>	<u>509,824</u>
Net fees and commission income		3,179,650	3,451,019
Other operating income	20	2,952,085	2,664,003
Total operating income		43,614,158	42,151,654
Credit loss expense, net	7	<u>(10,215,382)</u>	<u>(9,585,438)</u>
Net operating income		33,398,776	32,566,216
Operating expenses	21	<u>29,721,714</u>	<u>28,114,196</u>
Net income		<u>3,677,062</u>	<u>4,452,020</u>
Other comprehensive income			
Net gain on available-for-sale financial assets		149,129	60,716
Total comprehensive income for the year		<u>3,826,191</u>	<u>4,512,736</u>
Net income		3,677,062	4,452,020
Preference share dividends		<u>(2,462,498)</u>	<u>(1,362,500)</u>
Net income available to common shareholders		<u>\$ 1,214,564</u>	<u>\$ 3,089,520</u>
Earnings per share			
Basic earnings per ordinary share	27	\$ 0.08	\$ 0.20

See accompanying notes and Independent Auditors' Report.

Bank of The Bahamas Limited

Consolidated Statement of Changes in Equity
(Expressed in Bahamian dollars)

Year ended June 30, 2012

	Note	Share Capital	Share Premium	Treasury Shares	Reserves	Retained Earnings	Total Equity
Balance at June 30, 2010 (as previously reported)		\$ 50,015,990	\$ 28,587,866	\$ (30,244)	\$ 4,057,051	\$ 33,798,404	\$ 116,429,067
Prior-period adjustment	2	-	-	-	-	(212,733)	(212,733)
Balance, June 30, 2010 (as restated)		50,015,990	28,587,866	(30,244)	4,057,051	33,585,671	116,216,334
Net income for the year		-	-	-	-	4,452,020	4,452,020
Acquisition of treasury shares	16	-	-	(443,578)	-	-	(443,578)
Other comprehensive income		-	-	-	60,716	-	60,716
Dividends on preference shares	27	-	-	-	-	(1,362,500)	(1,362,500)
Dividends paid to ordinary shareholders	27	-	-	-	-	(2,335,776)	(2,335,776)
Balance, June 30, 2011 (as restated)		50,015,990	28,587,866	(473,822)	4,117,767	34,339,415	116,587,216
Net income for the year		-	-	-	-	3,677,062	3,677,062
Acquisition of treasury shares	16	-	-	(57,946)	-	-	(57,946)
Other comprehensive income		-	-	-	149,129	-	149,129
Dividends on preference shares	27	-	-	-	-	(2,462,498)	(2,462,498)
Dividends paid to ordinary shareholders	27	-	-	-	-	(775,671)	(775,671)
Balance, June 30, 2012		\$ 50,015,990	\$ 28,587,866	\$ (531,768)	\$ 4,266,896	\$ 34,778,308	\$ 117,117,292

See accompanying notes and Independent Auditors' Report.

Bank of The Bahamas Limited

Consolidated Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended June 30, 2012

	Note	2012	2011 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		\$ 3,677,062	\$ 4,452,020
Adjustments for:			
Depreciation and amortization		1,930,094	1,520,591
Gain on disposal of fixed assets		(325)	-
Net provision for loan losses		10,215,382	9,585,438
Net provision for other impairments		118,422	-
		<u>15,940,635</u>	<u>15,558,049</u>
Change in operating assets and liabilities		12,549,042	(2,951,348)
Increase in loans and advances to customers, net		(29,128,148)	(49,084,009)
Increase in deposits from customers and banks		<u>22,032,609</u>	<u>46,471,461</u>
Net cash provided by operating activities		<u>21,394,138</u>	<u>9,994,153</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment		(3,841,606)	(2,676,222)
Net acquisition of intangible assets		(269,632)	(643,772)
Purchase of investments		(10,156,999)	(1,777,100)
Proceeds from disposal of property and equipment		548	-
Proceeds from maturity of investment securities		-	3,683,500
Net cash used in investing activities		<u>(14,267,689)</u>	<u>(1,413,594)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid on common stock		(775,671)	(2,335,776)
Dividends on preference shares		(2,462,498)	(1,362,500)
Increase in interest payable on bonds		4,425	116
Acquisition of treasury shares		(57,946)	(443,578)
Net cash used in financing activities		<u>(3,291,690)</u>	<u>(4,141,738)</u>
Net increase in cash and cash equivalents		3,834,759	4,438,821
Cash and cash equivalents, beginning of year		<u>62,334,520</u>	<u>57,895,699</u>
Cash and cash equivalents, end of year	5	<u>\$ 66,169,279</u>	<u>\$ 62,334,520</u>
SUPPLEMENTAL INFORMATION:			
Interest received		\$ 58,259,960	\$ 62,752,402
Interest paid		\$ 24,962,701	\$ 26,465,449
Dividends paid		\$ 3,238,169	\$ 3,698,276

See accompanying notes and Independent Auditors' Report.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements

Year ended June 30, 2012

1. General Information

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

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

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

The Bank is an agent for American Express and MoneyGram.

2. Basis of Preparation

The Bank’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment property. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

2. Basis of Preparation (Continued)

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

The accounting policies adopted are consistent with those used in the previous financial year. The following International Accounting Standards (IAS) issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Interpretations Committee (“IFRIC”) are relevant to the Bank.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 Amendments – Deferred Tax: Recovery of Underlying Assets
- IAS 24 Amendment - Related Party Disclosures
- IFRS 1 Amendments – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 Amendments – Disclosures – Transfers of Financial Assets
- IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs (issued in May 2010)

New standards, interpretations and amendments to published standards relevant to the Bank that are not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Bank’s accounting periods beginning on or after January 1, 2013 or later periods but which the Bank has not early adopted are as follows:

Effective for annual periods beginning on or after January 1, 2013:

- IFRS 10 - Consolidated Financial Statements
- IFRS 11 - Joint Arrangements
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 13 - Fair Value Measurement
- IAS 27 (Revised) - Separate Financial Statements
- IAS 28 (Revised) - Investments in Associates and Joint Ventures
- Amendment to IAS 1 - Presentation of Items of Other Comprehensive Income
- IAS 19 (Revised) - Employee Benefits
- Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

2. Basis of Preparation (Continued)

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

- Amendments to IFRS 1 - Government Loans

Effective for annual periods beginning on or after January 1, 2014:

- Amendment to IAS 32 - Offsetting Financial Assets and Financial Liabilities

Effective for annual periods beginning on or after January 1, 2015:

- IFRS 9 — Financial Instruments (issued in 2009)
- IFRS 9 — Financial Instruments (issued in 2010)
- Amendments to IFRS 7 and IFRS 9 - Mandatory Effective Date and Transition Disclosures

The Bank is currently assessing the impact of the new and revised standards, however, does not anticipate any material impact on the results of its operations from the implementation of these new standards when they become effective.

(b) Basis of Consolidation

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

The financial statements of subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies. Inter-company transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

2. Basis of Preparation (Continued)

(c) Correction of Errors

Mortgage Indemnity Product

The Bank sold a mortgage indemnity product as an integral part of the mortgage loan facility, recorded as other liabilities with income being recognized as other operating income. During the year, the Bank reviewed the accounting for the product and determined that the product should be accounted for as an additional loan commitment fee and changed its income recognition method to amortize over the life of the related loan on a straight line basis and reclassified the ending liability portion to deferred loan fees. Previously, the Bank reviewed its mortgage indemnity product by comparing the original note amount less current principal balance to the indemnified portion and if the repaid balance was more than the indemnified portion, then the assessed premium was taken into income. The correction of this error has been accounted for retrospectively. As a result, deferred loan fees increased by \$328,544 as of June 30, 2011 with a decrease in net income of \$115,811 for the year ended June 30, 2011 and the opening retained earnings decreased by \$212,733 for the year ended June 30, 2010.

Credit Loss Expense

The Bank had understated its credit loss expense by \$453,715 for the year ended June 30, 2011 by inappropriately considering the mortgage indemnity product as part of the collateral amount in assessing any shortfall between the security value and the outstanding balance. The correction of this error has been accounted for retrospectively. As a result, there was a decrease in loans and advances to customers, net of \$453,715 as of June 30, 2011 and a corresponding decrease in net income for the year ended June 30, 2011.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The consolidated financial statements have been prepared in accordance with IFRS as promulgated by the IASB and with the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. A “critical accounting estimate” is one which is both important to the presentation 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.

Tangible assets

The Bank has made significant investments in physical assets. These are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management’s evaluations and assumptions may give rise to impairment losses in the relevant future periods. As at June 30, 2012, no impairment losses were recorded for the reporting period.

Depreciation and amortization

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

Impairment losses on loans and advances to customers and banks

The Bank has significant investments in loans receivable. These assets are assessed for impairment at least on a quarterly basis. Management’s process for this assessment is presented in Note 4d. Loans receivable are closely monitored, and adjustments made in future periods if the performance of the portfolio declines due to circumstances which arise during those periods.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Investments

The Bank has significant investment holdings. These investments are primarily Bahamas Government Registered Stock and are assessed for impairment on an ongoing basis. Management's process for this assessment is presented in Note 4d. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods.

Goodwill

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

The impairment charge is determined by taking the difference between the present value of the unit's projected cash flow and its book value. As of June 30, 2012 no impairment loss was recognized for the reported period. Further details are presented in Note 11.

Deferred loan fees

In accordance with International Accounting Standard 18: Revenue Recognition, commitment fees received to originate a loan or fees that are an integral part of the effective interest rate of a financial instrument, together with the related transaction cost, are deferred and recognized as an adjustment of the effective interest rate. Management amortises loan commitment and loan related fees using the average loan term. Any changes in average loan term will be recognised prospectively in interest income in the consolidated statement of comprehensive income. In the opinion of management, the difference between the amortization to income using the average loan term and the effective interest rate is immaterial.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies

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

(a) Revenue recognition

Interest and similar income

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

Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(b) Cash and cash equivalents

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

(c) Financial Instruments

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Financial assets

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank upon initial recognition designates as available-for-sale; or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) Held-to-maturity financial assets

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

(iii) Available-for-sale financial assets

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

Financial liabilities

Deposits from customers and banks

Deposits from customers and banks represent demand and time deposits held by the Bank for the benefit of third parties. The deposits are carried at amortized cost.

(d) Impairment of financial assets

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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

Provision for loan losses

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

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

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

For the purposes of a collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Bank and historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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.

Renegotiated loans

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

(e) Derecognition of financial assets and financial liabilities

Financial assets

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(e) Derecognition of financial assets and financial liabilities (Continued)

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

Financial liabilities

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

(f) Foreign currency

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(g) Property and equipment

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

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

Building	50 years
Leasehold improvements	3-5 years
Furniture, fixtures and equipment	2-10 years

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

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

(h) Impairment of non-financial assets

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4 Summary of Significant Accounting Policies (Continued)

(i) Provisions

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

(j) Related parties

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

(k) Employee benefits

The Bank operates a defined contribution plan (the "Plan") where the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive payment obligations once contributions have been paid. The Plan allows eligible employees (those who have attained 25 years of age and confirmed in their positions) to contribute a minimum of 3.5% of their annual salaries and the Bank contributes 6.5%. Employees become fully vested after 2 years of plan membership. The Plan's costs are charged to general and administrative expenses and are funded as accrued. The Bank operates an Employee Share Ownership Plan (ESOP) where the Bank matches employees' share purchases up to 25 percent. The matching contributions vest over 5 years. The costs of ESOP are charged to general administrative expenses.

(l) Earnings per share

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(m) Fiduciary activities

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

(n) Taxes

A subsidiary of the Bank is required to comply with United States Federal and State tax laws. The accounts for the tax effect of the subsidiary are recognized in accordance with IAS 12 Accounting for Taxes on Income. Accordingly deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and Laws) that have been enacted or substantially enacted by the statement of financial condition date and are expected to apply when the related deferred income tax asset is realized or the

(n) Taxes (continued)

deferred income tax liability is settled. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. The Bank provides a valuation allowance against deferred tax assets, if based on the weight of evidence available, it is more likely than not that some or all of the deferred tax assets will not be realized.

(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. Additions to investment property are also recorded at cost. On an annual basis the investment property is assessed for impairment with gains and losses arising from changes in the fair value of the investment property included in the consolidated statement of comprehensive income for the period in which they arise.

(p) Goodwill

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(q) Computer software

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

(r) Borrowings

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

(s) Share capital

(i) Share issue costs

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

(ii) Dividends on shares

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

(iii) Treasury shares

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

(t) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(u) Leases

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

(w) Financial Guarantees

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

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

5. Cash and Cash Equivalents

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas ("the Central Bank") of \$26,414,688 (2011: \$24,313,670). Mandatory reserve deposits represent the Bank's regulatory requirement to maintain a percentage of deposit liabilities as cash or deposits with the Central Bank. These funds are not available to finance the Bank's day-to-day operations. All balances with The Central Bank of The Bahamas are non-interest bearing.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

5. Cash and Cash Equivalents (Continued)

	2012	2011
Cash	\$ 7,648,139	\$ 7,983,477
Deposits with the Central Bank non-interest bearing	50,179,030	38,026,406
Due from banks	34,756,798	40,638,307
Cash and due from banks	<u>92,583,967</u>	<u>86,648,190</u>
Less: mandatory reserve deposits with the Central Bank	26,414,688	24,313,670
Cash and cash equivalents	<u>\$ 66,169,279</u>	<u>\$ 62,334,520</u>

6. Investment Securities

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

	2012	2011
Available-For-Sale		
Bahamas Registered Stock	\$ 33,045,500	\$ 26,888,500
Equity Securities	489,584	340,456
Debt Securities	4,000,000	-
	<u>\$ 37,535,084</u>	<u>\$ 27,228,956</u>
Held-To-Maturity		
Bahamas Registered Stock	\$ 21,503,000	\$ 21,503,000
Bridge Authority Bond	136,500	136,500
	<u>\$ 21,639,500</u>	<u>\$ 21,639,500</u>
Total investment securities	<u>\$ 59,174,584</u>	<u>\$ 48,868,456</u>

As of the year-end reporting date, government securities mainly comprise variable rate bonds tied to the Bahamian \$ Prime Rate issued by The Bahamas Government with interest rates ranging from 4.83% to 6.00% per annum (2011: from 4.84% to 6.00% per annum) and scheduled maturities between 2012 and 2033 (2011: between 2013 and 2033).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

6. Investment Securities (Continued)

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

	Available-for-sale	Held-to-maturity	Total
At July 1, 2010	\$ 25,391,140	\$ 25,323,000	\$ 50,714,140
Additions	1,777,100	-	1,777,100
Maturities	-	(3,683,500)	(3,683,500)
Net fair value gain	60,716	-	60,716
At June 30, 2011	\$ 27,228,956	\$ 21,639,500	\$ 48,868,456
At July 1, 2011	\$ 27,228,956	\$ 21,639,500	\$ 48,868,456
Additions	10,156,999	-	10,156,999
Net fair value gain	149,129	-	149,129
At June 30, 2012	\$ 37,535,084	\$ 21,639,500	\$ 59,174,584

7. Loans and Advances to Customers, Net

Loans and advances to customers are as follows:

	2012	2011
Mortgage loans	\$ 386,950,957	\$ 362,641,636
Commercial loans	163,414,609	157,690,886
Consumer loans	48,756,084	47,283,185
Credit cards	1,700,893	2,329,568
Business overdrafts	74,884,939	80,069,160
Personal overdrafts	20,679,751	23,668,670
Government guaranteed student loans	6,814,894	7,092,745
	\$ 703,202,127	\$ 680,775,850

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

7. Loans and Advances to Customers, Net (Continued)

	2012		2011
Less: Provision for loan losses			(As Restated)
At beginning of year	\$ 18,875,957	\$	12,327,511
Amount written-off	(2,973,533)		(3,036,992)
Net provision charged to expense	10,215,382		9,585,438
At end of year	<u>26,117,806</u>		<u>18,875,957</u>
Accrued interest receivable	10,539,284		6,810,947
Loans and advances to customers, net	<u>\$ 687,623,605</u>	<u>\$</u>	<u>668,710,840</u>

During the year, the Bank wrote-off loans totaling \$2,973,533 (2011: \$3,036,992) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts. Included in the consolidated statement of comprehensive income are net recoveries of \$48,177 and (2011: (\$34,807)).

Loan loss provisions are as follows:

	2012		2011
Specific Provisions			(As Restated)
Mortgage Loans	\$ 4,891,334	\$	4,508,458
Commercial Loans	13,601,277		7,222,305
Consumer Loans	3,667,967		3,712,104
Credit Cards	823,734		1,332,104
	<u>22,984,312</u>		<u>16,774,971</u>
Collective Assessment	3,133,494		2,100,986
TOTAL	<u>\$ 26,117,806</u>	<u>\$</u>	<u>18,875,957</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

7. Loans and Advances to Customers, Net (Continued)

	2012	2011 (As Restated)
Provisions as a percentage of the net loan portfolio	3.80%	2.82%
Provisions and equity reserves as a percentage of the net loan portfolio.	4.38%	3.42%
Provisions and equity reserves coverage as a percentage of non-accrual loans.	35.25%	30.38%

Non-accrual loans are as follows:

	2012	2011
Mortgage Loans	\$ 49,670,692	\$ 41,078,190
Commercial Loans	27,341,574	24,293,911
Consumer Loans	8,010,207	9,402,163
Credit Cards	426,048	517,782
TOTAL	\$ 85,448,521	\$ 75,292,046

Percentage of loan portfolio (net)	12.43%	11.26%
Percentage of total assets	9.92%	9.14%

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

	2012		2011	
	Value	No. of Loans	Value	No. of Loans
\$0 - \$ 10,000	\$ 13,299,498	4,320	\$ 14,568,190	4,293
\$10,001 - \$ 25,000	22,562,862	1,347	22,620,082	1,353
\$25,001 - \$ 50,000	23,997,852	664	21,127,056	593
\$50,001 - \$100,000	45,218,061	621	46,274,468	636
Over \$100,000	598,123,854	1,666	576,186,054	1,628
	\$ 703,202,127	8,618	\$ 680,775,850	8,503

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

7. Loans and Advances to Customers, Net (Continued)

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

	2012	2011
Satisfactory Risk	\$ 331,400,684	\$ 420,202,046
Watch List	86,063,192	54,972,452
Sub-standard but not impaired	75,840,124	43,053,502
	<u>\$ 493,304,000</u>	<u>\$ 518,228,000</u>

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

In (\$000s)	2012			2011		
	PRINCIPAL BALANCE	RESTRUCTURED ¹	TOTAL	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL
MORTGAGES						
Neither past due or impaired	\$ 247,188	\$ 16,621	\$ 263,809	\$ 242,280	\$ 14,084	\$ 256,364
Past due but not impaired	66,104	7,366	73,470	51,659	3,524	55,183
Impaired	47,286	2,385	49,671	33,797	7,281	41,078
	<u>\$ 360,578</u>	<u>\$ 26,372</u>	<u>\$ 386,950</u>	<u>\$ 327,736</u>	<u>\$ 24,889</u>	<u>\$ 352,625</u>
COMMERCIAL						
Neither past due or impaired	\$ 42,281	\$ 51,602	\$ 93,883	\$ 82,568	\$ 26,766	\$ 109,334
Past due but not impaired	33,209	8,981	42,190	14,185	9,878	24,063
Impaired	24,542	2,800	27,342	24,294	-	24,294
	<u>\$ 100,032</u>	<u>\$ 63,383</u>	<u>\$ 163,415</u>	<u>\$ 121,047</u>	<u>\$ 36,644</u>	<u>\$ 157,691</u>
CONSUMER						
Neither past due or impaired	\$ 38,395	\$ 562	\$ 38,957	\$ 47,060	\$ 283	\$ 47,343
Past due but not impaired	8,277	327	8,604	7,593	55	7,648
Impaired	7,731	279	8,010	8,984	418	9,402
	<u>\$ 54,403</u>	<u>\$ 1,168</u>	<u>\$ 55,571</u>	<u>\$ 63,637</u>	<u>\$ 756</u>	<u>\$ 64,393</u>
CREDIT CARDS						
Neither past due or impaired	\$ 1,090	\$ -	\$ 1,090	\$ 1,449	\$ -	\$ 1,449
Past due but not impaired	185	-	185	363	-	363
Impaired	426	-	426	518	-	518
	<u>\$ 1,701</u>	<u>\$ -</u>	<u>\$ 1,701</u>	<u>\$ 2,330</u>	<u>\$ -</u>	<u>\$ 2,330</u>
BUSINESS OVERDRAFTS						
Neither past due or impaired	\$ 74,885	\$ -	\$ 74,885	\$ 80,069	\$ -	\$ 80,069
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 74,885</u>	<u>\$ -</u>	<u>\$ 74,885</u>	<u>\$ 80,069</u>	<u>\$ -</u>	<u>\$ 80,069</u>
PERSONAL OVERDRAFTS						
Neither past due or impaired	\$ 20,680	\$ -	\$ 20,680	\$ 23,669	\$ -	\$ 23,669
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 20,680</u>	<u>\$ -</u>	<u>\$ 20,680</u>	<u>\$ 23,669</u>	<u>\$ -</u>	<u>\$ 23,669</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

7. Loans and Advances to Customers, Net (Continued)

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

In (\$000s)	2012				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
Past due up to 29 days	\$ 17,757	\$ 8,300	\$ 2,100	\$ 146	\$ 28,303
Past due 30 - 59 days	35,214	7,472	2,539	16	45,241
Past due 60 - 89 days	20,499	26,418	3,965	23	50,905
	<u>\$ 73,470</u>	<u>\$ 42,190</u>	<u>\$ 8,604</u>	<u>\$ 185</u>	<u>\$ 124,449</u>

In (\$000s)	2011				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
Past due up to 29 days	\$ 17,209	\$ 9,038	\$ 1,994	\$ 145	\$ 28,386
Past due 30 - 59 days	18,331	11,178	2,264	76	31,849
Past due 60 - 89 days	19,643	3,847	3,390	142	27,022
	<u>\$ 55,183</u>	<u>\$ 24,063</u>	<u>\$ 7,648</u>	<u>\$ 363</u>	<u>\$ 87,257</u>

8. Investment Property

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

8. Investment Property (Continued)

The investment property balance for the year is \$3,882,873 and (2011: \$3,882,873).

9. Other Assets

Other assets are comprised of the following:

	2012	2011
Accounts receivables	\$ 982,228	\$ 591,494
Prepaid assets	2,150,522	2,083,487
Cheque clearing account	1,167,653	1,205,279
Other assets	581,457	440,251
	<u>\$ 4,881,860</u>	<u>\$ 4,320,511</u>

Included in other assets is the Bank's investment in the Bahamas Automated Clearing House Limited.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

10. Property and Equipment, Net

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

	Land and Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
COST				
Balance as at June 2010	\$ 2,547,815	\$ 3,044,259	\$ 3,893,573	\$ 9,485,647
Additions	-	-	2,676,222	2,676,222
Disposal	-	-	(19,012)	(19,012)
Balance as at June 2011	2,547,815	3,044,259	6,550,783	12,142,857
Additions	-	860,618	2,980,988	3,841,606
Disposal	-	-	(2,666)	(2,666)
Balance as at June 2012	\$ 2,547,815	\$ 3,904,877	\$ 9,529,105	\$ 15,981,797

ACCUMULATED DEPRECIATION

Balance as at June 2010	\$ 734,597	\$ 1,919,812	\$ 1,627,564	\$ 4,281,973
Depreciation	245	412,218	582,570	995,033
Disposal	-	-	(19,012)	(19,012)
Balance as at June 2011	734,842	2,332,030	2,191,122	5,257,994
Depreciation	-	416,026	820,124	1,236,150
Disposal	-	-	(2,444)	(2,444)
Balance as at June 2012	\$ 734,842	\$ 2,748,056	\$ 3,008,802	\$ 6,491,700

NET BOOK VALUE :

Balance as at June 30, 2012	\$ 1,812,973	\$ 1,156,821	\$ 6,520,302	\$ 9,490,096
Balance as at June 30, 2011	\$ 1,812,973	\$ 712,229	\$ 4,359,661	\$ 6,884,863

Land in the amount of \$1,428,020 (2011: \$1,428,020) is included in land and building.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

11. Intangible Assets, Net

	Goodwill		Software		Total
Balance as at June 30, 2010	\$	1,075,759	\$	2,851,388	\$ 3,927,147
Additions		-		643,772	643,772
Amortisation		-		(525,558)	(525,558)
Closing as at June 30, 2011	\$	1,075,759	\$	2,969,602	\$ 4,045,361
Balance as at June 30, 2011	\$	1,075,759	\$	2,969,602	\$ 4,045,361
Additions		-		269,632	269,632
Amortisation		-		(693,944)	(693,944)
Closing as at June 30, 2012	\$	1,075,759	\$	2,545,290	\$ 3,621,049

Goodwill arose during the bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the Harrold Road Branch where the book of business is managed. The recoverable amount is based on a value in use calculation using cash flow projections from budgets approved by management covering a five year period. The discount rate applied to the cash flow projections is 6.63% (2011: 7.40%). As at June 30, 2012, management determined that goodwill was not impaired (2011: \$Nil).

12. Deposits from Customers and Banks

Deposits from customers and banks are as follows:

	2012		2011	
Term deposits	\$	527,858,144	\$	511,635,856
Demand deposits		82,630,356		86,556,279
Savings accounts		54,179,316		43,986,542
		664,667,816		642,178,677
Accrued interest payable		6,755,544		7,212,075
	\$	671,423,360	\$	649,390,752

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

12. Deposits from Customers and Banks (Continued)

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

	2012		2011	
	<u>Value</u>	<u>No. of Deposits</u>	<u>Value</u>	<u>No. of Deposits</u>
\$0 - \$ 10,000	\$ 25,715,137	44,293	\$ 24,560,818	42,724
\$10,001 - \$ 25,000	20,754,068	1,351	17,382,970	1,145
\$25,001 - \$ 50,000	19,605,707	557	18,863,203	539
\$50,001 - \$100,000	31,163,766	453	25,430,904	368
Over \$100,000	567,429,138	743	555,940,782	685
	<u>\$ 664,667,816</u>	<u>47,397</u>	<u>\$ 642,178,677</u>	<u>45,461</u>

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$198,196 (2011: \$168,977) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of \$50,000.

13. Other Borrowed Funds

Bonds payable

Bonds payable were issued to the National Insurance Board on May 1, 2002, and bear interest at the Bahamian dollar prime rate which at year-end was 4.75% (2011: 4.75%). Interest expense during the year on these instruments totaled \$809,713 (2011: \$926,966). These bonds are secured under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifying assets which include Government registered stock and cash. Interest payable on bonds at the year-end was \$19,911 (2011: \$15,486).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

13. Other Borrowed Funds (Continued)

The amounts and maturity dates are as follows:

Description	Maturity	2012	2011
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
		<u>\$ 17,000,000</u>	<u>\$ 17,000,000</u>

Mortgage backed bonds

Mortgage backed bonds bearing interest of 1.75% above Bahamian dollar prime rate which yields an effective rate of 6.50% were issued in a private placement on January 1, 2007. Interest expense on these instruments during the year 2012 totaled \$1,303,562 (2011: \$1,440,547). In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio.

Description	Maturity	2012	2011
Mortgage backed bonds Series F	2022	\$ 4,000,000	\$ 4,000,000
Mortgage backed bonds Series G	2023	4,000,000	4,000,000
Mortgage backed bonds Series H	2024	4,000,000	4,000,000
Mortgage backed bonds Series I	2025	4,000,000	4,000,000
Mortgage backed bonds Series J	2026	4,000,000	4,000,000
		<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

14. Other Liabilities

Other liabilities consist of the following:

	2012	2011 (As Restated)
Accounts Payable	\$ 2,135,617	\$ 1,897,406
Other Liabilities	5,948,100	4,661,523
Cardholders Liability	1,432,983	1,322,275
Cheques and other items in transit	19,117,618	4,808,826
	<u>\$ 28,634,318</u>	<u>\$ 12,690,030</u>

15. Share Capital

Share capital consists of the following:

EQUITY CAPITAL

	2012	2011
Authorized:		
150,000 preference shares of B\$1,000 each (2011: 150,000)	\$ 150,000,000	\$ 150,000,000
25,000,000 Ordinary shares of B\$1 each (2011: 25,000,000)	\$ 25,000,000	\$ 25,000,000
Issued and fully paid:		
34,415.99 preference shares of B\$1,000 each (2011: 34,415.99)	\$ 34,415,990	\$ 34,415,990
15,513,414 Ordinary shares of B\$1 each (2011: 15,522,224)	\$ 15,513,414	\$ 15,522,224
Treasury shares		
86,586 issued previously at B\$1 each (2011: 77,776)	86,586	77,776

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

15. Share Capital (Continued)

Preference shares

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

16. Treasury Shares

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at that time was 3,855. During 2011, the Bank's Board of Directors approved the repurchase of \$750,000 of the Bank's own shares. The implementation of the share repurchase plan is a strategy to enhance the shareholder value to existing shareholders. During the period July 2011 through to June 2012 the Bank acquired 8,810 of its own shares for \$58,356 including fees and commissions. As at June 30, 2012, the Bank held treasury shares of 86,586 (2011: 77,776).

17. Reserves

Reserves are comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date and regulatory credit reserves for loan loss provisions. Previously, the Bank recorded all credit reserves as a valuation allowance against loans and advances to customers. During the first quarter of the Bank's fiscal year, the Bank established a regulatory credit reserve as an appropriation to retained earnings. In circumstances where the Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is accounted for as an appropriation of retained earnings and is included in a non-distributable regulatory credit reserve in retained earnings.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

17. Reserves (Continued)

	2012		2011
Balance, beginning of year	\$ 4,117,767	\$	4,057,051
Fair value gains, net during the year	149,129		60,716
Balance, end of year	\$ 4,266,896	\$	4,117,767

18. Net Interest Income

	2012		2011
Interest and similar income			
Cash and short term investments	\$ 115,193	\$	132,897
Investment securities	2,728,717		2,994,715
Loans and advances to customers	59,149,109		60,126,257
	<u>61,993,019</u>		<u>63,253,869</u>
Interest and similar expense			
Banks and customers	22,397,322		24,849,723
Debt securities	2,113,274		2,367,514
	<u>24,510,596</u>		<u>27,217,237</u>
Total net interest income	\$ 37,482,423	\$	36,036,632

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

19. Fee and Commission Income

	2012	2011
Deposit services fees and commissions	\$ 1,999,749	\$ 1,992,595
Credit services fees and commissions	273,830	205,205
Card services fees and commissions	820,684	1,392,020
Other fees and commissions	457,850	371,023
Total fee and commission income	\$ 3,552,113	\$ 3,960,843

20. Other Operating Income

	2012	2011 (As Restated)
Foreign exchange	\$ 1,777,466	\$ 1,698,106
Other	1,174,619	965,897
Total other operating income	\$ 2,952,085	\$ 2,664,003

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

21. Operating Expenses

	2012	2011
Staff costs	\$ 17,507,889	\$ 16,633,410
Occupancy	3,696,099	3,495,866
Licenses and other fees	2,262,338	2,073,215
Other administrative expenses	1,399,716	1,814,525
Advertising, marketing and donations	863,570	1,078,576
Information technology	1,232,978	672,159
Telecommunication and postage	403,968	474,825
Travel and entertainment	425,062	351,029
Operating expenses	\$ 27,791,620	\$ 26,593,605
Depreciation of property and equipment	\$ 1,236,150	\$ 995,033
Amortization of software	693,944	525,558
Depreciation and amortisation	\$ 1,930,094	\$ 1,520,591
Total operating expenses	\$ 29,721,714	\$ 28,114,196

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

22. Contingencies

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

23. Commitments

(a) The approximate minimum rental commitments (exclusive of the effect of escalation clauses as to taxes, maintenance, etc.) under operating leases for the year ending June 30, 2012, are as follows:

	2012	2011
No later than 1 year	\$ 452,657	\$ 361,035
Later than 1 year and no later than 5 years	1,698,906	1,079,575
Total	\$ 2,151,563	\$ 1,440,610

Rental expense (including service charges) totaled \$1,826,965 (2011: \$1,760,264).

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.

- (a) The commitment for loans at June 30, 2012 was \$15,409,239 (2011: \$14,175,818).
- (b) The Bank has a commitment for future capital expenditure of \$74,489 (2011: \$552,370).
- (c) The Bank has a commitment with Visa of \$450,000 (2011: \$450,000).
- (d) The Bank has a commitment with Master Card of \$150,000 (2011: \$150,000).
- (e) The Bank has letters of credit and guarantees of \$2,469,248 (2011: \$1,767,584).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

24. Transactions and Balances with Related Parties

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2012 (2011: Nil). No provision expense has been recognized in these consolidated financial statements on loans to related parties.

	Government	Other Government Entities	Key Management	Total 2012	Total 2011
Assets					
Cash and cash equivalents	\$ -	\$ 50,179,030	\$ -	\$ 50,179,030	\$ 38,026,406
Investment securities	54,685,000	-	-	54,685,000	48,528,000
Loans and advances to customers	53,105	9,557,880	3,494,420	13,105,405	16,673,931
Other Assets	791,818	-	-	791,818	799,426
Liabilities					
Deposits from customers and banks	\$ 61,217,110	\$ 113,543,778	\$ 1,155,301	\$ 175,916,189	\$ 180,555,761
Other borrowed funds	-	17,000,000	-	17,000,000	17,000,000
Other liabilities	-	19,911	-	19,911	15,486
Revenues					
Interest Income	\$ 2,729,639	\$ 455,537	\$ 191,876	\$ 3,377,052	\$ 3,961,682
Total	\$ 2,729,639	\$ 455,537	\$ 191,876	\$ 3,377,052	\$ 3,961,682
Expenses					
Interest Expense	\$ 1,886,298	\$ 5,900,142	\$ 42,231	\$ 7,828,671	\$ 8,588,747
Directors fees	-	-	198,500	198,500	208,617
Other operating expenses	1,243,357	-	-	1,243,357	1,045,510
Short-term employee benefits	-	-	2,738,838	2,738,838	2,416,849
Post employment benefits	-	-	134,085	134,085	140,105
Termination benefits	-	-	160,566	160,566	-
Total	\$ 3,129,655	\$ 5,900,142	\$ 3,274,220	\$ 12,304,017	\$ 12,399,828

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

25. Employee Benefits

The Bank has a defined contribution plan (the “Plan”) in which eligible employees (those having attained 25 years of age and confirmed in their positions) contribute a minimum of 3.50% of their annual salaries and the Bank contributes 6.50%. Employees become fully vested after 2 years of plan membership. The plan assets are managed by an independent third party investment manager.

Contributions for the year ended June 30, 2012 totaled \$715,516 (2011: \$679,664).

As at June 30, 2012, the Plan owns 210,826 (2011: 210,826) shares of the Bank. The holdings represent approximately 10.25% (2011: 14.01%) of the Plan’s net assets.

As at June 30, 2012, the Plan has deposits totaling \$6,565,425 (2011: \$6,569,665) with the Bank.

The Bank serves as the Trustee of the Plan.

26. Assets under Administration

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

	2012	2011
Government- guaranteed student education loans	\$ 77,647,076	\$ 77,980,301
Trust assets	\$ 77,962,646	\$ 63,788,789

During the period, the Bank recognized fees totaling \$225,952 (2011: \$169,211), for the administration of the Government Guaranteed Student Loans program.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

27. Dividends and Earnings per Share

Dividends to the Bank's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors and the Bank's Regulators. Dividends paid by the Bank to ordinary shareholders in 2012 totaled \$775,671 or \$0.6 per share (2011: \$2,335,776 or \$0.15 per share).

During the year the Bank paid dividends on its preference shares of \$2,462,498 (2011:\$1,362,500).

	2012	2011 (As Restated)
Net income attributable to equity shareholders	\$ 3,677,062	\$ 4,452,020
Preference share dividends	<u>(2,462,498)</u>	<u>(1,362,500)</u>
Net income attributable to ordinary shareholders	<u>\$ 1,214,564</u>	<u>\$ 3,089,520</u>
Weighted average number of ordinary shares outstanding	<u>15,515,835</u>	<u>15,576,503</u>
Basic earnings per ordinary share	<u>\$ 0.08</u>	<u>\$ 0.20</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

28. Fair Value of Financial Assets and Liabilities

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

As of June 30, 2012 the Bank held equity securities classified as available-for-sale totaling \$489,584 (2011: \$340,456) which have been valued as a Level 1 investment. All other investments totaling \$58,685,000 (2011: \$48,528,000) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

28. Fair Value of Financial Assets and Liabilities (Continued)

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 the cost or amortised cost.

Loans

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

Deposits

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

Investment property

The estimated fair value of investment property is based on a valuation performed by an appointed independent registered value taking into account factors such as the property growth and market in the surrounding area. The fair market value of investment property reflects the market conditions at the date of the consolidated statement of financial position.

Regulatory Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by The Central Bank. During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital risk management

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

28. Fair Value of Financial Assets and Liabilities (Continued)

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

The capital structure is designed to provide optimal risk absorption consistent with the risk profile of the Bank's statement of financial condition. The capital mix is intended to maximize the return for shareholders. The Bank utilizes a balance of equity and debt issuances to achieve an ideal capital structure as shown in Note 15.

At June 30, 2012 and 2011 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, reserves, retained earnings and common share issuances.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

29. Regulatory Capital

(in \$'000s)	Actual 2012	Actual 2011
Tier 1 capital	\$ 84,492	\$ 83,078
Tier 2 capital	47,324	43,759
Total capital	<u>\$ 131,816</u>	<u>\$ 126,837</u>
Risk weighted assets	\$ 576,372	\$ 550,280
Tier 1 capital ratio	9.51%	9.85%
Total capital ratio	16.00%	15.94%

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

The Central Bank's regulations requires, consistent with international best practice as defined by the Bank of International Settlements Basel 1 Capital Accord, that the Bank maintains a risk adjusted capital to asset ratio equal to or greater than 8.00%. The Bank's risk adjusted capital ratio at the end of the fiscal year was 22.87% (2011: 23.05%).

30. Comparatives

The following adjustments were made to the prior year's financial statement balances. In the Consolidated Statement of Financial Position, Other Liabilities was reduced by \$1,977,339 for Group Insurance Funds balances and Deferred Loan Fees increased by the same amount. The Other Liabilities Note to the Consolidated Financial Statements in the prior year was also adjusted accordingly.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

31. Risk Management

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

Credit risk

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

31. Risk Management (Continued)

Credit risk (continued)

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

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

31. Risk Management (Continued)

Credit risk (continued)

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

In (\$000s)	2012			2011		
	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL
CASH AND CASH EQUIVALENTS						
Neither past due or impaired	\$ 92,584	\$ -	\$ 92,584	\$ 86,648	\$ -	\$ 86,648
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 92,584</u>	<u>\$ -</u>	<u>\$ 92,584</u>	<u>\$ 86,648</u>	<u>\$ -</u>	<u>\$ 86,648</u>
INVESTMENT SECURITIES						
Neither past due or impaired	\$ 59,175	\$ -	\$ 59,175	\$ 48,868	\$ -	\$ 48,868
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 59,175</u>	<u>\$ -</u>	<u>\$ 59,175</u>	<u>\$ 48,868</u>	<u>\$ -</u>	<u>\$ 48,868</u>
LOANS AND ADVANCES TO CUSTOMERS						
Neither past due or impaired	\$ 424,519	\$ 68,785	\$ 493,304	\$ 477,095	\$ 41,132	\$ 518,227
Past due but not impaired	107,775	16,674	124,449	73,800	13,457	87,257
Impaired	79,985	5,464	85,449	67,593	7,699	75,292
	<u>\$ 612,279</u>	<u>\$ 90,923</u>	<u>\$ 703,202</u>	<u>\$ 618,488</u>	<u>\$ 62,288</u>	<u>\$ 680,776</u>

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

Operational risk

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

31. Risk Management (Continued)

Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarized the Bank's exposure to foreign currency exchange risk at June 30, 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

June 30, 2012
(in \$000s)

	BS	US\$	CAD\$	GPB£	Other	Total
Assets						
Cash and central bank balances	\$ 55,867	\$ 29,412	\$ 6,628	\$ 522	\$ 155	\$ 92,584
Financial assets - held to maturity	21,640	-	-	-	-	21,640
Financial assets - available for sale	33,045	4,490	-	-	-	37,535
Loans and advances	663,192	24,429	2	1	-	687,624
Total financial assets	\$ 773,744	\$ 58,331	\$ 6,630	\$ 523	\$ 155	\$ 839,383
Liabilities						
Deposits from customers and banks	\$ 648,293	\$ 22,519	\$ 145	\$ 449	\$ 17	\$ 671,423
Other borrowed funds	37,000	-	-	-	-	37,000
Cheques and other items in transit	2,571	9,993	6,439	114	2	19,119
Total financial liabilities	\$ 687,864	\$ 32,512	\$ 6,584	\$ 563	\$ 19	\$ 727,542
Net financial position	\$ 85,880	\$ 25,819	\$ 46	\$ (40)	\$ 136	\$ 111,841

June 30, 2011
(in \$000s)

	BS	US\$	CAD\$	GPB£	Other	Total
Total financial assets	\$ 735,572	\$ 61,077	\$ 7,382	\$ 301	\$ 350	\$ 804,682
Total financial liabilities	645,343	38,455	7,202	185	15	691,200
Net financial position	\$ 90,229	\$ 22,622	\$ 180	\$ 116	\$ 335	\$ 113,482

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

31. Risk Management (Continued)

Concentrations of currency risk (continued)

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

The Bank analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration pricing, renewal of existing positions, and capital funding. Based on these scenarios, the bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders' equity of a 100 basis point shift would be a maximum increase or decrease of \$1.3 million (2011: \$1.2 million).

Liquidity risk

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

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Notes to Consolidated Financial Statements (Continued)

31. Risk Management (Continued)

Liquidity risk (continued)

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

June 30, 2012 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	\$ 92,584	\$ -	\$ -	\$ -	92,584
Investment Securities	4,490	5,675	7,230	41,780	59,175
Loans and advances to customers, net	171,610	70,067	60,948	384,998	687,623
Total financial assets	\$ 268,684	\$ 75,742	\$ 68,178	\$ 426,778	\$ 839,382

June 30, 2012 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	\$ 394,833	\$ 232,039	\$ 30,117	\$ 14,435	671,424
Other borrowed funds	-	-	17,000	20,000	37,000
Cheques and other items in transit	19,118	-	-	-	19,118
Total financial liabilities	\$ 413,951	\$ 232,039	\$ 47,117	\$ 34,435	\$ 727,542
Net position	\$ (145,267)	\$ (156,297)	\$ 21,061	\$ 392,343	\$ 111,840

June 30, 2011 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	\$ 251,851	\$ 52,112	\$ 99,726	\$ 400,993	804,682
Total financial liabilities	406,735	217,776	37,834	28,855	691,200
Net position	\$ (154,884)	\$ (165,664)	\$ 61,892	\$ 372,138	\$ 113,482

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Notes to Consolidated Financial Statements (Continued)

32. Subsequent Event

Subsequent to the Bank's fiscal year end, Mortgaged Backed Bonds within series F, G, H, I and J were redeemed at a cost of \$9,500,000 plus accrued interest.

33. Subsidiaries

Subsidiaries of the Bank as at June 30, 2012 are as follows:

<u>Name</u>	<u>Place of Incorporation</u>	<u>Shareholding</u>	<u>Nature of business</u>
BOB Financial Services Inc.	Florida, United States of America	100%	Trade financing and other financial services
Multi-Card Services Ltd.	Commonwealth of The Bahamas	100%	Card processing and services
West Bay Property Holdings Ltd.	Commonwealth of The Bahamas	100%	Investment Property
Bank of The Bahamas Trust Ltd.	Commonwealth of The Bahamas	100%	Trust Company
BAHTCO Holdings Ltd.	Commonwealth of The Bahamas	100%	Nominee Holding Company

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