

BANK OF THE BAHAMAS LIMITED

**Audited Consolidated Financial Statements
Year Ended June 30, 2011
with Independent Auditors' Report**

Bank of The Bahamas Limited

Audited Financial Statements

Year ended June 30, 2011

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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 (the "Bank") which comprise the consolidated statement of financial condition as of June 30, 2011, 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 explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**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, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

September 30, 2011


Bank of The Bahamas Limited

Consolidated Statement of Financial Condition
(Expressed in Bahamian dollars)

June 30, 2011

	Note	2011	2010
ASSETS			
Cash and account with The Central Bank	5	\$ 46,009,883	\$ 46,073,254
Due from banks	5	40,638,307	33,820,445
Investment securities	6	48,868,456	50,714,140
Loans and advances to customers, net	7	669,164,555	629,212,269
Investment property	8	3,882,873	3,882,873
Other assets	9	4,320,511	4,478,847
Property and equipment, net	10	6,884,863	5,203,674
Intangible assets, net	11	4,045,361	3,927,147
TOTAL		\$ 823,814,809	\$ 777,312,649
LIABILITIES			
Deposits from customers and banks	12	649,390,752	602,919,291
Other borrowed funds	13	37,000,000	37,000,000
Other liabilities	14	14,667,369	16,397,217
Deferred loan fees		5,387,213	4,567,074
Total liabilities		706,445,334	660,883,582
EQUITY			
Share capital	15	50,015,990	50,015,990
Share premium		28,587,866	28,587,866
Treasury shares	16	(473,822)	(30,244)
Reserves	17	4,117,767	4,057,051
Retained earnings		35,121,674	33,798,404
Total equity		117,369,475	116,429,067
TOTAL		\$ 823,814,809	\$ 777,312,649

These consolidated financial statements were approved by the Board of Directors on September 30, 2011 and are signed on its behalf by:


Director


Director

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Comprehensive Income
(Expressed in Bahamian dollars)

Year ended June 30, 2011

	Note	2011	2010
Interest and similar income	18	\$ 63,253,869	\$ 55,999,685
Interest and similar expense	18	<u>27,217,237</u>	<u>24,587,509</u>
Net interest income	18	\$ 36,036,632	\$ 31,412,176
Fees and commission income	19	3,960,843	3,647,091
Fees and commission expense		<u>509,824</u>	<u>770,615</u>
Net fees and commission income		3,451,019	2,876,476
Other operating income	20	2,779,814	3,397,719
Total operating income		42,267,465	37,686,371
Credit loss expense, net		<u>(9,131,723)</u>	<u>(3,657,626)</u>
Net operating income		33,135,742	34,028,745
Operating expenses	21	<u>28,114,196</u>	<u>26,366,306</u>
Net income		<u>5,021,546</u>	<u>7,662,439</u>
Other comprehensive income			
Net gain on available-for-sale financial assets		60,716	34,357
Total comprehensive income for the year		<u>5,082,262</u>	<u>7,696,796</u>
Net income		5,021,546	7,662,439
Preference share dividends		<u>(1,362,500)</u>	<u>(2,725,000)</u>
Net income available to common shareholders		<u>\$ 3,659,046</u>	<u>\$ 4,937,439</u>
Earnings per share			
Basic earnings per ordinary share	27	\$ 0.23	\$ 0.32

See accompanying notes.

Bank of The Bahamas Limited

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

Year ended June 30, 2011

	Share Capital	Share Premium	Treasury Shares	Reserves	Retained Earnings	Total Equity
Balance at June 30, 2009	\$ 50,015,990	\$ 28,587,866	\$ (30,244)	\$ 22,694	\$ 35,356,348	113,952,654
Net income for the year	-	-	-	-	7,662,439	7,662,439
Appropriation of retained earnings	-	-	-	4,000,000	(4,000,000)	-
Other comprehensive income	-	-	-	34,357	-	34,357
Dividends on preference shares	-	-	-	-	(2,725,000)	(2,725,000)
Dividends paid to ordinary shareholders	-	-	-	-	(2,495,383)	(2,495,383)
Balance, June 30, 2010	\$ 50,015,990	\$ 28,587,866	\$ (30,244)	\$ 4,057,051	\$ 33,798,404	116,429,067
Net income for the year	-	-	-	-	5,021,546	5,021,546
Acquisition of treasury shares	-	-	(443,578)	-	-	(443,578)
Other comprehensive income	-	-	-	60,716	-	60,716
Dividends on preference shares	-	-	-	-	(1,362,500)	(1,362,500)
Dividends paid to ordinary shareholders	-	-	-	-	(2,335,776)	(2,335,776)
Balance, June 30, 2011	\$ 50,015,990	\$ 28,587,866	\$ (473,822)	\$ 4,117,767	\$ 35,121,674	\$ 117,369,475

See accompanying notes.

Bank of The Bahamas Limited
Consolidated Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended June 30, 2011

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$	5,021,546	\$ 7,662,439
Adjustments for:			
Depreciation and amortization		1,520,591	1,716,254
Gain on disposal of fixed assets		-	(287,841)
Net provision for loan losses		9,131,723	3,657,626
Net provision for other impairments		-	144,462
		<u>15,673,860</u>	<u>12,892,940</u>
Change in operating assets and liabilities		(3,067,159)	3,454,293
Increase in loans and advances to customers, net		(49,084,009)	(77,257,558)
Increase in deposits from customers and banks		46,471,461	14,830,113
Net cash provided by/(used in) operating activities		<u>9,994,153</u>	<u>(46,080,212)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment		(2,676,222)	(1,661,748)
Net acquisition of intangible assets		(643,772)	(14,090)
Purchase of investments		(1,777,100)	-
Proceeds from maturity of investment securities		3,683,500	-
Investment property additions		-	(6,821)
Net cash used in investing activities		<u>(1,413,594)</u>	<u>(1,682,659)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid on common stock		(2,335,776)	(2,495,383)
Dividends on preference shares		(1,362,500)	(2,725,000)
Increase in interest payable on bonds		116	2,562
Acquisition of treasury shares		(443,578)	-
Net cash used in financing activities		<u>(4,141,738)</u>	<u>(5,217,821)</u>
Net increase/(decrease) in cash and cash equivalents		4,438,821	(52,980,692)
Cash and cash equivalents, beginning of year		57,895,699	110,876,391
Cash and cash equivalents, end of year	5	<u>\$ 62,334,520</u>	<u>\$ 57,895,699</u>
SUPPLEMENTAL INFORMATION:			
Interest received	\$	62,752,402	\$ 53,490,627
Interest paid	\$	26,465,449	\$ 24,017,521
Dividends paid	\$	3,698,276	\$ 5,220,383

See accompanying notes.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements

Year ended June 30, 2011

1. General Information

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

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

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

The Bank 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:

- IFRS 2 Share-based payment: Group cash-settled Share-based Payment Transactions
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended), including consequential amendments to other standards
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 2 Share-based Payment
- IAS 1 Presentation to Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments; Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- Improvements to IFRSs (issued in May 2008 and April 2009)

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, 2011 or later periods but which the Bank has not early adopted, as follows:

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)

- IAS 24 Related Party Disclosures (Amendment)
- IAS 32 Financial instruments: Presentation - Classification of Rights & Amortise Issues
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (issued in May 2010)

The Bank 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)

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, 2011, 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, 2011 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, loan commitment fees are to be deferred and recognized over the life of the loan. Management amortizes loan commitment fees using the average loan term. Any changes in average loan term will be recognized prospectively in interest income in the consolidated statement of comprehensive income.

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 d 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 recognized 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 recognized 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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized 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 assets

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

(i) Loans and receivables

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

(ii) Held-to-maturity financial assets

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

(iii) Available-for-sale financial assets

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(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.

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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

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

Cash basis loans are returned to accrual status when all contractual principal and interest amounts 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.

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

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.

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(e) 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 amortized cost are recorded at the exchange rate ruling at the date of transaction.

(f) Property and equipment

Property and equipment (excluding the building) are stated at historical cost less accumulated depreciation. The building is stated at estimated salvage value of \$384,951 with subsequent additions at cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is 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 amortized over the shorter of the economic useful life of the asset or the lease term and taking into consideration any extension of the lease term if there is reasonable expectation of renewal. The amortization term however does not exceed five years. Land is not depreciated.

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(g) Impairment of non-financial assets

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

(h) Provisions

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

(i) Related parties

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

(j) 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 obligations to pay further contributions if the Plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(k) 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.

(l) Fiduciary activities

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

(m) Taxes

A subsidiary of the Bank is required to comply with United States Federal and State tax laws. The accounts for the tax effect of the subsidiary 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 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.

(n) Investment property

Investment property, which is property that management intends to develop for rental purposes, is measured initially at cost, including transaction costs and thereafter it is stated at fair value based on appraisals by recognized valuation experts. Additions to investment property are also recorded at cost. On an annual basis the investment property is assessed for impairment with gains and losses arising from changes in the fair value of the investment property included in the consolidated statement of comprehensive income for the period in which they arise.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(o) Goodwill

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

(p) 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 amortized using the straight-line basis of accounting over the expected useful life. Software has a maximum expected useful life of 10 years.

(q) Borrowings

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

(r) Group insurance funds

The Banks provisions for insurance policies related to mortgage indemnity policies and consumer protection policies. Provisions are made for claims notified and for claims incurred but which have not yet been notified. The associated outflows are estimated to arise over a period of up to five years from the statement of financial condition date. Amounts related to these liabilities are included in the consolidated statement of financial condition in the 'Other liabilities' line.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(s) Share capital

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

(iii) Treasury shares

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

(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.

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize 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 statement of financial position.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

4. Summary of Significant Accounting Policies (Continued)

(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 recognized 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 recognized less, when appropriate, cumulative amortization recognized in the income statement, 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 statement in 'Credit loss expense'. The premium received is recognized in the consolidated statement of comprehensive income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

5. Cash and Cash Equivalents

The following is an analysis of cash and cash equivalents.

Not included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas ("the Central Bank") of \$24,313,670 (2010: \$21,998,000). 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)

	2011	2010
Cash	\$ 7,983,477	\$ 6,546,506
Deposits with the Central Bank non-interest bearing	38,026,406	39,526,748
Due from banks	40,638,307	33,820,445
Cash and due from banks	<u>86,648,190</u>	<u>79,893,699</u>
Less: mandatory reserve deposits with the Central Bank	24,313,670	21,998,000
Cash and cash equivalents	<u>\$ 62,334,520</u>	<u>\$ 57,895,699</u>

6. Investment Securities

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

	2011	2010
AVAILABLE-FOR-SALE		
Bahamas Registered Stock	\$ 26,888,500	\$ 25,111,400
Equity Securities	340,456	279,740
	<u>\$ 27,228,956</u>	<u>\$ 25,391,140</u>
HELD-TO-MATURITY		
Bahamas Registered Stock	\$ 21,503,000	\$ 25,186,500
Bridge Authority Bond	136,500	136,500
	<u>\$ 21,639,500</u>	<u>\$ 25,323,000</u>
Total investment securities	<u>\$ 48,868,456</u>	<u>\$ 50,714,140</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 4.84% to 6.00% per annum (2010: from 5.59% to 7.00% per annum) and scheduled maturities between 2013 and 2033 (2010: between 2010 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, 2009	\$ 25,356,783	\$ 25,323,000	\$ 50,679,783
Net fair value gain	34,357	-	34,357
At June 30, 2010	\$ 25,391,140	\$ 25,323,000	\$ 50,714,140
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

7. Loans and Advances to Customers, Net

Loans and advances to customers are as follows:

	2011	2010
Mortgage loans	\$ 362,641,636	\$ 345,307,361
Commercial loans	157,690,886	133,832,103
Consumer loans	47,283,185	51,927,832
Credit cards	2,329,568	2,312,217
Business overdrafts	80,069,160	73,490,658
Personal overdrafts	23,668,671	21,127,931
Government guaranteed student loans	7,092,745	7,284,636
	\$ 680,775,850	\$ 635,282,738

Bank of the Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

	2011	2010
Less: Provision for loan losses		
At beginning of year	\$ 12,327,511	\$ 9,172,385
Amount written-off	(3,036,992)	(502,500)
Net provision charged to expense	9,131,723	3,657,626
At end of year	<u>18,422,242</u>	<u>12,327,511</u>
Accrued interest receivable	6,810,947	6,257,042
Loans and advances to customers, net	<u><u>\$ 669,164,555</u></u>	<u><u>\$ 629,212,269</u></u>

During the year, the Bank wrote-off loans totaling \$3,036,992 (2010: \$502,500) 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 (\$34,807) and (2010: \$291,046).

Loan loss provisions are as follows:

	2011	2010
Specific Provisions		
Mortgage Loans	\$ 4,054,743	\$ 2,408,537
Commercial Loans	7,222,305	5,171,032
Consumer Loans	3,712,104	2,768,704
Credit Cards	1,332,104	340,994
	<u>16,321,256</u>	<u>10,689,267</u>
Collective Assessment	2,100,986	1,638,244
TOTAL	<u><u>\$ 18,422,242</u></u>	<u><u>\$ 12,327,511</u></u>

Bank of the Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

	2011	2010
Total provisions as a percentage of the net loan portfolio.	2.76%	1.96%
Provisions and equity reserves as a percentage of the net loan portfolio.	3.35%	2.6%

Non-accrual loans are as follows:

	2011	2010
Mortgage Loans	\$ 41,078,190	\$ 33,673,078
Commercial Loans	24,293,911	18,205,705
Consumer Loans	9,402,163	4,780,307
Credit Cards	517,782	625,230
TOTAL	\$ 75,292,046	\$ 57,284,320
Percentage of loan portfolio (net)	11.26%	9.11%
Percentage of total assets	9.14%	7.36%

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

	2011		2010	
	Value	No. of Loans	Value	No. of Loans
\$0 - \$ 10,000	\$ 14,568,190	4,293	\$ 13,460,230	4,726
\$10,001 - \$ 25,000	22,620,082	1,353	22,676,974	1,347
\$25,001 - \$ 50,000	21,127,056	593	22,020,666	614
\$50,001 - \$100,000	46,274,468	636	47,451,263	649
Over \$100,000	576,186,054	1,628	529,673,605	1,542
	\$ 680,775,850	8,503	\$ 635,282,738	8,878

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:

	2011		2010	
Satisfactory Risk	\$	420,202,046	\$	353,115,544
Watch List		54,972,452		56,096,108
Sub-standard but not impaired		43,053,502		69,390,348
	\$	518,228,000	\$	478,602,000

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

In (\$000s)	2011			2010		
	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL
MORTGAGES						
Neither past due or impaired	\$ 242,280	\$ 14,084	\$ 256,364	\$ 232,063	\$ 12,468	\$ 244,531
Past due but not impaired	51,659	3,524	55,183	50,678	6,005	56,683
Impaired	33,797	7,281	41,078	29,366	4,307	33,673
	<u>\$ 327,736</u>	<u>\$ 24,889</u>	<u>\$ 352,625</u>	<u>\$ 312,107</u>	<u>\$ 22,780</u>	<u>\$ 334,887</u>
COMMERCIAL						
Neither past due or impaired	\$ 82,568	\$ 26,766	\$ 109,334	\$ 71,841	\$ 10,212	\$ 82,053
Past due but not impaired	14,185	9,878	24,063	30,286	3,287	33,573
Impaired	24,294	-	24,294	17,780	426	18,206
	<u>\$ 121,047</u>	<u>\$ 36,644</u>	<u>\$ 157,691</u>	<u>\$ 119,907</u>	<u>\$ 13,925</u>	<u>\$ 133,832</u>
CONSUMER						
Neither past due or impaired	\$ 47,060	\$ 283	\$ 47,343	\$ 54,283	\$ 1,808	\$ 56,091
Past due but not impaired	7,593	55	7,648	7,871	891	8,762
Impaired	8,984	418	9,402	3,280	1,500	4,780
	<u>\$ 63,637</u>	<u>\$ 756</u>	<u>\$ 64,393</u>	<u>\$ 65,434</u>	<u>\$ 4,199</u>	<u>\$ 69,633</u>
CREDIT CARDS						
Neither past due or impaired	\$ 1,449	\$ -	\$ 1,449	\$ 1,308	\$ -	\$ 1,308
Past due but not impaired	363	-	363	379	-	379
Impaired	518	-	518	625	-	625
	<u>\$ 2,330</u>	<u>\$ -</u>	<u>\$ 2,330</u>	<u>\$ 2,312</u>	<u>\$ -</u>	<u>\$ 2,312</u>
BUSINESS OVERDRAFTS						
Neither past due or impaired	\$ 80,069	\$ -	\$ 80,069	\$ 73,491	\$ -	\$ 73,491
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 80,069</u>	<u>\$ -</u>	<u>\$ 80,069</u>	<u>\$ 73,491</u>	<u>\$ -</u>	<u>\$ 73,491</u>
PERSONAL OVERDRAFTS						
Neither past due or impaired	\$ 23,669	\$ -	\$ 23,669	\$ 21,128	\$ -	\$ 21,128
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 23,669</u>	<u>\$ -</u>	<u>\$ 23,669</u>	<u>\$ 21,128</u>	<u>\$ -</u>	<u>\$ 21,128</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)	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>

In (\$000s)	2010				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
Past due up to 29 days	\$ 16,379	\$ 7,333	\$ 1,731	\$ 146	\$ 25,589
Past due 30 - 59 days	22,501	17,956	3,820	114	44,391
Past due 60 - 89 days	17,803	8,284	3,211	119	29,417
	<u>\$ 56,683</u>	<u>\$ 33,573</u>	<u>\$ 8,762</u>	<u>\$ 379</u>	<u>\$ 99,397</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 movement in investment property during the year is as follows:

	2011	2010
Beginning balance	\$ 3,882,873	\$ 3,876,052
Additions	-	6,821
	<u>\$ 3,882,873</u>	<u>\$ 3,882,873</u>

9. Other Assets

Other assets are comprised of the following:

	2011	2010
Accounts receivables	\$ 591,494	\$ 413,244
Prepaid assets	2,083,487	1,992,028
Cheque clearing account	1,205,279	1,255,488
Other assets	440,251	818,087
	<u>\$ 4,320,511</u>	<u>\$ 4,478,847</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 2009	\$ 2,717,776	\$ 5,397,137	\$ 7,290,578	\$ 15,405,491
Additions	1,638	13,303	1,646,807	1,661,748
Disposal	(171,599)	(2,366,181)	(5,043,812)	(7,581,592)
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

ACCUMULATED DEPRECIATION

Balance as at June 2009	\$ 903,256	\$ 3,894,500	\$ 6,102,629	\$ 10,900,385
Depreciation	2,940	539,319	708,762	1,251,021
Disposal	(171,599)	(2,514,007)	(5,183,827)	(7,869,433)
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

NET BOOK VALUE :

Balance as at June 30, 2011	\$ 1,812,973	\$ 712,229	\$ 4,359,661	\$ 6,884,863
Balance as at June 30, 2010	\$ 1,813,218	\$ 1,124,447	\$ 2,266,009	\$ 5,203,674

Land in the amount of \$1,428,020 (2010: \$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, 2009	\$ 1,075,759	\$ 3,302,530	\$ 4,378,289
Additions	-	192,630	192,630
Disposal	-	(178,540)	(178,540)
Amortisation	-	(465,232)	(465,232)
Closing as at June 30, 2010	\$ 1,075,759	\$ 2,851,388	\$ 3,927,147
Balance as at June 30, 2010	\$ 1,075,759	\$ 2,851,388	\$ 3,927,147
Additions	-	643,772	643,772
Disposal	-	-	-
Amortisation	-	(525,558)	(525,558)
Closing as at June 30, 2011	\$ 1,075,759	\$ 2,969,602	\$ 4,045,361

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 7.40% (2010: 7.38%). As at June 30, 2011, management determined that goodwill was not impaired (2010: \$0).

12. Deposits from Customers and Banks

Deposits from customers and banks are as follows:

	2011	2010
Term deposits	\$ 511,635,856	\$ 466,027,638
Demand deposits	86,556,279	89,515,710
Savings accounts	43,986,542	40,915,540
	<u>642,178,677</u>	<u>596,458,888</u>
Accrued interest payable	7,212,075	6,460,403
	<u>\$ 649,390,752</u>	<u>\$ 602,919,291</u>

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:

	2011		2010	
	<u>Value</u>	<u>No. of Deposits</u>	<u>Value</u>	<u>No. of Deposits</u>
\$0 - \$ 10,000	\$ 24,560,818	42,724	\$ 22,979,853	39,331
\$10,001 - \$ 25,000	17,382,970	1,145	16,987,329	1,105
\$25,001 - \$ 50,000	18,863,203	539	16,187,274	461
\$50,001 - \$100,000	25,430,904	368	23,248,503	334
Over \$100,000	555,940,782	685	517,055,929	598
	<u>\$ 642,178,677</u>	<u>45,461</u>	<u>\$ 596,458,888</u>	<u>41,829</u>

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$168,977 (2010: \$149,251) 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% (2010: 5.50%). Interest expense during the year on these instruments totaled \$926,966 (2010: \$935,000). These bonds are secured under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifying assets which include Government registered stock and cash. Interest payable on bonds at the year-end was \$15,486 (2010: \$15,370).

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	2011	2010
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 2011 totaled \$1,440,547 (2010: \$1,450,000). In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio.

Description	Maturity	2011	2010
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:

	2011		2010
Accounts Payable	\$ 1,897,406	\$	2,934,936
Other Liabilities	4,661,523		4,152,059
Cardholders Liability	1,322,275		1,458,522
Cheques and other items in transit	4,808,826		6,705,213
Group Insurance Funds	1,977,339		1,146,487
	\$ 14,667,369	\$	16,397,217

15. Share Capital

Share capital consists of the following:

EQUITY CAPITAL

	2011		2010
Authorized:			
150,000 preference shares of B\$1,000 each (2010: 150,000)	\$ 150,000,000	\$	150,000,000
25,000,000 Ordinary shares of B\$1 each (2010: 25,000,000)	\$ 25,000,000	\$	25,000,000
Issued and fully paid:			
34,415.99 preference shares of B\$1,000 each (2010: 34,415.99)	\$ 34,415,990	\$	34,415,990
15,522,224 Ordinary shares of B\$1 each (2010: 15,596,145)	\$ 15,522,224	\$	15,596,145

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 March 2011, the Bank's Board of Directors approved the repurchase of \$500,000 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 March 2011 through to June 2011 the Bank acquired 73,921 of its own shares for \$446,940 including fees and commissions. As at June 30, 2011 the Bank held treasury shares of 77,776 (2010: 3,855).

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)

	2011		2010
Balance, beginning of year	\$ 4,057,051	\$	22,694
Regulatory credit reserves	-		4,000,000
Fair value gains, net during the year	60,716		34,357
Balance, end of year	\$ 4,117,767	\$	4,057,051

18. Net Interest Income

	2011		2010
Interest and similar income			
Cash and short term investments	\$ 132,897	\$	137,715
Investment securities	2,994,715		3,023,933
Loans and advances to customers	60,126,257		52,838,037
	<u>63,253,869</u>		<u>55,999,685</u>
Interest and similar expense			
Banks and customers	24,849,723		22,202,509
Debt securities	2,367,514		2,385,000
	<u>27,217,237</u>		<u>24,587,509</u>
Total net interest income	\$ 36,036,632	\$	31,412,176

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

19. Fee and Commission Income

	2011	2010
Deposit services fees and commissions	\$ 1,992,595	\$ 1,794,385
Credit services fees and commissions	205,205	209,072
Card services fees and commissions	1,392,020	1,507,186
Other fees and commissions	371,023	136,448
Total fee and commission income	\$ 3,960,843	\$ 3,647,091

20. Other Operating Income

	2011	2010
Foreign exchange	\$ 1,698,106	\$ 1,633,904
Other	1,081,708	1,763,815
Total other operating income	\$ 2,779,814	\$ 3,397,719

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

21. Operating Expenses

	2011	2010
Staff costs	\$ 16,633,410	\$ 15,041,298
Occupancy	3,495,866	3,037,437
Licenses and other fees	2,073,215	1,692,425
Other administrative expenses	1,814,525	2,543,567
Advertising, marketing and donations	1,078,576	731,841
Information technology	672,159	981,872
Telecommunication and postage	474,825	315,044
Travel and entertainment	351,029	306,568
Operating expenses	\$ 26,593,605	\$ 24,650,052
Depreciation of property and equipment	\$ 995,033	\$ 1,251,022
Amortization of software	525,558	465,232
Depreciation and amortisation	\$ 1,520,591	\$ 1,716,254
Total operating expenses	\$ 28,114,196	\$ 26,366,306

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, 2011, are as follows:

No later than 1 year	\$	361,035
Later than 1 year and no later than 5 years		1,079,575
Total	\$	<u>1,440,610</u>

Rental expense (including service charges) totaled \$1,760,264 (2010: \$1,559,208).

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, 2011 was \$14,175,818 (2010: \$22,125,288).
- (b) The Bank has a commitment for future capital expenditure of \$552,370 (2010: \$149,478).
- (c) The Bank has a commitment with Visa of \$450,000 (2010: \$450,000).
- (d) The Bank has a commitment with Master Card of \$150,000 (2010: \$150,000).
- (e) The Bank has letters of credit and guarantees of \$1,767,584 (2010: \$1,210,561).

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, 2011 (2010: Nil). No provision expense has been recognized in these consolidated financial statements on loans to related parties.

	Government	Other Government Entities	Key Management	Total 2011	Total 2010
Assets					
Cash and cash equivalents	\$ -	\$ 38,026,406	\$ -	\$ 38,026,406	\$ 39,526,748
Investment securities	48,528,000	-	-	48,528,000	50,434,400
Loans and advances to customers	1,434,356	11,330,392	3,909,183	16,673,931	19,598,324
Other Assets	799,426	-	-	799,426	851,864
Liabilities					
Deposits from customers and banks	\$ 81,653,658	\$ 98,078,187	\$ 823,916	\$ 180,555,761	\$ 189,536,019
Other borrowed funds	-	17,000,000	-	17,000,000	17,000,000
Other liabilities	-	15,486	-	15,486	15,370
Revenues					
Interest Income	\$ 3,244,361	\$ 540,315	\$ 177,006	\$ 3,961,682	\$ 4,077,068
Total	\$ 3,244,361	\$ 540,315	\$ 177,006	\$ 3,961,682	\$ 4,077,068
Expenses					
Interest Expense	\$ 2,643,809	\$ 5,921,664	\$ 23,274	\$ 8,588,747	\$ 8,582,128
Directors fees	-	-	208,617	208,617	166,500
Other operating expenses	1,045,510	-	-	1,045,510	827,354
Short-term employee benefits	-	-	2,416,849	2,416,849	2,471,528
Post employment benefits	-	-	140,105	140,105	130,181
Total	\$ 3,689,319	\$ 5,921,664	\$ 2,788,845	\$ 12,399,829	\$ 12,177,691

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, 2011 totaled \$679,664 (2010: \$644,310).

As at June 30, 2011, the Plan owns 210,826 (2010: 210,826) shares of the Bank. The holdings represent approximately 14.01% (2010: 12.00%) of the Plan's net assets.

As at June 30, 2011, the Plan has deposits totaling \$6,569,665 (2010: \$6,573,077) 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:

	2011	2010
Government- guaranteed student education loans	\$ 77,980,301	\$ 79,402,833
Trust assets	\$ 63,788,789	\$ 58,379,640

During the period, the Bank recognized fees totaling \$169,211 (2010: \$208,558), for the administration of the Government Guaranteed Student Loans program.

27. Dividends and Earnings per Share

Dividends to the Bank's shareholders are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid by the Bank to ordinary shareholders in 2011 totaled \$2,335,776 or \$0.15 per share (2010: \$2,495,383 or \$0.16 per share).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

27. Dividends and Earnings per Share (Continued)

During the year the Bank paid dividends on its preference shares of \$1,362,500 (2010:\$2,725,000).

	2011	2010
Net income attributable to equity shareholders	\$ 5,021,546	\$ 7,662,439
Preference share dividends	<u>(1,362,500)</u>	<u>(2,725,000)</u>
Net income attributable to ordinary shareholders	<u>\$ 3,659,046</u>	<u>\$ 4,937,439</u>
Weighted average number of ordinary shares outstanding	<u>15,576,503</u>	<u>15,596,145</u>
Basic earnings per ordinary share	<u>\$ 0.23</u>	<u>\$ 0.32</u>

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 (for example, Bahamas International Securities Exchange and New York Stock Exchange).
- 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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

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, 2011 the Bank held equity securities classified as available-for-sale totaling \$340,456 (2010: \$279,740) which have been valued as a Level 1 investment. All other investments totaling \$48,528,000 (2010: \$50,434,400) are classified as Level 2. No transfers were made during the period for any investments between the hierarchy.

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 amortized cost.

Loans

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

Deposits

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

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

29. Regulatory Capital

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

Capital risk management

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

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

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

At June 30, 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 preferences shares, reserves, retained earnings and common share issuances.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

29. Regulatory Capital (Continued)

(in \$'000s)	Actual 2011	Actual 2010
Tier 1 capital	\$ 118,276	\$ 115,296
Tier 2 capital	16,439	12,385
Total capital	<u>\$ 134,715</u>	<u>\$ 127,681</u>
Risk weighted assets	\$ 549,232	\$ 507,338
Tier 1 capital ratio	14.04%	14.58%
Total capital ratio	16.00%	16.15%

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 23.19% (2010: 24.07%).

30. Comparatives

The following adjustments were made to the prior year's financial statement balances. In the Consolidated Statement of Financial Condition, Other Assets and Other Liabilities were reduced by \$1,056,296 for inter-company balances. The Other Assets and Other Liabilities notes to the consolidated financial Statements in the prior year were 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.

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.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

31. Risk Management (Continued)

Credit risk (continued)

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

The Bank conducts an impairment assessment on each of its loans. The main considerations for the loan impairment assessment 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)	2011			2010		
	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL
CASH AND CASH EQUIVALENTS						
Neither past due or impaired	\$ 86,648	\$ -	\$ 86,648	\$ 79,894	\$ -	\$ 79,894
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 86,648</u>	<u>\$ -</u>	<u>\$ 86,648</u>	<u>\$ 79,894</u>	<u>\$ -</u>	<u>\$ 79,894</u>
INVESTMENT SECURITIES						
Neither past due or impaired	\$ 48,868	\$ -	\$ 48,868	\$ 50,714	\$ -	\$ 50,714
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 48,868</u>	<u>\$ -</u>	<u>\$ 48,868</u>	<u>\$ 50,714</u>	<u>\$ -</u>	<u>\$ 50,714</u>
LOANS AND ADVANCES TO CUSTOMERS						
Neither past due or impaired	\$ 477,095	\$ 41,133	\$ 518,228	\$ 454,114	\$ 24,488	\$ 478,602
Past due but not impaired	73,800	13,457	87,257	89,214	10,183	99,397
Impaired	67,593	7,699	75,292	51,051	6,233	57,284
	<u>\$ 618,488</u>	<u>\$ 62,289</u>	<u>\$ 680,776</u>	<u>\$ 594,379</u>	<u>\$ 40,904</u>	<u>\$ 635,283</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 rigorous 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, 2011. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

June 30, 2011

(in \$000s)

	BS	US\$	CAD\$	GPB£	Other	Total
Assets						
Cash and central bank balances	\$ 43,971	\$ 34,649	\$ 7,379	\$ 300	\$ 350	\$ 86,649
Financial assets - held to maturity	21,640	-	-	-	-	21,640
Financial assets - available for sale	26,888	340	-	-	-	27,228
Loans and advances	643,073	26,088	3	1	-	669,165
Total financial assets	\$ 735,572	\$ 61,077	\$ 7,382	\$ 301	\$ 350	\$ 804,682
Liabilities						
Deposits from customers and banks	\$ 605,804	\$ 36,831	\$ 6,740	\$ 3	\$ 13	\$ 649,391
Other borrowed funds	37,000	-	-	-	-	37,000
Cheques and other items in transit	2,539	1,624	462	182	2	4,809
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

June 30, 2010

(in \$000s)

	BS	US\$	CAD\$	GPB£	Other	Total
Total financial assets	\$ 694,128	\$ 58,449	\$ 6,711	\$ 385	\$ 147	\$ 759,820
Total financial liabilities	602,902	37,001	6,360	351	11	646,625
Net financial position	\$ 91,226	\$ 21,448	\$ 351	\$ 34	\$ 136	\$ 113,195

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 \$3.4 million (2010: \$3.2 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.

Bank of The Bahamas Limited

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 condition date to the contractual maturity date. The actual maturity dates could be significantly different from the amounts in the table.

June 30, 2011 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	\$ 86,648	\$ -	\$ -	\$ -	86,648
Investment Securities	-	-	12,905	35,963	48,868
Loans and advances to customers, net	165,203	52,112	86,821	365,030	669,166
Total financial assets	\$ 251,851	\$ 52,112	\$ 99,726	\$ 400,993	\$ 804,682

June 30, 2011 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	\$ 401,926	\$ 217,776	\$ 20,834	\$ 8,855	649,391
Other borrowed funds	-	-	17,000	20,000	37,000
Cheques and other items in transit	4,809	-	-	-	4,809
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

June 30, 2010 (in \$000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	\$ 206,584	\$ 59,284	\$ 89,593	\$ 404,359	759,820
Total financial liabilities	390,271	196,053	36,330	23,970	646,624
Net position	\$ (183,687)	\$ (136,769)	\$ 53,263	\$ 380,389	\$ 113,196

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

32. Subsidiaries

Subsidiaries of the Bank as at June 30, 2011 are as follows:

<u>Name</u>	<u>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