MAKiNG a DiFFERENCE

Bank of The Bahamas
LIMITED

2010 ANNUAL REPORT

MAKiNG A DiFFERENCE

The circle design of this book represents the circle of life, unity and community. The small i signifies that "I" can make a difference.

TRiBUTE TO JOHN KENNiNG

"One person can make a difference and every person should try."
—John Fitzgerald Kennedy

It is with deep sadness that we note the passing of John Kenning, O.B.E. , chairman of Bank of The Bahamas from 1990-1996. Mr. Kenning assumed the chairmanship when Bank of The Bahamas was in its infancy, two years after the nascent institution was carved from what had been the domestic sector of Bank of Montreal. He brought to the post his many years of experience as head of Barclays, his wisdom and, perhaps most importantly, his boundless belief in the potential of Bahamian-owned business. Mr. Kenning's energy and his philosophy shaped the course of the Bank over the next two decades, setting BOB on a course that would earn international recognition and grow its assets from $90 million in 1990 to nearly $800 million today.

On a personal level, John and his wife, Betty, were among the most generous philanthropists to grace The Bahamas. Though born in Ireland, John Kenning loved and respected his adopted home and together the Kennings funded the Bahamas Humane Society with Mrs. Kenning (nee Kelly) dedicating much of her life to the protection and well-being of animals. The Kennings donated funds for the creation of the Betty Kenning Aquatic Centre, ensuring that the youth of the nation had a world-class facility for training and competition. Both John and Betty Kenning had been great swimmers and he never lost his appetite for sports, running on the Cable Beach median strip every morning while physically able.

If annual reports, like novels or non-fiction, were dedicated to someone who made an impact, the 2010 BOB Annual Report, *Making A Difference*, would be dedicated to John Kenning, a gentleman in every sense of the word, a leader who truly made a difference.

While walking along a beach, an elderly gentleman saw someone in the distance bending down, gathering up something and throwing it into the ocean.

As he got closer, he noticed the figure was that of a young woman, picking up one starfish at a time, tossing each one gently back into the water.

He drew closer and called out, "Good morning! May I ask what you are doing?"

The young woman looked up, and replied "Throwing starfish into the ocean."

The elderly man smiled, and said, "I must ask, why are you throwing starfish into the ocean?"

And the young woman replied, "The sun is up and the tide is going out. If I don't throw them in, they'll die."

The man was surprised at what appeared to be the futility of the exercise: "Young lady," he said, "Do you not realise that there are miles of beach and thousands of starfish. You can't possibly make a difference!"

The young lady listened politely. Then she bent down, picked up another starfish, gently threw it back into the ocean past the breaking waves and said,

"I made a difference to that one."

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BOB
Bank of Solutions.

MAKiNG A DiFFERENCE

A young girl dashes into a cheerful room packed with a dozen other girls. It is after school and the Sewing Club is about to begin. But this day is different. There are 10 brand new sewing machines, a gift from Bank of The Bahamas. The little girl whose eyes sparkle is grinning from ear to ear, excited about making her own school uniform.

Across the island, at the Ranfurly Home for Children, the news is not so bright. A tough economy has taken its toll on the place that for more than 50 years has been a safe haven for children who have been abused, abandoned, orphaned or neglected. There is talk that the boys' section may have to close. But what the boys don't know is that they have a friend they have never met, Bank of The Bahamas. The Bank is underwriting the cost of production of a song that would melt the coldest heart. It is called "Love That Child" and it was written by a young man who grew up at Ranfurly and whose gratitude toward the orphanage takes him back there on his days off to teach music to the children who know no other home. "Where will they go? What will become of them if part of Ranfurly closes?" he asks. The song he wrote and the CD's the Bank is creating with that music are projected to raise the needed funds. The Bank answers the former orphan's question with action that will keep the children safe.

Two very different examples united by a common link, the Bank whose bottom line includes making a difference.

Never has the need to be there for others, to make a difference, been greater than it has this year. Natural catastrophe collided with an economic tsunami. Needs were pressing, resources scarce. A massive 7.0 earthquake devastated much of Haiti, killing 230,000, leaving millions homeless and Bank of The Bahamas responded before the earth stopped shaking, setting up relief boxes with partners all over the islands, supporting the two-night, commercial free *Help us Help Haiti* telethon that pledged nearly $250,000 through Rotary Clubs to direct aid in Haiti. The Bank held the first BOB National Book Drive, distributing thousands of books to a dozen public and school libraries from Cat Island to the Simpson Penn and Willie Mae Pratt Centres in New Providence. The Bank continued to be a major supporter of historic Nassau's revitalization through the Downtown Nassau Partnership and supported more than 50 other projects, causes and charities from educational endeavours to law enforcement.

And through all of its giving, the Bank continued to steer its strategic corporate course, developing new products, improving services. BOB invested in major technology upgrades, brought card processing in-house and retailed that service to other financial institutions. Construction on a new branch to serve the growing Southwest district of Nassau continued on schedule. Shareholders retained value. Among its most significant and long-lasting achievements: helping to drive the movement that resulted in the Bahamas Automated Clearing House, reducing check deposit clearing time and boosting national cash flow. While it was not a record year, financial year-end results were solid and demonstrated the strong foundation on which Bank of The Bahamas is based.

Around the globe, challenges united those with a purpose and made those with a heart the often unsung and unseen heroes.

For the little girl grinning as she sat down to sew a school uniform or the boy who will continue to have a home in a safe haven, Bank of The Bahamas is proud that this year, when needs were so intense, we were there to make a difference.


...B donates five new ...achines to Sewing Club

IT is a regular weekday afternoon when ... rose pink house ... white trim on Sapodilla Boulevard in Pinewood begins to fill. Inside the living room-med-studio and another ... that's been added to ... the demand, girls ...


Bank helps Gabriel blow
THE Bahamas National Youth Orchestra has more reason than ever to celebrate as it gets ready to mark its 20th anniversary.
have gone on to play in the Police or Defence Force bands.
donation is part of a broad outreach program that touches lives of the young, those who need a hand up and strengthens efforts to better the community from literacy to historic
Pictured at the bank's head
BANK DONATION MAKES GOOD READING FOR SCHOOLS
Bank of The Bahamas INTERNATIONAL
A National Drive for School Libraries
DEPUTY MANAGING DIRECTOR of the Bank of the Bahamas
Tavis Archer, head girl Shavonne King and head boy
Hundreds of books were presented to school libraries
IL 6, 2010, PAGE
First donor of BOB's National Book Drive.
READ TO SUCCEED
Designated Drop-off
B launches book driv
DER the theme of "Read To Succeed", Bank Of The Bahamas National (BOB) has announced a n-long national book drive aimed elping to re-stock libraries in schools und the country with books that will ppeal to children and young adults. The book drive has drop-off
ship was the largest in the bank's hi
"We are pleased to lend our supp such a worthwhile effort and we loo ward to continuing our partnership the community to maintain a high lite rate," said Paul McWeeney, BOB M

MISSION STATEMENT

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

OBJECTIVES

To become a one-stop financial service provider

To achieve strategic integration throughout the Americas

To create commercially viable synergies with dependent business sectors

To establish a healthy, wholesome and opportunity-filled work environment for employees

To maintain the highest level of fiscal and regulatory standards and best practices

To provide intrinsic value for shareholders by becoming the unique provider of financial support services at the local level

BOARD OF DiRECTORS

Macgregor Robertson – Chairman

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

Paul J. I. McWeeney

Starting his career at Chase Manhattan, N.A., Mr. McWeeney has more than 28 years experience in the financial services industry. Joining Bank of The Bahamas in 1993, he was appointed Managing Director in 2001. He serves on several financial regulatory and civic boards.

Marvin V. Bethell

Currently the Managing Director of J.S. Johnson, Mr. Bethell has 40 years experience in the insurance industry. He is a Fellow of the Chartered Insurance Institute, London, England as well as a Chartered Insurance Practitioner.

Patricia Hermanns

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

Patrick Ward

President and CEO of Bahamas First Holdings Ltd., Mr. Ward has more than 24 years experience in the insurance industry. Having earned his MBA with honours in 1994 from the University of Miami, Mr. Ward also serves as Chairman of the National Insurance Board.

Robert D. L. Sands

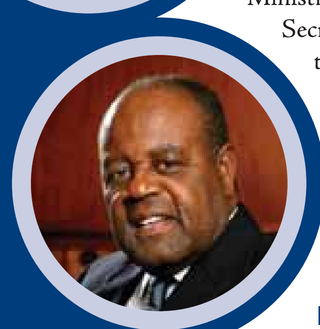
Mr. Sands is the Senior Vice President of Administration and External Affairs at Baha Mar Resorts Ltd. He is serving his sixth term as chairman of the Bahamas Hotel Association, and has been a Director of the Bank since December 2002. Mr. Sands is also an active member and supporter of many community boards and projects.

Ruth Bowe-Darville

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

Ruth Millar

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



Wesley J. Bastian

Mr. Bastian began his professional career at the Bank of Nova Scotia in 1966. He is the Managing Director of Sewma Holdings Ltd. Real Estate and Bahamas Subs & Salads. Mr. Bastian is also a Director on the Board of Security & General Insurance Company and the Chairman of the St. Joseph's Parish Finance Council.

Hartis Pinder

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

Dr. Pandora Johnson

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

HiSTORY OF BANK OF THE BAHAMAS

Since its creation through the acquisition of an established Canadian bank in 1988, Bank of The Bahamas has grown from $90 million in assets to nearly $778 million as of June 30, 2010, from a single location to 11, from serving one island to a presence on seven, from providing the most basic of retail banking services to the most comprehensive of financial products. In less than a decade, shareholder equity has mushroomed from $19 million in 2000 to $116 million by 2010.

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

THE BEGiNNiNG

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

During the second half of 1990, the Government purchased all of the Shares held by Euro Canadian Bank Limited and issued an additional 7,000,000 Shares, bringing the total number of shares issued to 10,000,000.

In September 1994 the Government sold 20 percent of its Shareholding or 2,000,000 Shares to the Bahamian public. In October 1995 the Government offered a further 3,000,000 Shares of the Bank to the Bahamian public. Both offerings were substantially oversubscribed.

In 2000, the Bank had a successful rights offering of two million ordinary shares.

The Bank continued to experience extraordinary success as it was able to announce an oversubscribed rights offering of $25 million in late 2005 and a subsequent $15 million private placement preference share offering in 2006. The Authorized Capital of the Bank is at 25,000,000 Shares of B$1 par value.

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

In September 2000, it launched a wholly-owned subsidiary, Bank of The Bahamas Trust Limited, becoming the first financial services center to offer Trust services for Bahamians. In 2007, that division, which enjoyed considerable success, was absorbed into an expanded Private Banking department of the Bank.

Then, just over one year later, the Bank acquired the assets of Workers Bank Limited, increasing its branches in New Providence to four. Again, as it had at its creation, it offered employment to all who had been part of the acquired bank.

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

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

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

In 2009, a $20 million preference share offering further increased capital to support expansion.

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

From 2008 to 2010, BOB grew its Private Banking and Trust services division, assisting clients with personalized banking to free up their most valuable asset, time. Through VIP services, the Bank's Private Banking professionals handle personal financial solutions ranging from bill payment to estate, trust, retirement, asset and insurance protection.

Over the past two years, during challenging economic times, the Bank focused on prudent management, internal controls and invested heavily in operations technology as well as staff development to maximize use of time. The result: automatic data updating providing real-time solutions, and thousands of hours once spent inputting of information now available for customer relations and business development.

BOB, Cat Island

From the start, Bank of The Bahamas was about more than banking. It was—and is—about community. About making a difference.

In 2010, work progressed on the new Carmichael Road branch due to open in 2011. Property infrastructure plans were approved for the new headquarters on West Bay Street, a five and a half acre site across from Nassau harbour west of the British Colonial Hilton.

The Bank was pleased to promote the creation of the Bahamas Automated Clearing House, eliminating the need to ferry paper cheques between banks and The Central Bank and replacing the system with quick electronic transaction processing.

And in 2009-2010, the Bank's newly established Sponsorship Review Committee embraced community assistance by looking at it as a partnership, developing initiatives that grow communities and help ensure healthy development. The Bank lent assistance to dozens of worthy causes from children's homes to feeding the elderly.

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

As it has been since the beginning.

BOB. Bank of Solutions.

Artist rendering of the new BOB Headquarters, Bay Street across from the Western Esplanade.

BOB Financial Services Center, Coral Gables, FL

HiGHLiGHTS

GROWiNG SERViCE BY SERViCE

The bank provides retail and commercial services. Its full range of products includes deposit accounts, credit, commercial and residential mortgages, Trust and fiduciary services, foreign exchange and merchant card services. The Bank has strengthened its relationship with American Express, becoming the exclusive representative of American Express Platinum membership. BOB offers MoneyGram, VISA pre-paid and gift cards, cheque imaging for online banking and was the first bank to offer three day clearance of U.S. dollar deposits. The Bank's unique MEDLINE VISA serves as a payment solution with benefits for medical purposes. The Bank will soon offer a MaterCard debit card.

There were numerous highlights during a year dominated by economic challenges, but perhaps none so telling of the Bank's stability than its healthy capital reserves and its solid performance for shareholders and for the community in which it operates.

In a year when 45 percent of the world's 400 richest people either failed to advance or lost ground, according to Forbes.com, Bank of The Bahamas advanced, showing positive returns with more than $20 million growth in total assets to end the year at $778 million with another $46 million in cash reserves with The Central Bank, double the required amount. Conservative lending and prudent practices coupled with strong internal cost controls and improved back office technology helped lead to a year-end profit of nearly $7.7 million.

Beyond that, the Bank stretched its arms out to the community to make a difference in unparalleled ways, partly because needs were greater than ever. A global recession that led to a lessening of leisure travel that in turn resulted in a reduction of hours or income in the largest segment of the Bahamian economy, hospitality, meant fewer people could build or renovate homes, buy cars, vacation abroad, send children to parochial or private schools or afford other luxuries. Less spending meant less money circulating. Growth all but crawled to a standstill. When news of 1 percent growth, projected for the next year was reported, it suddenly had a welcome ring.

It was against such a backdrop that Bank of The Bahamas was able to accomplish the following:

- Launch BOB MEDLINE VISA, a payment solution with reduced costs of medical care with beneficial terms for cardholders. The introduction encompassed a major fair, bringing together medical and health-related providers from around The Bahamas and South Florida. Thousands filled the Independence Ballroom, Sheraton Nassau Beach Resort, converted for the day into an everything-you-ever-wanted-to-know-about-your-health setting with doctors, dentists, health professionals, imaging experts, diet and fitness specialists. More than half a dozen hospitals were represented.
- Corporate headquarters infrastructure plans completed and approved.
- Private Banking expansion of client base and services.
- Implementation of the Bahamas Automated Clearing House.
- Groundbreaking of the Carmichael Road branch in Bank-financed Carmichael Commercial Centre.
- Completion of conversion to new software, a $1.2 million investment to free up staff time from routine data entry to customer service and business development while providing real-time updates and enabling options available to propel products and service to new levels in the future.
- Restructuring to create a Business Development unit at executive management level.
- Dramatic expansion of customer accounts based on secured loans.
- Record earnings from net interest: $31 million.
- Dividends to preference and ordinary shareholders: $5.2 million.
- Capital reserves of $46 million, double the required amount.
- Making a difference in so many ways.

Deputy Managing Director Beverley Farquharson addresses crowd at BOB MEDLINE Expo.

More than 2,500 people packed the Sheraton Nassau Beach Resort for the BOB MEDLINE VISA Expo. They were treated to everything from free blood pressure and cholesterol screenings to presentations by world-renowned specialists.

LETTER TO SHAREHOLDERS

Earning a profit during an economic boom is financially rewarding for shareholders and beneficial to customers, but not unexpected. Earning a profit in challenging times is more impressive for it reflects foresight, targeted approach and intelligent management. Thus, as we emerge from the chilling economic reality of the past two years, it is with great pride that Bank of The Bahamas Limited is able to report that your Bank grew stronger, extending deeper roots, and earning a healthy profit of approximately $7.7 million at year-end June 30, 2010, while experiencing an increase in total assets that now stand at nearly $778 million, the highest in the Bank's history.

What led to the Bank's success against a backdrop of negative growth? Realistic long-range goals, adherence to those goals and, in particular, a policy of maximizing good times by sustaining substantial reserves—those are the elements that built the bridge to respectable growth despite economic conditions.

The Bank also used the time wisely to invest in human capital with major training exercises for staff at every level and in technology that revolutionizes the 'back office,' enabling faster response time and automatic updating, eliminating endless hours of individual data entry, freeing up professionals to do a more important job.

As we look toward the balance of this calendar year and the next fiscal year, it is good to note that the Ministry of Finance has projected a positive economic growth for the country of one percent through the end of 2010. Even if this does not materialize I am confident that we can achieve our goals of continuing profitability and growth as set out in our five year strategic plan.

Our new branch on Carmichael Road will open in 2011 and this state-of-the-art facility will provide expanded and enhanced service to the fastest growing area of New Providence.

Plans for construction of our new corporate headquarters building on West Bay Street are well underway. Upon completion, this building will consolidate our head office operations which are currently run from four separate locations as well as providing a superior location for retail banking in a complex which will feature unmatched amenities.

On behalf of the Board, I must commend our Managing Director Paul McWeeney, his management team and staff at all levels whose hard work and dedication have helped to secure positive results for this fiscal year. I would be remiss if I did not personally thank my fellow Directors for their dedication and contributions to the Bank during the year both at Board meetings and at the oversight committee level.

In closing, I would like to say thank you to you, our customers and shareholders, for your continued loyalty and confidence in your Bank and assure you that we will continue to strive for excellence in service.

Macgregor Robertson,
Chairman of the Board

Macgregor Robertson,
Chairman of the Board

Paul J. I. McWeeney
Managing Director

EXECUTiVE STATEMENT

This report, *Making A Difference*, is unlike any Bank of The Bahamas has ever done and with good reason. Economic conditions of the past two years have been unlike those in more than half a century, some say since the Great Depression of 1929. Throughout the recent decades, we had grown comfortable with the expectation of steady income and continued growth. We grew heady with the thought that things would be better tomorrow than they are today, that our children and their children would benefit because we worked to make it so. Hardship felt distant—like a rumble-roar of thunder safely separated by many seconds from a bolt of lightning. You knew it was out there, but not in your neighbourhood. Then, suddenly the threat was closing in. Someone you knew lost his or her job. Someone else lost a home. A business you trusted closed its doors, another stayed open, but its empty shelves told the story. Vacations were shortened, cancelled or postponed, insurance and loan payments delayed. Worst of all, medical visits were treated like an unaffordable luxury.

Hardship made all of us take a good, hard look at how we do business and how we help the communities in which we operate.

Even though we at Bank of The Bahamas held our own and, as you will see on these pages, fared well, we were a shock absorber, soaking in the unsettling vibrations of the world around us. And we responded. We searched for creative ways to make a difference. The first and most outward impact was on sponsorships. No longer satisfied to simply write a cheque, we opted for more expansive, creative and long-lasting assistance. A request for tickets for a single library benefit blossomed into the first BOB National Book Drive, supplying more than 2,000 books to nearly a dozen school and public libraries on several islands. When the Magnitude 7.0 earthquake slammed Haiti January 12, the Bank moved before the last trembles were felt, setting up accounts, pulling together partners, setting out boxes in highly trafficked areas for donations, contributing people and resources to a two-night telethon that raised $250,000 in pledges. When we introduced MEDLINE, a VISA card for medical purposes, we ensured that every partnering facility offered BOB cardholders good benefits with reduced costs and we brought together medical providers, hospitals, top doctors and health-related professionals for an information-packed event, open to anyone who wanted to attend, learn, and take advantage of free testing and analysis. From bulletproof vests for police to new sewing machines for children learning to sew their own school uniforms, we tried our best to make a difference to the communities around us.

But inside the Bank, we rolled up our sleeves in another way. We tightened internal controls and completed conversion and training for back office operations technology that will take us well into the future, freeing up staff time from routine data entry to customer care. We invested in payment processing technology that will not only save us money by keeping processing in-house, but generate revenue by positioning Bank of The Bahamas as the provider of services to others in the financial services sector. We enhanced lending facilities with prudent management, boosted private banking and restructured to create a Business Development unit that was instantly productive. And even in the hardest of times, setting aside $7 million in loan loss provisions, we exceeded our profit expectations, reporting $7.7 million net income at year-end, significantly ahead of budget. The returns allowed us to pay out $5.2 million in dividends to shareholders, just under the $5.4 million the year before.

Even as we strove to make a difference inside the Bank and within the community, we began to make a difference in the way we looked at what we are all about. Apparently, we were not alone. According to an article in Harvard Business Review earlier this year, we are entering a new era, the age of customer capitalism. Author Roger Martin makes a strong case for the transformation, explaining that the first two eras of modern capitalism—the belief that professional management will pave the way to success, followed by an even stronger belief that what was good for shareholders was good for the company—have now been eclipsed by a recognition that the customer is king. "For three decades," Martin says, "executives have made maximizing shareholder value their top priority. But evidence suggests that shareholders actually do better when firms put the customer first."

Now, when we as an institution make weighty decisions about whether a customer can buy a home, educate a child, expand a business or even cover essential medical expenses, we know that by considering the customer's needs and capabilities, by serving that person with the most comprehensive, individualized service we can, by putting our all into that transaction, we are building a better base for you, our shareholders. Maybe that is a quiet way we can make a difference.

Paul J.I. McWeeney
Managing Director

COMMUNiTY

There was a time when writing a cheque to a worthy cause or supporting a non-profit organization financially at arm's length was all that could be expected of corporations. The donation got its media due. But times changed. As needs multiplied, corporations like Bank of The Bahamas redoubled their efforts, moving from financial provider to active partner in the catalyst for change.

"It's not just about being able to write a check. It's about being able to touch someone's life."
—Oprah Winfrey

In fiscal 2010, the change in outreach was dramatic. BOB's Sponsorship Review Committee established new criteria, moving away from the traditional areas of sponsorship in favour of contributions that would make a lasting difference. The Committee developed organized collateral—request forms inclusive of information about intended use and beneficiaries, vendor payment forms, personalized letters and a tracking system. By year-end, literally hundreds of letters had been answered personally and even those that rejected applications established a connection with the applicant.

Often the Committee met with representatives of an organization requesting assistance, as it did with a group of blind persons who wanted to produce laundry products. Other times, one or more of the three-member Committee used personal time to review a request, spending time at a baseball field on a Saturday afternoon before recommending that BOB support Freedom Farm, for instance.

Sponsorship became personal and as BOB reached further into the community, individuals in various branches across The Bahamas joined what was becoming a quiet movement. A letter from a Rotary Club asking for a donation for a library in Cat Island became the impetus for the BOB National Book Drive. In November 2009, collection boxes were placed in every branch and by month's end, thousands of books had been donated. They were screened for age appropriateness and shipped to several islands, including Cat Island, as well as boosting libraries in several public and private schools in New Providence.

Two months later, when a disastrous 7.0 earthquake devastated much of Haiti, Bank of The Bahamas responded immediately, and working with the Bahamas Chamber of Commerce and Rotary Clubs, lent expertise to a two-night telethon that raised nearly $250,000 in pledges. BOB volunteers, including the Managing Director, helped staff the phone bank. Within hours following news of the earthquake, BOB partnered with Kelly's Home Centre and City Market to set up *Help us Help Haiti* collection boxes. Volunteers cleared boxes almost daily and by the time the container ship left New Providence bound for Port-au-Prince a month later, it was stockpiled with hundreds of blankets, thousands of non-perishable food items, diapers, toiletries, medicine, bandages and

The Bahamas National Youth Choir receives instruments through the Bank's sponsorship efforts.

BOB sponsored the 1st Annual Great Bahamian Seafood & Wine Festival with the Downtown Nassau Partnership & Ministry of Tourism.

“The greatest mistake is to do nothing because you can only do a little.”
—Sydney Smith, English clergyman and writer

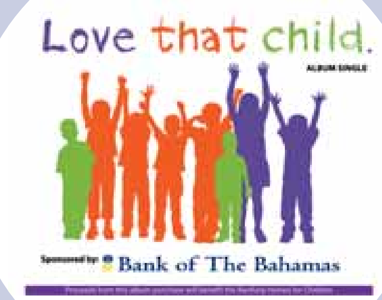
untold clothing and shoes. Funds raised help buy tents, folding beds and critical medical supplies.

Donations helped protect police, educate prison guards, put books in the hands of young men at Simpson Penn Boys School and ensure that girls who had been victims of abuse or neglect at the Willie Mae Pratt Centre for Girls returned to school with clean clothes, socks and a sense of pride that came from knowing someone thought enough of them to provide personal items that make a young woman feel special.

Of all the donations and volunteer efforts, two are especially worth noting in this report to shareholders, one because of its potential economic impact and the other because it is a story of hope and belief. With tourism as the engine driving the Bahamian economy, restoring the capital of the country is not a luxury, but a necessity. The reality is that while Nassau is the busiest port in the region, it is also the one which invites the most complaints from cruise visitors who say it is lacklustre, tired and offers little to do. The Downtown Nassau Partnership (DNP), a public-private sector organization, has been charged with steering the redevelopment, building on the work started more than 20 years earlier and laying the foundation of what is expected to become a Business Improvement District. BOB joined with other retail banks in making a substantial commitment to support the Partnership with BOB’s Managing Director serving on the DNP Board of Directors. A revitalized downtown will create jobs, increase visitor satisfaction, boost real estate values and lure locals back to shop, dine, be entertained and someday live, making the historic 260-year-old city a wonder not just for its architectural heritage but for the culture and life it offers today.

The second major sponsorship—story of hope—begins on a Sunday morning when a member of the Sponsorship Review Committee walked into the Ranfurly Home for Children to drop off clothing for children of the orphanage. She heard a piano, asked to listen and saw a man, possibly in his 20s, patiently teaching a younger boy to play. She lingered. It was one of those defining moments. As the unplanned private concert continued,

Former Ranfurly Home resident Damien Davis wrote *Love That Child*, a song to raise funds for the Home. BOB underwrote the cost of production that included voices of the National Children’s Choir.



BOB spearheaded a National Book Drive which collected books for distribution to schools and libraries across the country.

Singer/songwriter Damien Davis.

HELPING HANDS, BUILDING FUTURES Providing 10 brand new sewing machines for The Sewing Club was one of dozens of efforts supported by Bank of The Bahamas in fiscal 2010, causes that helped build brighter futures and strengthen community ties.

We must not, in trying to think about how we can make a big difference, ignore the small daily differences we can make which, over time, add up to big differences that we often cannot foresee.
—Marian Wright Edelman

Donations helped protect police, educate prison guards, put books in the hands of young men at Simpson Penn Boys School and ensure that girls who had been victims of abuse or neglect returned to school with clean clothes, socks and a sense of pride.

a conversation began that would be a BOB sponsorship game changer. The older boy grew up at Ranfurly. "It was the only home I ever knew and I don't know what would have become of me if it hadn't been for this place," he said, "so I come back on my days off as often as I can to teach music." He offered to sing a song he had written to help raise money for the home. It was at that moment the magic began. Six months later, with the help of BOB, the song, *Love That Child*, was made into a CD, the young man's voice enriched by full accompaniment of orchestration and the National Children's Choir. Even among those voices were two children who live at Ranfurly. If this young man, Damien Davis, could do what he did growing up at Ranfurly—just imagine. At 28, Davis is believed to be the youngest supervisor at Atlantis with managerial responsibilities, overseeing some 25 staff members in the marine mammal division. He writes music, plays piano, and sings at his church, at weddings, and still finds time to give back to the orphanage where he grew up.

It was not until fiscal 2011 that Damien's song *Love That Child* was released with proceeds to benefit the Ranfurly Home and the Children's Emergency Hostel. But it was the lesson learned this year that in every need there is opportunity, in every desperate cry for help, there is a chance to make a difference.

More than a change in style, it marked a change in corporate culture, a deepened commitment by Bank of The Bahamas to make a lasting difference in the community.

Bank officials and committee members of the ***Help Us Help Haiti*** **Telethon present cheque to The Rotary Club of The Bahamas to purchase much-needed items to assist in the aftermath of the 7.0 earthquake that devastated much of the island and left hundreds of thousands dead.**

MAKiNG A DiFFERENCE

INSiDE BOB

News headlines report financial information that shareholders demand—earnings, assets, dividends, a bank's plans and the message of its managing director or president. When the news is good, satisfied shareholders or the public predictably nod approval. But behind the public report of the bottom line are the people who make a difference, the executives, management and staff who every hour of every day ensure by their actions and how they handle transactions and meet customer expectations that the Bank will perform at peak capacity. It is the side few on the outside consider so long as transactions are smooth and the Bank performs well. It is the quiet side of making a difference.

Bank of The Bahamas recognizes how essential staff involvement is in making a difference to the public. In the years between 2008 and 2010, unprecedented attention has been paid to making a difference *inside* BOB with new levels of training involving 100 percent of staff from the messenger to the Managing Director.

In 2009, the Bank opened a new state-of-the-art training facility housed in a specifically designed 1,400-square foot facility adjacent to the branch on Village Road. Full-time staff, often accompanied by specialists, conducts ongoing training ranging from new software applications to customer service relations. Experts in topics as diverse as public relations and asset management are brought in for seminars. Training, once relegated to indoctrination in bank expectations, practices and procedures, has been elevated to complete human capital development, as the Bank recognises that products are only as effective as the people who deliver them.

In addition to a new view of staff development helping to build the team of people who make a difference, there has been in the past year a growing involvement of staff members in community sponsorship. A single notice of a BOB National Book Drive drew responses from staff members that filled boxes before the drive officially began the next morning. Bank volunteers staffed phones and worked overtime without question during *Help us Help Haiti*, the two-night telethon that netted nearly $250,000 in pledges following the earthquake that devastated much of Haiti January 12.

Success—the magic that unfolds when people within an organization know that they make a difference.

Deputy Managing Director Beverley Farquharson addresses Leaders Teaching Leaders workshop, a series she developed.

It's easy to make a buck. It's a lot tougher to make a difference.
—Tom Brokaw

Revelers at the 2010 Cat Island Regatta

Managing Director Paul McWeeney receives honorary Toastmaster status at the official charter ceremony for the Bank of The Bahamas Eagles Toastmasters club.

Festivities of BOB Customer Appreciation Day include Junkanoo.

BUSiNESS CONTiNUiTY

Tests showed that mission critical would have been mission succesful

When the power goes off for an hour at home, it is an inconvenience, but surmountable with little more than a sigh of resignation and an ounce of patience. When it goes off for days on end without the benefit of a back-up generator, the situation becomes more dramatic. Food spoils, patience wears thin, tempers flare, life as you knew it changes. Imagine then what could happen if the same storm that knocked out residential power brought business to a grinding halt or if a terrorist attack leveled blocks of buildings, reducing bricks, mortar and commerce to gravel, dust and memory.

No business can afford to be unprepared for the unexpected. For years, the financial sector around the world has led the way in ensuring business continuity, making it a quiet priority to create plans for securing large and critical databases, recovering stored information and operating without interruption regardless of external pressures or natural disasters.

In fiscal 2009, Bank of The Bahamas contracted one of the world's leading business continuity companies, Continuity Planning Associates (CPA) to develop a continuity plan. The BOB Continuity Project was conducted in four stages over a six-month period that began in October. The scope of work was broad and required intensive cooperation at the highest levels. In addition to identifying project scope and a thorough business impact analysis the team, along with its consultants, CPA, had to develop a structure, set of plans and rules of governance. Five months after it initiated the project, training and testing was conducted with an audit of the results. Among the exercises: instant alerts to key personnel as hurricanes threatened. Each test was successful. Had a hurricane slammed into New Providence, the project team and consultants were satisfied that at BOB, business would have continued as usual. Mission critical would have been mission successful.

In the world of finance and commerce, generating excitement about business continuity is challenging. It is, as one expert said, a little like getting a new tire, not glamorous but where would you be without it? Have you ever tried to drive a car on three tires while one is at the shop?

That lack of glamour often leaves business continuity planning at the losing end of competition for attention. Announcement of new interest rates, construction of new buildings makes headlines and generates excitement. But when danger strikes, business as usual can take on new meaning, becoming the greatest source of comfort. BOB is committed to continued monitoring, testing, auditing and ensuring that the life cycle of business continues uninterrupted in the face of the unexpected, even if it is one of the least glamorous moves we make. With proper business continuity planning, no payment system will be halted. Funds on deposit will be accounted for and accessible. Transactions will continue as normal and in times of emergency, that may be all the headline anyone needs to be able to sleep well at night.

Key operations enabled by BOB with Continuity Planning Associates to ensure uninterrupted operations in the face of unexpected events or natural disasters include:

- Immediate access to vital documents such as contact lists, recovery instructions, press releases, recovery plans, etc.
- Team orientated instant messaging channels enable vital (audited) communications between authorised users (staff / suppliers / customers).
- E-mail and SMS text messaging provide additional communications capabilities.
- Company defined incident escalation paths. With automated SMS notification to required personnel.
- Task allocation and monitoring facility. With built-in task library.
- Real-time information sharing.
- Traffic light system for applying governance and audit to be: Plans.
- Comprehensive event auditing and reporting for post-incident analysis and de-briefing.
- Online electronic battle box for storing documents, maps, procedures, software, etc.
- Internet links provide access to vital support web sites.
- Press room function enables storage and distribution.

Director Robert D.L. 'Sandy' Sands at the Bahamas Hotel Association's Golf Tournament sponsored by the Bank.

Ian Thompson, Business Manager, Retail Credit, discusses goals of the prison conference with Dr. Elliston Rahming, Superintendent of Prisons.

BOB joins the battle against cancer with Ride for Hope support

PRIVATE BANKING, WEALTH MANAGEMENT, TRUST SERVICES

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

Private Banking opens the door to a team of financial service professionals who help clients realise their vision of financial success and asset protection. BOB helps assess their current situation and devise a plan for a rewarding financial future. The Bank caters to clients who enjoy high earnings as well as those who have the potential to do so. BOB's integrated solutions enhance its ability to tailor an array of products and services to suit one's needs.

Bank of The Bahamas' mission is to protect and preserve every client's wealth with the highest level of expertise and professionalism. BOB is committed to upholding confidentiality, excellence and integrity, the cornerstones of our relationship with clients.

With a Private Banking membership, clients are entitled to:

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

Private Banking. A relationship you can trust, a service you can rely on

“Go the extra mile.
It’s never crowded.”
—Author Unknown

EXECUTiVE COMMiTTEE

EXECUTIVE MANAGEMENT

Paul J.I. McWeeney
Managing Director

Beverley Farquharson
Deputy Managing Director

Vaughn Delaney
Deputy Managing Director

SENIOR MANAGERS

Hubert Edwards
Senior Manager, Business & Strategic Planning

Dario Lundy-Mortimer
Chief Financial Officer

Renee Davis
Senior Manager, Operations

Philice Albury
Senior Manager, Risk

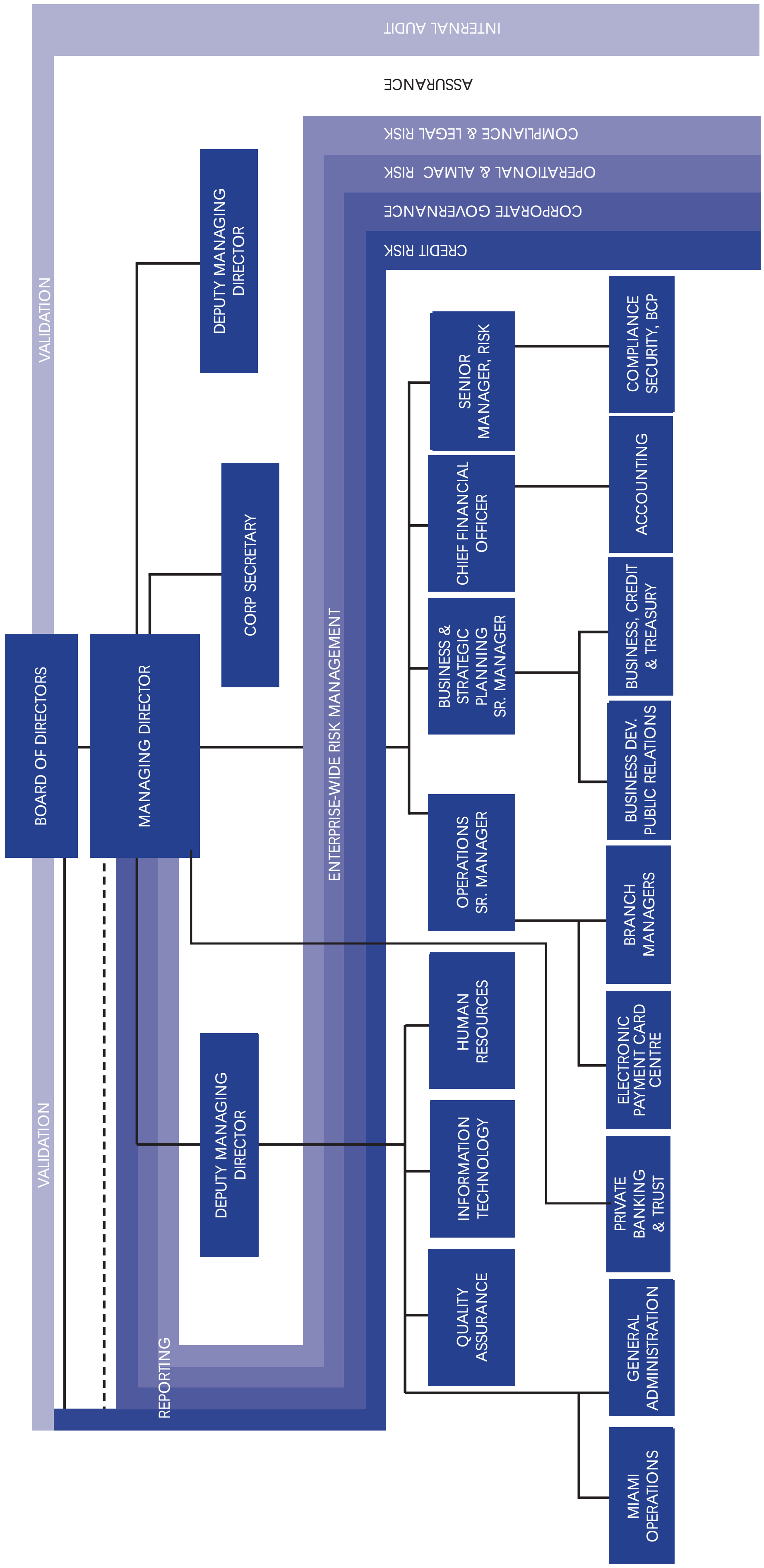
Darryl Bartlett*
Senior Manager, Credit Risk

Vanessa Taylor*
Chief Internal Auditor

Laura A. Williams
Manager, Corporate Affairs & Company Secretary

***Executive Committee Participation by Invitation**

ORGANiZATiON CHART



CORPORATE GOVERNANCE PRiNCiPLES

BANK OF THE BAHAMAS LIMITED

THE FOLLOWING PRINCIPLES WERE ADOPTED BY THE BOARD OF DIRECTORS ("THE BOARD") OF BANK OF THE BAHAMAS LIMITED ("THE BANK") AND PROVIDE THE FRAMEWORK FOR CORPORATE GOVERNANCE OF THE BANK.

ROLE OF BOARD OF DiRECTORS

The Board is accountable to its shareholders and therefore, ultimately responsible for the conduct of the Bank's affairs and operations. In light of this mandate, the Board is responsible for identifying risk and ensuring that it is adequately monitored and managed. And whilst the management of the day-to-day operations are delegated to the Bank's executives, the Board reviews policies and procedures and monitors to ensure that operations are carried out in compliance with applicable laws and regulations and are consistent with sound banking practices.

The Board's overall conduct is guided by its Corporate Governance Handbook which details the duties and potential liabilities of Directors and Officers of the Bank. Further, in order to evaluate the performance of Directors and the Board as a whole, the Board also participates in an assessment process which is directed and analyzed by the Bank's external auditors.

BOARD COMPOSiTiON, STRUCTURE AND POLiCiES

Board Membership

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

Director Conflict of Interest

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

Compensation of Directors

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

Director Education

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

Independence of Directors

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

BOARD MEETiNGS

Frequency of Meetings

Board meeting dates are scheduled and communicated with Directors at least a year in advance. In fiscal year 2010, four regular Board meetings and two extraordinary Board meetings were held. Generally, the Board Committees of The Bank meet on a quarterly basis.

Summary of Board Committee Meetings Held for the Year Ended June 30, 2010

o Audit, Controls, & Procedures Board Committee	9
o Credit Risk Board Committee	4
o Operations, Marketing & Business Development, Private Banking and International Operations Committee	4
o Finance & Capital Development Board Committee	4
o Information & Technology Board Committee	4
o Human Resources Board Committee	4
o Risk Management Board Committee	4

“Improvement begins with I.”
—Arnold Glasow

From July 1, 2009 to June 30, 2010				
Name	October 27, 2009	December 8, 2009	March 19, 2010	May 19, 2010
Macgregor Robertson, OBE	✓	✓	✓	✓
Ruth Millar, CMG	✓	✓	✓	✓
Robert Sands	✓	✓	✓	✓
Patrick Ward	✓	✓	x	✓
Marvin Bethell	✓	✓	✓	✓
Wesley J. Bastian	✓	✓	✓	✓
Pandora Johnson	✓	✓	✓	✓
Patricia Hermanns	✓	✓	✓	x
Hartis Pinder	x	✓	✓	✓
Ruth Bowe-Darville	✓	✓	✓	✓
Paul J.I. McWeeney	✓	✓	✓	✓

✓ = Present ✗ = Apologies

Attendance at Meetings

Regular attendance at all Board meetings, together with committee meetings and the AGM, is expected of all Directors. Above is a record of attendance during the 2010 fiscal year:

Preparation for Meetings

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

Board materials are distributed 3 - 7 days in advance of a meeting to give Directors an opportunity to review reports and, where possible, to obtain additional information from management or pose any questions or concerns they may have prior to the meetings.

BOARD CERTIFICATION

Each year the Board is required to issue a Corporate Governance Statement to The Central Bank of The Bahamas confirming that it is familiar with the contents of the *Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within and from Within The Bahamas*, and is adhering to the guidelines as outlined. As part of this exercise, each division of the Bank developed 'In-Control' statements. Essentially, these documents capture the specific minimum reporting requirements for each division and its internal control systems, which ensure that each area is 'in control'. These reports are generated quarterly and presented at each Board meeting for review and ratification.

On March 19, 2010, the Board submitted its Annual Certification to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines.

March 19, 2010

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

Dear Sirs,

The Board of Directors (the Board) of Bank of The Bahamas Limited (the Bank) is familiar with the contents of the *Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business Within The Bahamas* (the Guidelines), issued by the Central Bank of The Bahamas on December 13, 2001, and acknowledges its role and responsibilities under the Guidelines;

Each Independent Non-Executive Director of the Board (INED) continues to meet the independence requirements as outlined in Section V of the *Guidelines for Independent Non-Executive Directors*, issued by the Central Bank of The Bahamas on May 9, 2007. The current INEDs of the Bank are as follows:

Mr. Macgregor Robertson, Chairman

Mr. Marvin V. Bethell

Ms. Patricia Hermanns

Mr. Patrick Ward

Mr. Robert D. L. Sands

Mrs. Ruth Bowe-Darville

Mrs. Ruth Millar

Mr. Wesley J. Bastian

Mr. Hartis Pinder

Dr. Pandora Johnson

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

  However, while we acknowledge that significant progress has been made, we do recognize that continued attention and progress are required in the following areas in order to further enhance the control environment of the Bank and improve the enterprise risk management process:

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

Accordingly, Executive and Senior Management have been assigned to address areas with deficiencies and we are confident that these areas will continue to be addressed with determination.

Based on the corrective actions being taken by Management and the formal representations made by the respective Executive and Senior Management, we are satisfied that the Bank is 'In-Control' with no material reservations.

Yours faithfully,

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

Paul J.I. McWeeney – Managing Director

Macgregor Robertson - Chairman

MANAGEMENT DiSCUSSiON

The Bank delivered steady performance as at the end of June 30, 2010. This result, despite the pressures faced in the Bahamian economy as it continues to be adversely impacted by the fall out from the global recession, reaffirms the buoyancy of the Bank's enterprise platform. The Bahamian Tourism product started to show some signs of a modest upturn, due to promotional campaigns and ongoing recovery in the North American markets. However, the fall-off in direct foreign investment and domestic housing activity continues to negatively influence the construction and development sectors. Consequently, the unemployment level within the country remained stagnantly high at around 14.2 percent and has had an obvious negative impact on the credit markets. Government initiatives including infrastructural programs such as road and the on-going expansion and renovation at Lynden Pindling International Airport have assisted in mitigating further deterioration in unemployment levels.

Even with the challenges faced in the present operating environment, inclusive of rising delinquencies and slower economic growth, the Bank has made adjustments to its business model to reflect the realities of the present marketplace. This has allowed the Bank to achieve a number of its strategic imperatives for the year. These include, maintaining adequate capital, remaining profitable, expanding business and growing market share.

While the Bahamian business environment remained anemic over the last several years, the Bank used this period as an opportunity to, in part, focus inward at improving the operating infrastructure while building a platform to support a more diversified financial service base. We have, and continue to take significant steps in improving our internal processes through the reengineering of key workflows and migration of previously outsourced functions. We have also made significant capital investments aimed at enhancing our existing technical infrastructure and banking systems with emphasis in developing a world class payment card centre. Such investments are expected to set the Bank on a firm path to maximize sustained growth from further anticipated recovery in the new calendar year and beyond.

The pressures resulting from the current economic environment weighed heavily on the Bank's strategic approach to managing its operations during the current year. Therefore, in the face of deteriorating economic conditions the Bank's primary focus remains the maintenance of sound prudential standards. The systemic weakness in the credit market played a major role in the Bank's overall net position during the year, with provisions increasing approximately 41 percent over prior year despite a one time credit of $4 million resulting from the change in accounting policy for general provisions. In the first quarter of the fiscal year, the Bank established a credit reserve as an appropriation from retained earnings to cover amounts which are required for Central Bank and regulatory rules which are in excess of provisions calculated under International Financial Reporting Standards ("IFRS"). The general credit reserve is included in a non distributable reserve account in retained earnings. Management continues to apply a conservative approach to lending and estimating allowances for loan losses. Ensuring that our collection activities are robust is also critical to sustaining profitability going forward.

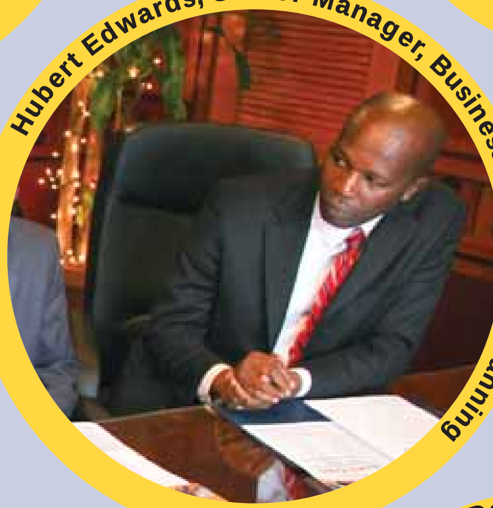
Maintaining adequate capital and conservative loan loss reserves are key to the Bank's soundness and providing the highest degree of comfort in these highly vulnerable times. Management, having taken the opportunity to strengthen the Bank's equity position in the previous year has maintained a strong capital base. The Bank's tier 1 capital ratio which is considered the primary measure of the Balance Sheet's strength stood at 14.58 percent at June 30, 2010 versus 15.53 percent in the prior year. The Bank's risk adjusted capital ratio at the end of the fiscal year was 24.07 percent versus 27.70 percent, well above Central Bank's regulatory requirements of 17 percent.

Providing our customers with complete and innovative banking options is a key strategic goal for the Bank. Our customer base increased over the same period last year and there is notable growth in total operating income, which increased by 7.8 percent. The growth in the Bank's revenue resulted primarily from interest and similar income. Over the next year, the Bank will be investing more in information technology to improve network performance and access control features, and rebuilding the contingency and disaster recovery infrastructure. We will also broaden our card product base with a view of further growing non-interest revenues and assisting in the Bank's strategy of diversifying its concentration of revenues from credit origination.

Despite the challenges of the current economic environment, the Bank was able to report net income of $7.7 million versus $5.8 million in the prior year a 33 percent improvement year over year. The continued profitability of the Bank enabled the payment of total dividends of $5.2 million during the current fiscal year and $5.4 million in the prior year to our preference and ordinary shareholders.

Dario Lundy-Mortimer, Chief Financial Officer

Philice Albury, Senior Manager, Risk



Hubert Edwards, Senior Manager, Business & Strategic Planning

Renee Davis, Senior Manager, Operations

Laura A. Williams, Manager, Corporate Affairs & Company Secretary

Vanessa Taylor, Chief Internal Auditor

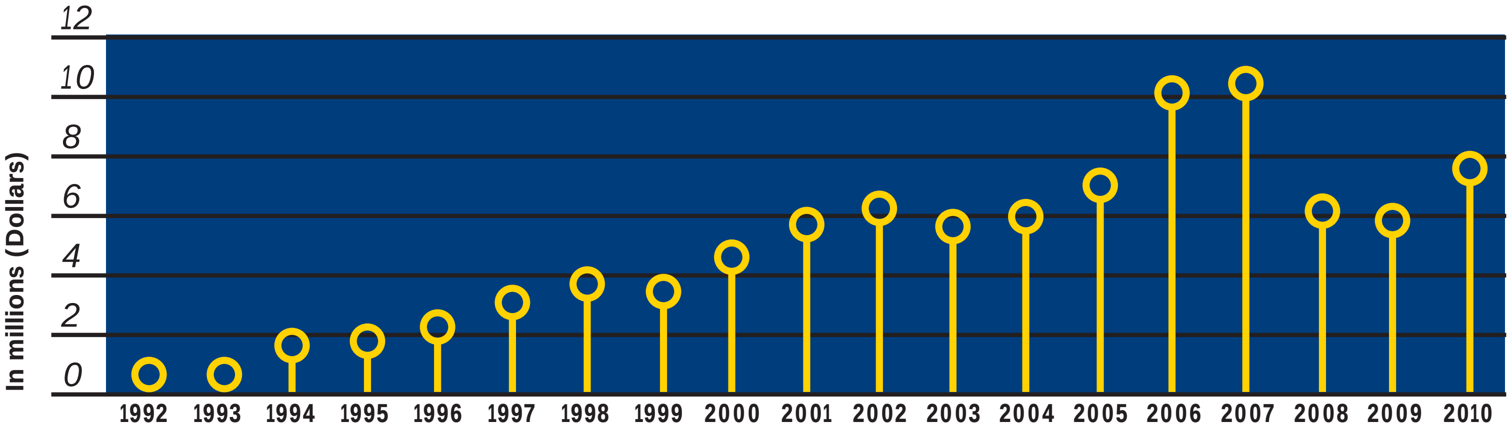
Darryl Bartlett, Senior Manager, Credit Risk

FINANCIAL HIGHLIGHTS

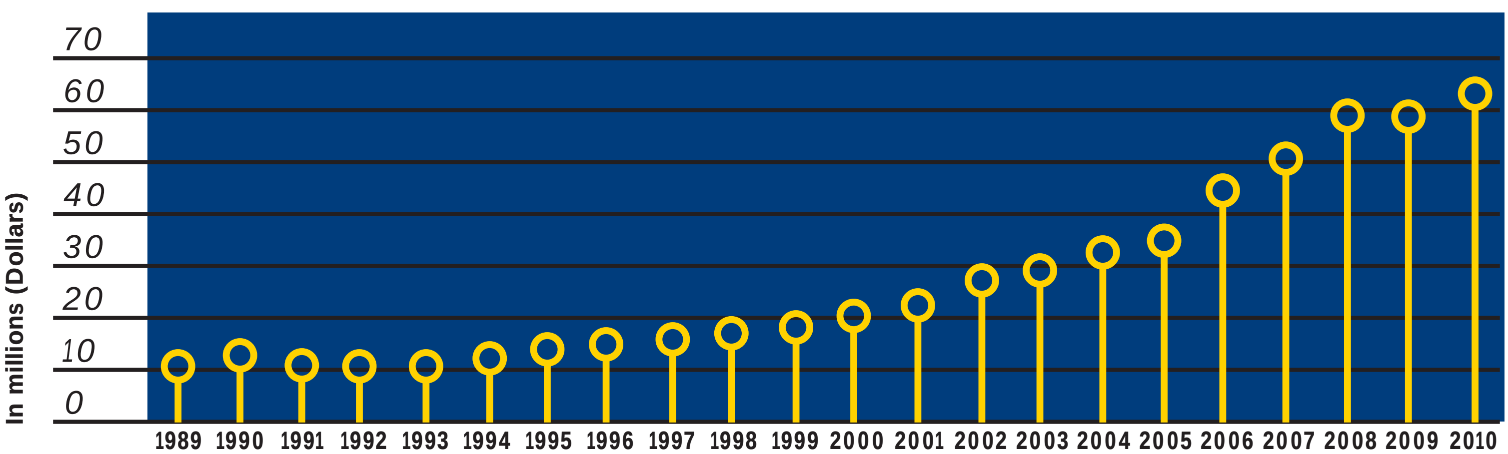
	2010	2009	2008	2007	2006
Interest Income	$ 55.99	$ 51.05	$ 52.60	$ 42.92	$ 35.39
Net Interest Income	$ 31.41	$ 27.70	$ 29.40	$ 25.13	$ 21.96
Non Interest Income	$ 7.05	$ 8.01	$ 6.15	$ 7.59	$ 9.30
Operating Expenses	$ 26.37	$ 26.60	$ 26.50	$ 21.28	$ 17.84
Net Income	$ 7.66	$ 5.78	$ 6.10	$ 10.48	$ 10.72
Earnings per Share (EPS)	$ 0.32	$ 0.28	$ 0.32	$ 0.61	$ 0.78
Total Assets	$ 778.37	$ 758.30	$ 734.41	$ 658.30	$ 545.76
Loans and Advances to Customers	$ 629.21	$ 555.61	$ 522.11	$ 486.92	$ 454.78
Total Liabilities	$ 661.94	$ 644.35	$ 640.51	$ 565.48	$ 470.41
Shareholders Equity	$ 116.43	$ 113.95	$ 94.00	$ 92.77	$ 75.35
Risk Adjusted Capital Ratio	24.07	27.70	21.49	21.16	20.18
Efficiency Ratio	68.64	74.49	74.54	64.48	58.07

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

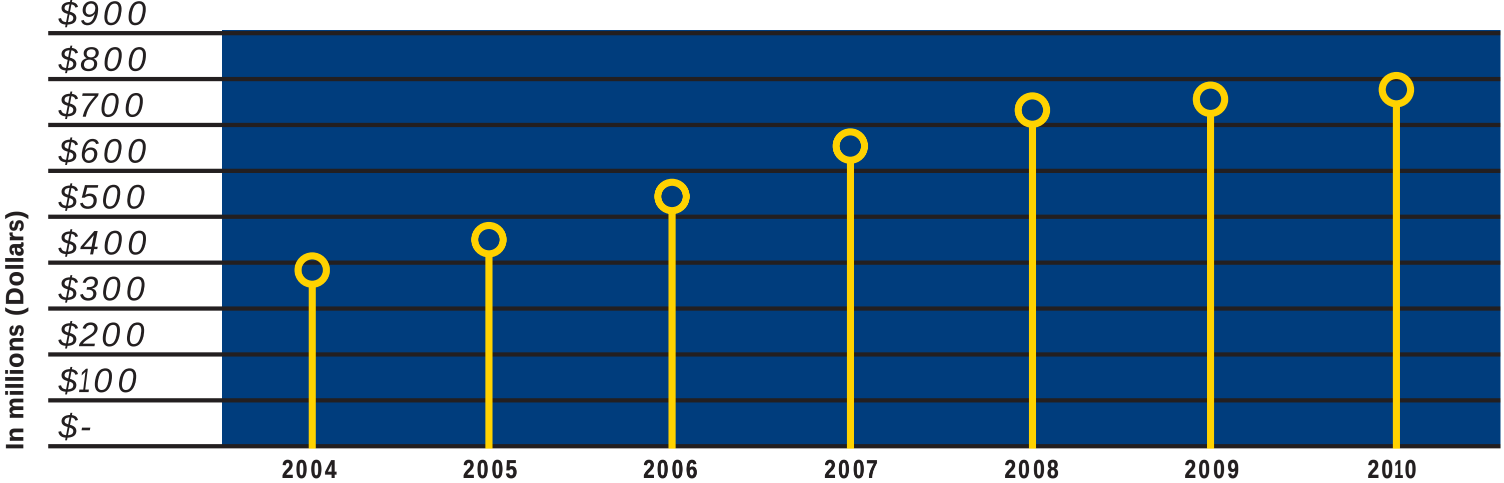
Net Income



Gross Revenue



Total Assets



The conservative route the Bank has taken given the current and future position relative to the market is considered both good corporate governance and prudent. The Bank is cognizant of the need to effectively manage credit risk, maintain or reduce recurring administrative expenses, and remain Innovative in our product offerings with a view of growing our revenue stream and has instituted the processes and controls to do so.

INTEREST AND SIMILAR INCOME

Interest income is the primary revenue source for the Bank. Faced with the impact of the global economic downturn, the Bank adopted a more prudent growth strategy for its loan portfolio. As a result, the loan portfolio increased by $73.6 million or 13.3 percent. The growth in the overall loan portfolio is a significant contributor to increased interest income of 9.6 percent ending at $55.9 million as at June 2010 versus $51.0 million in the prior year. The average yield for the Bank, although improving, was hampered by the drag on the recognition of interest income pertaining to the increase in non accrual loans, and to a certain degree, competitive conditions.

INTEREST AND SIMILAR EXPENSE

Interest and similar expense trended upwards, with amounts reported increasing by 5.3 percent over the previous year. The growth in interest expense is consistent with the rate of deposit growth which increased by 2.5 percent or approximately $14.8 million during the period. Management believes the cost of funds remains high and continues to seek the best combination of funds to ensure balanced growth relative to return for our shareholders and capital requirements. Management will further seek to diversify the deposit base with greater emphasis being placed on basic saving deposit schemes and programs. Our most recent product offering, namely the 3, 7 and 10 year B$ Investment Certificates is reflective of this.

NET INTEREST INCOME

Net interest income represents the amount by which income on interest earning assets exceeds interest expense incurred on interest bearing deposits and other liabilities. The combination of growth in interest income and a slight increase in interest expense resulted in net interest income totaling $31.4 million or 13.3 percent higher than prior year.

NET PROVISION FOR LOAN LOSSES

The Bank has taken a conservative approach to credit and risk management. The challenges faced in the current economic environment have resulted in increased net provisions for loan losses. Net provisions settled at $3.7 million or 41 percent higher than the prior year. The net loan provision amount of $3.7 million is inclusive of a credit of approximately $4 million resulting for the Bank's change in accounting policy regarding provisions for general reserves. Total provisions as a percentage of the net loan portfolio was 1.96 percent compared to 1.65 percent in the prior year. Loan loss provisions combined with credit related reserves in equity as a percentage of the net loan portfolio is 2.6 percent compared to 1.65 in the prior year.

The Bank employed a number of strategies designed to manage our loan portfolio and assist in mitigating the potential losses as has been observed in the global and local financial sectors. Going forward, the Bank seeks to aggressively modify its credit risk rating and scoring models throughout the entire portfolio to ensure that the credit assessment profile facilitates maintaining and sustaining the growth of the overall loan portfolio. Even though, the aggregate amount of the provision for loan losses at June 30, 2010, totaled $12.3 million or 33.7 percent, an increase from the $9.2 in the prior year, overall credit quality remains wholesome and reflective of the Bank's risk profile within the current fragile economic framework. Provisions for commercial loans and mortgages remain the primary reasons for overall growth in loan loss provisions.

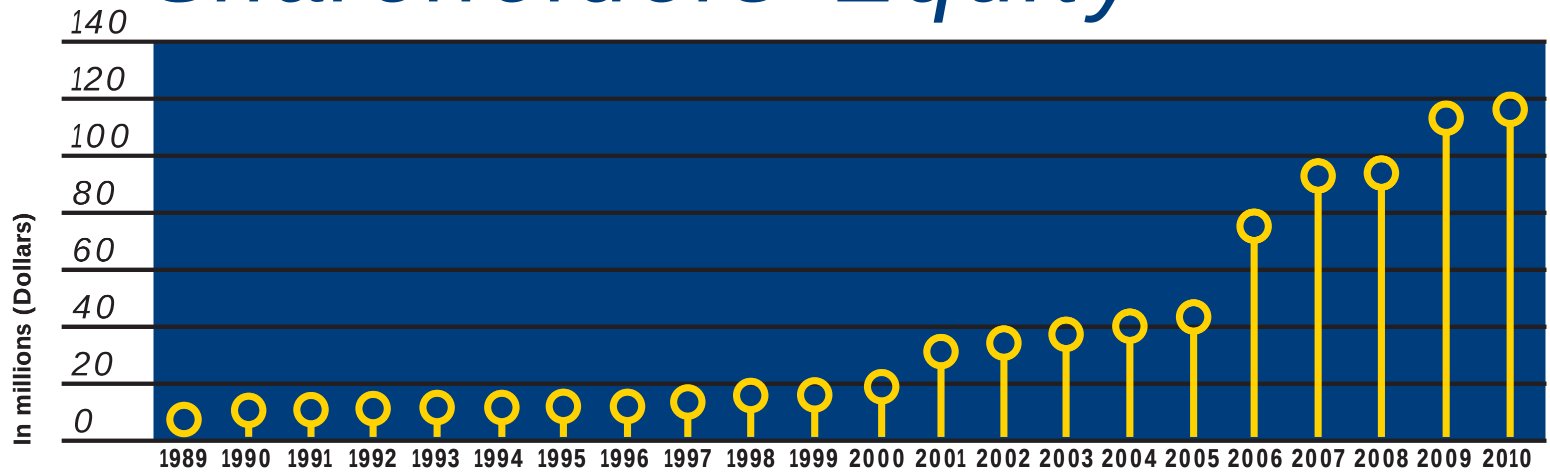
NON-INTEREST INCOME

The Bank's non-interest income totalled $7.0 million or approximately 11.5 percent decline since 2009. Lower revenues from a lower volume of transaction services and card fees factored in the slight decline in income. As the Bank moves forward, more emphasis will be placed on key revenue streams from non-interest income with a view of further re-pricing non interest revenue generating activities.

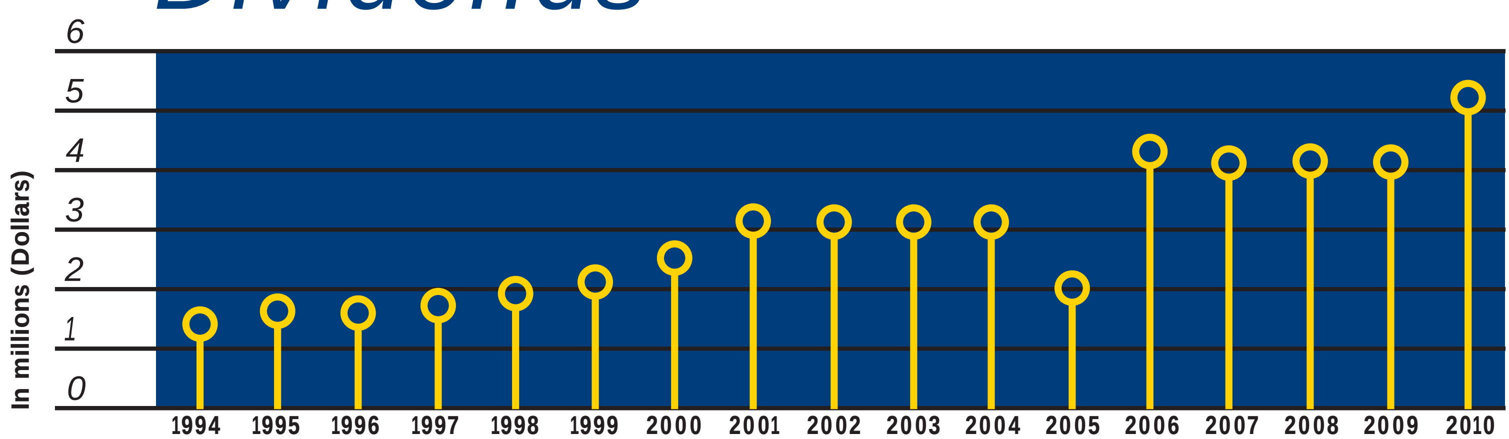
OPERATING EXPENSES

The Bank was able to contain operating expenses during the period, which fell marginally by approximately 1 percent ending at $26.4 million for the year. As a result, the efficiency ratio was 68.6 percent for the current year, below that of the prior year which ended at 74.4 percent. Despite the stabilization in

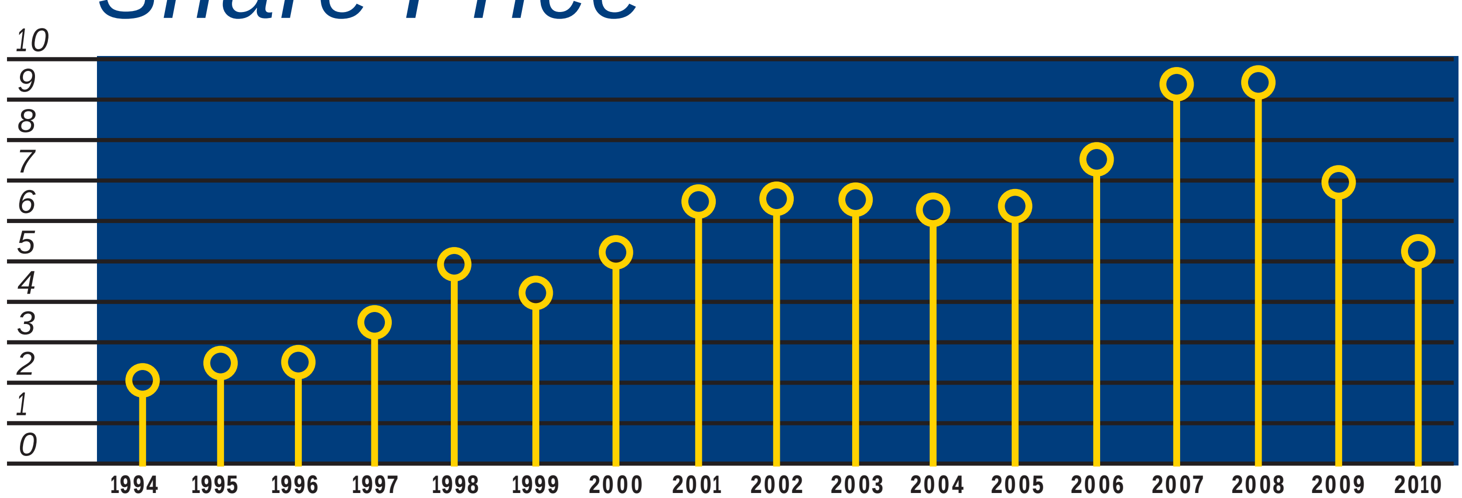
Shareholders' Equity



Dividends



Share Price



operating expenses during the period, the number of permanent employees, which totaled 309 permanent and 36 temporary staff at the end of June 2010 increased compared to 307 and 34 respectively in the prior year. The operating expenses per employee stood at $76 thousand compared to $78 thousand in the prior year. Management continues to seek further ways of reducing or containing expenses through capital infrastructural investments and enhancements in operational processes.

STATEMENT OF FINANCIAL POSITION

The Bank's statement of financial position remains strong and we continue to focus our efforts toward prudent financial and capital management. Our risk management structure promotes sound business decisions. Investment securities consist primarily of government bonds and we have taken a careful review of all our loans and advances exposures so as to maintain a conservative stance with regards to those balances where collectability may be uncertain.

TOTAL ASSETS

Total assets improved ending at $778 million despite the economic challenges of the current environment. This represents a 2.7 percent growth over the prior year's balance of $758 million. The two areas of significant asset growth were Cash and Account Balances with The Central Bank and loans and advances to customers, which grew 53.9 and 13.3 percent respectively. The increases noted in loans and advances to customers and cash and account with the central bank are offset by a decrease in due from banks of approximately $66.8 million. The decrease is primarily from reduced USD deposit placements as LIBOR rates remained relatively low over the year. The ratio of total net loans to total assets has grown to 80.84 percent from 73.27 percent in the prior year.

LIQUIDITY

The Bank's total deposits from customers grew by approximately 2.5 percent to $602.9 million. The Bank has the appropriate level of liquidity required to support regulatory, internal and anticipated liquidity requirements. The Bank continues its initiatives to grow its deposit base.

TOTAL SHAREHOLDERS' EQUITY

The Bank's total capital ratio ended at 16.2 percent for 2010, above the requirement of 14 percent defined by The Central Bank of The Bahamas. The Bank's Tier I capital stood at 14.58 percent and continues to reflect ongoing strategies to maintain and exceed prudent capital standards. The Bank's risk adjusted capital ratio is 24.07 percent compared to 27.70 percent. The capital of the Bank remains strong following the prior year preference share issue and is sufficient enough to preserve the position of the Bank should any further dislocations occur as a result of the current economic environment.

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

The management discussion and analysis of the Bank's financial condition and results of operations is provided to enable the reader to assess the financial condition, material changes in the Bank's financial condition and result of operations including liquidity and capital resources for the fiscal year ended June 30, 2010. For a complete understanding of trends, events uncertainties and the effects of critical accounting estimates on the results of operations and financial conditions, this management discussion and analysis should be read carefully together with the Bank's Consolidated Financial Statements and related notes.

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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, 2010, 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 financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, Implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

September 10, 2010

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AS OF JUNE 30, 2010

(Expressed in Bahamian dollars)

	NOTE	2010	2009
ASSETS			
Cash and account with The Central Bank	5	$ 46,073,254	$ 29,944,137
Due from banks	5	33,820,445	100,612,566
Investment securities	6	50,714,140	50,679,783
Loans and advances to customers, net	7	629,212,269	555,612,338
Investment property	8	3,882,873	3,876,052
Other assets	9	5,535,143	8,690,850
Property and equipment	10	5,203,674	4,505,107
Intangible assets, net	11	3,927,147	4,378,289
TOTAL		**$ 778,368,945**	**$ 758,299,122**
LIABILITIES			
Deposits from customers and banks	12	602,919,291	588,089,178
Other borrowed funds	13	37,000,000	37,000,000
Other liabilities	14	17,453,513	15,245,396
Deferred loan fees		4,567,074	4,011,894
Total liabilities		**661,939,878**	**644,346,468**
EQUITY			
Share capital	15	50,015,990	50,015,990
Share premium		28,587,866	28,587,866
Treasury shares	16	(30,244)	(30,244)
Reserves	17	4,057,051	22,694
Retained earnings		33,798,404	35,356,348
Total equity		**116,429,067**	**113,952,654**
TOTAL		**$ 778,368,945**	**$ 758,299,122**

These consolidated financial statements were approved by the Board of Directors on September 10, 2010 and are signed on its behalf by:

Director

Director

See accompanying notes.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED JUNE 30, 2010
(Expressed in Bahamian dollars)

	NOTE	2010	2009
Interest and similar income	18	$ 55,999,685	$ 51,047,071
Interest and similar expense	18	24,587,509	23,349,444
Net interest income	18	31,412,176	27,697,627
Fees and commission income	19	3,647,091	4,506,334
Fees and commission expense		770,615	694,265
Net fees and commission income		2,876,476	3,812,069
Other operating income	20	3,397,719	3,454,891
Total operating income		37,686,371	34,964,587
Credit loss expense, net		(3,657,626)	(2,596,254)
Net operating income		34,028,745	32,368,333
Operating expenses	21	26,366,306	26,580,416
NET INCOME		**7,662,439**	**5,787,917**
Other comprehensive income			
Net gain on available-for-sale financial assets		34,357	22,694
Total comprehensive income for the year		**7,696,796**	**5,810,611**
Net income		7,662,439	5,787,917
Preference share dividends		(2,725,000)	(1,357,274)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS		**$ 4,937,439**	**$ 4,430,643**
Earnings per share			
Basic earnings per ordinary share	27	$ 0.32	$ 0.28

See accompanying notes.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED JUNE 30, 2010
(Expressed in Bahamian dollars)

	Share Capital	Share Premium	Treasury Shares	Revaluation Reserve	Retained Earnings	Total Equity
Balance at June 30, 2008	$ 30,364,990	$ 28,587,866	$ (30,244)	$ -	$ 34,980,703	$ 93,903,315
Net income for the year	-	-	-	-	5,787,917	5,787,917
Other comprehensive income	-	-	-	22,694	-	22,694
Preference share issuance	19,651,000	-	-	-	-	19,651,000
Dividends on preference shares	-	-	-	-	(1,357,274)	(1,357,274)
Dividends paid to ordinary shareholders	-	-	-	-	(4,054,998)	(4,054,998)
Balance 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**

See accompanying notes.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010
(Expressed in Bahamian dollars)

	NOTE	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		$ 7,662,439	$ 5,787,917
Adjustments for:			
Depreciation and amortization		1,716,254	1,757,533
Gain on disposal of fixed assets		(287,841)	(13,545)
Net provision for loan losses		3,657,626	3,205,261
Net provision for other impairments		144,462	(165,000)
		12,892,940	10,572,166
Change in operating assets and liabilities		3,454,293	(6,620,019)
Increase in loans and advances to customers, net		(77,257,558)	(36,705,792)
Increase in deposits from customers and banks		14,830,113	7,920,272
Net cash used in operating activities		(46,080,212)	(24,833,373)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment		(1,661,748)	(812,815)
Net acquisition of intangible assets		(14,090)	(880,418)
Purchase of investments		-	(25,334,089)
Proceeds from disposal of property and equipment		-	29,401
Investment property additions		(6,821)	(274,552)
Net cash used in investing activities		(1,682,659)	(27,272,473)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Preference shares issuance	15	$ -	$ 19,651,000
Dividends paid on common stock		(2,495,383)	(4,054,998)
Dividends on preference shares		(2,725,000)	(1,357,274)
Increase/(decrease) in interest payable on bonds		2,562	(716,480)
Net cash used in financing activities		(5,217,821)	13,522,248
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(52,980,692)**	**(38,583,598)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**110,876,391**	**149,459,989**
CASH AND CASH EQUIVALENTS, END OF YEAR	**5**	**$ 57,895,700**	**$ 110,876,391**
SUPPLEMENTAL INFORMATION:			
Interest received		$ 53,490,627	$ 48,467,594
Interest paid		$ 24,017,521	$ 23,516,509
Dividends paid		$ 5,220,383	$ 5,412,272

See accompanying notes.

BANK OF THE BAHAMAS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010
(Expressed in Bahamian dollars)

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

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

(a) Adoption of new and revised international financial reporting standards
The accounting policies adopted are consistent with those used in the previous financial year. The following International Accounting Standards (IAS) issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Interpretations Committee ("IFRIC") are relevant to the Bank.

The following standards, amendments and interpretations are effective on or after July 1, 2009:

Amendments to IFRS 7, 'Financial instruments: Disclosures The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

IFRS 8 - Operating Segments: This standard was issued in November 2006 and replaces IAS 14 'Segment Reporting' and requires reporting of financial and descriptive information about operating segments which are based on how financial information is reported and evaluated internally. The new standard is effective for annual periods after January 1, 2009. The Bank is presently not organized on a segment basis and therefore no segment information is presented in these consolidated financial statements.

IAS 1 - Presentation of financial statements (Revised): The revised standard is effective for annual periods after July 1, 2009 and prohibits the presentation of items of income and expense (that is non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings. The Bank has chosen to present one statement of comprehensive income.

continued

2. BASIS OF PREPARATION (CONTNUED)

IAS 23 - Borrowing Costs: A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated statement of financial position.

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

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation: The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The adoption of the IAS 32 amendment does not have any material effects for the Bank.

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

IFRIC 16 Hedges of a Net Investment in a Foreign Operation: IFRIC 16 is effective for accounting periods beginning on or after October 1, 2008 with early application permitted. The interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. This interpretation does not have a material impact on the Bank's consolidated financial statements.

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

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

IFRS 9, 'Financial instruments part 1: Classification and measurement' IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

continued

2. BASIS OF PREPARATION (CONTNUED)

(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 deconsolidated from the date on which control ceases.

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

These consolidated financial statements include the financial statements of the Bank's whollyowned subsidiaries.

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.

Impairment

Tangible assets
The Bank has made significant investments in physical assets. These are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods. As at June 30, 2010, no impairment losses were recorded for the reporting period.

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

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

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

Goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cashgenerating 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, 2010 no impairment loss was recognized for the reported period.

Further details are presented in Note 11.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Revenue recognition

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

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

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.

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; heldto-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-tomaturity 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.

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.

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

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

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

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

continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

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). Nonfinancial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h. Provisions

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

continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Related parties

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

j. Employee benefits

The Bank operates a defined contribution 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 fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's current plan (the "Plan") allows eligible employees (those who have attained 25 years of age and confirmed in their positions) to contribute a minimum of 3.5% of their annual salaries and the Bank contributes 6.5%.

Employees become fully vested after 2 years of plan membership. The Plan's costs are charged to general and administrative expenses and are funded as accrued.

k. Earnings per share

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.

o. Goodwill

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

p. Amortization of software

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

continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of Financial Condition in the 'Other liabilities' line.

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 financial statements continue to be prepared on the going concern basis.

5. CASH & 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 $21,998,000 (2009: $19,680,312). 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 noninterest bearing.

	2010	2009
Cash	$ 6,546,506	$ 5,820,598
Deposits with the Central Bank non-interest bearing	39,526,748	24,123,539
Due from banks	33,820,445	100,612,566
Cash and due from banks	79,893,699	130,556,703
Less: mandatory reserve deposits with the Central Bank	21,998,000	19,680,312
	$ 57,895,699	**$ 110,876,391**

6. INVESTMENT SECURITIES

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

	2010	2009
AVAILABLE-FOR-SALE		
Bahamas Registered Stock	$ 25,111,400	$ 25,111,400
Equity Securities	279,740	245,383
	$ 25,391,140	**$ 25,356,783**
HELD TO MATURITY		
Bahamas Registered Stock	$ 25,186,500	$ 25,186,500
Bridge Authority Bond	136,500	136,500
	$ 25,323,000	**$ 25,323,000**
TOTAL INVESTMENT SECURITIES	**$ 50,714,140**	**$ 50,679,783**

As of the year-end reporting date, government securities mainly comprise variable rate bonds tied to the Bahamian $ Prime Rate issued by The Bahamas Government with interest rates ranging from 5.59% to 7.00% per annum (2009: from 5.59% to 7.00% per annum) and scheduled maturities between 2010 and 2033 (2009: between 2010 and 2033).

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

	Available-for-sale	Held-to maturity	Total
At July 1, 2008	$ -	$ 25,323,000	$ 25,323,000
Additions	25,334,089	-	25,334,089
Maturities	22,694	-	22,694
At June 30, 2009	**$ 25,356,783**	**$ 25,323,000**	**$ 50,679,783**
At July 1, 2009	$ 25,356,783	$ 25,323,000	$ 50,679,783
Additions	-	-	-
Net fair value gain	34,357	-	34,357
At June 30, 2010	**$ 25,391,140**	**$ 25,323,000**	**$ 50,714,140**

7. LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers are as follows:

	2010	2009
Mortgage loans	$ 334,886,517	$ 248,935,228
Commercial loans	133,832,103	175,689,311
Consumer loans	62,348,676	53,230,865
Credit cards	2,312,217	1,364,024
Business overdrafts	73,490,658	57,267,028
Personal overdrafts	21,127,931	16,925,294
Government guaranteed student loans	7,284,636	7,626,571
	$ 635,282,738	$ 561,038,321
LESS: PROVISION FOR LOAN LOSSES:		
At beginning of year	$ 9,172,385	$ 8,220,745
Amount written-off	(793,546)	(2,253,621)
Recoveries	291,046	609,007
Net provision charged to expense	3,657,626	2,596,254
At end of year	12,327,511	9,172,385
Accrued interest receivable	6,257,042	3,746,402
Loans and advances to customers, net	**$ 629,212,269**	**$ 555,612,338**

During the year, the Bank wrote-off loans totaling $793,546 (2009: $2,253,621) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts.

Loan loss provisions are as follows:

SPECIFIC PROVISIONS	2010	2009
Mortgage Loans	$ 2,408,537	$ 1,103,340
Commercial Loans	5,171,032	1,354,948
Consumer Loans	2,768,704	1,712,609
Credit Cards	340,994	120,000
	10,689,267	4,290,897
Collective Assessment	1,638,244	4,881,488
TOTAL	**$ 12,327,511**	**$ 9,172,385**

	2010	2009
TOTAL PROVISIONS AS A PERCENTAGE OF THE NET LOAN PORTFOLIO	**1.96%**	**1.65%**
PROVISIONS AND EQUITY PROVISIONS AS A PERCENTAGE OF THE NET LOAN PORTFOLIO	**2.60%**	**1.65%**

Non-accrual loans are as follows:

	2010	2009
Mortgage Loans	$ 33,673,078	$ 9,950,985
Commercial Loans	18,205,705	13,090,646
Consumer Loans	4,780,307	1,799,778
Credit Cards	625,230	320,458
TOTAL	**$ 57,284,320**	**$ 25,161,867**
PERCENTAGE OF LOAN PORTFOLIO	**9.11%**	**4.48%**
PERCENTAGE OF TOTAL ASSETS	**7.36%**	**3.32%**

continued

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

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

	2010		2009	
	Value	No. of Loans	Value	No. of Loans
$0 - $10,000	$ 13,145,325	4,710	$ 16,273,003	2,856
$10,001 - $20,000	14,778,853	998	20,905,947	1,847
$20,001 - $30,000	12,881,705	535	29,297,967	1,147
$30,001 - $40,000	8,553,164	249	21,409,408	593
$40,001 - $50,000	8,749,543	194	16,337,988	363
Over $50,000	577,174,148	2,192	456,814,008	2,075
	$ 635,282,738	**8,878**	**$ 561,038,321**	**8,881**

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

	2010	2009
Satisfactory Risk	$ 353,115,544	$ 408,783,687
Watch List	56,096,108	22,287,638
Sub-standard but not impaired	69,390,348	27,359,919
	$ 478,602,000	**$ 458,431,244**

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

	2010			2009		
	Principal Balance	Restructured	Total	Principal Balance	Restructured	Total
MORTGAGES						
Neither past due or impaired	$ 232,063	$ 12,468	$ 244,531	$ 195,812	$ 3,478	$ 199,290
Past due but not impaired	50,678	6,005	56,683	34,963	4,731	39,694
Impaired	29,366	4,307	33,673	5,844	4,107	9,951
	$ 312,107	$ 22,780	$ 334,887	$ 236,619	$ 12,316	$ 248,935
COMMERCIAL						
Neither past due or impaired	$ 71,841	$ 10,212	$ 82,053	$ 129,424	$ 2,523	$ 131,947
Past due but not impaired	30,286	3,287	33,573	29,675	977	30,652
Impaired	17,780	426	18,206	12,665	426	13,091
	$ 119,907	$ 13,925	$ 133,832	$ 171,763	$ 3,926	$ 175,689
CONSUMER						
Neither past due or impaired	$ 54,283	$ 1,808	$ 56,091	$ 51,639	$ 556	$ 52,195
Past due but not impaired	7,871	891	8,762	6,004	859	6,863
Impaired	3,280	1,500	4,780	931	869	1,800
	$ 65,434	$ 4,199	$ 69,633	$ 58,573	$ 2,284	$ 60,857
CREDIT CARDS						
Neither past due or impaired	$ 1,308	$ -	$ 1,308	$ 807	$ -	$ 807
Past due but not impaired	379	-	379	236	-	236
Impaired	625	-	625	320	-	320
	$ 2,312	$ -	$ 2,312	$ 1,364	$ -	$ 1,364
BUSINESS OVERDRAFTS						
Neither past due or impaired	$ 73,491	$ -	$ 73,491	$ 57,267	$ -	$ 57,267
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 73,491	$ -	$ 73,491	$ 57,267	$ -	$ 57,267
PERSONAL OVERDRAFTS						
Neither past due or impaired	$ 21,128	$ -	$ 21,128	$ 16,925	$ -	$ 16,925
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 21,128	$ -	$ 21,128	$ 16,925	$ -	$ 16,925

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:

2010

In ($000s)	Residential Mortgage	Commercial	Consumer	Credit Card	Total
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
	$ 56,683	**$ 33,573**	**$ 8,762**	**$ 379**	**$ 99,397**

2009

In ($000s)	Residential Mortgage	Commercial	Consumer	Credit Card	Total
Past due up to 29 days	$ 14,058	$ 7,994	$ 1,870	$ 144	$ 24,066
Past due 30 - 59 days	15,070	11,229	2,955	58	29,312
Past due 60 - 89 days	10,566	11,429	2,038	35	24,068
	$ 39,694	**$ 30,652**	**$ 6,863**	**$ 236**	**$ 77,445**

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. During the year, the land was appraised by a qualified appraiser who provided the valuation of the land.

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

	2010	2009
Beginning balance	$ 3,876,052	$ 3,601,500
Additions	6,821	274,552
	$ 3,882,873	**$ 3,876,052**

9. OTHER ASSETS

Other assets are comprised of the following:

	2010	2009
Accounts receivables	$ 1,469,540	$ 1,735,246
Prepaid assets	1,992,028	1,510,703
Cheque clearing account	1,255,488	3,496,166
Other assets	818,087	1,948,735
	$ 5,535,143	**$ 8,690,850**

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 2008	$ 2,600,755	$ 5,244,805	$ 6,864,294	$ 14,709,854
Additions	1 17,021	152,332	543,462	812,815
Disposal	-	-	(117,178)	(117,178)
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**
ACCUMULATED DEPRECIATION:				
Balance as at June 2008	$ 897,978	$ 3,312,544	$ 5,437,473	$ 9,647,995
Depreciation	5,278	581,956	766,478	1,353,711
Disposal	-	-	(101,322)	(101,322)
Balance as at June 2009	903,256	3,894,500	6,102,629	10,900,384
Depreciation	2,940	539,319	708,762	1,251,022
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**
NET BOOK VALUE:				
Balance as at June 30, 2010	**$ 1,813,218**	**$ 1,124,447**	**$ 2,266,009**	**$ 5,203,674**
Balance as at June 30, 2009	**$ 1,814,520**	**$ 1,502,637**	**$ 1,187,949**	**$ 4,505,107**

Land in the amount of $1,105,281 (2009: $1,105,281) is included in land and building.

11. INTANGIBLE ASSETS, NET

	Goodwill	Software	Total
Balance as at June 30, 2008	$ 1,075,759	$ 2,825,934	$ 3,901,693
Additions	-	880,418	880,418
Amortisation	-	(403,822)	(403,822)
Closing as at June 30, 2009	$ 1,075,759	$ 3,302,530	$ 4,378,289
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**

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 7.38%. As at June 30, 2010, management determined that goodwill was not impaired (2009: $0).

12. DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers and banks are as follows:

	2010	2009
Term deposits	$ 466,027,638	$ 457,221,372
Demand deposits	89,515,710	83,164,614
Savings accounts	40,915,540	41,810,215
	596,458,888	582,196,201
Accrued interest payable	6,460,403	5,892,977
	$ 602,919,291	**$ 588,089,178**

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

	2010		2009	
	Value	No. of Deposits	Value	No. of Deposits
$0 - $10,000	$ 23,341,372	31,234	$ 22,443,053	29,662
$10,001 - $20,000	12,118,501	868	12,064,740	875
$20,001 - $30,000	8,514,827	344	8,230,141	338
$30,001 - $40,000	6,517,137	190	6,823,077	198
$40,001 - $50,000	5,975,703	131	2,939,516	123
Over $50,000	539,991,348	965	529,695,674	865
	$ 596,458,888	**33,732**	**$ 582,196,201**	**32,061**

In 1999, The Central Bank established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $149,251 (2009: $188,801) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

13. OTHER BORROWED FUNDS

BONDS PAYABLE

Bonds payable were issued to the National Insurance Board on May 1, 2002, and bear interest at the Bahamian dollar prime rate which at year-end was 5.50% (2009: 5.50%). Interest expense during the year totaled $935,000 (2009: $935,000). These bonds are secured under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifiable assets which include Government registered stock and cash. Interest payable on bonds at the year end was $15,370 (2009: $12,808)

The amounts and maturity dates are as follows:

Description	Maturity	2010	2009
Prime bond series A	Due December 31, 2012	$ 3,500,000	$ 3,500,000
Prime bond series B	Due December 31, 2013	4,800,000	4,800,000
Prime bond series C	Due December 31, 2014	2,600,000	2,600,000
Prime bond series D	Due December 31, 2015	6,100,000	6,100,000
		$ 17,000,000	**$ 17,000,000**

MORTGAGE BACKED BONDS

Mortgage backed bonds bearing interest of 1.75% above Bahamian dollar prime rate which yields an effective rate of 7.25% were issued in a private placement on January 1, 2007. Interest expense during the year 2010 totaled $1,450,000 (2009: $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	2010	2009
Mortgage backed bonds	Series F 2022	$ 4,000,000	$ 4,000,000
Mortgage backed bonds	Series G 2023	4,000,000	4,000,000
Mortgage backed bonds	Series H 2024	4,000,000	4,000,000
Mortgage backed bonds	Series I 2025	4,000,000	4,000,000
Mortgage backed bonds	Series J 2026	4,000,000	4,000,000
		$ 20,000,000	**$ 20,000,000**

14. OTHER LIABILITIES

Other liabilities consist of the following:

	2010	2009
Accounts Payable	$ 2,934,936	$ 1,755,904
Other Liabilities	5,208,355	3,661,701
Cardholders Liability	1,458,522	1,491,906
Cheques and other items in transit	6,705,213	7,561,710
Group Insurance Funds	1,146,487	774,175
	$ 17,453,513	**$ 15,245,396**

15. SHARE CAPITAL

Share capital consists of the following:

EQUITY CAPITAL

	2010	2009
Authorized:		
150,000, preference shares of B$1,000 each (2009: 150,000)	$ 150,000,000	$ 150,000,000
25,000,000 Ordinary shares of B$1 each (2009: 25,000,000)	$ 25,000,000	$ 25,000,000
Issued and fully paid:		
34,415.99 preference shares of B$1,000 each (2009:34,415.99)	$ 34,415,990	$ 34,415,990
15,596,145 Ordinary shares of B$1 each (2009: 15,596,145)	$ 15,569,756	$ 15,569,756

Preference shares

The Bank's shareholders have approved resolutions to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares redeemable at the discretion of the Board of Directors. On June 30, 2006 and during May 2009 the Bank issued a total of B$15,000,000 and B$20,000,000 in redeemable preference shares at a rate of 2.00% and 2.50% above the Bahamian dollar prime rate which yields an effective interest rate of 7.50% and 8.00% respectively per annum. In accordance with International Financial Reporting Standards, as the preference shares are classified as equity, the dividends on these shares are paid out of retained earnings. Costs totaling $235,010 and $349,000 related to the preference share offering respectively were netted against the proceeds.

16. TREASURY SHARES

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at June 30, 2010 was 3,855 (2009: 3,855).

17. RESERVES

Reserves comprise of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date and 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 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 credit reserve in retained earnings.

	2010	2009
Balance, beginning of year	$ 22,694	$ -
Credit reserves	4,000,000	-
Fair value gains, net during the year	34,357	22,694
Balance, end of year	**$ 4,057,051**	**$ 22,694**

18. NET INTEREST INCOME

	2010	2009
Interest and similar income		
Cash and short term investments	$ 137,715	$ 1,322,426
Investment securities	3,023,933	1,989,831
Loans and advances to customers	52,838,037	47,734,814
	55,999,685	51,047,071
Interest and similar expense		
Banks and customers	22,202,509	20,964,444
Debt securities	2,385,000	2,385,000
	24,587,509	23,349,444
Total net interest income	**$ 31,412,176**	**$ 27,697,627**

19. FEE AND COMMISSION INCOME

	2010	2009
Deposit services fees and commissions	$ 1,794,385	$ 2,100,960
Credit services fees and commissions	209,071	699,014
Card services fees and commissions	1,507,186	1,617,928
Other fees and commissions	136,448	88,432
Total fee and commission income	**$ 3,647,091**	**$ 4,506,334**

20. OTHER OPERATING INCOME

	2010	2009
Foreign exchange	$ 1,633,904	$ 1,222,219
Other	1,763,815	2,232,672
Total other operating income	**$ 3,397,719**	**$ 3,454,891**

21. OPERATING EXPENSES

	2010	2009
Staff costs	$ 15,041,298	$ 15,276,840
Occupancy	3,037,437	3,123,478
Information technology	981,872	898,755
Advertising, marketing and donations	731,841	868,195
Travel and entertainment	306,568	345,816
Telecommunication and postage	315,044	448,373
Licenses and other fees	1,692,425	1,871,272
Other administrative expenses	2,543,567	1,990,154
Operating expenses	**$ 24,650,052**	**$ 24,822,883**
Depreciation of property and equipment	$ 1,251,022	$ 1,353,711
Amortization of software	465,232	403,822
Depreciation and amortisation	$ 1,716,254	$ 1,757,533
Total operating Expenses	**$ 26,366,306**	**$ 26,580,416**

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 2010, are as follows:

No later than 1 year	$ 336,600
Later than 1 year and no later than 5 years	1,096,631
Total	**$ 1,433,231**

Rental expense (including service charges) totaled $1,559,208 (2009: $1,570,879) net of rental income of $0 (2009: $20,698).

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, 2010 was $22,125,288 (2009: $23,856,882).

(b) The Bank has a commitment for future capital expenditure of $149,478 (2009: $282,293).

(c) The Bank has a commitment with VISA of $450,000 (2009: $450,000).

(d) The Bank has a commitment with Master Card of $150,000 (2009: $0).

(e) The Bank has letters of credit and guarantees of $1,810,561 (2009: $2,880,837).

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, 2010 (2009: Nil). No provision expense has been recognized in these financial statements on loans to related parties.

	Government	Other Government Entities	Key Management	Total 2010	Total 2009
Assets					
Cash and cash equivalents	$ -	$ 39,526,748	$ -	$ 39,526,748	$ 19,680,312
Investment securities	50,434,400	-	-	50,434,400	50,434,400
Loans and advances to customers	5,018,114	11,578,204	3,002,006	19,598,324	14,953,100
Other Assets	851,864	-	-	851,864	848,960
Liabilities					
Deposits from customers and banks	$ 79,898,436	$ 108,936,053	$ 701,530	$ 189,536,019	$ 148,536,586
Other borrowed funds	-	17,000,000	-	17,000,000	17,000,000
Other liabilities	-	15,370	-	15,370	12,808

	Government	Other Government Entities	Key Management	Total 2010	Total 2009
Revenues					
Interest Income	$ 3,362,400	$ 566,143	$ 148,526	$ 4,077,068	$ 2,879,041
Total	**$ 3,362,400**	**$ 566,143**	**$ 148,526**	**$ 4,077,068**	**$ 2,879,041**
Expenses					
Interest Expense	$ 3,192,758	$ 5,377,408	$ 11,962	$ 8,582,128	$ 7,189,974
Directors fees	-	-	166,500	166,500	164,760
Other operating expenses	827,354	-	-	827,354	627,557
Short-term employee benefits	-	-	2,471,528	2,471,528	2,512,838
Post employment benefits	-	-	130,181	130,181	129,842
Termination benefits	-	-	-	-	490,035
Total	**$ 4,020,112**	**$ 5,377,408**	**$ 2,780,171**	**$ 12,177,691**	**$ 11,115,006**

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, 2010 totaled $644,310 (2009: $583,568).

The Plan owns 210,826 (2009: 210,826) shares of the Bank. The holdings represent approximately 12.00% (2009: 17.00%) of the Plan's net assets.

The Plan has deposits totaling $6,573,077 (2009: $5,687,956) 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:

	2010	2009
Government-guaranteed student education loans	$ 79,402,833	$ 73,582,887
Trust assets	$ 58,379,640	$ 45,399,863

During the period, the Bank recognized fees totaling $208,558 (2009: $166,368), 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 2010 totaled $2,495,383 or $0.16 per share (2009: $4,054,998 or $0.26 per share).

During the year the Bank paid dividends on its preference shares of $2,725,000 (2009:$1,357,274).

	2010	2009
Net income attributable to equity shareholders	$ 7,662,439	$ 5,787,917
Preference share dividends	(2,725,000)	(1,357,274)
Net income attributable to ordinary shareholders	$ 4,937,439	$ 4,430,643
Weighted average number of ordinary shares outstanding	15,596,145	15,596,145
Basic earnings per ordinary share	$ 0.32	$ 0.28

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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.

- 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, 2010 the Bank held equity securities classified as available-for-sale totaling $279,740 (2009: $245,383) which have been valued as a Level 1 investment. All other investments totaling $50,434,400 (2009: $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 cost or amortized cost.

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

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

29. REGULATORY CAPITAL

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

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, 2010 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.

continued

29. REGULATORY CAPITAL (CONTINUED)

Regulatory capital

(In $000s)	Actual 2010	Actual 2009
Tier 1 capital	$ 115,296	$ 118,581
Tier 2 capital	12,385	9,195
Total capital	**$ 127,681**	**$ 127,776**
Risk weighted assets	**$ 507,338**	**$ 446,314**
Tier 1 capital ratio	14.58%	15.53%
Total capital ratio	16.15%	16.74%

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-forsale 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 24.07% (2009: 27.70%).

30. COMPARATIVES

The following adjustments were made to prior year's financial statement balances. In the Consolidated Statement of Cash Flows the cash and cash equivalents at the beginning of the year for 2009 was adjusted for the $17,667,400 mandatory reserve balance with the Central Bank.

The change in operating assets and liabilities was adjusted for the $2,012,912 increase in the mandatory reserve balance with the Central Bank for the period July 2008 through to June 2009. Included in Other Liabilities for the prior year, is the reclassification of cheques and other items in transit of $7,561,710. In the consolidated statement of comprehensive income there was a reclass of $1,292,268 from fees and commission income to interest and similar income.

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 assess for changes in ratings unless the customer approaches the Bank for additional credit.

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

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

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

	2010			2009		
In ($000s)	Principal Balance	Restructured	Total	Principal Balance	Restructured	Total
CASH AND CASH EQUIVALENTS						
Neither past due or impaired	$ 79,894	$ -	$ 79,894	$ 130,568	$ -	$ 130,568
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 79,894	**$ -**	**$ 79,894**	**$ 130,568**	**$ -**	**$ 130,568**
INVESTMENT SECURITIES						
Neither past due or impaired	$ 50,714	$ -	$ 50,714	$ 50,680	$ -	$ 50,680
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 50,714	**$ -**	**$ 50,714**	**$ 50,680**	**$ -**	**$ 50,680**
LOANS AND ADVANCES TO CUSTOMERS						
Neither past due or impaired	$ 454,114	$ 24,488	$ 478,602	$ 451,874	$ 6,557	$ 458,431
Past due but not impaired	89,214	10,183	99,397	70,878	6,567	77,445
Impaired	51,051	6,233	57,284	19,760	5,402	25,162
	$ 594,379	**$ 40,904**	**$ 635,283**	**$ 542,512**	**$ 18,526**	**$ 561,038**

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

Operational risk

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

Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarized the Bank's exposure to foreign currency exchange risk at June 30, 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk

As at June 30, 2010 In ($000s)	B$	US$	CAD$	GPB£	Other	Total
ASSETS						
Cash and central bank balances	$ 43,912	$ 28,745	$ 6,705	$ 385	$ 147	$ 79,894
Financial assets - held to maturity	25,323	-	-	-	-	25,323
Financial assets - available for sale	25,111	280	-	-	-	25,391
Loans and advances	599,782	29,424	6	-	-	629,212
Total financial assets	**$ 694,128**	**$ 58,449**	**$ 6 ,711**	**$ 385**	**$ 147**	**$ 759,820**
LIABILITIES						
Deposits from customers and banks	$ 561,768	$ 34,942	$ 6,185	$ 15	$ 9	$ 602,919
Other borrowed funds	37,000	-	-	-	-	37,000
Cheques and other items in transit	4,134	2,059	175	335	2	6,705
Total financial liabilities	**$ 602,902**	**$ 37,001**	**$ 6,360**	**$ 351**	**$ 11**	**$ 646,625**
Net financial position	**$ 91,226**	**$ 21,448**	**$ 351**	**$ 35**	**$ 136**	**$ 113,195**
AS AT JUNE 30, 2009						
Total financial assets	$ 606,225	$121,324	$ 5,966	$ 2,956	$ 377	$ 736,849
Total financial liabilities	524,962	99,415	5,974	2,318	29	632,698
Net financial position	**$ 81,263**	**$ 21,909**	**$ (8)**	**$ 638**	**$ 348**	**$ 104,151**

continued

31. RISK MANAGEMENT (CONTINUED)

Interest rate risk

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

The Bank analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration pricing, renewal of existing positions, and capital funding. Based on these scenarios, the bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders equity of a 100 basis point shift would be a maximum increase or decrease of $3.2 million (2009:$1.8 million).

Liquidity risk

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

The following tables summarizes the carrying amount of consolidated financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the consolidated 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, 2010

In ($000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	$ 79,894	$ -	$ -	$ -	$ 79,894
Investment Securities	-	-	16,588	34,126	50,714
Loans and advances to customers, net	126,690	59,284	73,005	370,233	629,212
Total financial assets	**$ 206,584**	**$ 59,284**	**$ 89,593**	**$ 404,359**	**$ 759,820**

June 30, 2010

In ($000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers and banks	$ 383,566	$ 196,053	$ 19,330	$ 3,970	$ 602,919
Other borrowed funds	-	-	17,000	20,000	37,000
Cheques and other items in transit	6,705	-	-	-	6,705
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**

June 30, 2009

In ($000s)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Total financial assets	$ 45,705	$ 44,092	$ 118,770	$ 397,725	$ 606,292
Total financial liabilities	385,767	162,031	52,098	32,802	632,698
Net position	**$ (340,062)**	**$ (117,939)**	**$ 66,672**	**$ 364,923**	**$ (26,406)**

32. SUBSIDIARIES

Subsidiaries of the Bank as at June 30, 2010 are as follows:

Name	Place of Incorporation	Shareholding	Nature of business
BOB Financial Services Inc.	Coral Cables, Florida	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

STAFF MEMBERS

STRATEGIC MANAGEMENT

George Thompson
Senior Manager, Credit - Grand Bahama & Family Islands

Ian Thompson
Manager, Retail Business - Credit

Selvin Basden
Senior Manager, Human Resources & Training

Renee Ijeoma
Senior Manager, Information & Technology

Dianne Bingham
Manager, Private Banking & Trust

Geletha Chisolm
Manager, Corporate Credit - New Providence

Michael Basden
Business Manager, Financial Solutions

Leashawn McPhee
Financial Controller

Patrice Gardiner
Manager, Operations (Head Office)

Elnora Major
Manager, Operations (Family Islands)

Yvette Johnson
Assistant Company Secretary

HEAD OFFICE - EXECUTIVE OFFICE

Davis, Mrs. Renee
Delaney, Mr. Vaughn
Edwards, Mr. Hubert
Farquharson, Mrs. Beverley
Johnson, Miss Anshena
Lundy-Mortimer, Mr. Dario
McWeeney, Mr. Paul J.I.
Williams, Miss Laura

HEAD OFFICE - OPERATIONS DEPARTMENT

Adderley, Miss Qutell
Ferguson, Mr. David
Gardiner, Ms. Patrice
Johnson, Mrs. Yvette
Major, Miss Elnora
Varence, Mrs. Clarice

HEAD OFFICE - HUMAN RESOURCES DEPARTMENT

Basden, Mr. Selvin
Cash, Mrs. Annette
Coakley, Miss Nadia
Knowles, Mrs. Pandora
Newbold, Mrs. Keilya
Nixon, Mrs. Gloria

HEAD OFFICE - TRAINING DEPARTMENT

Brown, Mrs. Elricha
Brown, Mrs. Gena
Missick, Miss Macquel

HEAD OFFICE - COMMUNICATIONS/ ADMINISTRATION DEPARTMENT

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

HEAD OFFICE - RISK DEPARTMENT

Albury, Mrs. Philice
Cash, Mrs. Kandi
Christie, Miss Florence
Newry, Mr. Gamal

HEAD OFFICE - BUSINESS DEPARTMENT

Basden, Mr. Michael
Greene, Mrs. Xenia
Thompson, Mr. Ian

PRIVATE BANKING & TRUST DEPARTMENT

Bingham, Mrs. Dianne
Munroe, Miss Thea
Sturrup, Miss Sinta
Beneby, Mrs. Sherry
Carey, Mr. Adrian

ACCOUNTING & FINANCE DEPARTMENT

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

HEAD OFFICE - TREASURY DEPARTMENT

Evans, Miss Paige
Hanna, Mr. Kevin
James, Mrs. Patricia

CORPORATE CREDIT DEPARTMENT, NASSAU

Bain, Mr. Kentworth
Bonamy, Mr. Steve
Chisholm, Mrs. Geletha
Dorsett, Mr. Daryl
Percentie, Ms. Monica
Smith, Mrs. Lesley
Thompson, Mr. Dominic

GGAELS DEPARTMENT

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

CORPORATE CREDIT, GRAND BAHAMA & FAMILY ISLANDS DIVISION

Sawyer, Miss Shiann
Thompson, Mr. George

INTERNAL AUDIT DEPARTMENT

Butler, Mrs. L. Sandra
Dean, Miss Zovia
Duncombe, Mrs. Ashquel
Rolle, Mrs. Davine
Taylor, Miss Vanessa

CREDIT RISK DEPARTMENT

Barnett, Mr. Charles
Bartlett, Mr. Darryl
Johnson, Mr. Anthony
Marshall (Murray), Mrs. Sherrice
Rigby, Mr. Franklyn
Urich, Mr. George Dave

COLLECTIONS DEPARTMENT (NASSAU DIVISION)

Bryan, Mr. Curtis
Clarke, Mr. Silbert
Conliffe, Mr. Nigel
Eve, Miss Narissa
Forbes, Mr. Jason
Higgs, Mr. Anton
Knowles, Mr. Clarence
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