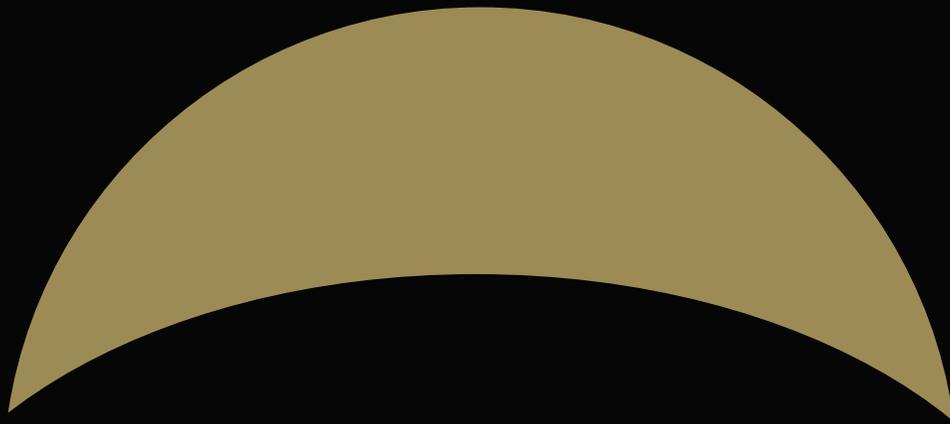


INNOVATE



Bank of The Bahamas

L I M I T E D

2 0 0 6 A n n u a l R e p o r t



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“The challenge isn’t to keep your eye on big competitors. It’s to pay attention to the innovators.”

—Dave Duffield, Peoplesoft Founder

INNOVATE

On April 3, 1973, on a busy street in the heart of New York City, onlookers stared as a man in a business suit holding what appeared to be an oversized bulky phone stopped at a street corner, spoke into the instrument, then strolled along for minutes carrying on a conversation. In amazement, they witnessed the first cell phone call. Inventor of the mobile phone Martin Cooper, then General Manager of Motorola’s Communications Systems Division, placed the call to his counterpart at AT&T’s Bell Labs to let him know he had won the race to invent a phone that was not tied down to a copper connection.

A few years ago, on the 30th anniversary of that day, Cooper recalled, “As I walked down the street while talking on the phone, sophisticated New Yorkers gaped at the sight of someone actually moving around while making a phone call. Remember that in 1973, there weren’t cordless telephones, let alone cellular phones.”

How far we have come, how fast our world has changed, how much faster today than ever before.

More than 2000 years elapsed between the time Greeks discovered rubbing amber against a fur cloth attracted straw and electricity for widespread practical use was invented. It took 400 of those years to move from rudimentary re-creation of a 600 BC find to what we take for granted today, modern electricity that powers lights, fuels appliances, cools our home and our food, runs our computers, keeps our streets lit and a million other conveniences we take for granted, including our portable phones.

It is not only innovation but the speed of innovation that separates the way we live today from the way our ancestors lived, or even our parents in the last century. Consider this: Seventy years elapsed between the time the X-ray was invented allowing physicians for the first time to see inside the human body and the CT or CAT scan was invented, letting doctors see up to 100 times more by examining soft tissue. But less than five years later, the CAT scan, whose inventor had won the Nobel Prize in 1979, was dated technology, replaced except for the study of brain



“The future belongs to those who see possibilities before they become obvious.”

—John Scully, *idea guru and former Apple CEO*

and head injuries by the MRI, magnetic resonance imaging. Or this, it was eight years between the first manned space flight by the Soviets in 1961 and the U.S. putting a man on the moon in 1969. Last year, we held our breath as the first space tourist took off. This year, when the first woman space tourist paid a reported \$20 million for the journey, we were more captivated by the cost of a short trip than the actual experience. How quickly we accept change.

How quickly yesterday's ways fade into the past. That first mobile phone weighing 2.5 pounds requiring 10 hours of charging for 10 minutes of speaking (though some reports say it could last up to 35 minutes) is a museum piece. The inventions that changed our lives—from penicillin and antibiotics in the early 1900s to the introduction of the world-wide web in 1992—come barreling at us at avalanche speed.

At Bank of The Bahamas International, our vision and our mission, our commitment to our 4,000-plus shareholders and to the nation we serve, is to be at the leading edge of providing financial services. Throughout these pages, you will see where our drive has taken us, the services it has provided, the expectations it has raised, the rewards it has earned and the awards it has won. You will see how it has made life better for thousands of persons who now have homes, thanks to a totally new way of looking at mortgages. You will see leadership in provision of trust services tailored to Bahamians. You will see it in management oversight of pension funds to keep retirement benefits safe, and in the introduction of private banking to accommodate the growing wealth of Bahamians. You will see a plethora of innovative products and services, unveiled as we strive to become the full life-cycle financial partner of choice.

\$20

junkanoo
summer festival

Bank of The Bahamas
INTERNATIONAL

www.BankBahamasOnline.com

\$5

junkanoo
summer festival

Bank of The Bahamas
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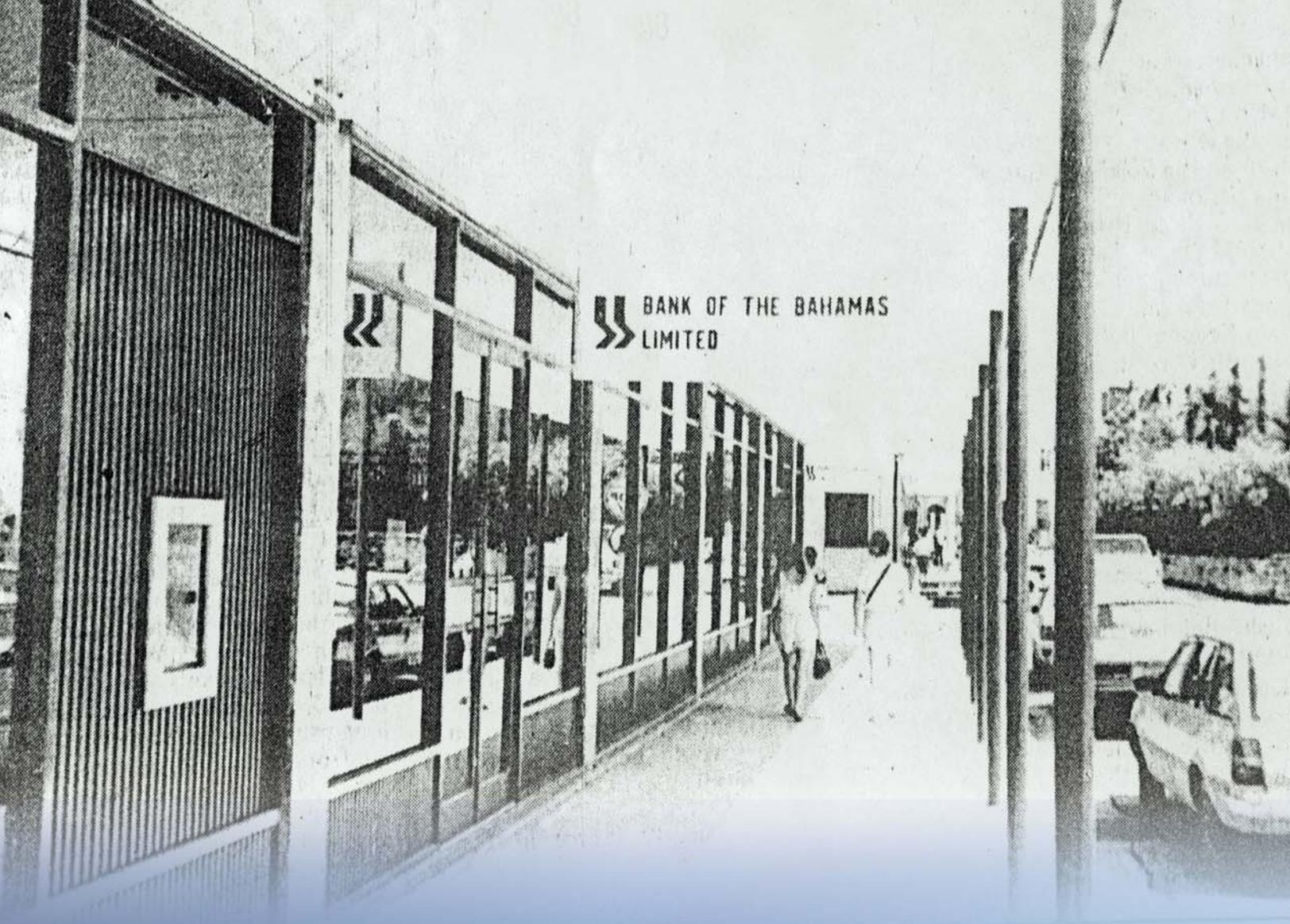
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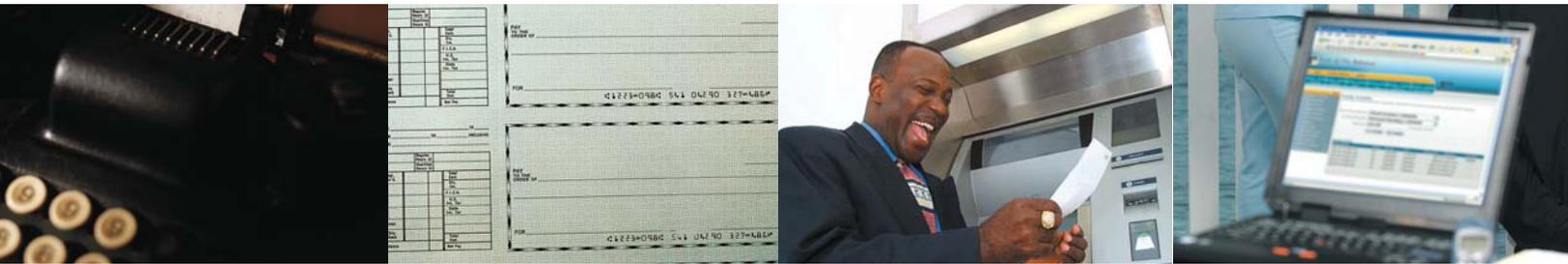
www.BankBahamasOnline.com

The Market
LIMITED EDITION

We do not want to be at the receiving end of the banking equivalent of the first mobile phone call. We want to make that call, not to gloat, but to say we worked harder, we ran the race with creativity, energy and teamwork and we delivered for our customers, staff and shareholders.

We know what it means to INNOVATE. That's what drives us. To deliver the best to you by exploring new territory, going where your needs and our innovation takes us. Together.





“The greatest danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it.”

—Michelangelo

History of the Bank

Bank of The Bahamas Limited came into being with the acquisition of a Canadian bank in 1988. Now 18 years later, a time so brief that were it compared to human years, it would not have reached the age of majority, it has grown from \$90 million in assets to nearly \$600 million. In that short period, it has expanded from a single location to 11, from serving two islands to six, from providing the most basic of retail banking services to the most comprehensive of financial products. In six years, shareholder equity more than quadrupled, from \$19 million in 2000 to \$92.1 by 2006.

The Bank's record of firsts, highlighted throughout this report, will culminate in its becoming the first Bahamian bank with a physical presence in South Florida where Bahamians who do business every day will be able to do so with greater efficiency and ease.

From the start, Bank of The Bahamas did not just operate. It innovated.

From out-of-the-box thinking to over-the-top training, from searching for opportunities to acquisition of expertise, the Bank has charted new territory. Along the way it has lived up to its original belief—that what really sets one financial institution apart from another is its 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.

THE BEGINNING

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

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

In September 1994 the Government sold 20% of its Shareholding or 2,000,000 Shares to the Bahamian public. In October 1995 the Government offered a further 3,000,000 Shares of the Bank to the Bahamian public.

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

The Bank continued to experience extraordinary success as it was able to announce an oversubscribed rights offering of \$25 million in late 2005 and a subsequent

Twenty thousand years elapsed between the first attempts at stitching in the last Ice Age and mass production of a lightweight sewing machine. Early machines sold for \$10 in the 1902 Sears catalogue. Once production resumed after WWII, competition was so stiff it led not only to more innovative machines, but innovative marketing.



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 opportunistic work environment for employees
- To maintain the highest level of fiscal and regulatory standards and best practices

\$15 million private placement preference share offering in 2006. The Issued Capital of the Bank is at 15,600,000 Shares of B\$1 par value.

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

GROWING SERVICE BY SERVICE

The Bank provides retail and commercial banking services. Its full range of products includes deposit accounts, commercial and residential mortgages, trust and fiduciary services and foreign exchange. In recent years, it has dramatically strengthened its relationships with VISA, and in 2006 was upgraded to Principal Member, paving the way for it to provide VISA Prepaid and Gift cards. It also cemented its relationship with MoneyGram to accommodate the increasingly important need for money transfer services and further strengthened its relationship with American Express, becoming its leading representative in The Bahamas.

Because of its commitment to help grow the economy and a growing international client base, it has become known as, *The Bahamian Bank with the Broadest Reach*.

In September 2000, it launched a wholly-owned subsidiary, Bank of The Bahamas Trust Limited, becoming the first to



The sewing machine was the first home appliance sold on the installment plan, the beginning of consumer credit as we know it today.

provide trust services tailored to Bahamians. The trust company also provided related fiduciary functions, including estate management for local residents and citizens as well as company incorporation.

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

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

In 2005, the Bank's mortgage fair resulted in a doubling of its loan portfolio.

In 2006, the Bank partnered with the Ministry of Tourism to introduce a Junkanoo Summer Festival currency to facilitate a safer festival environment.

Innovations in products and services helped the Bank achieve record profits this year.

AWARDS

Innovation that has led to a growing customer base, broader range of services and translated into notable returns has earned international recognition for the Bank.

In 2005, Bank of The Bahamas became the first bank in the country to be named Country Bank of the Year, by *The Banker*, a part of London's prestigious Financial Times Group. The honour carried with it the coveted Bracken Award.

In 2006, another leading global publication, *Euromoney* Magazine, presented the Bank with the Award for Excellence, The Bahamas' first-ever country's best bank award.

BRANCHES

The Bank operates with nearly 300 staff members in 11 locations, including its newest branch in Exuma and its plans to expand will allow it to open a service center in South Florida in early 2007. In addition to Exuma, branches are also located in New Providence, Grand Bahama, Andros, Inagua and San Salvador.

The Bank is headed by an twelve-member Board of Directors, whose Chairman maintains an office on location at the Bank's Head Office.



Letter to Shareholders

One of the most pleasant tasks of a Chairman of any publicly held company is being able to report a year of solid financial performance and a significant increase in shareholder value. But when such a performance exceeds all expectations, and sets historic level in all key areas, it makes his job so much easier.

During the fiscal year 2006 the Bank recorded net income of \$10.2 million compared to \$7.0 million in 2005 representing an unprecedented increase of 45.4%. This contributed to an impressive increase of \$0.15 to \$0.74 in earnings per share. Further, continued appreciation in share price to \$7.49 from \$6.44 over the period significantly enhanced shareholder value and market capitalization. While total assets increased by a significant \$92.1 million to \$545.2, more impressive was a net increase of \$100.3 million to \$453.0 million in loans and advances to customers. A closer review of the latter figures reveals that by distribution, mortgages approximated 81%, commercial loans 10% and consumer loans 9%. This is a clear indicator that the bank exercised prudence in investing 90% of its resources in the productive sector of the economy with consumer loans receiving the smallest investment. This deployment of resources is consistent with the Bank's asset allocation and risk appetite strategies.

The overall healthy performance and improved service delivery avenues, driven by new technology, innovative operating techniques and our hard working staff, resulted in an improved efficiency ratio of 58.07% over the previous year's 65.82%.

The Bank ended the year with a very strong equity position of \$74.8 million compared to \$44.3 million in 2005 benefiting from a successful share offering. This improved the Bank's capital ratio to a strong 13.7% far exceeding guidelines established by The Central Bank of The Bahamas.



These historic results were not accomplished by accident. They can be directly attributed to several key factors: innovative products and services, creative marketing strategies and excellent service delivery by our highly motivated staff, accompanied by state-of-the-art technology. These characteristics separate us from our competitors.

It came therefore as no surprise that the Bank won another global award this year from *Euromoney* Magazine as the best performing bank in The Bahamas.

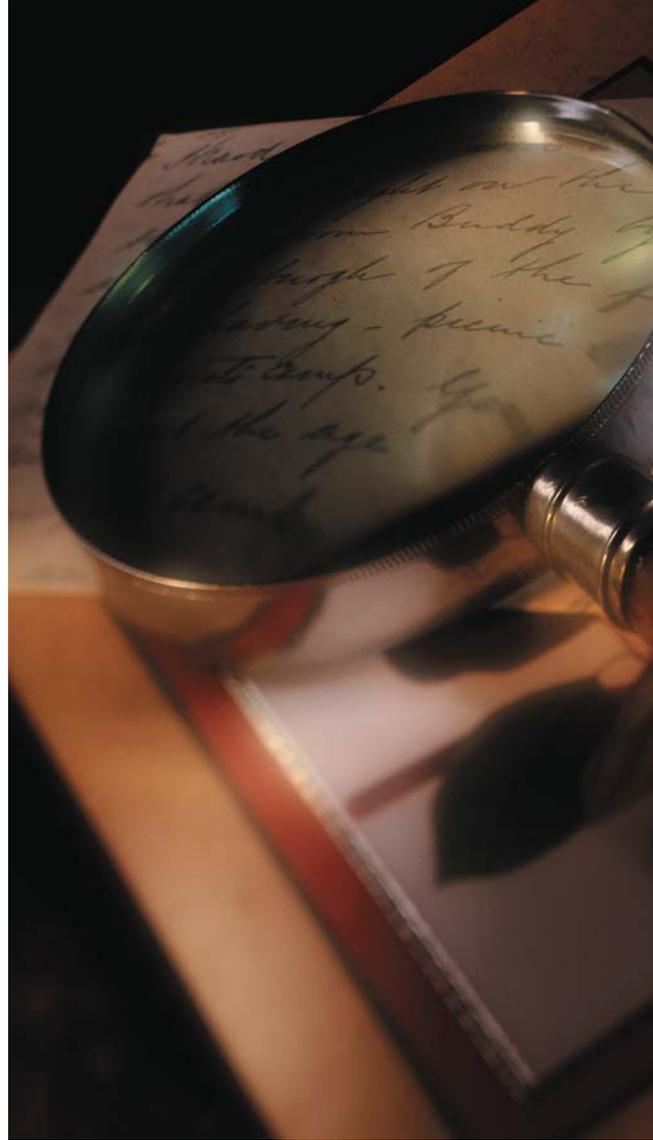
Our 4000 plus shareholders have many reasons to be pleased with the Bank's fine results in 2006 and we look forward to another year of solid performance in 2007 when we enter a new year in rolling out our 5-year Strategic Plan.

I wish to congratulate Mr. Paul McWeeney, his management team, and my entire staff for the role they played in achieving these historic results.

I also wish to thank my Directors for their strong support and effort at both Committee and Board levels during the year and look forward to their continued support.

A handwritten signature in black ink, appearing to read 'Alfred Jarrett'.

Alfred Jarrett, MBA
Chairman



Executive Statement from the Managing Director

“Innovation distinguishes between
a leader and a follower.”

—Steve Jobs,
co-founder of Apple and Pixar

The financial performance of Bank of The Bahamas Limited (Bank) for fiscal year 2006 registered unprecedented levels of positive growth. Moreover, the introduction of industry-pioneering products and the continued leveraging of existing capabilities combined to contribute to the Bank’s outstanding success during the year.

I am, therefore, pleased to report growth of 45.4% to B\$10.2 million in net income, 20.3% to B\$545.2 million in total assets, and 68.8% to B\$74.8 million in total shareholders equity. These results, year-over-year, represent one of the great success stories in domestic banking history.

Growth in the Bank’s core business—loans & advances to customers—was particularly robust, experiencing a 45.4% or B\$100.3 million net increase to settle at B\$453.0 million. Within the context of such strong growth, I am pleased to note that asset quality improved by 100 basis points to a healthy 2.4%, the best level for the last 10 years.

Our Bank’s impressive growth, however, did not come without its challenges. Industry credit growth adversely impacted liquidity and, from time to time, influenced higher deposit rates as well. Equally important was the need for the Bank to increase human resources and to locate additional premises with all the attendant expense.



However, the positive conclusion to the fiscal period demonstrates that the Bank optimized direct cost management, restrained non-interest expense to budget, thereby mitigating the potential negative impact of an expanding operating infrastructure. This conclusion is validated in a dramatically improved efficiency ratio from 65.82% in 2005 to 58.07% in 2006, indicating an improved rationalization of new and existing capabilities.

In support of its strong growth and prospects, the Bank successfully floated a rights offering which raised \$25 million in additional capital thereby expanding its risk-absorbing capacity and deepening its capital strength. The offering was oversubscribed, reflecting the continued confidence of the Bank's current investors and the Bahamian investing market as a whole. Capitalizing on this momentum and seeking to consolidate the stellar growth of the fiscal year, further capital expansion was undertaken with the floatation of a \$15 million private placement preferred share offering. This offering, which closed after the fiscal year-end, was also oversubscribed.

Rounding out the portrait of positive performance, I am pleased to note that the record profits of 2006 have resulted in significant enhancement in shareholders value

and market capitalization. This latter feature is demonstrated by the Bank's BISX listed stock price which increased by some 20% to \$7.49 as at July 2006, up from \$6.44 around the same time last year, a trend which has continued subsequent to fiscal year end.

During the fiscal period 2006, the Bank expanded its service delivery network with the opening of a new branch in Exuma. The Board of Directors also approved plans to open two additional branches: one in Cat Island and the other in the southwestern district of New Providence.

The financial highlights noted above underscore the fact that the financial performance achieved by the Bank is grounded on fundamentally sound banking practices. While significant results were realized in revenue generation and increased profitability, resulting measurements such as the efficiency and capital ratios, growth in shareholders equity and improvement in asset quality, demonstrate the sustainability of our performance in 2006. The organizational strength established by these measures shows that the Bank is strategically positioned to capitalize on this past performance and, in so doing, further enhance its ability to maximize shareholders value.



In promoting stakeholder value we have an inherent responsibility to motivate broad private and public sector change with the objective “to make life better for all Bahamians.” Therefore, the essence of our investments is to create a positive experience not only for staff, customers and shareholders, but all inhabitants of our beloved Bahamas. Within this context we highlight the following successful initiatives during the fiscal year:

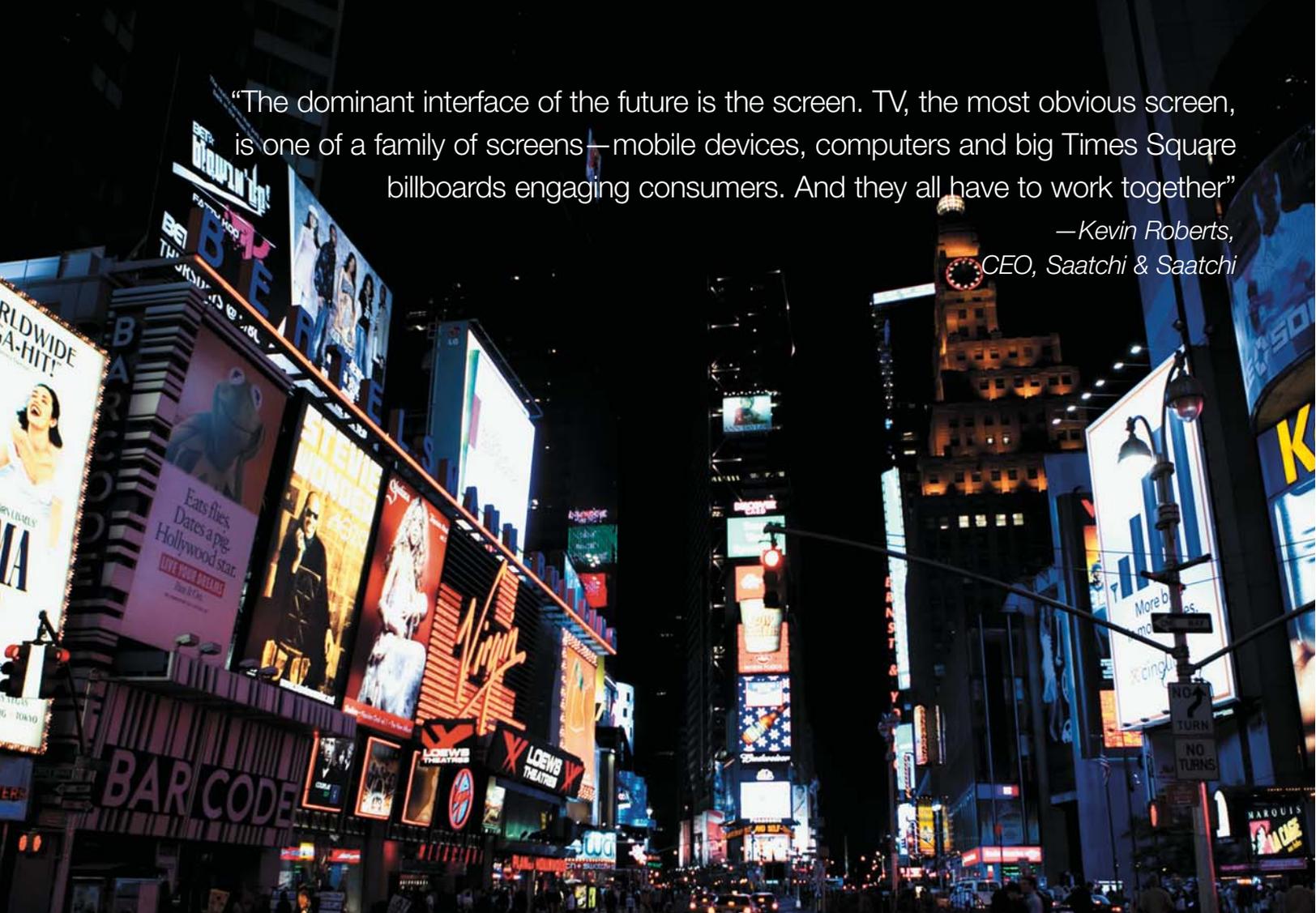
- The Bank’s mortgage campaign resulted in the capture of almost one quarter of all residential mortgages granted by retail banks thereby paving the way for a considerable expansion in home-ownership and, of course, a major increase in the Bank’s mortgage portfolio. It should be noted that this particular success was driven largely by sound macro-economic conditions aided by sector-adopted lower costs and prudently adjusted lending policies.
- The introduction of “industry-first” VISA Prepaid and Gift cards permitting customers to gain the benefits of a universal merchandizing platform without having to incur interest costs or contend with credit qualifying limitations, and

- The introduction of imaging technology in the local market thereby vastly improving on-line banking options for customers. This feature enabled the Bank to be the first among the clearing banks to permit almost virtual clearing of U.S. cheques facilitating the expedient completion of related general business transactions. This technology has the additional capacity to transform internal operating processes. It is also the primary element that will enable the sector to establish an Automated Clearing House (ACH), a critical component in the undertaking by The Central Bank of The Bahamas for the Modernization of the Payments System. Not only will the establishment of an ACH bring a much needed new dimension to our role as a significant financial jurisdiction, it will also usher in major improvements in the operating systems of the money and capital markets in The Bahamas.

The Bank continues to make strides as it seeks to expand its customer offerings and diversify sources of revenue while positioning itself to crystallize its strategic vision of attaining a financial enterprise status—a business that is focused on what differentiates itself from competitors, is responsive to ongoing changes in the

“The dominant interface of the future is the screen. TV, the most obvious screen, is one of a family of screens—mobile devices, computers and big Times Square billboards engaging consumers. And they all have to work together”

—Kevin Roberts,
CEO, Saatchi & Saatchi



marketplace, has a scaleable operating platform and is resilient to natural business risks. Efforts toward the launch of the Miami project were significantly advanced during the year with the gaining of local regulatory approval. This together with the planned launch of our Private Banking department will further enhance the quality and reach of service provided to customers. The Private Banking department will figure prominently in the launch of the Bank's new customer relationship management model—customer life cycle management.

The Bank's continued financial success is grounded not only in innovation but also in our continued adherence to sound prudential principles of banking and corporate governance. This commitment is a key underpinning of our New Growth Platform (NGP*). Central to this NGP will be the adoption of market-leading core-bank technology that is currently underway. Progressive changes in operational dynamics will pave the way for ever increasing levels of efficiency and make it possible to inaugurate new lines of business while at the same time consolidating our tried and tested core areas.

As the Bank moves into a new fiscal year it is well-positioned to introduce new types of business solutions aimed at achieving financial fulfillment for its customers.

The Bank will remain innovative in its approach to satisfying consumer demands and expectations. The Bank also anticipates moving closer to the ground-breaking for its new state-of-the-art headquarters on West Bay Street, Nassau.

I would not want to conclude this statement without paying special tribute to our excellent staff for once again being recognized globally, this time by *Euromoney* as the 2006 “Best Bank in The Bahamas.” This follows the distinction we earned in 2005 when we were awarded The Bracken prize by *The Banker* for being the “Best Bank in the Bahamas.” Both achievements were a first for any Bahamian financial institution. It gives me much pride and pleasure, therefore, to thank our staff for continuing to give so superbly of themselves. I also salute our Chairman, Mr. Al Jarrett and all members of our board of directors for their outstanding role in contributing to the Bank's continuing success.

Paul J. I. McWeeney
Managing Director

*Results of a study by Harvard Business School and INSEAD, showing executives of 24 successful companies achieved organic growth by creating platforms on which they could build families of products and services.



Innovation Through Our Products, Our Services

Nowhere does innovation set one business apart from another more distinctly than in the products and services it delivers. And never has it been more critical to conceive, create, perfect and offer products at a faster pace. Companies whose names were once synonymous with success but whose food processors, vehicles, radios, trains did not keep up with change barreling at them litter the hallways of history, textbook classics of what happens to those to whom laurels become resting places.

Though less obvious to the casual observer, banking and financial services changes occur more subtly. But occur they have. A world of difference exists between only a few years ago and today behind the scenes in efficiency, information that makes conducting business easier and more secure, and in providing products that make the quality of life better. The customer service representative who accepts your deposit with a smile and asks if there is anything else he can help you with can now also provide

you with invaluable information: comparison of interest earnings potential on a fixed deposit or what the pay-off of a mortgage would be tomorrow or a month from now. Far more than a safe repository for money in, money out, today's bank that will be tomorrow's success story must be a solid financial partner.

At Bank of The Bahamas International, innovation drives our foremost vision—to become the full life-cycle financial partner.

Innovation in recent years led to the Bank's becoming the first to offer trust services for Bahamians with confidential estate planning and a host of products for real estate, corporate, pension and retirement benefits. Innovation led to the Bank's being charged with the responsibility of pension fund oversight.

Innovation helped drive the Bank's online banking to be the most comprehensive in the nation.

Innovation fueled mortgage fairs that provided easy access to loan officers on Saturdays for thousands of

“Always remember that someone, somewhere is making a product that will make your product obsolete.”

—Georges Doriot, venture capital pioneer



Bahamians on several islands who could not only apply for a home loan but talk to real estate professionals, insurance company representatives, furniture companies and others.

Throughout 2005, seminars and workshops were scheduled for merchants to help maximize credit card sales and identify any possible misuse. MoneyGram money transfers were made more convenient with additional locations and online accessibility.

In 2006, innovation went steps further.

VISA Prepaid and Gift cards were introduced, allowing customers to purchase items and services wherever VISA cards are accepted. Over the last few months, partnerships were cemented with respected corporate entities including Mail Boxes Etc and BTC. Those partnerships entitled Visa cardholders to discounts on U.S. mail box addresses, wireless services and more, another way the Bank used marketing to provide tangible benefits to customers.

Innovation in online cheque imaging positioned the Bank to be the first in the country to offer 3-day U.S. cheque deposit clearance, dramatically reducing wait time for use of funds from up to four weeks to a mere three days.

Although it was after the close of the fiscal year, the Bank recently took another bold step, signing cultural icon

AncientMan to write and perform a new jingle that will be released at about the same time this report is. The rake ‘n scrape music is as catchy as it is lively because even advertising has to be better than it once was. With popular hits like “I ‘Ene Asking for Much” and “Fire Engine,” AncientMan will bring a fresh voice to the Bank’s message and deliver it with the throaty energy that has made him a cultural icon.

By the time this report is issued, Private Banking will have been launched. It will significantly enhance the Bank’s capability to deliver consistent, high-quality customer service.

And in early 2007, now that all regulatory hurdles have been cleared, the long-awaited South Florida facility will open in a spectacular Coral Gables location.

At Bank of The Bahamas International, we are proud to look forward but we also pledge this:

No matter how innovative we are, our goal will remain steadfast, to become a full life-cycle financial partner helping to build, develop, grow and protect our community. And that teller who asks if he can help with anything else may have more knowledge at his fingertips, but one constant will remain: the sincerity of his smile. Because no matter how sophisticated we become, we deserve the personal touch.





Pandora Knowles



Yvette Johnson



Jewel Bethel



Kendra Moxey



Kamia Cairbridge



Julia Dames



Rodney Gant



Jeffrey Burnside

“You have all the reason in the world to achieve your grandest dreams. Imagination plus innovation equals realization.”

—*Denis Waitley, motivational speaker*

Beverley Farquharson
Deputy Managing Director, Operations



Innovation Through Our People

The manager, teller, loan officer, trust officer, the security guard who opens the door are faces that are familiar to customers and shareholders. But behind the scenes, professionals like Tameka Forbes carry out responsibilities critical to the Bank's reputation, responsibilities that could be crucial to national security.

Forbes, an attorney by profession, is Senior Manager, Risk. When an unknown entity, whether individual, corporate or group, tries to conduct business with the Bank, Forbes heads a team that researches the source of funds. Forbes and her associates are charged with keeping the Bank in line with compliance regulations and ensuring

that security is not compromised. Risk avoidance is safer than the alternative.

In March of this year, Forbes walked away with the coveted title of Compliance Professional of the Year bestowed upon her by the Bahamas Association of Compliance Officers.

“There will be continuous challenges within the field of compliance as international standards evolve,” she says. “However, Bank of The Bahamas International stands poised to meet those challenges through innovation.”

Innovation that allows Forbes to investigate paper trails and histories involves global research, reach and resources.



Still, she says, once all facts are collected and collated, it is the human element—experience, instinct and sensitivity that identifies a link to terror or other unsavoury sources. “Our best defence in mitigating risks such as money laundering lies,” she says, “within our human resources, our people.”

No matter how dramatic a new invention is, no matter how innovative a solution is, it is the people who use it, improve it, develop, enhance and promote it who give it value.

At Bank of The Bahamas International, Forbes is one of nearly 300 staff members, many of whom have a ready smile and a good idea to share for a new solution.

These pages are filled with some of the faces of those who reinforce our conviction that innovation makes progress possible; people make it happen.

Deputy Managing Director Vaughn Delaney,
Information & Technology and Human Resources

Innovation makes progress possible; people like Tameka Forbes, left, Compliance Professional of the Year, make it happen.







“When you get a result that you expect, you have another result; but when you get a result that you don’t expect, you have a discovery.”

—Frank Westheimer, chemist

Corporate Governance

The following principles were adopted by the Board of Directors (‘the Board’) of Bank of The Bahamas Limited (‘the Bank’) and provide the framework for corporate governance of the Bank. The Board recognizes that corporate governance matters continue to evolve and therefore keeps abreast of new codes and rules established both internationally and locally by regulatory bodies in order to maintain best practices.

ROLE OF BOARD OF DIRECTORS

The Board is accountable to its stakeholders 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 analyzed by the Bank’s external auditors.

BOARD COMPOSITION, STRUCTURE AND POLICIES

Board Membership

In consideration of the expanded Board committees and for succession planning purposes the Articles of Association were amended at the Bank’s Annual General

Meeting (‘AGM’) on December 29, 2005 to allow for the capacity of the Board’s membership to be increased to a maximum of 15 persons. Mr. William Wallace who previously served on the Board of Bank of the Bahamas Trust Limited was also elected to the Board at the AGM.

In May 2006, due to extensive travel commitments and time constraints, Mr. Lester Smith resigned from the Board. The Bank is now seeking to fill this vacancy as well as add another Director to its membership. The membership now stands at 11 non-executive Directors and one executive Director.

All Directors, with the exception of the Managing Director, are elected annually at the Bank’s AGM. Any casual vacancy may be filled during the course of the year; however, such appointed Directors serve only until the next AGM when they must stand for election by the shareholders and must be approved and/or ratified by The Central Bank of The Bahamas.

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 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



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MICKY TOMMIS

\$8,000 per annum for his/her services and additional compensation of \$1,000 for attendance at quarterly board or special meetings. The Chairman and Deputy Chairman's annual remuneration is \$65,000 and \$25,000 respectively. The Executive Director receives no remuneration for services performed in his capacity as Director.

Director Education

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

Independence of Directors

The Board is aware of its 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 2006, four regular Board meetings and two extraordinary Board meetings were held. Generally, Board Committee meetings are held quarterly, with the exception of the Corporate Governance and Executive Compensation Committees which are held at least annually or as necessary.

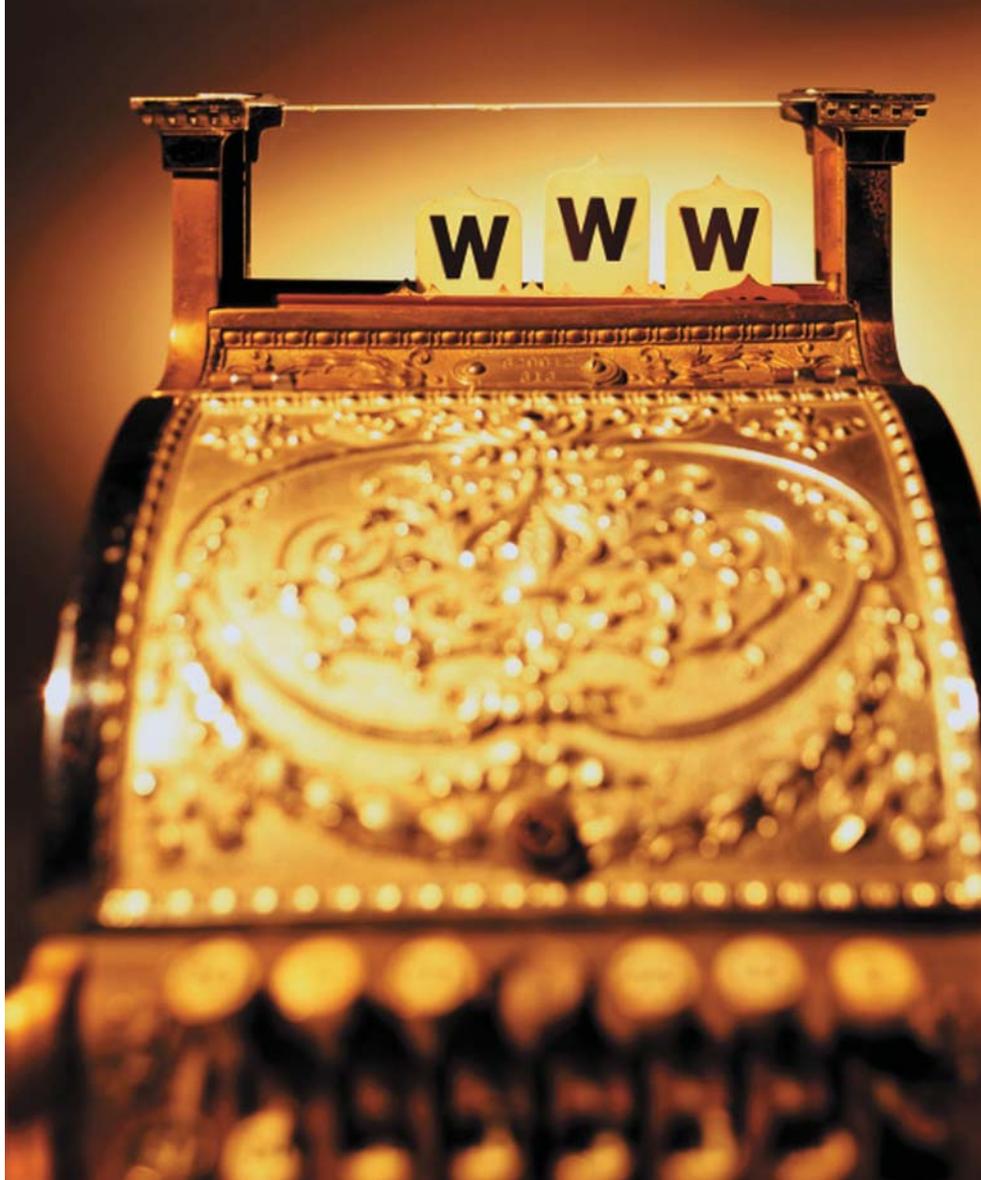
Attendance at Meetings

Directors are expected to attend the Annual General Meeting, Committee meetings and all Board meetings in order to keep informed and provide the opportunity for meaningful input into the decision-making process. Right is a record of attendance.

Preparation for Meetings

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

Board materials are distributed 3-5 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.



NAME	FISCAL 2006 BOARD MEETING ATTENDANCE					
	Aug 19 BOD 05	Nov 5 BOD 05	Jan 4 Ex BOD 06	Jan 27 BOD 06	May 5 BOD 06	Jun 30 Ex BOD 06
Alfred Jarrett	✓	✓	✓	✓	✓	✓
Lourey Smith	✓	✓	✓	✓	✓	✓
Maitland Cates	✓	✓	✓	✓	✓	✓
Lennox McCartney	✓	✗	✗	✓	✓	✗
Robert Sands	✓	✗	✓	✓	✓	✓
Allan Benjamin	✗	✓	✗	✓	✓	✓
Ruth Millar	✓	✓	✓	✓	✓	✓
Patrick Bain	✓	✓	✗	✓	✓	✓
Maxwell Gibson	✓	✓	✓	✓	✓	✓
Lester Smith	✓	✓	✗	✓	✓	NA
Barry Russell	✗	✗	✓	✓	✗	✗
William Wallace	NA	NA	✓	✓	✓	✓
Paul McWeeney	✓	✓	✓	✓	✓	✓

✓ = Present ✗ = Absent/Apologies n/a = William Wallace was elected in December 2005. Mr. Smith resigned from the Board in May 2006.



NAME	COMMITTEE MEETING ATTENDANCE				
	July-Aug 05	Oct 05	Jan 06	Mar-Apr 06	July-Aug 06
Lourey Smith	Risk ✓ Audit ✓	Risk ✓ Audit ✓ Exec. Comp ✓	Risk ✓ Audit ✓	Risk ✓ Audit ✓	Risk ✓ Audit ✓
Maitland Cates	Audit ✓ Corp Gov ✓	Audit ✓	Audit ✓	Audit ✓ Corp Gov ✓	Audit ✓
Lennox McCartney	Finance ✓ Credit ✓	Finance ✗ Credit ✗ IT ✓	Finance ✓ Credit ✓ IT ✓	Finance ✓ Credit ✓ IT ✓ Operations ✗	Finance ✗ Credit ✗ IT ✓ Operations ✗
Robert Sands	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓ IT ✓	Credit ✓ Credit ✓ IT ✓
Allan Benjamin	Risk ✓ Corp Gov ✗	Risk ✓	Risk ✓	Risk ✓ Corp Gov ✓	Risk ✓
Ruth Millar	Audit ✓ Corp Gov ✓	Audit ✓	Audit ✓	Audit ✓ Corp Gov ✗	Audit ✓
Patrick Bain	HR ✗ Risk ✗	HR ✓ Risk ✗	HR ✗ Risk ✗	HR ✗ Risk ✗	HR ✗ Risk ✗
Maxwell Gibson	HR ✓ IT ✓	HR ✓ IT ✗ Exec. Comp ✗	HR ✓ IT ✓	HR ✓ IT ✓ Operations ✓	HR ✓ IT ✓ Operations ✓
Lester Smith	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓	Finance ✓ Credit ✓	NA
Barry Russell	HR ✓ IT ✓	HR ✓ IT ✓	HR ✓ IT ✗	HR ✓ IT ✓	HR ✗ IT ✗
William Wallace	NA	NA	Audit ✓	Audit ✓ Finance ✓ Credit ✓ Operations ✓	Audit ✓ Finance ✓ Credit ✓ Operations ✓

✓ = Present ✗ = Absent/Apologies n/a = William Wallace was elected in December 2005, Mr. Smith resigned from the Board in May 2006.

STRUCTURE OF THE BOARD

Board Committees

The Board established a number of standing committees as follows:

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

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

Board Certification

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

On May 5, 2006, the Board submitted its Annual Certification to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines.

May 5, 2006

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

Dear Sirs,

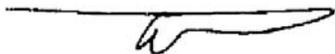
Corporate Governance Certification - 31 December 2005

- The board of directors (the board) of the 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 13th December, 2001, and acknowledges its role and responsibilities under the Guidelines;
- While the Bank recognizes the importance of strengthening its systems and procedures to ensure a stronger corporate governance environment on an ongoing basis, the board believes that the systems and procedures that are currently in place are appropriate and, accordingly, is satisfied that the board of directors is performing its functions and fulfilling its responsibilities under those Guidelines;
- The board has carefully considered the reporting of senior management and other information provided in determining whether the Bank is following the corporate governance guidelines and,
- The board is of the opinion that the Bank is following the Guidelines. However, while we recognize that significant progress has been made, we do recognize that continued attention and progress is required in the following areas:
 1. Enhancements to our policies and procedures documentation and,
 2. Further strengthening of our Credit Area.

The Bank has assigned specific executive management personnel to be responsible for addressing these areas utilizing the assistance of external advisors. We are confident that these areas will continue to be addressed with determination.

Yours faithfully

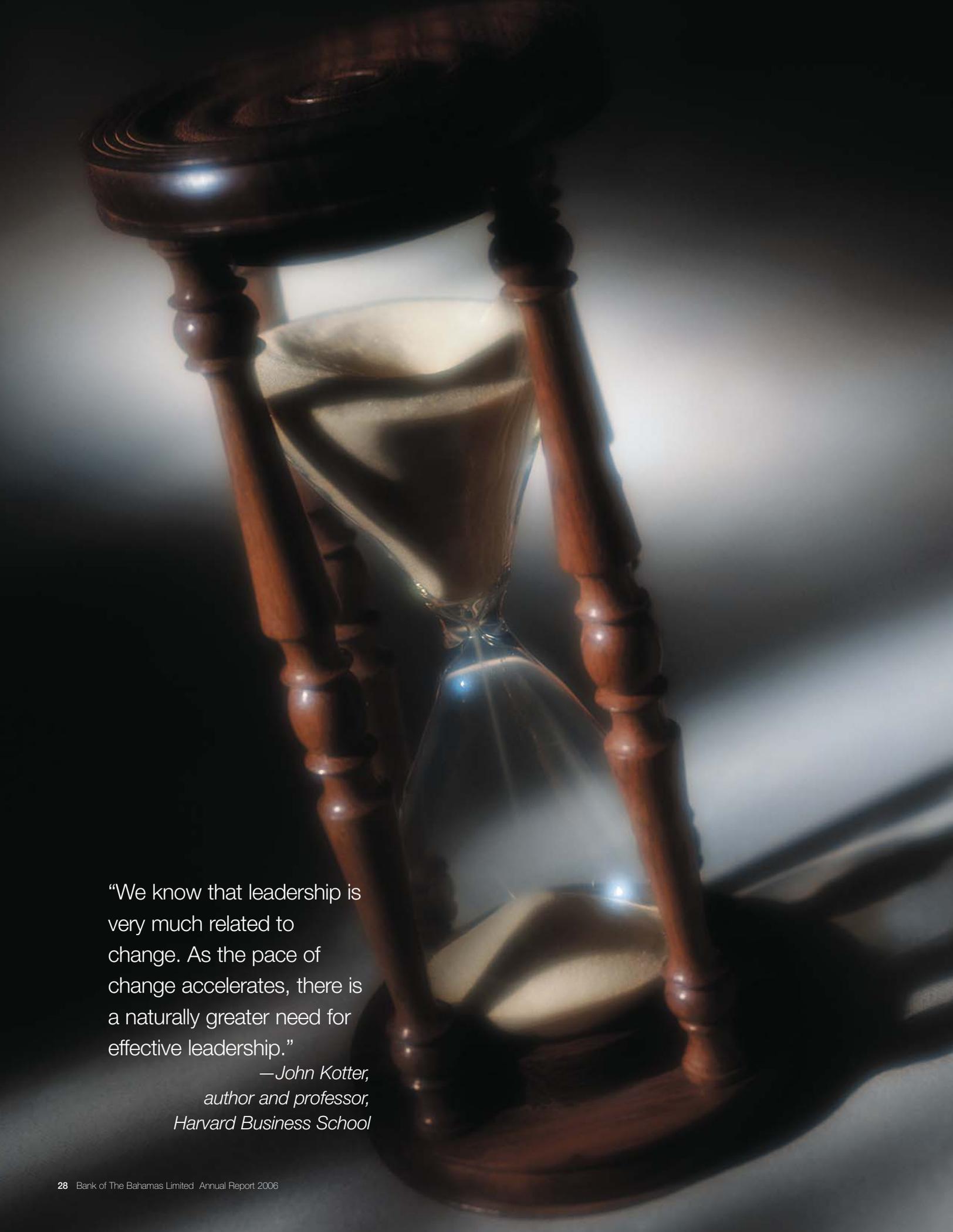
On behalf of The Board of Directors of
Bank of The Bahamas Limited:



Alfred Jarrett
Chairman



Paul J.J. McWeeney
Managing Director



“We know that leadership is very much related to change. As the pace of change accelerates, there is a naturally greater need for effective leadership.”

—John Kotter,
author and professor,
Harvard Business School

Management Discussion

AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Description	2006	2005	Change
Interest Income	\$ 35.30	\$ 27.24	\$ 8.06
Net Interest Income	\$ 21.96	\$ 16.19	\$ 5.77
Non Interest Income	\$ 8.77	\$ 6.91	\$ 1.86
Non Interest Expenses	\$ 17.84	\$ 15.21	\$ 2.63
Net Income	\$ 10.19	\$ 7.00	\$ 3.19
Earnings per Share (EPS)	\$ 0.74	\$ 0.59	\$ 0.15
Total Assets	\$ 545.23	\$ 453.15	\$ 92.08
Loans & Advances to Customers	\$ 452.69	\$ 352.43	\$ 100.26
Total Liabilities	\$ 470.41	\$ 408.83	\$ 61.58
Shareholders' Equity	\$ 74.82	\$ 44.32	\$ 30.50
Capital Ratio	13.72	9.79	3.93
Efficiency Ratio	58.07	65.82	(7.75)

Dollar amounts are stated in millions except for the EPS, Capital and Efficiency Ratios.

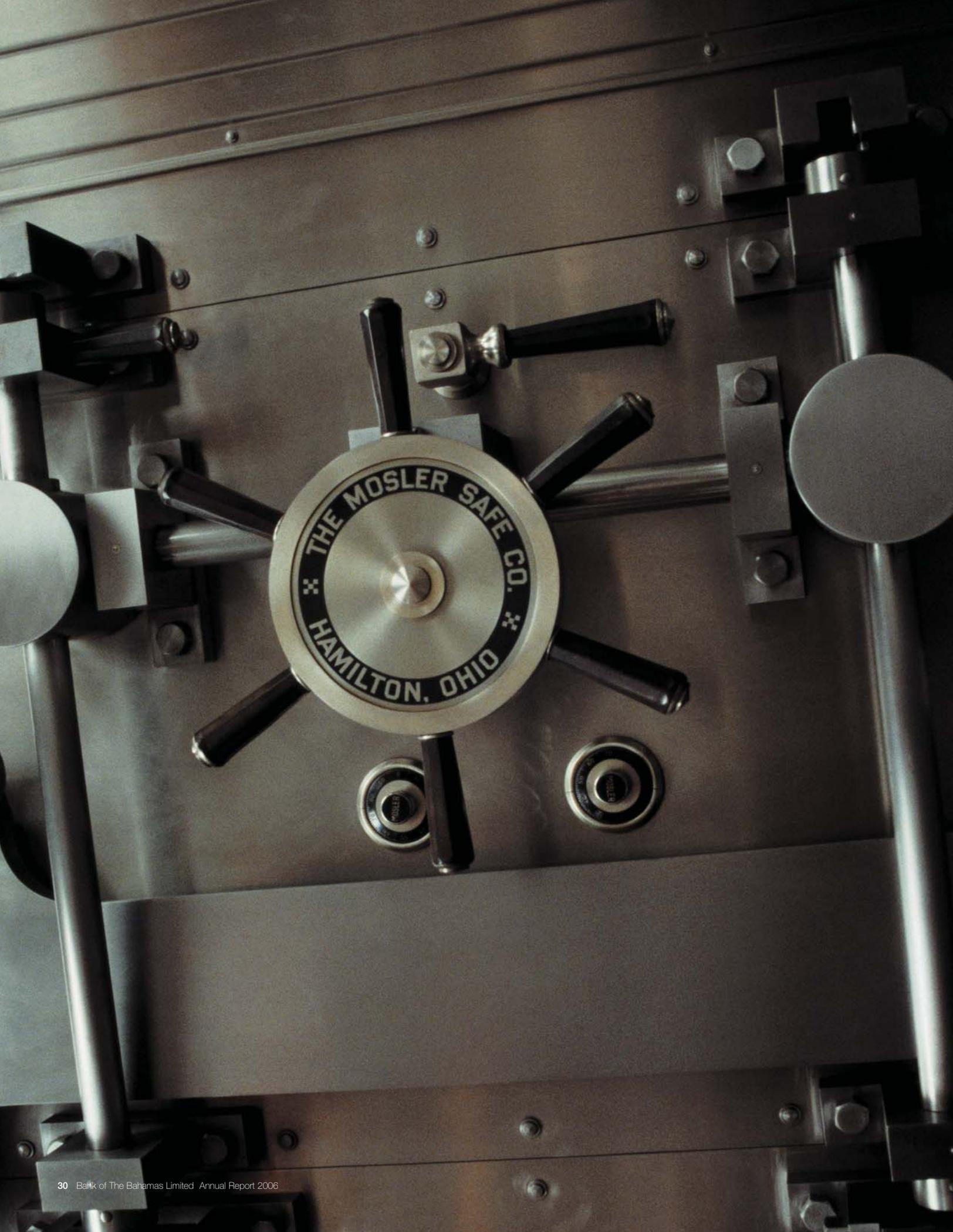
Bank of The Bahamas Limited's (Bank) 2006 fiscal year culminated in broad based record-setting financial performance and growth. The Bank realized gross revenue of \$44.07MM, net income of \$10.2MM, total assets surpassing the half billion dollar mark and the launch of highly competitive pioneering (locally) products.

Financial and ratio highlights detail the financial performance achieved by the Bank. While significant results were realized in revenue generation and increased profitability, resulting measurements such as the efficiency and capital ratios, growth in shareholders equity and improvement in asset quality prominently demonstrate the sustainability of 2006 performance.

The Rights Offering, which raised \$25MM in additional capital, together with the floatation of a \$15MM Private Placement Preferred Share Offering has strengthened the Bank's capital structure. This together with increased delivery channels, improvements in internal organizational strengthening and renewed focus on the development of our human capital and enhance service delivery lays the foundations for decades of continued successful performances.

The following segment discusses the specific performance and results as represented by major line items in the income statements and balance sheet of the Bank.







“True individual freedom cannot exist without economic security and independence.”

—Franklin D. Roosevelt

INTEREST INCOME

In fiscal year 2006 the Bank realized net growth in its loan portfolio of approximately 28.45% with the consequent significant increase in overall yields. Additionally, 2006 saw an expansion, proportionately in the volume of consumer lending. This together with as effective risk pricing and overall portfolio growth resulted in Interest Income exceeding 2005 levels by 29.59%. Interest income increased from \$27,238,551 to \$35,295,125.

INTEREST EXPENSE

While both B\$ and US\$ components of interest expense grew during the year management was able to, through effective purchasing of funding, restrict the growth to be less, proportionately than the growth in interest income. Overall, Interest Expense grew by 20.78%. The increase in deposit rates was influenced by the noteworthy imbalances in sector liquidity and the withholding of funds, by investors, in anticipation of certain major private and public security offerings. The resulting pressure on deposit rates was partially compensated through management's use of alternative funding sources. The issue of the \$25MM rights offering was significant in reducing the overall cost of funds and hence protecting the Bank's margins.

NET INTEREST INCOME

The significant increase in Interest Income coupled with careful management of Interest Expense resulted in an increase in Net Interest Income of \$5,761,116 or 35.57%. This result was directly impacted by the growth in the loan portfolio together with management decisions which further strengthened the Bank's credit risk management processes. The protection and improvement of the asset quality of the loan portfolio not only helped in realizing the healthy increase in Net Interest Income but also secures the sustainability.

NET PROVISION FOR LOAN LOSSES

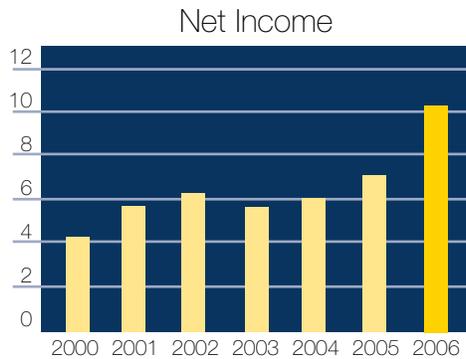
Net Provision for Loan Losses increased as a result of the robust growth in the loan portfolio, which grew by a record 28.45%. The Provision as a percentage of Loans and Advances now stands at 1.42% compared to 1.00% in 2005. This was coupled with an improvement in Asset Quality to 2.44% in 2006. Management is confident that the General and specific provisioning is conservative and is in line with Regulatory requirements and International Financial Reporting Standards.

NON INTEREST INCOME

Management continues to recognize the need to grow the Bank's Non Interest Income as a means for furthering its profitability. In fiscal 2006 focus on this aspect of the business together with the launch of new product such as the prepaid credit card further enhanced the Bank's performance in this area. Non Interest Income increased by 26.84% largely due to commitments associated with the loan portfolio growth and other fees realized on the expanded portfolio. Management's ongoing activities to identify additional streams of income will see continued focus on new or re-branded products together with initiatives to expand the usage, by our customers, of the various services and products that impact area of the Bank's operations.

NON INTEREST EXPENSES

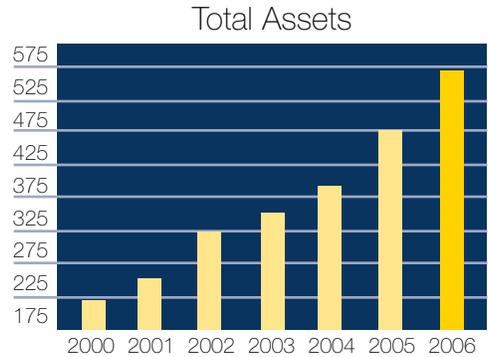
Non Interest Expenses increased by 17.31% largely due to the opening of new branches, the development costs involved in the introduction of new products, increased marketing and competitive positioning of the Bank and incremental organizational strengthening to facilitate the sustainability of our growth. Despite the increase in Non-Interest Expenses, the Bank's Efficiency ratio improved to 58.07% compared to 65.82% in 2005. This represents an improvement of approximately eight basis points. Management is consistently seeking more efficient ways to improve business processes and to consistently achieve higher levels of customer satisfaction.



NET INCOME

Net Income of \$10,189,109 compared to \$7,008,531 in 2005 represents a record setting level. Despite increased Net Provision for Loan losses to \$2,692,382 influenced largely by the growth in the loan portfolio the Bank was able to out pace 2005 results by 45.38%. This level of Net Income translates to a record setting EPS of \$0.74. EPS in 2005 was \$0.59. The positive performance

represented by EPS should be viewed within the context of increased number of shares as a result of the \$25MM rights offering.



TOTAL ASSETS

2006 evidenced the Bank achieving a significant milestone with its total assets exceeding one half billion dollars. This represents a significant achievement for the Bank, its employees and stakeholders. Again this was driven by the strong performance in the loan portfolio which, it is worthwhile noting, is a largely stable portfolio with the majority being secured mortgage loans.

LOANS AND ADVANCES TO CUSTOMERS

Following the removal of the Central Bank Lending Cap, reduction in prime rate, a general increase in demand for credit and the consequent launch of various very successful Mortgage Fairs the Bank was able to foster a significant growth in the loan portfolio. Loans and Advances grew 28.45% in 2006 compared to 17.74% growth in 2005. This resulted in approximately \$115MM in new loans being added to the Bank's book. Despite this phenomenal growth it is noteworthy that asset quality improved over 2005 from 3.44% to 2.44% in 2006 evidencing the quality of the Bank's risk management process both in the acquisition and management of credit assets. Mortgages continue to represent the largest position of the Bank's portfolio finishing at 52.24% for 2006. Consumer type loans on the other hand represent less than 10% evidencing the Bank's capacity to improve the mix of its interest yielding assets.

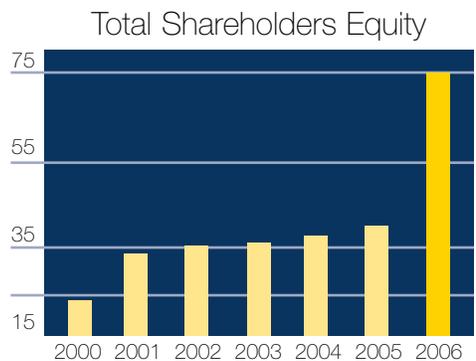
LIQUIDITY

The growth in the loan portfolio together with liquidity imbalances in the industry presented certain challenges for the Bank during 2006. Through the application of capital funding sources, competitive purchasing of funds





the Bank was able to cope with these challenges while implementing longer term strategies. Total deposits from customers and banks grew by \$60,336,499 or 15.82%. Significantly this is in excess of the Bank's historical average which evidences the effectiveness of funding decisions, with long term implication, taken during the year.



TOTAL SHAREHOLDERS EQUITY

The Bank's Capital ratio settled at 13.72% for 2006 well in excess of the regulatory capital requirement imposed by the Central Bank. The Bank's Tier I capital stood at 20.18% reflecting strategic actions designed to

deepening the Bank's funding and risks absorbing abilities. As noted before subsequent to year-end, \$15MM was raised in the form of preference share. Taking a forward looking approach the Bank's board of directors has, by authorization, facilitated the ability of the Bank to secure further financing through capital offerings. Management will seek to use these authorizations in a prudent and strategic manner to ensure that the momentum secured by the Bank over the years is continued and improved with a view of enhancing the competitive advantage of the Bank in the delivery of its products and services thereby further enhancing shareholders value.

The Management's Discussion and Analysis of our financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the fiscal year ended June 30, 2006. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition, this Management's Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related notes. This Management's Discussion and Analysis is dated August 31, 2006.

Board of Directors

BANK OF THE BAHAMAS LIMITED



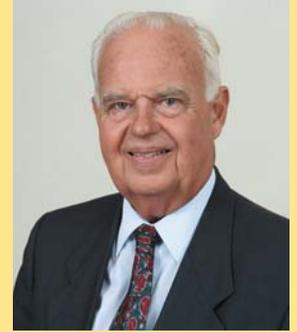
Alfred Jarrett
Chairman



Lourey Smith
Deputy Chairman



Paul J. I. McWeeney
Managing Director



T. Maitland Cates
Director



Allan J. Benjamin
Director



Lennox Clayton
McCartney
Director



Maxwell E. Gibson
Director



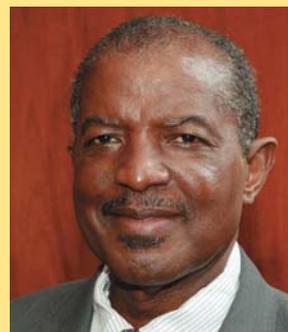
Dr. L. Barry Russell
Director



Ruth R. Millar, CMG
Director



Robert D.L. Sands
Director



Patrick Sherman Bain
Director



William Wallace
Director

BANK OF THE BAHAMAS LIMITED BOARD COMMITTEES

As at June 30, 2006

STANDING COMMITTEES	DIRECTORS
Credit Risk Board Committee	Robert D.L. Sands, Chairman Lennox McCartney, Director William Wallace, Director
Finance & Capital Development Board Committee	Lennox McCartney, Chairman Robert D.L. Sands, Director William Wallace, Director
Operations, Marketing, Business Development, Private Banking & International Operations Board Committee	William Wallace, Chairman Lennox McCartney, Director Maxwell Gibson, Director
Human Resources Board Committee	Maxwell Gibson, Chairman Dr. L. Barry Russell, Director Patrick Bain, Director
Information & Technology Board Committee	Dr. L. Barry Russell, Chairman Lennox McCartney, Director Maxwell Gibson, Director
Audit, Controls & Procedures Board Committee	T. Maitland Cates, Chairman Ruth Millar, CMG, Director Lourey Smith, Director William Wallace, Director
Risk Management Board Committee	Allan Benjamin, Chairman Lourey Smith, Director Patrick Bain, Director
Corporate Governance Board Committee	T. Maitland Cates, Chairman Ruth Millar, CMG, Director Allan Benjamin, Director
Executive Compensation Board Committee	Alfred Jarrett, Chairman Maxwell Gibson, Director Lourey Smith, Director
AD HOC COMMITTEES	
Headquarters Committee	Lourey Smith, Director
Miami Project Committee	Lennox McCartney, Chairman Dr. L. Barry Russell, Director
Annual Report Committee	T. Maitland Cates, Chairman Dr. L. Barry Russell, Director



INDEPENDENT AUDITORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

INDEPENDENT AUDITORS' REPORT

Chartered Accountants and Management Consultants
2nd Terrace West, Centreville
P.O. Box N-7120
Nassau, Bahamas

Tel: +1 (242) 302-4800
Fax: +1 (242) 322-3101
info@deloitte.com.bs

**Deloitte
& Touche**

To the Shareholders of
Bank of The Bahamas Limited:

We have audited the accompanying consolidated balance sheet of Bank of The Bahamas Limited (the "Bank") as of June 30, 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte

July 24, 2006

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2006

(EXPRESSED IN BAHAMIAN DOLLARS)

	2006	2005
ASSETS		
Cash and due from banks (Note 3)	\$ 28,978,706	\$ 28,242,098
Account with The Central Bank of The Bahamas (Note 3)	15,220,224	30,149,106
Investments (Notes 4 and 14)	28,903,000	25,527,300
Loans and advances to customers, net (Notes 5 and 14)	452,692,159	352,434,376
Accrued interest receivable (Note 14)	3,056,103	2,969,882
Prepaid expenses and other assets (Note 14)	3,494,037	1,745,180
Goodwill (Note 7)	1,115,277	1,115,277
Customers' liabilities under acceptances guarantees and letters of credit	3,840,839	2,999,464
Fixed assets, net (Note 6)	7,929,077	7,962,491
TOTAL	\$545,229,422	\$453,145,174
LIABILITIES		
Deposits from customers and banks (Notes 8 and 14)	\$441,616,912	\$381,280,413
Bonds payable (Notes 9 and 14)	17,000,000	17,000,000
Cheques and other items in transit	2,093,391	1,398,963
Accounts payable and other liabilities (Note 14)	2,778,943	2,623,309
Accrued interest payable (Note 14)	3,081,526	3,526,092
Acceptances, guarantees and letters of credit	3,840,839	2,999,464
Total liabilities	470,411,611	408,828,241
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	15,600,000	12,000,000
Share premium (Note 10)	28,587,866	7,589,064
Treasury shares (Note 11)	(245,739)	(264,270)
General reserve (Note 10)	1,400,000	1,400,000
Retained earnings	29,475,684	23,592,139
Total shareholders' equity	74,817,811	44,316,933
TOTAL	\$545,229,422	\$453,145,174

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on July 24, 2006, and are signed on its behalf by:



Director



Director

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED JUNE 30, 2006 (EXPRESSED IN BAHAMIAN DOLLARS)

	2006	2005
NET INTEREST AND OTHER INCOME:		
Interest income (Note 14)	\$35,295,125	\$27,238,551
Interest expense (Note 14)	13,339,216	11,043,758
Net interest income	21,955,909	16,194,793
Less provision for losses on loans and advances (Note 5)	2,692,382	889,974
Net interest income after net provision for loan losses	19,263,527	15,304,819
Service fees and commissions	4,510,154	3,350,637
Interest income from investments (Note 14)	1,975,417	1,686,591
Net foreign exchange gains	1,291,167	1,431,066
Other banking income	990,348	443,891
TOTAL	28,030,613	22,217,004
NON-INTEREST EXPENSES:		
General and administrative (Notes 14 and 16)	16,152,146	13,960,296
Depreciation and amortization (Note 6)	1,689,358	1,248,177
Total	17,841,504	15,208,473
NET INCOME	\$10,189,109	\$ 7,008,531
AVERAGE NUMBER OF COMMON SHARES	13,757,613	11,963,100
EARNINGS PER SHARE	\$ 0.74	\$ 0.59

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED JUNE 30, 2006

(EXPRESSED IN BAHAMIAN DOLLARS)

	Share Capital	Share Premium	Treasury Shares	General Reserve	Retained Earnings	Total
Balance at June 30, 2004	\$12,000,000	\$ 7,589,064	\$(267,750)	\$1,400,000	\$18,608,843	\$39,330,157
Net income	-	-	-	-	7,008,531	7,008,531
Sale of treasury shares (Note 11)	-	-	3,480	-	-	3,480
Dividends paid (Note 20)	-	-	-	-	(2,025,235)	(2,025,235)
Balance at June 30, 2005	12,000,000	7,589,064	(264,270)	1,400,000	23,592,139	44,316,933
Net income	-	-	-	-	10,189,109	10,189,109
Sale of treasury shares (Note 11)	-	-	18,531	-	-	18,531
Rights offering issuance (Note 10)	3,600,000	20,998,802	-	-	-	24,598,802
Dividends paid (Note 20)	-	-	-	-	(4,305,564)	(4,305,564)
Balance at June 30, 2006	\$15,600,000	\$28,587,866	\$(245,739)	\$1,400,000	\$29,475,684	\$74,817,811

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(EXPRESSED IN BAHAMIAN DOLLARS)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$10,189,109	\$ 7,008,531
Adjustments for:		
Depreciation and amortization (Note 6)	1,689,358	1,248,177
Loss (gain) on disposal of fixed assets	18,639	(16,250)
Provision for losses on loans and advances (Note 5)	2,692,382	889,974
	14,589,488	9,130,432
Change in operating assets and liabilities (Note 17)	(1,429,582)	2,110,208
Increase in loans and advances to customers, net	(102,950,165)	(54,001,716)
Increase in deposits from customers and banks	60,336,499	61,352,094
Net cash (used in) from operating activities	(29,453,760)	18,591,018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets (Note 6)	(1,677,283)	(5,267,599)
Purchase of investments	(3,462,000)	(1,980,500)
Proceeds from disposal of fixed assets	2,700	20,286
Proceeds from maturity of investments	86,300	1,962,700
Net cash used in investing activities	(5,050,283)	(5,265,113)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from rights offering (Note 10)	24,598,802	-
Dividends paid (Note 20)	(4,305,564)	(2,025,235)
Proceeds from sale of treasury shares (Note 11)	18,531	3,480
Net cash from (used in) financing activities	20,311,769	(2,021,755)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(14,192,274)	11,304,150
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	58,391,204	47,087,054
CASH AND CASH EQUIVALENTS, END OF YEAR (NOTE 3)	\$44,198,930	\$58,391,204
Interest received	\$35,208,904	\$27,156,478
Interest paid	\$13,783,782	\$10,929,582

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

NOTE 1 - GENERAL

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

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

The Bank's services include providing commercial and retail banking and trust services, private banking and the issuance of prepaid cards. The Bank has eleven branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador one in Exuma, and one in Inagua. On January 17, 2006, a resolution was approved by the Board to wind down the activities of Bank of The Bahamas Trust Limited a wholly owned subsidiary, and transfer the activities and management of that company to the Bank. It is management's intention to continue the private banking and trust services as a unit within the Bank itself. A subsidiary named BOB Financial Services Inc. was incorporated in Coral Gables, Florida on June 30, 2005. The main activities of BOB Financial Services Inc. will be the provision of trade financing, debit card and other financial services.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance - The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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

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

These consolidated financial statements include the financial statements of the Bank's wholly-owned subsidiaries, BOB Financial Services Inc. and Bank of The Bahamas Trust Limited.

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

- c. *Impairment* - Fixed assets, investments, goodwill, other assets and loans and advances to customers are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

In the case of fixed assets an impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. Impairment losses are recognized in the consolidated statement of income.

Goodwill represents the excess of cost of the acquisition over the fair value of net assets acquired by the Bank. Goodwill is tested annually for impairment and is stated net of impairment at year end.

- d. *Cash and cash equivalents* - Cash and cash equivalents consist of cash and due from banks and account with The Central Bank of The Bahamas.
- e. *Loans and advances to customers* - Loans and advances to customers are stated at the principal amounts outstanding net provisions for losses on loans and advances.

Non-accrual loans and overdrafts are identified as impaired and placed on a cash (non-accrual) basis when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principal is past due 90 days or more, except for loans that are fully secured and in the process of collection. 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.

A loan that is contractually 180 days in arrears is classified as non-accrual in all situations, except for loans to or guaranteed by The Government of The Commonwealth of The Bahamas. When a loan is identified as non-accrual, the accrual of interest is discontinued and any previously accrued, but unpaid interest is charged against current earnings. Thereafter, interest is included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectibility of principal, all cash receipts are applied to reduce the principal. Further, while interest continues to accrue, it is not added to the principal nor recognized as income, but rather is suspended.

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

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

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

The specific provision for an impaired collateral-dependant 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 applying factors based on the past due status of the loans.

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

Loans write-off - Consumer loans are written-off when they are contractually in arrears more than 180 days. All other loans are written-off 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 written-off, specific provision is increased to the principal amount of the loan and thereafter the loan is written-off against the provision for credit losses.

- f. **Investments** - Investments classified as held-to-maturity are carried at amortized cost. All unrealized gains and losses are included in the consolidated statement of income as they arise.
- g. **Repurchase agreements** - Securities purchased under agreements to resell are recorded as loans and advances to customers. Revenue derived from these transactions is recorded to interest revenue as earned. At the consolidated balance sheet date there were no positions in repurchase agreements.
- h. **Foreign currency** - The reporting currency of the Bank is the Bahamian dollar (B\$). Transactions in foreign currencies are converted to B\$ at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are converted into B\$ at market rates of exchange prevailing on the balance sheet date. Realized and unrealized foreign exchange gains and losses are included in the consolidated statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost or amortized cost, are recorded at the exchange rate ruling at the date of transaction.
- i. **Fixed assets** - Fixed assets (excluding building) are stated at cost less accumulated depreciation and amortization. Building is stated at estimated salvage value of \$290,150 with subsequent additions at cost less accumulated depreciation.

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

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

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

- j. **Accounts payable and other liabilities** - Accounts payable and other liabilities are recognized in the consolidated balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.
- k. **Acceptances, guarantees and letters of credit** - The contingent liability of the Bank under acceptances, guarantees and letters of credit is recorded as a liability in the consolidated balance sheet. An offsetting asset is recorded to reflect the Bank's recourse against customers in the case of a call on any of these commitments.
- l. **Related party transactions** - Related parties include all Ministries and Departments of The Bahamas Government, Government Corporations, Subsidiaries and Agencies as well as Directors and key management personnel of the Bank. All transactions with related parties are based on rates and terms used in the normal course of business, except for reduced rates for key management personnel's borrowings.
- m. **Pension costs** - Pension costs are charged to general and administrative expenses and are funded as accrued.
- n. **Earnings per share** - Earnings per share is computed by dividing the net income by the weighted average number of shares outstanding during the year.
- o. **Assets and liabilities under administration** - Assets and liabilities under administration on behalf of clients are not included in the consolidated balance sheet.

NOTE 3 - CASH & CASH EQUIVALENTS

	2006	2005
Under 16 days	\$27,190,330	\$52,997,780
16 - 30 days	9,016,178	5,043,424
31 - 90 days	7,642,422	150,000
91 - 180 days	350,000	200,000
	\$44,198,930	\$58,391,204

Included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas of \$14,213,100 (2005: \$12,534,562). All balances with The Central Bank of The Bahamas are non-interest bearing.

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

	2006	2005
Caribbean	\$25,675,718	\$38,648,123
England	233,990	348,424
United States	18,289,222	19,394,657
	\$44,198,930	\$58,391,204

NOTE 4 - INVESTMENTS

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

			2006	2005
BAHAMAS MORTGAGE CORPORATION BONDS				
MATURITY	INTEREST RATE	SERIES		
2007	5.000% effective rate	K	\$2,000,000	\$ 2,000,000
2007	3.500% effective rate	K	700,000	700,000
			2,700,000	2,700,000
BAHAMAS GOVERNMENT REGISTERED STOCKS				
MATURITY	INTEREST RATE			
2006	.1562% above prime		\$ -	\$ 86,300
2007	1% above prime		1,000,000	1,000,000
2024	.25% above prime		795,400	-
2025	.28125 above prime		787,700	-
2008	6.375%		3,000,000	3,000,000
2010	.625% above prime		683,500	683,500
2011	7.000%		3,000,000	3,000,000
2012	.750% above prime		4,000,000	4,000,000
2013	1% above prime		675,000	675,000
2015	.1875% above prime		459,900	459,900
2018	.5625% above prime		244,000	244,000
2021	.15625% above prime		328,100	-
2022	.1875% above prime		642,100	-
2023	.21875% above prime		400,300	-
2024	.25% above prime		290,100	-
2025	.28125 above prime		218,300	-
2019	.46875% above prime		273,600	273,600
2019	.25% above prime		1,546,100	1,546,100
2020	.5% above prime		1,600	1,600
2020	.34375% above prime		884,600	884,600
2021	.1875% above prime		723,200	723,200
2021	.21875% above prime		650,700	650,700
2021	.375% above prime		869,000	869,000
2022	.25% above prime		65,200	65,200
2021	.3125% above prime		2,352,300	2,352,300
2022	.40625% above prime		216,000	216,000
2022	.34375% above prime		1,418,400	1,418,400
2023	.28125% above prime		79,600	79,600
2024	.31250% above prime		110,700	110,700
2022	.2500% above prime		223,900	223,900
2023	.2813% above prime		102,000	102,000
2024	.31250% above prime		25,200	25,200
			26,066,500	22,690,800
BRIDGE AUTHORITY BOND				
MATURITY	INTEREST RATE			
2019	1.25% above prime		\$ 136,500	\$ 136,500
1 SHARE HELD IN THE BAHAMAS INTERNATIONAL SECURITIES EXCHANGE (FULLY WRITTEN OFF)				
			-	-
TOTAL INVESTMENTS			\$28,903,000	\$25,527,300

At year-end the Bahamian dollar prime rate was 5.5% (2005: 5.5%). The 2005 prime rate decreased from 6% to 5.5% in February 2005.

NOTE 5 - LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers are as follows:

	2006	2005
Mortgage loans	\$239,900,873	\$161,018,512
Commercial loans	143,830,078	132,325,737
Consumer loans	35,899,021	24,287,378
Business overdrafts	19,312,694	18,900,991
Personal overdrafts	9,210,408	6,161,258
Government guaranteed student loans	11,044,893	13,310,103
	<hr/>	<hr/>
	459,197,967	356,003,979
	<hr/>	<hr/>
LESS: PROVISION FOR LOSSES ON LOANS AND ADVANCES:		
At beginning of year	3,569,603	2,282,688
Amount written-off	(221,676)	(376,456)
Recoveries	465,499	773,397
Provision charged to expense	2,692,382	889,974
	<hr/>	<hr/>
At end of year	6,505,808	3,569,603
	<hr/>	<hr/>
Loans and advances to customers, net	\$452,692,159	\$352,434,376

Included in commercial loans were repurchase agreements totaling \$nil (2005 \$11,240,800).

During the year, the Bank wrote off loans totaling \$221,676 (2005: \$376,456) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts.

NOTE 5 (A)

PROVISION FOR LOSSES ON LOANS AND ADVANCES ARE AS FOLLOWS:

	2006	2005
Specific provisions:		
Commercial loans	\$ 576,923	\$ 284,400
Consumer loans	1,648,387	459,379
Mortgage loans	357,538	314,548
	<hr/>	<hr/>
	2,582,848	1,058,327
General provision	3,922,960	2,511,276
	<hr/>	<hr/>
TOTAL	\$ 6,505,808	\$ 3,569,603

NON-ACCRUAL LOANS ARE AS FOLLOWS:

	2006	2005
Mortgage loans	\$ 5,078,591	\$ 7,338,860
Commercial loans	2,647,111	3,085,360
Consumer loans	3,483,695	1,817,400
	<hr/>	<hr/>
TOTAL	\$ 11,209,397	\$ 12,241,620

EXPRESSED AS A PERCENTAGE OF LOAN PORTFOLIO

2.44% 3.44%

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

NOTE 5 (B) CONTINUED

	2006	2005
0 -2 years	\$ 96,220,309	\$ 77,384,900
3 -5 years	52,405,073	44,304,950
6 - 10 years	123,043,069	101,621,033
Over 10 years	187,529,516	132,693,096
	\$459,197,967	\$356,003,979

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

NOTE 5 (C)

	2006		2005	
	Value	No. of Loans	Value	No. of Loans
\$0 - \$10,000	\$ 11,901,426	2,272	\$ 10,130,135	2,685
\$10,001 - \$20,000	16,006,764	1,083	13,640,072	945
\$20,001 - \$30,000	14,442,006	586	8,616,743	347
\$30,001 - \$40,000	9,837,813	281	8,642,358	244
\$40,001 - \$50,000	10,914,379	243	8,703,898	199
Over \$50,000	396,095,579	1,834	306,270,773	1,262
	\$459,197,967	6,299	\$356,003,979	5,682

(CONCLUDED)

NOTE 6 - FIXED ASSETS, NET

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

	Land and Building	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
COST:				
Beginning balance	\$4,872,073	\$3,316,321	\$6,790,033	\$14,978,427
Additions	-	683,294	993,989	1,677,283
Disposals	-	-	(21,339)	(21,339)
Ending balance	\$4,872,073	\$3,999,615	\$7,762,683	\$16,634,371
ACCUMULATED DEPRECIATION AND AMORTIZATION:				
Beginning balance	\$ 791,510	\$1,644,813	\$4,579,613	\$ 7,015,936
Depreciation and amortization	37,260	467,371	1,184,727	1,689,358
Ending balance	\$ 828,770	\$2,112,184	\$5,764,340	\$ 8,705,294
NET BOOK VALUE:				
June 30, 2006	\$4,043,303	\$1,887,431	\$1,998,343	\$ 7,929,077
June 30, 2005	\$4,080,563	\$1,671,508	\$2,210,420	\$ 7,962,491

NOTE 7 - GOODWILL

	2006	2005
GOODWILL	\$1,115,277	\$1,115,277

Goodwill arose during the bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the Harold Road branch where the book of business is being managed. The impairment charge is determined by taking the difference between the present value of the branch's projected cash flow and its book value. As at June 30, 2006, management determined that there was no impairment to the carrying value of goodwill.

NOTE 8 - DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers and banks are as follows:

	2006	2005
Term deposits	\$332,093,730	\$258,780,012
Demand deposits	77,750,754	93,709,859
Savings accounts	31,772,428	28,790,542
	\$441,616,912	\$381,280,413

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

	2006	2005
Under 31 days	\$191,544,443	\$205,422,155
31 - 90 days	50,447,857	82,619,811
91 - 180 days	72,136,323	53,961,928
Over 180 days	127,488,289	39,276,519
	\$441,616,912	\$381,280,413

NOTE 8 (B) (CONTINUED)

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

	2006		2005	
	Value	No. of Deposits	Value	No. of Deposits
\$0 - \$10,000	\$ 20,611,620	22,091	\$ 17,774,643	20,663
\$10,001 - \$20,000	10,746,754	778	9,803,658	708
\$20,001 - \$30,000	8,080,874	328	7,307,471	302
\$30,001 - \$40,000	5,707,880	165	5,661,722	165
\$40,001 - \$50,000	5,641,829	124	4,347,619	97
Over \$50,000	390,827,955	737	336,385,300	659
	\$441,616,912	24,223	\$381,280,413	22,594

In 1999, The Central Bank of The Bahamas established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$111,696 (2005: \$85,399) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of \$50,000.

NOTE 9 - 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% (2005: 5.50%). 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 as per terms of the Education Guarantee Fund Act, 2001.

The amounts and maturity dates are as follows:

DESCRIPTION	AMOUNT	MATURITY
Prime bond series A	\$ 3,500,000	Due December 31, 2012
Prime bond series B	4,800,000	Due December 31, 2013
Prime bond series C	2,600,000	Due December 31, 2014
Prime bond series D	6,100,000	Due December 31, 2015
	\$17,000,000	

NOTE 10 - SHAREHOLDERS' EQUITY

Share capital consists of the following:

	2006	2005
Preference shares: Authorized - 25,000 shares of B\$1,000 each Issued - Nil	\$ -	\$ -
Common shares: Authorized - 25,000,000 shares of B\$1 each Issued and fully paid - 15,600,000 shares (2005: 12,000,000 shares)	15,600,000	12,000,000
	\$15,600,000	\$12,000,000

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

At the Bank's Annual General Meeting on November 18, 2004, the Bank's shareholders approved a resolution to increase the authorized share capital of the Bank and allow for the issuance of non-voting redeemable preference shares redeemable at the discretion of the Board of Directors.

On June 30, 2006, the Bank offered a private placement of B\$15,000,000 redeemable preference shares at a rate of 7.5% to a number of investors. These shares are redeemable at the option of the Bank. Subsequent to the year end the issue was fully subscribed.

SHARE PREMIUM

The increase in this balance is the result of additional premium arising from the rights offering during the year.

GENERAL RESERVE

The general reserve was established for future capital expenditure.

NOTE 11 - TREASURY SHARES

In 2004, the Bank acquired 45,000 of its shares for the purposes of establishing an employee stock incentive plan (see Note 19). To date 3,795 (2005: 600) of these shares have been purchased by employees leaving a balance of 41,205 (2005: 44,400).

NOTE 12 - CONTINGENCIES

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

NOTE 13 - COMMITMENTS

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

2007	\$1,044,563
2008	\$334,615
2009	\$9,600

Rental expense (including service charges) totaled \$1,067,665 (2005: \$781,214) net of rental income of \$38,481 (2005: \$32,583).

- b. The commitment for loans at June 30, 2006 was \$29,883,039 (2005: \$59,657,991).
- c. The Bank has a commitment for future capital expenditure of \$2,975,000 (2005: \$3,622,000).

NOTE 14 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions and balances with related parties are as follows:

	2006	2005
Investments	\$ 28,903,000	\$25,527,300
Loans and advances to customers, net	\$ 38,884,993	\$33,880,733
Accrued interest receivable	\$ 985,945	\$ 1,058,131
Prepaid expenses and other assets	\$ 214,157	\$ 125,238
Deposits from customers and banks	\$117,603,116	\$99,598,773
Bonds payable	\$ 17,000,000	\$17,000,000
Accounts payable and other liabilities	\$ 409,703	\$ 978,829
Accrued interest payable	\$ 1,266,831	\$ 1,797,645
Interest income	\$ 1,723,841	\$ 1,482,692
Interest expense	\$ 4,415,985	\$ 4,098,862
Interest income from investments	\$ 1,975,417	\$ 1,686,591
Key management compensation	\$ 1,453,782	\$ 1,555,322

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

NOTE 15 - PENSION PLAN

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

Contributions for the year ended June 30, 2006 totaled \$377,415 (2005: \$330,653).

The Plan owns 210,856 (2005: 210,826) shares of the Bank. The holdings represent approximately 30% (2005: 30%) of the Plan's net assets.

The Plan has deposits totaling \$3,766,859 (2005: \$3,099,390) with the Bank.

NOTE 16 - GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Staff costs	\$ 9,925,646	\$ 8,113,122
Other	6,226,500	5,847,174
	\$16,152,146	\$13,960,296

NOTE 17 - CHANGES IN OPERATING ASSETS AND LIABILITIES

	2006	2005
Increase in accrued interest receivable	\$ (86,221)	\$ (82,072)
(Increase) decrease in prepaid expenses and other assets	(1,748,857)	2,084,373
Increase in accounts payable and other liabilities	155,634	114,176
(Decrease) increase in accrued interest payable	(444,566)	718,457
Increase in cheques and other items in transit	694,428	1,195,274
Decrease in dividends payable	-	(1,920,000)
	\$(1,429,582)	\$2,110,208

NOTE 18 - ASSETS UNDER ADMINISTRATION

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

	2006	2005
GOVERNMENT-GUARANTEED STUDENT EDUCATION LOANS	\$62,761,068	\$60,107,478
TRUST ASSETS	\$12,093,838	\$ 7,278,229
PRIVATE BANKING	\$27,000,000	-

NOTE 19 - EMPLOYEE STOCK INCENTIVE PLAN

On October 28, 2002, the Board of Directors approved an employee stock incentive plan for all employees with a grant of up to 100,000 shares through June 2007. Under the plan, employees are granted options to acquire shares at a defined price over a maximum of two years. On June 30, 2004 the Bank issued 25,000 share options to employees entitling them to acquire 25,000 shares at \$5.80 per share. During the year, employees exercised the option to purchase 3,195 (2005: 600) shares.

NOTE 20 - DIVIDENDS

During the year the Bank paid dividends as follows:

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

During the prior year the Bank paid dividends as follows:

July 30, 2004	\$0.16
November 4, 2004	\$0.08
January 28, 2005	\$0.10

NOTE 21 - FINANCIAL ASSETS AND LIABILITIES

The estimated fair values represent values at which financial instruments could be exchanged in a current transaction between willing parties. Where there is no available trading market, fair values are estimated using appropriate valuation techniques. The fair values of non-financial instruments, such as fixed assets, are not explained below.

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

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

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

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

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

NOTE 22 - REGULATORY CAPITAL

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

The Bank's capital to asset ratio was 13.72%, (2005: 9.79%) at the end of the fiscal year, substantially above the 5% standard established by The Central Bank of The Bahamas.

In the evaluation of risk-adjusted capital ratios, best standards require the Bank to maintain Tier I and total capital ratios of 4% and 8% respectively. At June 30, 2006 the Bank's Tier I and total capital ratios were 20.18% and 21.26% respectively (2005: 14.65% and 15.50% respectively).

NOTE 23 - COMPARATIVES

Loans and advances to customers, net was disclosed in the prior year as \$31,330,485, this is now disclosed as \$33,880,733, to account for additional related party balances and conform with the current year's presentation (Note 14).

NOTE 24 - RISK MANAGEMENT

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

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

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

Currency risk - The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to currency risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible.

Liquidity risk - Liquidity risk reflects the risk that the Bank will not be able to meet an obligation when it becomes due or honor a deposit withdrawal request or service loans. The Bank maintains a proportion 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 standards. In addition, the Bank performs regular gap analyses showing the maturity exposure arising from the different maturity of assets and liabilities. As is the case throughout the sector, those gap analyses show that the Bank is liability-sensitive in the short term. Regular scenario tests are performed to determine the extent to which the Bank can withstand unforeseen withdrawals and the cost associated with meeting such demands should they arise.

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

The following table summarizes the carrying amount of consolidated balance sheet assets, liabilities and equity to arrive at the Bank's interest rate sensitivity gap based on the earlier of contractual repricing or maturity date:

As of June 30, 2006	Within 3 Months	3-6 months	7-12 months	1-5 Years	Over 5 years	Non-Interest Rate Sensitive	Total
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,198,930	\$ 44,198,930
<i>average yield</i>	0.00%	0.00%	-	-	-	-	-
Investments	-	-	1,000,000	9,383,500	18,519,500	-	\$ 28,903,000
<i>average yield</i>	-	-	5.52%	5.58%	5.87%	-	-
Loans and advances to customers, net	42,057,625	26,727,400	3,207,997	74,819,926	305,879,211	-	\$452,692,159
<i>average yield</i>	9.40%	6.05%	7.47%	8.00%	8.47%	-	-
Fixed assets, net	-	-	-	-	-	7,929,077	\$ 7,929,077
Other assets	-	-	-	-	-	11,506,256	\$ 11,506,256
TOTAL	\$ 42,057,625	\$ 26,727,400	\$ 4,207,997	\$ 84,203,426	\$324,398,711	\$ 63,634,263	\$545,229,422
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits from customers and bank	187,942,567	59,397,939	79,606,402	6,266,223	1,185,409	107,218,372	\$441,616,912
<i>average yield</i>	3.47%	4.03%	4.28%	4.75%	4.94%	-	-
Bonds payable	-	-	-	-	17,000,000	-	\$ 17,000,000
<i>average yield</i>	0.00%	0.00%	0.00%	0.00%	5.50%	-	-
Other Liabilities	-	-	-	-	-	11,794,699	\$ 11,794,699
Shareholders' equity	-	-	-	-	-	74,817,811	\$ 74,817,811
TOTAL	\$ 187,942,567	\$ 59,397,939	\$ 79,606,402	\$ 6,266,223	\$ 18,185,409	\$ 193,830,882	\$545,229,422
INTEREST RATE SENSITIVITY GAP	(145,884,942)	(32,670,539)	(75,398,405)	77,937,203	306,213,302	(130,196,619)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP	\$(145,884,942)	\$(178,555,481)	\$(253,953,886)	\$(176,016,683)	\$130,196,619	\$ -	-
Average Yield - Earning Assets	9.40%	6.05%	7.01%	7.73%	8.32%		8.17%
Average Yield - Paying Liabilities	3.47%	4.03%	4.28%	4.75%	5.46%		3.87%
	5.93%	2.02%	2.73%	2.98%	2.86%		4.30%

Strategic Management

NAME	JOB TITLE
Bartlett, Darryl	Credit Risk Consultant
Christie, Kendrick	Financial Controller
Davis, Renee	Senior Manager, Internal Audit
Demeritte, Emily	Senior Manager, Human Resources & Training
Delaney, Vaughn	Deputy Managing Director, IT & Human Resources
Edwards, Hubert	Senior Manager, Corporate Finance
Farquharson, Beverley	Deputy Managing Director, Operations
Ferguson, Kirvy	Senior Manager, Operations
Forbes, Tameka	Senior Manager, Risk
Haven, Sam	Senior Manager, Private Banking/International Operations
Ijeoma, Renee	Senior Manager, IT
McFall, Azeal	Senior Manager, Corporate Credit
McWeeney Paul J. I.	Managing Director
Thompson, George	Senior Manager, Corporate Credit (Grand Bahama Division)
Williams, Laura	Senior Executive Assistant, Corporate Affairs
Wright, Tanya	Senior Manager, Business Development & Public Relations
	—
Johnson, Yvette	Company Assistant Secretary
Williams, Laura	Company Secretary



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