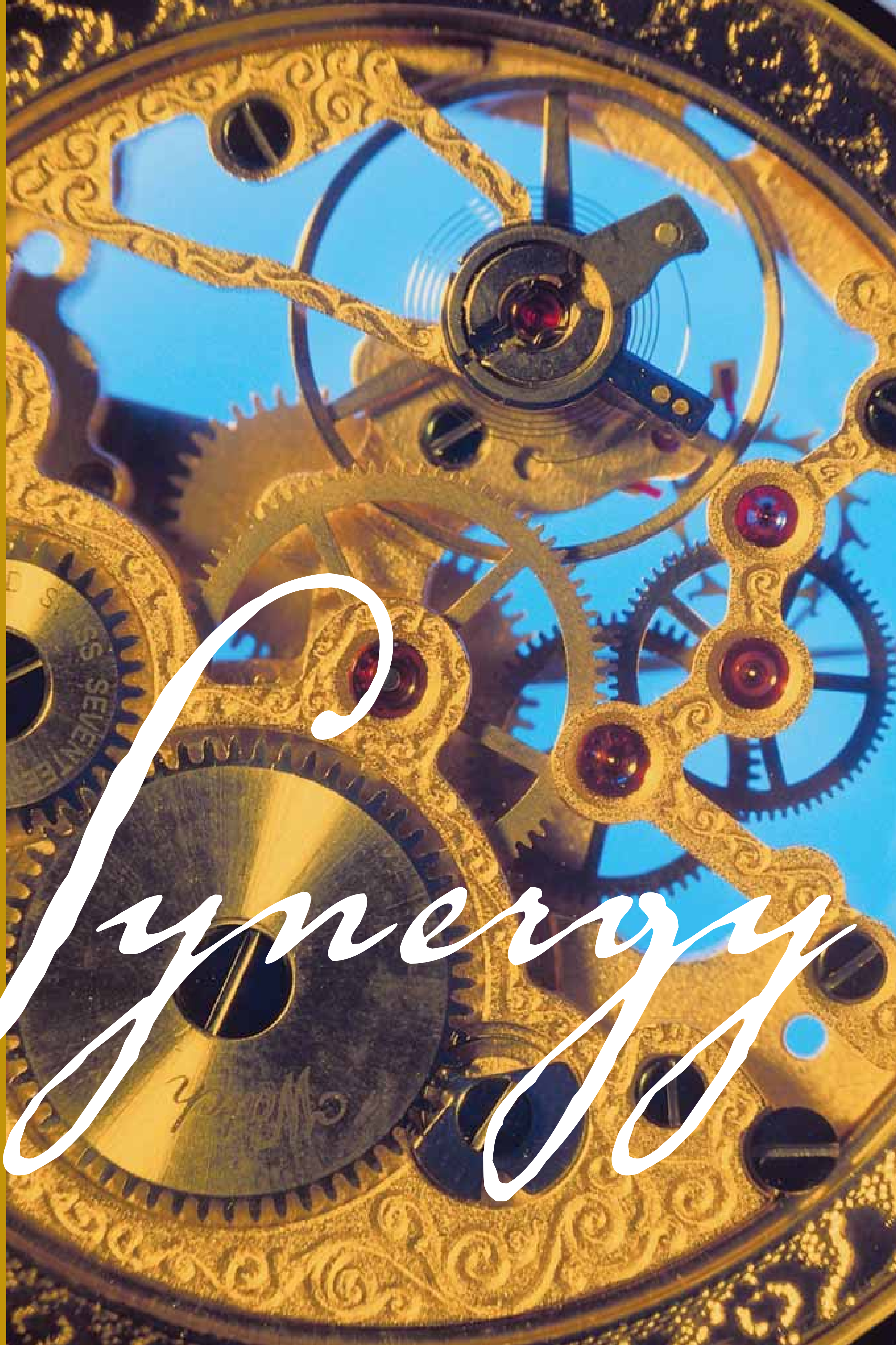
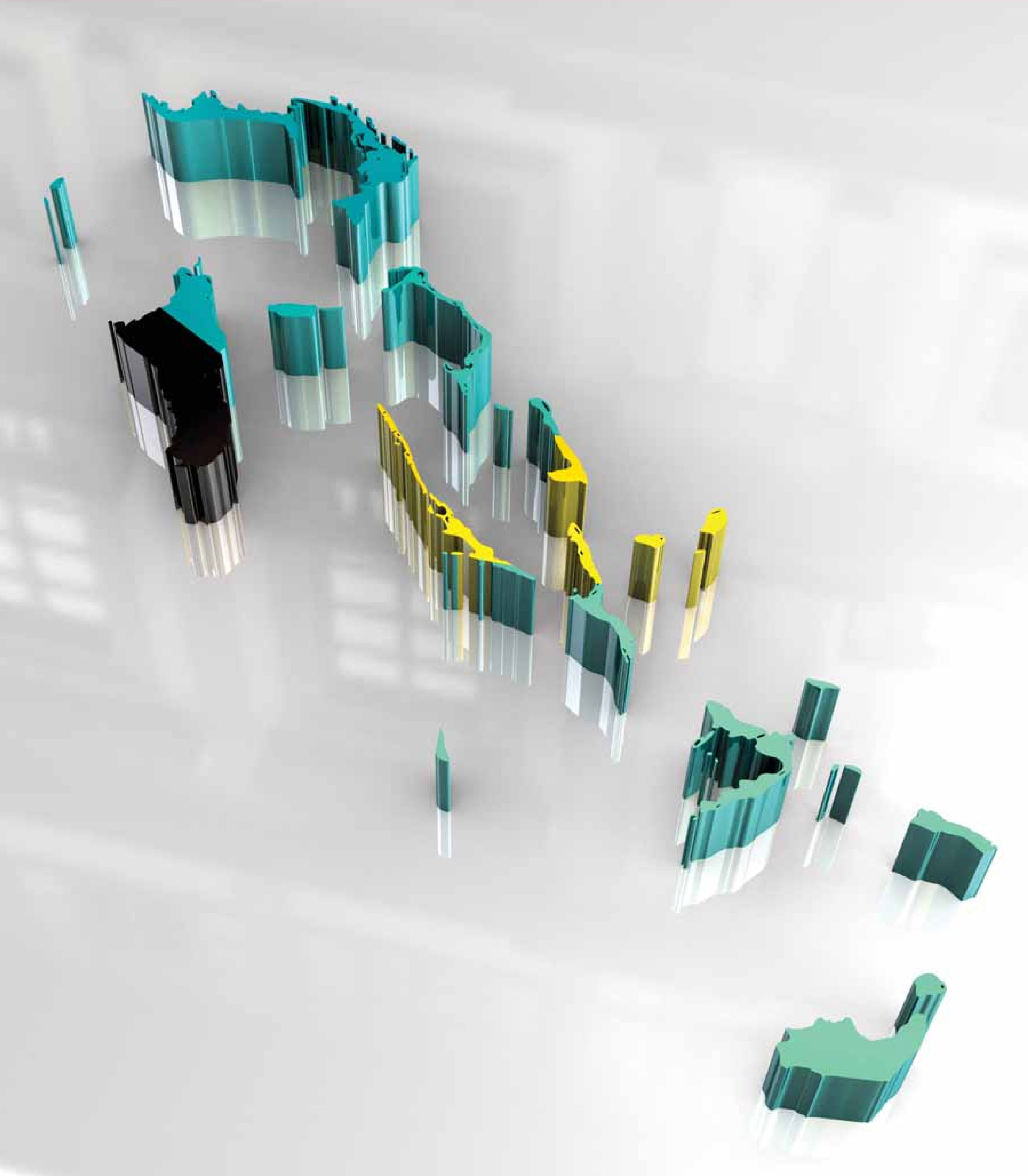


Synergy

Bank of The Bahamas
LIMITED

2008 Annual Report



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Bank of The Bahamas Limited Annual Report 2008

Bank of The Bahamas
INTERNATIONAL

SYNERGY

In 1988, there was great excitement in The Bahamas as news came that a stunning cruise ship, the Seabourn Pride with a total capacity of 208 passengers, was going to make Nassau a port of call.

In the world of sports, Bahamians watching the Olympics took pride in one of their own. Star class sailor Sir Durward Knowles, the country's first Olympic gold medallist, now at 72 was the oldest Olympian in competition, garnering international fame.

That same year, 1988, a little bank was born in Nassau. As retail banks go, its assets were unimpressive, well under $100 million. Its main shareholder was the Government of The Bahamas. Its name: Bank of The Bahamas.

In the short span of 20 years, as cruise ships have grown 20-fold and The Bahamas has gone on to earn a singular place in Olympic history with more medals per capita than any other country, Bank of The Bahamas has risen to singular status in domestic retail banking.

It has set the pace for revolutionizing the way Bahamians bank, celebrating the importance of islands large and small, populated and remote with branches in places where no Bahamian bank had opened before, offering services from trust and pension plan oversight to private banking for Bahamians, supporting promising Bahamian businesses and growing with them, earning value for shareholders, expanding its shareholder base to more than 4,000, and understanding the deep and ingrained relationship between The Bahamas and South Florida, opening a facility in Coral Gables to make life and doing business between the two easier.

From one branch with a few dozen employees, minimal funding and maximum aspirations, Bank of The Bahamas has grown to a full-time staff of over 300 employees, 12 branches on seven islands and a financial services centre in Coral Gables, Florida.

As you will see throughout this report, the bank and its shareholders have been handsomely rewarded. As of June 30, 2008, assets stood at more than $736 million. Capital adequacy stood at well above that required by The Central Bank. Revenue per employee in the retail division was measured at $185,000. Growth in total assets over the past three years has averaged 19%. In the last decade, the Bank has earned more than $100 million for its main shareholder, the Government and the National Insurance Board, which together hold 51% of the shares.

Numbers and graphs paint a picture, but they do not tell the full story of the little bank that could, the neophyte entry into a highly competitive world of giants to emerge with unprecedented recognition.

To understand the energy that drove the bank from launch to pacesetter in two decades is to consider the concept of synergy. In its simplest form, synergy is what happens when two things working together create a force greater than themselves.

We see and experience synergy every day in a thousand ways, in a peanut butter and jelly sandwich, in a fresh conch salad or in the combined knowledge of contributors who create Wikipedia, the constantly evolving Internet encyclopedia. In science, technology, cybernetics, economics, the often-overlooked but ever-present existence of synergy is what allows all things to be better, bigger, stronger in combination than they would alone.

After years of sophisticated annual reports, Innovate in 2006, Momentum in 2007, we went back to the very roots of our story for this report, and pay tribute to the energy that flows when all of us work together. What did opening a branch in remote Cat Island remind us about taking banking where it is most needed, not just where it is easy? What did opening a financial services centre in South Florida prepare us for when our customers want to reach out and stretch their businesses in a global environment? What did the installation of entirely new operating systems, requiring countless hours of preparation and re-training, teach us about the value of being ready for the future?

Working together, we can accomplish more than any of us can on our own. Call it community for that is where it starts. Add that extra spark that lights when forces combine and it becomes synergy.

Synergy: making something bigger by joining forces and creating new energy, heightened results.

Synergy: the dynamic force of complementary components, in the case of Bank of The Bahamas, visionary thinking, a powerhouse team and the drive to succeed.

We dedicate this 2007-2008 Annual Report to that concept and to the persons who work every day to make it a reality—our staff, directors, investors, and most importantly, our customers.

To understand the energy that propelled Bank of The Bahamas from birth to pacesetter in two decades is to consider the concept of synergy…the dynamic force of complementary components, in the case of the Bank, visionary thinking, a powerhouse team and the drive to succeed.

More than 300 staff in 13 locations throughout The Bahamas and in Coral Gables, Florida work as a team with their eye on the prize – to deliver satisfaction with every transaction.

History of Bank of The Bahamas

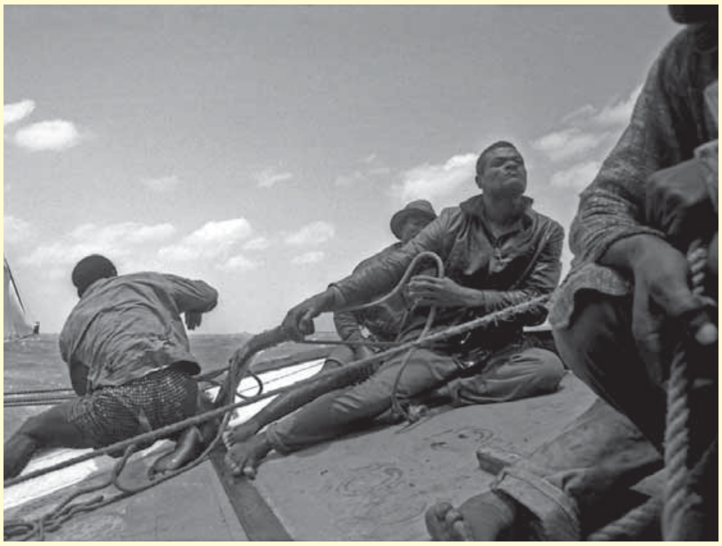


PHOTO BY ROLAND ROSE

In 1988, the Bank of Montreal was about to undergo dramatic changes that would affect its branch in Nassau, Bahamas, displacing as many as 100 staff and leaving those accustomed to doing local business in Bahamian dollars with the Canadian-headquartered bank adrift. With no other bidders on the scene, the Government of The Bahamas, on behalf of its citizens, stepped up to the plate and took on what appeared to be as much burden as blessing, a responsibility to keep the Bank with $90 million in assets and only $3 million in liquidity afloat. While the new Bahamian bank was under-funded, its management team was dedicated, keeping their eyes on the goal of a successful, profitable and truly all-Bahamian bank.

Twenty years later the Bank's assets have grown to more than $736 million. The number of shareholders has increased from one to more than 4,000, with share prices climbing from $2 to $9.43 a share as of June 30, 2008. Locations now number 13, covering seven Bahamian islands and a new ground-breaking financial services centre in Coral Gables, Florida.

Its resolve to succeed has led the Bank to achieve a number of 'firsts' in the Bahamian financial industry. It was the first bank to offer Trust services for Bahamians and the first to apply for a financial services provider license outside the country. Bank of The Bahamas was the first to introduce VISA pre-paid and gift cards, the first to offer to take money management seminars to the workplace, the first to create Junkanoo dollars providing a form of currency expendable during a summer-long series of Ministry of Tourism events to avoid cash-related issues and the first Bahamian bank to serve in the capacity of pension fund oversight.

For the businessperson, its advances in pension fund management oversight and in rapid cheque clearing have been especially significant. In 2007, a major investment in cheque imaging technology allowed Bank of The Bahamas to slice waiting time for U.S. deposits to clear from up to 40 days to three business days.

Bank of The Bahamas' comprehensive online banking, found at www.bankbahamasonline.com, allows customers to pay bills, order U.S. currency, apply for loans and reconcile accounts on a daily basis.

The various departments and locations of Bank of The Bahamas work synergistically to provide a unified experience for the Bahamian consumer. No location or office works as a singular unit; rather it is part of a whole, working to better serve the banking and financial planning needs of individuals, institutions, government departments and businesses.

Highlights of the 2007-2008 fiscal year

Bank of The Bahamas marked a number of firsts during the fiscal year July 1, 2007-June 30, 2008 ranging from new services offered to new locations opened, from new awards won to new partnerships formed.

The Bank reached new financial strengths with assets topping $736 million, up 12% over the previous year, contributing to a three-year average growth rate of 19% in total assets. That strength solidified shareholder value with share price climbing to a high of $9.43.

Bank of The Bahamas has set the standard among its corporate peers. For its vision and performance, for its forward-thinking and investment, it has been awarded a record number of honours. In 2005, the Bank became the first in the nation to earn the Bracken Award for Country Bank of the Year presented by The Banker, a member of the Financial Times Group. The following year *Euromoney* presented the Bank with its coveted Award for Excellence in Banking and in the same year, the IAAP selected the Bank for its Award for Corporate Excellence, an honour not restricted to financial services but open to all businesses in the country. In 2006, the Bahamas Financial Services Board presented Bank of The Bahamas International with two of its top honours, for promotion and development of financial services in The Bahamas and to the Bank's Managing Director Paul McWeeney as Executive of the Year.

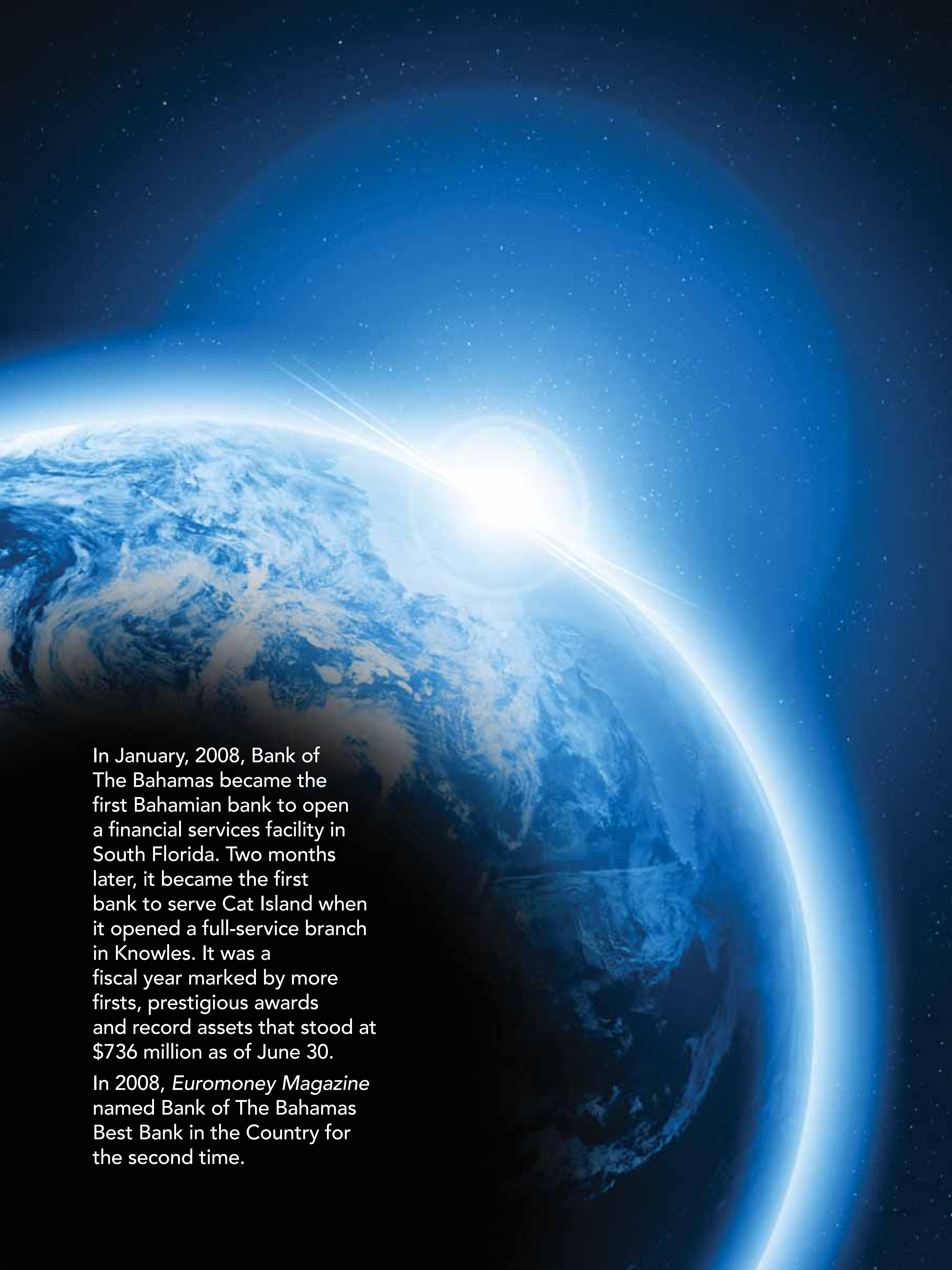
In July of 2007, Bank of The Bahamas took top honours in the Bahamas Chamber of Commerce Business of the Year Awards. Winning Business of the Year for its numerous achievements, including being the first Bahamian bank to offer comprehensive online banking, the first to provide VISA pre-paid cards and the first to offer trust services for Bahamians, BOB competed against every other business in every professional field across the country.

In September, a contract was signed with the winner of the architectural design competition for the new Bank of The Bahamas Corporate Headquarters. Michael Moss, Managing Partner of The Architectural Studio, submitted the winning design in late 2006. His design, which featured open atriums and a high ceiling glass centre, competed against thirteen other architectural firms from the region and won as it most closely met the comprehensive criteria for the design—that it pay tribute to neighbouring historic Nassau, take advantage of the site's high and descending elevation, encompass the several structures and extensive parking requirements and maximize views of the harbour. Just two months earlier the winning design and the two runner-up designs were featured in a 10-page spread in Archivos de Arquitectura Antillana, AAA027, a Spanish-language architectural magazine which is distributed in France, Spain, Argentina, Columbia, Dominican Republic, Puerto Rico, Venezuela, Mexico, and Trinidad and Tobago and in major U.S. cities including New York, Chicago, Los Angeles and Miami.

In January of 2008, Bank of The Bahamas continued its commitment to Bahamian culture by signing Bahamian musician Avvy, one of the country's top musicians, to write, record and perform numerous radio and television advertisements. Bank of The Bahamas continues to lead the way with commercial support of Bahamian culture by commissioning original Bahamian music and lyrics for advertising campaigns, helping to increase the exposure of Bahamian culture to the world.

In March, Bank of The Bahamas made history when it became the first Bahamian retail bank to establish a presence outside of The Bahamas. BOB Financial Services, a subsidiary of Bank of The Bahamas was opened in Coral Gables, Florida, by Bahamas Minister of State for Finance Zhivargo Laing. Designed to expedite trade between the neighbouring nations, facilitate Bahamians who shop, or seek education or medical attention abroad as well as increasing exposure for both The Bahamas and BOB, the centre offers such services as customer support, withdrawal of U.S. cash from a Bahamian account and the provision of U.S. dollar drafts for large purchases.

In June, Bank of The Bahamas opened its twelfth full-service Bahamian branch in Knowles, Cat Island, recognising the need as a Bahamian institution to serve as many communities throughout The Bahamas as possible. The Cat Island branch marks the only presence of a retail bank on the island where prior to its opening, residents and visitors who had banking needs had to fly to the capital even for something as routine as cashing a paycheck. The lack of banking facilities hampered business, made savings difficult and created challenges that extended to the payment of utility bills, medical expenses and education fees. Bank of The Bahamas was lauded for helping Cat Island rouse from its slumber and start a welcome march to economic growth.



In January, 2008, Bank of The Bahamas became the first Bahamian bank to open a financial services facility in South Florida. Two months later, it became the first bank to serve Cat Island when it opened a full-service branch in Knowles. It was a fiscal year marked by more firsts, prestigious awards and record assets that stood at $736 million as of June 30.

In 2008, *Euromoney Magazine* named Bank of The Bahamas Best Bank in the Country for the second time.

Letter to Shareholders

Macgregor Robertson,
Chairman of the Board

When I was elected Chairman of Bank of The Bahamas ("the Bank") in February, 2008 I was impressed by the Bank's dynamic management team led by Managing Director Paul McWeeney and also by the Bank's long-term and short-term plans. Some of those plans involved improvement in areas that already existed, others were novel, introducing products and services that no one else had brought to the market. In particular, the department of Information Technology was given priority and capital injection and it was clear that the Bank had good reason to consider itself a leader among local clearing banks in this area. For what I found in place when I was invited to serve as Chairman, I must thank my predecessor, Maitland Cates, and his fellow directors for their foresight and planning.

I must also thank our current board of directors and committees for their hard work and dedication, our shareholders for their support, our loyal customers and last, but by no means least, our hard-working staff, all of whom contribute to our growth and profitability.

The Bank continues to grow with assets now exceeding $736 million and sustainable profitability. During this year we opened a branch in Knowles, Cat Island, the first ever bank on that island and a facility in Coral Gables, Florida for the convenience of our customers. As evidence of our determination to serve all Bahamians we are exploring opportunities for expansion in New Providence and the Family Islands. We are also looking forward to construction of our new head office. This will centralize all administrative functions, presently spread out over four separate locations.

In common with all rapidly growing companies we have challenges. However, we are resolving these issues through training, the introduction of alternative service delivery channels, and where necessary, obtaining higher level of competencies by our service providers.

In closing I must congratulate management and staff on receiving the prestigious Euromoney Award as Best Bank in The Bahamas for a second time.

Macgregor Robertson,
Chairman of the Board

Executive Statement

Paul J. I. McWeeney
Managing Director

The true measure of effective planning and strategic positioning lies in the results achieved. In 2005 when the Bank launched its five year strategic plan, even the most perceptive amongst us couldn't have anticipated that in less than five years the Bank would have achieved and surpassed the majority of its planned objectives. The individual parts were identified and deliberately streamlined; individual forces harnessed; individual efforts focused. We then confidently set out on an exciting five-year odyssey towards achieving some very challenging goals. But the sum of the parts is always greater than the whole. The intricate blending of a vision, resources, a variety of skill sets, passion and dedication, unleashed a synergistic powerhouse resulting in unparalleled performance and achievement in the history of the Bank. Synergy, the creation of a force, by individual parts working together, greater than that which is possible from individual parts. Synergy, a collective genius. Synergy, 300 plus staff working as one to create an unmatchable dynamic force driving the success of Bank of The Bahamas.

Over the period 2005 to 2008 the Bank realized significant growth as evidenced by the major financial statement categories. Interest income increased by 89.16% from $26.67MM at the end of 2004 to $50.45MM in 2008. Total assets increased by 91.32% from $384.78 MM to $736.14 MM. The Bank's five year strategic plan projected, for year ending June 2008, total assets of $647MM. Total liabilities comprising mainly of deposits increased by 85.91% from $345.45MM to $642.24MM. Finally, shareholders equity increased by 138.75% from $39.33MM to $93.9MM. In generalized terms the Bank has essentially doubled its growth and capacity in approximately four years. This is a testament to the effective implementation of our strategic plan, the significant support we continue to enjoy from the banking public and importantly the confidence of our shareholders in the operations of the Bank.

As shared in my comments in last year's annual report we were acutely aware that this level of performance would at some point be curtailed.

While historical analysis reveals the Bank has enjoyed steady growth since its inception in 1988, the most striking element of its historical climb is the dramatic spike in the last five years, a doubling of total assets that took the Bank beyond the goals of its five-year strategic plan.

Even as we report such consistent and strong positive performance, we are, like everyone in the business world and financial markets, aware of current conditions. One year ago, we could not have anticipated the dramatic and rapid global fallout being experienced as a result of the U.S. subprime mortgage market, its impact on global financial markets, and systemic depletion of liquidity and availability of credit in the U.S. The global financial turbulence occupied a significant portion of the Bank's fiscal year ending June 30, 2008.

While the Bahamian financial environment remains relatively strong, the recessionary conditions have caused a fall-off in tourism and direct foreign investment locally. This has therefore resulted in an indirect impact on the Bahamian financial services industry. Despite the prevailing economic situation the Bank has shown significant financial fortitude, realizing important growth in revenue and new customers. The Bank's Total Revenue grew by 14.4% underpinned by the establishment of more than five thousand new customer loan and deposit accounts, an impressive number by any standard for any financial institution.

Net income prior to the onset of the global financial crisis was generally on pace to surpass past performance. However the economic conditions which exerted influence on certain customer dynamics necessitated very conservative charges against income. The final position of $6.1MM, despite being lower than the prior year and within the context of a financial services industry, resulted in a healthy average return on assets of 0.87%.

Given the extent to which current global financial crisis is dominating the airwaves and current affairs discussions, it would be easy to forget the fact that during the latter half of 2007 The Bahamas experienced a significant reduction in liquidity. However,

even against the odds of considerable systemic challenges, especially increases in cost of funds precipitated by this period of sustained liquidity shortages, the Bank through the implementation of sound and disciplined strategies was able to sustain its growth momentum. While dealing with the various challenges imposed by environmental factors the Bank continued to focus on organizational development. The fine-tuning of its core banking infrastructure, staff training and development, harnessing leadership and management skills, all designed to enhance the synergistic output for future years.

These focused strategic initiatives coupled with the continued development of the Bank's financial strength are fundamental capacity building factors designed to augment the Bank's value proposition and competitive positioning to secure sustainable long term profitability and growth. We now have a greater appreciation for the collective genius of our Bank and consequently the theme of this annual report, synergy, is central to our thinking about the future. We greatly recognized the need to harness and unleash internal synergies. We are also acutely aware of the need to continue enhancing the synergies we enjoy with the other stakeholders of the Bank: our customers, investors, regulators, suppliers and the general Bahamian public.

The Bank achieved two very significant milestones during the fiscal year. The first being the formal opening of the Miami Service Center representing an important strategic thrust for the Bank. We also opened the first banking facility in Cat Island. We are especially proud of this achievement given the implication it has for the development of the Cat Island economy. During the fiscal year we once again gained international recognition from *Euromoney Magazine* for being named the Best Bank in The Bahamas. This comes on the heels of a number of similar awards received last year including being selected as the Business of the Year by the Bahamas Chamber of Commerce.

Future prospects are very bright. While the current economic conditions suggest that there are further challenging times ahead, the Bank remains resolute in its confidence in the Bahamian economy and its people. We are consistently preparing, planning and strategizing to ensure that the Bank's business remains robust. Management is satisfied that with the continued implementation of sound strategic initiatives, growth and profitability will continue and be sustained into the foreseeable future.

The continued growth of the Bank's balance sheet and strengthening of its profitability will facilitate the implementation of future value creation, withstand shocks from turbulent economic developments, provide a model business system thereby creating an enviable Bahamian franchise, and most importantly, continue to impact and influence the positive development of the Bahamian financial sector and the country as a whole.

Paul J.I. McWeeney
Managing Director

Interaction:
Customer Experience

Modernized products and services are essential to the well-being of any institution, but all too often customer needs get overlooked in the pursuit of the 'next best thing'. From its inception, Bank of The Bahamas has strived to make customer service its number one focus. In 2008, the Bank initiated its newest training enterprise, 'Customer Life Cycle Management'. Aimed at enhancing the Bank's already customer-centric approach to banking, the new initiative aspires to building long lasting relationships with clients throughout their lifetime, and, in turn, with their families. This allows the Bank to connect with clients on a personal level, readily able to provide the best personal care and service possible.

Quarterly training workshops for Bank employees in the sophisticated training centre on Village Road in Nassau focus on such skills as telephone etiquette, communication skills and customer relationship management. Staff will thus be able to anticipate the need of their customers by delivering proficient and professional service in all areas of banking.

> Coming together is a beginning. Keeping together is progress. Working together is success.
>
> —Henry Ford

Interaction: Staff Training

Bank of The Bahamas is committed to ensuring that every customer receives world-class banking service with every transaction.

Toward that end, the Bank opened a full-time, fully-staffed state-of-the-art training centre on Village Road in 2008.

The centre includes 25 computers for technical and system-related training, complete audio-visual capabilities and ceiling-mounted projectors with drop-down screens. An accordion divider allows the large area to be segmented for maximum flexibility.

Every member of staff, regardless of position or seniority, utilizes the new centre, benefiting from workshops, specific training and hands-on work in effective communications skills. The emphasis on constant training and upgrading of skills ensures consistent delivery of quality customer service and reinforces corporate values.

Your most unhappy customers are
your greatest source of learning.
—Bill Gates

Investment in human capital, the Bank's greatest resource, included comprehensive staff training and skills development for professionals at every level, including Corporate Secretary Laura Williams, below, seated front row, right.

Just as bees pollinate flowers, creating synergy that produces 80% of all living green things, the synergy created by team vision, execution and oversight has helped Bank of The Bahamas produce innovative products and services, earning national and international recognition and a singular place in Bahamian retail banking.

Synchronism:
Products and Services

Bank of The Bahamas believes that banking should be more than just simple deposits and withdrawals. Today's Bahamian requires a full financial partner throughout life –from the very first savings account as a child, through home loans and mortgages in adult life to retirement planning for the golden years. Bank of The Bahamas offers a wide range of products and services to assist the public throughout the scope of their entire lives.

Bank of The Bahamas has:

- Developed the nation's most comprehensive online-banking with such features as cheque imaging and ability to reconcile accounts daily
- Launched VISA pre-paid and gift cards, making card access available to all, regardless of credit
- Networked with churches and civic organisations to make banking products more readily accessible
- Increased its branch network to 7 islands with the opening of a branch in Knowles, Cat Island
- Opened BOB Financial Services in Coral Gables. Florida, the first international presence of a Bahamian retail bank. Customers are able to:
    - Withdraw U.S. funds from their Bahamian account
    - Issue U.S. dollar drafts to facilitate larger purchases
    - Open a BOB deposit account
    - Use U.S. property as collateral for a loan

  This will also allow BOB Financial Services to:
    - Accept U.S. dollar loan applications
    - Facilitate trade finance
- Been awarded exclusive status for American Express Platinum
- Expanded merchant services including Discover, MasterCard, VISA, American Express acceptance and merchant consulting to maximize benefits
- Pioneered the way for 3-day clearance of U.S. $ deposits
- Introduced Private Banking
- Provided personal attention for wide range of Trust Services
- Launched series of age-oriented high interest rate savings plans to meet individualized personal goals under the umbrella of Savings Culture
- Answered the need and request for pension fund management
- Converted to new core banking software and system that opens up vistas for future possibilities, making BOB competitive with the largest international banks and moving the Bank toward highly competitive reduction of fees.

As Mother Teresa said, "Let us not be satisfied with just giving money. Money is not enough, money can be got, but they need your hearts to love them. So, spread your love everywhere you go".

Fellowship:
Community Involvement

Corporate responsibility. Charity. Philanthropy. These are phrases that get tossed around a lot. We at Bank of The Bahamas prefer to think of our community involvement as our duty as the Bahamian bank. We don't feel that supporting the fight against AIDS or heart disease is a choice. We don't feel that celebrating our police officers and nurses, our unsung heroes, is a chance to spread our name around. We don't feel that sponsoring the Special Olympics or adopting schools to encourage our children to learn is good corporate exposure. We do all of this, and more, because we feel we must.

Those of us in a personal and professional capacity who are fortunate enough to be able to help our fellow citizens who are less privileged, or who lack the support that most of us take for granted, have a responsibility and a duty to do more than toss a few coins in the weekly collection plate. We must give what we can, and support what we can, but we must also love. We must all have synergy with our community. Once we all learn to come together to love our fellow Bahamians, to truly love our Bahamas, we can change our world. As Mother Teresa said, "Let us not be satisfied with just giving money. Money is not enough, money can be got, but they need your hearts to love them. So, spread your love everywhere you go".

This is our Bahamas. We are your bank.

Awards and Honours

Bank of The Bahamas named Bahamas' Best Bank for second time by *Euromoney Magazine*

Bank of The Bahamas has been named the best bank in The Bahamas for a second time by a leading European financial publication.

At a gala ceremony in London that brought together influential leaders in financial services from around the globe, prestigious *Euromoney Magazine* presented Bank of The Bahamas' Managing Director Paul McWeeney its coveted Award for Excellence July 10. Held annually since 1992, the awards based on outstanding performance, quality service, innovation and momentum single out the outstanding institutions in the world's financial services industry. "It's a great honour for a relatively small and very young Bank of The Bahamas to be honoured among the world's most powerful financial institutions," said Mr. McWeeney. "Bank of The Bahamas was only born in 1988 and to stand among the giants of this industry as the best bank in the country is truly an inspiring experience. We thank *Euromoney* for honouring us again and pledge to continue to do all we can to deserve that privilege. I accept this award on behalf of the staff of the Bank and thank them for their continued hard work and dedication in making this second win possible."

Special Congratulations to Ruth Millar

Example is not the main thing in influencing others.
It is the only thing.

— Albert Schweitzer

Bank of The Bahamas Limited extends congratulations to Ruth Millar, CMG on receiving the BFSB Lifetime Achievement Award

As a Director of the Bank since 2002, Ms. Millar has served BOB by sterling example. Beyond her service to this institution, her wisdom and insight have contributed to the development of the financial services sector in The Bahamas and we applaud BFSB for recognizing her achievements.

Employee of the Year: Torri Knowles, Loan Administration

Every year Bank of The Bahamas selects one member of staff from among nearly 400 as the most outstanding employee. That individual may be a member of any division and serve in any role. Past employees of the year have ranged from a messenger whose lively smile brightened everyone's day to an executive who insisted on using vacation time to get a jump start on work that lay ahead.

Criteria are broad, and difficult to define. But what any candidate for Bank of The Bahamas Employee of the Year must exemplify is commitment to the ideals of the Bank, dedication and exemplary determination in making the Bank as successful as it can be. Mr. Torri Knowles exemplifies all of these, and much more.

He exhibits such enthusiasm and motivation for his work that he inspires colleagues in his department to perform above and beyond their duties. During the traditionally quiet summer months when many workers are on vacation, Torri remained as the only Posting Associate in the Loan Administration Department. He came into work every day and attacked his work with the same vigour as usual.

Torri aspires to be part of the Bank's future, routinely furthering his education through The College of The Bahamas and focusing his steps on rising through the Bank's hierarchy. Finally, as noted by Torri's manager, Judy Miller, Torri continues to support the beliefs and values that he expressed on his first day, regularly explaining his rationale for using the Bank's culture and values to determine priorities and decisions.

Bank of The Bahamas congratulates Torri Knowles, 2007 Employee of the Year.

Other *Euromoney* winners this year included Santander, named the best bank in the world and Goldman Sachs as the best global investment bank.

Bank of The Bahamas first won the award in 2006, a year after being the first Bahamian bank to win the sought-after Bracken Award from *The Banker* magazine, a division of the Financial Times Group. In 2007, the Bahamas Chamber of Commerce named Bank of The Bahamas Business of the Year, a recognition McWeeney said was especially noteworthy because it compared the Bank's corporate culture, performance and standards against all businesses in all industries. BOB and its Managing Director have also been the recipient of the Bahamas Financial Services Board two top awards.

According to the editors of *Euromoney*, the Bank's "impressive achievements" clinched its title as the nation's best.

"In March 2008 the Bank became the first retail bank from The Bahamas to have a physical presence in Miami, and opening its doors in Florida was the latest in a series of firsts by the bank," said *Euromoney* in its July issue. "BOB became the first bank in The Bahamas to install i-Flex and it was the first to complete installation of imaging technology, paving the way for real-time settlement of foreign instruments. The bank's financial indicators are impressive, too."

The award-winning institution has more than $736 million in assets, and over the past three years has averaged growth of 14.4% in revenue and 19% in total assets. The bank most recently opened its full-service Cat Island branch, joining existing branches in New Providence, Grand Bahama, Exuma, San Salvador, Inagua, Andros and its financial services centre in Coral Gables, Florida, the first international presence of a Bahamian retail bank.

Cat Island and Miami Opening

BOB: Taking banking to The Bahamas and the world

"As a Bahamian institution, we recognise and accept our responsibility to serve as many communities as possible"

-Paul McWeeney, Managing Director

Synergy. The cooperative interaction between groups that produces an enhanced, combined effect. Each of Bank of The Bahamas' branches and offices function as a singular part of a main entity, each doing its respective part to enhance the capabilities of the Bank. A new BOB branch or a new BOB office is not an independent business, performing its own undertakings regardless of the parent Bank. It is part of a whole.

This is why every new branch and every new office that Bank of The Bahamas creates is carefully researched, planned and structured to not only increase BOB's range of services and opportunities to Bahamians, but also to enhance the organization and capability of the business of the entire BOB family.

In 2008 Bank of The Bahamas continued its long history of firsts with two new additions to the BOB family. Recognising the need, as a fully-Bahamian institution, to serve as many Bahamian communities as possible and also recognising the personal and business opportunities for an international presence, BOB opened its Cat Island branch, the first presence of a major bank on the island and its flagship South Florida location, the first international presence of a Bahamian financial institution. These latest additions to the BOB family increase its Bahamian presence to 12 full-service locations across seven islands, as well as adding an international presence in South Florida.

Bank of The Bahamas, Cat Island

On June 5, 2008, Bank of The Bahamas opened a full service branch in Knowles, Cat Island. Bank of The Bahamas is the first retail bank to have a presence on the island, serving residents who in the past had to either rely on government offices or fly to Nassau to perform regular banking services. BOB recognizes that Cat Island is swiftly beginning to develop and hopes that thanks to its presence development may be swifter, serving an internal, local and national goal.

BOB Financial Services, Coral Gables, Florida

On March 14, 2008, dignitaries, business and community leaders from The Bahamas and The United States arrived in South Florida for the grand opening of BOB subsidiary BOB Financial Services in Coral Gables. The first physical presence of a Bahamian financial institution, BOB Financial Services hopes to expedite commerce between the neighbouring nations and facilitate those Bahamians who shop, seek education or medical care in Florida.

Located in Coral Gables, minutes from Miami International Airport, BOB Financial services allows BOB customers to withdraw U.S. dollars from their Bahamian account, open Bahamian accounts, use U.S. property as collateral for loans and receive loan payments as U.S. dollar drafts to expedite large purchases.

Corporate Governance Principles
Bank of The Bahamas Limited

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

ROLE OF BOARD OF DIRECTORS

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

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

BOARD COMPOSITION, STRUCTURE AND POLICIES

Board Membership

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

Within the last fiscal period, several changes have occurred with regard to the Board's membership. On January 25, 2008 a new board was elected by the shareholders. On January 30, 2008, a new Chairman was elected by the Directors. On May 20, 2008, Mr. Peter Thompson, who served on the Information & Technology Committee, the Operations Marketing & Business Development Committee and the Audit Committees, resigned from the Board.

Director Conflict of Interest

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

Compensation of Directors

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

Director Education

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

Independence of Directors

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

BOARD MEETINGS

Frequency of Meetings

Board meeting dates are scheduled and communicated with Directors at least a year in advance. In fiscal year 2008, four regular Board meetings and two extraordinary Board meetings were held. Generally, Board Committee meetings are held quarterly, with the exception of the Corporate Governance and Executive Compensation Committees which are held annually.

Summary of Board Committee Meetings Held for the Year Ended June 30, 2008

Audit, Controls, & Procedures Board Committee	8
Credit Risk Board Committee	5
Operations, Marketing & Business Development, Private Banking and International Operations Committee	4
Finance & Capital Development Board Committee	4
Information & Technology Board Committee	4
Human Resources Board Committee	4
Risk Management Board Committee	4
Corporate Governance	1
Executive Compensation	1

Attendance at Meetings

Regular attendance at all Board meetings, together with committee meetings and the AGM, is expected of all Directors. As noted earlier, a board consisting largely of new members was elected to serve on the Board at the Bank's January 25, 2008 Annual General Meeting. On the opposite page is a record of attendance during the 2008 fiscal year.

Preparation for Meetings

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

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

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 developes '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 Committee meeting for review and ratification.

On January 4, 2008, the Board submitted its Annual Certification to The Central Bank of The Bahamas confirming its compliance with the Corporate Governance Guidelines.

From June 30, 2008 to January 25, 2008			
Name	**Sept 27, 2007**	**Oct 16, 2007**	**Nov 16, 2007**
T. Maitland Cates	✓	✓	✓
Lourey Smith	✓	✓	✓
Lennox McCartney	✗	✓	✓
Robert Sands	✓	✓	✗
Allan Benjamin	✓	✓	✓
Ruth Millar, CMG	✓	✗	✓
Dr. L. Barry Russell	✗	✓	✓
William Wallace	✓	✓	✗
Raymond Jones	✓	✓	✗
Paul McWeeney	✓	✓	✓

From January 30, 2008 to May 16, 2008			
Name	**Jan 30, 2008**	**Mar 13, 2008**	**May 16, 2008**
Macgregor Robertson	✓	✓	✓
Peter Thompson	✓	✓	✓
Ruth Millar, CMG	✓	✓	✓
Robert Sands	✓	✓	✓
Patrick Ward	✓	✗	✓
Marvin Bethell	✓	✓	✓
Wesley J. Bastian	✓	✓	✓
Dr. Pandora Johnson	✓	✓	✓
Patricia Hermanns	✓	✓	✗
Hartis Pinder	✓	✓	✓
Ruth Bowe-Darville	✓	✗	✓
Paul McWeeney	✓	✓	✓

✓ = Present ✗ = Apologies

Strategic Management

Beverley A. Farquharson

Vaughn W. Delaney

Executive Management
Paul J.I. McWeeney, Managing Director
B.A. Farquharson, Deputy Managing Director, Operations
Vaughn Delaney, Deputy Managing Director, IT & Human Resources

Hubert Edwards, Sr. Manager, Strategic Planning & Credit
Darryl Bartlett, Sr. Manager, Credit Risk
Renee Davis, Sr. Manager, Risk
Dario Lundy-Mortimer, Chief Financial Officer
Kirvy Ferguson, Sr. Manager, Operations
Vanessa Taylor, Chief Internal Auditor
Emily A. Demeritte, Sr. Manager, Human Resources
Tameka Burrows-Forbes, Sr. Manager, Business Development, Public Relations and Legal Affairs
Dianne Bingham, Sr. Manager Private Banking & Trust
Renee Ijeoma, Manager, Information & Technology
Dandria Miller-Bowe, Financial Controller
Laura A. Williams, Corporate Secretary
Yvette Johnson, Assistant Corporate Secretary

January 4, 2008

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

Dear Sirs,

Corporate Governance Certification – 31 December 2007

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

- While the Bank recognizes the importance of strengthening its systems and procedures to ensure a stronger corporate governance environment on an ongoing basis, the board believes that the systems and procedures that are currently in place are appropriate and, accordingly, is satisfied that the board of directors is performing its functions and fulfilling its responsibilities under those Guidelines;

- The board has carefully considered the reporting of senior management and other information provided in determining whether the Bank is following the corporate governance Guidelines and,

- The board is of the opinion that the Bank is fulfilling the principles of the Guidelines.

On October 1, 2007, the Bank launched its new and comprehensive financial service software application. As with any new system implementation, there are challenges that the Bank is currently addressing to enhance the effectiveness of the control environment.

Executive/Senior management has been assigned to enhance areas with deficiencies. In addition, the Bank is in the process of hiring external consultants to ensure a smooth post-implementation migration to the new software. To this end, the new software is anticipated to enhance the control environment of the Bank and improve the enterprise risk management process.

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

We are confident that these areas will continue to be addressed with determination.

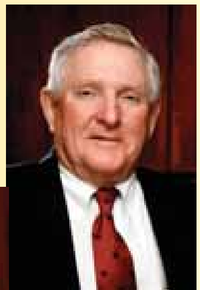
Yours faithfully,

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

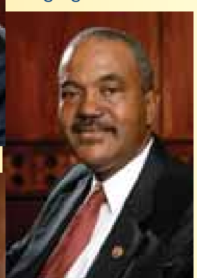
Paul McWeeney – Managing Director

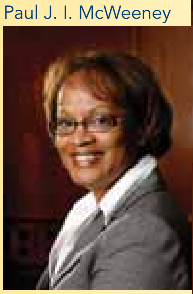
T. Maitland Cates - Chairman

Board of Directors


Macgregor Robertson


Paul J. I. McWeeney


Marvin V. Bethell


Patricia Hermanns

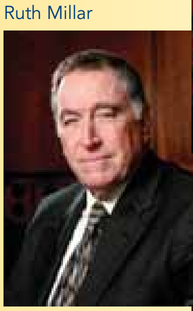

Patrick Ward


Robert D. L. Sands


Ruth Bowe-Darville


Ruth Millar


Wesley J. Bastian


Hartis Pinder


Dr. Pandora Johnson

Macgregor Robertson – Chairman of the Board

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

Paul J. I. McWeeney

Starting his career at Chase Manhattan, N.A., Mr. McWeeney has more than 27 years experience in the financial services industry. Joining Bank of The Bahamas in 1993, he was appointed Managing Director in 2001.

Marvin V. Bethell

Currently the Managing Director of J.S. Johnson, Mr. Bethell has 39 years experience in the insurance industry. He is a Fellow of the Chartered Insurance Institute, London England as well as a Chartered Insurance Practitioner.

Patricia Hermanns

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

Patrick Ward

President and CEO of Bahamas First Holdings Ltd., Mr. Ward has more than 23 years experience in the insurance industry. Achieving his MBA with honours in 1994 from the University of Miami, Mr. Ward also serves as Chairman of the National Insurance Board.

Robert D. L. Sands

Mr. Sands is the Senior Vice President of Administration and External Relations at Baha Mar Resorts Ltd. The former chairman of the Bahamas Hotel Association, Mr. Sands has been a Director of the Bank since December 2002 and is also an active member and supporter of many community boards and projects.

Ruth Bowe-Darville

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

Ruth Millar

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

Wesley J. Bastian

Mr. Bastian began his professional career at the Bank of Nova Scotia in 1966. Since 1997 He has been the Managing Director of Sewma Holdings Ltd. Real Estate and Subway Sandwiches & Salads Ltd. Mr. Bastian is also a Director on the Board of Security & General Insurance Company and the Chairman of the St. Joseph's Parish Finance Council.

Hartis Pinder

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

Dr. Pandora Jackson

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

FINANCIAL HIGHLIGHTS

	2008	2007	2006	2005	2004
Interest Income	$ 50.45	$ 42.92	$ 35.39	$ 27.24	$ 26.67
Net interest Income	$ 27.89	$ 25.13	$ 21.96	$ 16.19	$ 15.81
Non Interest Income	$ 7.32	$ 7.59	$ 9.30	$ 6.91	$ 5.45
Non Interest Expense	$ 26.14	$ 21.28	$ 17.84	$ 15.21	$ 12.98
Net Income	$ 6.10	$ 10.48	$ 10.72	$ 7.01	$ 6.03
Earnings per Share (EPS)	$ 0.32	$ 0.61	$ 0.78	$ 0.59	$ 0.50
Total Assets	$ 736.14	$ 658.26	$ 545.76	$ 453.15	$ 384.78
Loans and Advances to Customers	$ 522.11	$ 486.92	$ 454.78	$ 352.43	$ 299.32
Total Liabilities	$ 642.24	$ 565.48	$ 470.41	$ 408.83	$ 345.45
Shareholders Equity	$ 93.90	$ 92.77	$ 75.35	$ 44.32	$ 39.33
Capital Ratio	12.57	14.55	13.81	9.78	10.22
Efficiency Ratio	74.23	64.48	58.07	65.86	61.05

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

Management Discussion

AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR FINANCIAL YEAR ENDING JUNE 30, 2008

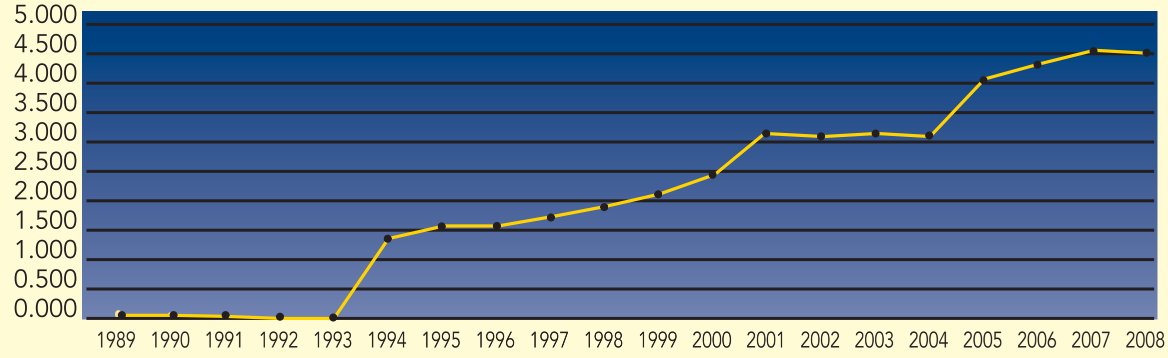
Global financial markets have experienced considerable turbulence since early in the calendar year encompassing a significant portion of the Bank's fiscal year ending June 30, 2008. Although the Bahamian financial environment remains strong, the global financial crises have had a consequential adverse impact on the broader economic environment of the country. Recessionary conditions, particularly in the United States, have caused a fall-off in tourism and direct foreign investment in The Bahamas. As a result GDP growth has slowed to 1% while resort operators have substantially reduced employee work days and several promising private sector-driven capital projects have stalled.

Despite the precarious economic situation particularly abroad, and more recently reflected in The Bahamas, the Bank has displayed significant financial strength. That strength has allowed the Bank to post strong gains in revenue and record-breaking new customer growth while exercising prudent fiscal conservatism in recognizing additional credit and operational provisions which serve to further strengthen the balance sheet in such times.

The Bank's Total Revenue grew by 14.4%, multiple times that of GDP, reflecting strength in its core banking activities. Such strong business performance afforded the Bank the opportunity to engage a fiscally conservative strategy given current economic concerns and the high degree of uncertainty in the future outlook. As a result approximately B$3.8 million was carved from earnings and set aside in provisions. This will further insulate the financial condition of the Bank from unexpected or unforeseeable future shocks. Following these events and the revision of accounting treatment of loan fee income and the valuation surplus on investment property, return on assests averaged a healthy 0.87%, and net income settled at B$6.1 million.

The conservative route in evaluating the Bank's current position relative to the market is considered both pragmatic and prudent. The Bank is not immune to the effect the economic slow-down has had on system delinquencies and asset quality. Thus, the comparatively high increase in new loan loss provisions is considered appropriate and matches the inherent risk of the broader economic environment and the anemic short-term outlook. Further, during the process of migrating to a new core banking solution on October 1, 2007 the Bank was confronted with several operational challenges, which is not unusual

Dividends



in major system conversions. As part of the fiscally conservative strategy management made a provision of B$891 thousand for the inherent possibility of a realized financial risk. However, the Bank is highly optimistic that these risks will be cured during the new fiscal period and the provision restored to earnings.

Management is optimistic about the Bank's ability to perform in the current environment. Over the years the Bank has developed a winning formula based on sound lending practices; a solid governance regime including effective risk management; and a strong balance sheet. With a new comprehensive banking solution in place the Bank is well positioned to leverage its existing customer base and product offerings. Going forward the Bank will continue to refine its strategy to capture the benefits of the new technology infrastructure and enhanced customer service opportunities. Together these actions should favorably reflect on the results of the Bank.

The following analysis discusses the specific performance and results of the major lines in the Income Statement and Balance Sheet of the Bank for the year ended June 30, 2008.

Interest Income

Given growing market concerns the Bank elected to conservatively grow the loan portfolio. Notwithstanding that conservative approach, the Bank's controlled growth strategy interest income grew by 17.5% to $50.45 million while the underlying loan portfolio expanded by $35 million or 7.2%. Commercial lending, including business overdrafts, accounted for more than 50% of the growth. Additionally, the average yield on interest earning assets grew by 30 basis points to 8.7%.

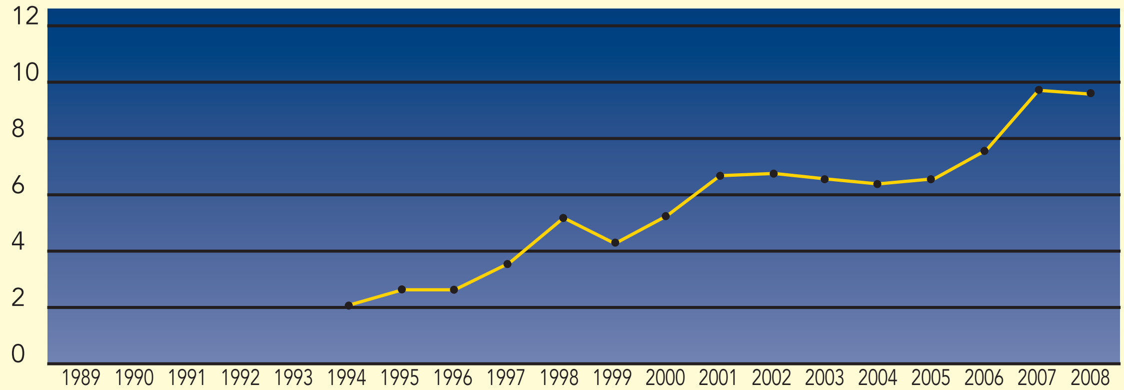
Interest Expense

The Bank was unable to execute a planned new capital issue which was anticipated to have, inter alia, a significant positive impact on lowering the overall costs of funds. However, the Bank was able to capitalize from its growing public confidence which translated into the establishment of in excess of 4,700 new deposit accounts. This, coupled with the natural expansion in customer relationships, contributed to a net growth of B$71.1 million (14%) in customer deposits. These new deposits were extracted from system wide liquidity which remained firm during the period. Although the growth in the customer deposit base is admirable, when compared to raising funds through a capital issue, the cost to the Bank is greater. Consequently, this coupled with an increase of 36 basis points in the liability yield, caused a spike in interest expense which grew by B$4.7 million or 26.7% year over year. Nevertheless, the Bank continues to seek funding alternatives with the expectation of driving down the overall cost of funds.

Net Interest Income

The significant increase in interest income was overshadowed by higher growth of interest expense. Specifically, although there was a slight improvement in the overall asset yield, the growth in customer deposits almost doubled that of loans and advances to customers. Nevertheless, net interest income still grew at a healthy rate of 11% to B$27.9 million.

Share Price



Net Provision for Loan Losses

Given the dramatic turn of events in the broad economic environment during the past year and the uncertainty in the future outlook, the Bank took and maintained a conservative posture and increased its provision for loan losses consistent with the inherent risks of its loan portfolio and the broader marketplace. Although impaired loans grew by 42.1% to B$25.5 million over the previous year the asset quality rate remained at an acceptable level of 4.8%. As a result the Bank made new provisions for loan losses totaling $2.9 million for the year ending June 30, 2008. The aggregate amount of provisions for loan losses at June 30, 2008 of $8.2 million represented an impressive 32.3% of all impaired loans. The major sector in the loan portfolio which contributed to the increased provisions was the consumer portfolio which accounted for 42% of the charge and reflects an aggressive policy which fully provisions such loans irrespective of security.

Non Interest Income

During the fiscal year under review the Bank changed the policy for loan commitment fees which had a material impact on revenue in this category when compared to previous operating cycles. The accounting change requires the deferment of loan commitment fees to be recognized over the life of the underlying loan rather than as income upfront. Consequently, non interest revenue was reduced by B$634 thousand. Despite this adjustment the strong performance in other areas of this category narrowed the overall decline to 3.5% with total non interest revenue settling at B$7.3 million.

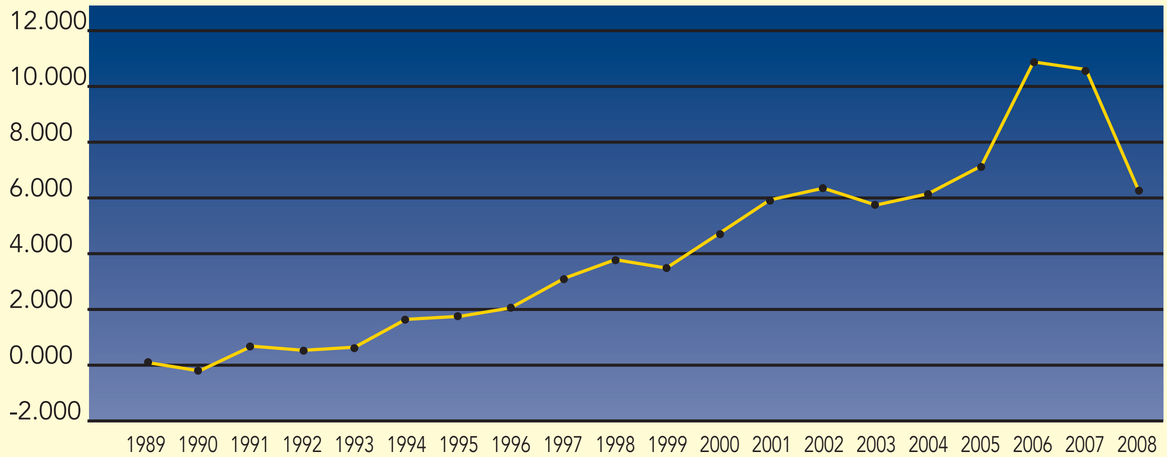
Non Interest Expense

Over the last 24 months the Bank has established two new financial service centres, expanded its VISA branded payment card centre, introduced a dynamic staff training and professional development centre, and made significant upgrades to its IT platform.

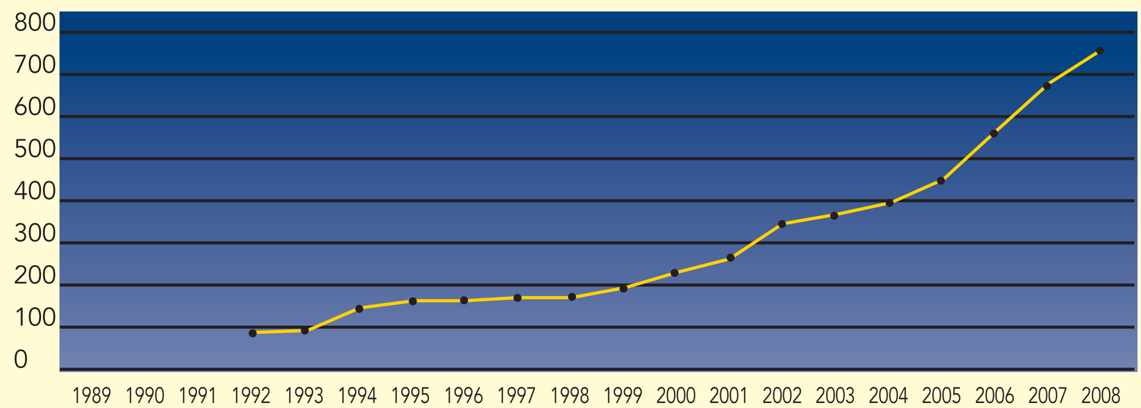
These components were essential to the growth and development of the Bank, and although some of these areas are not considered revenue producing and require significant capital outlay, the future return on investment in terms of a highly skilled and professional labour force and a more comprehensive financial services solution for our expanding customer base, makes the investment priceless.

As was the case with industries and businesses across the board, the cost of general operations increased materially this year due to the nature of the wider economy and, in particular, the collateral fall-out from the spike in crude oil costs. Therefore, the Bank's real non interest expense grew by 22.86% to B$26.14 million. However, and for the reason indicated earlier, an operational provision in the amount of B$891 thousand was recognized. As a result of the Bank's efficiency ratio including the aforementioned adjustment was 74% compared to 64% in the prior year. Conversely, despite an increase in permanent staff of 44 to 313, operating expenses and revenue per permanent employee remained virtually unchanged at B$73.8 thousand and B$185 thousand respectively. This underscores the impact cost of funds and credit and operating provisions, both cyclical or non-recurring events, has had on the Bank's overall performance this year.

Net Income



Asset Growth



Net Income

The change in accounting policy required a similar adjustment to the Consolidated Statement of net Income for the last fiscal year as well. As a result, net income for the year ended June 30, 2007 was restated to B$10.4 million while net income for the current year settled at B$6.1 million or B$0.32 cents per share.

Total Assets

Despite considerable economic challenges, the Bank's strong performance pushed total assets to a record B$736 million, representing an increase of B$77.8 million or approximately 12%. The major components of growth included an increase in loans and advances to customers of B$35 million and a surplus cash position at June 30, 2008 which grew by B$42 million over the previous year. The growth in the asset base of the Bank was directly impacted by the positive growth in the deposit portfolio.

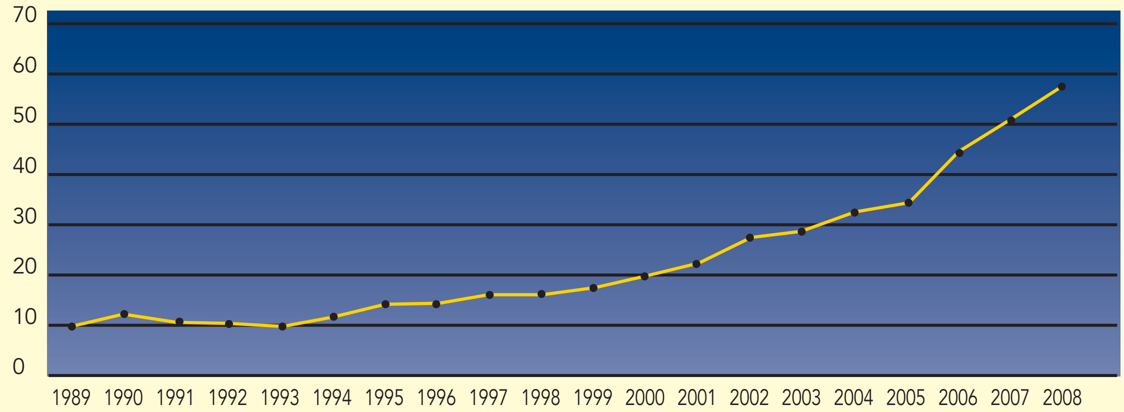
Loans and Advances to Customers

Loans and Advances grew by 7.2% to B$522 million at June 30, 2008. Over the past year the Bank made a strategic decision to control the growth rate of the loan portfolio. The decision was taken as a result of further tightening of liquidity and emerging sector asset quality concerns. More than 50% of the growth in the loan portfolio can be attributed to commercial clients.

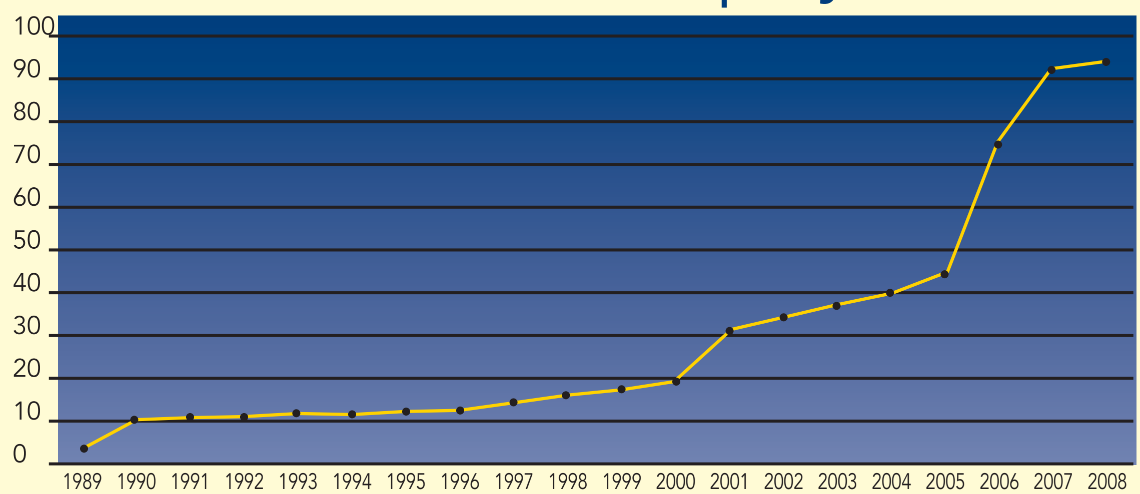
Liquidity

The Bank's total deposits from customers grew by approximately 14% or B$71 million to B$580 million. The Bank's initiatives continue to drive expansion of the customer base with the number of deposit accounts increasing by over 4,700 or 16.3%. The measured slow down in the economy has also caused the Bank to take a more prudent approach to lending which has yielded a surplus level of cash. At June 30, 2008 the Bank held Cash and Cash Equivalents of B$167 million an increase of B$42 million from the previous year. However, the enviable cash position makes the Bank ripe for potential investment opportunities.

Gross Revenue



Total Shareholder Equity Growth



Total Shareholders' Equity

The Bank's Capital ratio was 12.6% for 2008, well above the requirements defined by The Central Bank of The Bahamas. The Bank's Tier I capital stood at 21.5% and continues to reflect ongoing strategies to maintain and exceed prudent capital standards. Management believes the capital of the Bank is more than adequate to preserve the position of the Bank should any dislocation occur as a result of the current economic environment.

Because of the Bank's strong liquidity and Tier 1 capital position, shareholders can be reassured that even in difficult times the Bank is well positioned. The Bank's combined strategies seek to enhance customer service and delivery; maintain a strong financial position; diversify current revenue streams; and leverage existing technology assets. Combining these strategies with a highly recognized brand will allow for continued growth.

The Management's Discussion and Analysis of the Bank's financial condition and results of operations is provided to enable the reader to assess the financial condition, material changes in the Bank's financial condition and the results of operations including liquidity and capital resources for the fiscal year ended June 30, 2008. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on the results of operations and financial condition, this Management's Discussion and Analysis should be read carefully together with the Bank's Consolidated Financial Statements and related notes.

Bank of The Bahamas

INTERNATIONAL

Consolidated Financial Statements For The Year Ended June 30, 2008 And Independent Auditors' Report

Deloitte.

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

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Fax: +1 (242) 322-3101
http://www.deloitte.com.bs

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bank of The Bahamas Limited:

We have audited the consolidated financial statements of Bank of The Bahamas Limited (the "Bank") which comprise the consolidated balance sheet as of June 30, 2008, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

October 24, 2008

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2008
(Expressed in Bahamian dollars)

	2008	2007 (As Restated)
ASSETS		
Cash and due from banks (Note 5)	$ 113,865,736	$ 75,853,807
Account with The Central Bank of The Bahamas (Note 5)	53,261,653	48,775,950
Investments (Notes 6 and 20)	25,323,000	27,903,000
Loans and advances to customers, net (Notes 7 and 20)	522,111,807	486,921,172
Accrued interest receivable (Note 20)	584,095	691,819
Prepaid expenses and other assets (Notes 8 and 20)	4,527,770	2,488,729
Investment property (Note 9)	3,601,500	3,080,000
Fixed assets, net (Note 10)	5,242,957	5,075,613
Intangible assets, net (Note 11)	3,720,595	3,434,148
Customers' liabilities under acceptances, guarantees and letters of credit	3,905,038	4,038,434
TOTAL	**$ 736,144,151**	**$ 658,262,672**
LIABILITIES		
Deposits from customers and banks (Notes 12, 20 and 21)	$ 580,168,906	$ 509,094,107
Bonds payable (Notes 13 and 20)	17,000,000	17,000,000
Mortgage backed bonds (Note 14)	20,000,000	20,000,000
Cheques and other items in transit	11,564,332	7,565,470
Accounts payable and other liabilities (Note 20)	4,668,359	3,650,079
Deferred loan fees (Note 17)	3,642,413	3,008,425
Interest payable on bonds (Note 20)	729,288	567,623
Dividends payable on preference shares	562,500	562,500
Acceptances, guarantees and letters of credit	3,905,038	4,038,434
Total liabilities	642,240,836	565,486,638
EQUITY		
Share capital (Note 15)	30,364,990	30,364,990
Share premium	28,587,866	28,587,866
Treasury shares (Note 16)	(30,244)	(237,329)
Retained earnings	34,980,703	34,060,507
Total equity	93,903,315	92,776,034
TOTAL	**$ 736,144,151**	**$ 658,262,672**

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on October 24, 2008, and are signed on its behalf by:

Director

Director

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED JUNE 30, 2008
(Expressed in Bahamian dollars)

	2008	2007 (As Restated)
NET INTEREST AND OTHER INCOME:		
Interest income (Notes 17 and 20)	$ 50,459,925	$ 42,917,319
Interest expense (Note 20)	22,562,204	17,786,319
Net interest income	27,897,721	25,131,000
Less net provision for loan losses (Note 7)	2,975,095	951,134
Net interest income after net provision for loan losses	24,922,626	24,179,866
Service fees and commissions	2,372,383	3,736,429
Interest income from investments (Note 20)	1,541,757	1,719,748
Net foreign exchange gains	1,551,715	1,395,145
Gain on revaluation of investment property (Note 9)	45,313	70,000
Other banking income	1,811,303	666,027
TOTAL	**32,245,097**	**31,767,215**
NON-INTEREST EXPENSES:		
General and administrative (Notes 16, 20, 21, 22 and 25)	23,105,415	19,708,441
Depreciation and amortization (Notes 10 and 11)	2,148,666	1,531,939
Impairment loss on goodwill (Note 11)	-	39,518
Provision against other assets (Note 8)	890,822	-
TOTAL	**26,144,903**	**21,279,898**
NET INCOME	**$ 6,100,194**	**$ 10,487,317**
EARNINGS PER SHARE CALCULATION:		
NET INCOME	**$ 6,100,194**	**$ 10,487,317**
PREFERENCE SHARE DIVIDENDS (Note 15)	(1,125,000)	(1,064,897)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	**$ 4,975,194**	**$ 9,422,420**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	**15,592,986**	**15,557,613**
EARNINGS PER SHARE	**$ 0.32**	**$ 0.61**

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED JUNE 30, 2008
(Expressed in Bahamian dollars)

	Share Capital	Share Premium	Treasury Shares	General Reserve	Retained Earnings	Total
Balance at June 30, 2006 (as previously reported) (Note 17)	$ 15,600,000	$ 28,587,866	$ (245,739)	$ 1,400,000	$ 30,010,286	$ 75,352,413
Deferred loan fees (Note 17)	-	-	-	-	(2,722,083)	(2,722,083)
Balance at June 30, 2006 (as restated) (Note 17)	15,600,000	28,587,866	(245,739)	1,400,000	27,288,203	72,630,330
Net income at June 30, 2006 (as restated) (Note 17)	-	-	-	-	10,487,317	10,487,317
Transfer of general reserve (Note 15)	-	-	-	(1,400,000)	1,400,000	-
Sale of treasury shares (Note 16)	-	-	8,410	-	-	8,410
Preference shares issuance (Note 15)	14,764,990	-	-	-	-	14,764,990
Dividends on preference shares (Notes 15 and 26)	-	-	-	-	(1,064,897)	(1,064,897)
Dividends (Note 26)	-	-	-	-	(4,050,116)	(4,050,116)
Balance at June 30, 2007 (as restated)	30,364,990	28,587,866	(237,329)	-	34,060,507 9	9,776,034
Net income	-	-	-	-	6,100,194	6,100,194
Sale of treasury shares (Note 16)	-	-	207,085	-	-	207,085
Dividends on preference shares (Notes 15 and 26)	-	-	-	-	(1,125,000)	(1,125,000)
Dividends (Note 26)	-	-	-	-	(4,054,998)	(4,054,998)
Balance at June 30, 2008	**$ 30,364,990**	**$ 28,587,866**	**$ (30,244)**	**$ -**	**$ 34,980,703**	**$ 93,903,315**

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008
(Expressed in Bahamian dollars)

	2008	2007 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,100,194	$ 10,487,317
Adjustments for:		
Depreciation and amortization (Notes 10 and 11)	2,148,666	1,531,939
Gain on revaluation of investment property (Note 9)	(45,313)	(70,000)
Gain on disposal of fixed assets	(49)	-
Impairment loss on goodwill (Note 11)	-	39,518
Provision for loan losses (Note 7)	2,975,095	951,134
Provision against other assets (Note 8)	890,822	-
	12,069,415	12,939,908
Change in operating assets and liabilities (Note 23)	2,828,991	7,468,228
Increase in loans and advances to customers, net	(38,165,730)	(33,091,617)
Increase in deposits from customers and banks	71,074,799	64,398,230
Net cash from operating activities	47,807,475	51,714,749
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets (Note 10)	(2,105,925)	(1,153,873)
Acquisition of intangible assets (Note 11)	(496,533)	(1,353,498)
Purchase of investments	(3,120,000)	-
Proceeds from disposal of fixed assets	50	-
Proceeds from maturity of investments	5,700,000	1,000,000
Investment property additions	(476,187)	-
Net cash used in investing activities	(458,595)	(1,507,371)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage backed bonds (Note 14)	$ -	$ 20,000,000
Preference shares issuance (Note 15)	-	14,764,990
Dividends paid on common stock	(4,054,998)	(4,050,116)
Dividends on preference shares (Note 15)	(1,125,000)	(1,064,897)
Increase in interest payable	161,665	565,062
Sale of treasury shares (Note 16)	207,085	8,410
Net cash (used in) from financing activities	(4,811,248)	30,223,449
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**42,497,632**	**80,430,827**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**124,629,757**	**44,198,930**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	**$ 167,127,389**	**$ 124,629,757**

SUPPLEMENTAL INFORMATION:

Interest received	**$ 47,607,097**	**$ 43,087,446**
Interest paid	**$ 17,522,096**	**$ 16,170,159**
Dividends paid	**$ 5,179,998**	**$ 4,552,513**

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2008
(Expressed in Bahamian dollars)

1. GENERAL

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

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

The Bank's services include the provision of commercial and retail banking and trust services, private banking and the issuance of Visa branded prepaid cards. The Bank has twelve branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador, one in Exuma, one in Inagua and one in Cat Island. A subsidiary named BOB Financial Services Inc. was incorporated in Coral Gables, Florida on June 30, 2005 and commenced operations December 10, 2007. The main activities of BOB Financial Services Inc. are the provision of trade financing, 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, American Express Bank, Citibank NA and Lloyds Bank PLC. The Bank is also an agent for American Express and MoneyGram.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The following International Accounting Standards (IAS) issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to the Bank were adopted in these consolidated financial statements:

i. IFRS *7 Financial Instruments: Disclosures.* This standard, which was effective January 1, 2007 requires more detailed qualitative and quantitative disclosures about exposure to risks arising from the Bank's financial instruments. As a disclosure standard, the application of this new standard has not had any impact on amounts recognized in the financial statements. The IFRS and disclosures are set out in these financial statements in Note 30. IFRS 7 supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements previously contained in IAS 32 *Financial Instruments: Presentation.*

ii. Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures.* This standard, which was effective from January 1, 2007, requires additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the Bank regards as capital, and compliance with capital requirements. These disclosures are set out in Notes 28 and 30.

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

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after July 1, 2008 or later periods but which the Bank has not early adopted, as follows:

IFRS 8 *Operating Segments,* which replaces IAS 14 *Segment Reporting*, was issued on November 30, 2006 and is effective for annual periods beginning on or after January 1, 2009. This standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that the chief operating decision maker uses to make operating decisions. The Bank does not expect adoption of the revised standard to have a significant effect on the consolidated financial statements.

The IASB issued a revised IAS 23 *Borrowing Costs* on March 29, 2007, which is applicable for annual periods beginning on or after January 1, 2009. The revised standard eliminates the option of recognizing borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The Bank does not expect adoption of the revised standard to have a significant effect on the consolidated financial statements.

A revised IAS 1 *Presentation of Financial Statements*, which is applicable for annual periods beginning on or after January 1, 2009, was issued on September 6, 2007. The revised standard aims to improve users' ability to analyze and compare information given in financial statements. The adoption of the revised standard will have no effect on the results reported in Bank's consolidated financial statements. It will, however, result in some presentational changes to the results and consolidated financial position of the Bank in certain respects.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The consolidated financial statements have been prepared in accordance with IFRS as promulgated by the IASB and with the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one which is both important to the portrayal of the Bank's consolidated financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management evaluates such estimates on an ongoing basis based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future.

Impairment

Tangible assets
The Bank has made significant investments in physical assets. These are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management's evaluations and assumptions may give rise to impairment losses in the relevant future periods. As at June 30, 2008, no impairment losses were recorded for the reporting period.

Depreciation and amortization
Depreciation and amortization is based on management estimates of the future useful lives of fixed assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful lives and in the amortization or depreciation charges. The Bank reviews the future useful lives of fixed assets periodically taking into consideration the factors mentioned above and all other important factors. Estimated useful lives for similar types of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate etc. In case of significant changes in the estimated useful lives, depreciation and amortization charges are adjusted prospectively. During 2008, an accelerated depreciation was applied to the Fiserv core banking system in the amount of $181,000 (2007: Nil).

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

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

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

The impairment charge is determined by taking the difference between the present value of the branch's projected cash flow and its book value. During the year the Bank recognized an impairment loss of Nil (2007:$39,518).

Further details are presented in Note 11.

Legal proceedings and claims
The Bank is subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. The Bank evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Bank to increase or decrease the amount that it has accrued for any matter or accrue for a matter that has not been previously accrued because it was not considered probable, or a reasonable estimate could not be made.

Loan commitment fees estimate
In accordance with International Accounting Standard 18: *Revenue*, loan commitment fees are to be deferred and recognized over the life of the loan. Management amortizes loan commitment fees using an average loan term of 3 years for consumer loans, 20 years for mortgages, and 10 years for commercial loans. Any change in average loan term will be recognized prospectively in interest income in the consolidated statement of income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. ***Revenue recognition*** - Revenue is recognized on an accrual basis, except for interest on non-accrual loans and advances which is 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 subsidiary BOB Financial Services Inc.

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

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

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

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

   When a loan is identified as non-accrual, the accrual of interest is discontinued and any previously accrued but unpaid interest is charged against current earnings. Thereafter, interest is included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectability 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 is rather suspended.

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

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

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

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

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

Consumer loans that are not fully secured by real estate are fully provided for when they are contractually in arrears more than 180 days. All other loans are provided for when the following conditions exist: i) contractually in arrears; ii) underlying collateral has been exhausted; and iii) no payment has been received within 180 days thereafter. Where a loan is being provided for, specific provision is increased to the principal amount of the loan.

e. ***Investments*** - Investments classified as held-to-maturity are carried at amortized cost. Investments are assessed for impairment using qualitative factors including the creditworthiness of the counterparty. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognized at fair value plus transaction costs. Available-for-sale financial investments are subsequently carried at fair value with changes shown through the consolidated statement of changes in equity.

f. ***Foreign currency*** - The reporting currency of the Bank is the Bahamian dollar (B$). Transactions in foreign currencies are converted to B$ at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are converted into B$ at market rates of exchange prevailing on the consolidated balance sheet date. Realized and unrealized foreign exchange gains and losses are included in the consolidated statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost or amortized cost are recorded at the exchange rate ruling at the date of transaction.

g. ***Fixed assets*** - Fixed assets (excluding the building) are stated at cost less accumulated depreciation and amortization. The building is stated at estimated salvage value of $384,951 with subsequent additions at cost less accumulated depreciation.

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

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

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

h. ***Accounts payable and other liabilities*** - Accounts payable and other liabilities are recognized in the consolidated balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

i. ***Acceptances, guarantees and letters of credit*** - The contingent liability of the Bank under acceptances, guarantees and letters of credit is recorded as a liability in the consolidated balance sheet. An offsetting asset is recorded to reflect the Bank's recourse against customers in the case of a call on any of these commitments.

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

k. ***Savings plan costs*** - 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. Savings plan costs are charged to general and administrative expenses and are funded as accrued.

l. ***Earnings per share*** - Earnings per share is computed by dividing the net income less dividends to preference shareholders by the weighted average number of shares outstanding during the year. There is no difference between basic earnings per share and fully diluted earnings per share.

m. ***Assets and liabilities under administration*** - Assets and liabilities under administration, excluding cash placed with the Bank on behalf of clients are not included in the consolidated balance sheet.

n. ***Taxes*** - A subsidiary of the Bank is required to comply with United States Federal and State tax laws. The Bank accounts for the tax affect of the subsidiary in accordance with IAS 12 Accounting for Taxes on Income. Accordingly deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

p. ***Goodwill*** - Goodwill arising on the acquisition of the Harold Road branch represents the excess of the cost of the acquisition over the fair value of the net assets acquired by the Bank. Goodwill is tested annually for impairment and is stated net of any impairment loss at year end. Any impairment in goodwill is included in the consolidated statement of income in the period in which it arose.

q. ***Amortization of software*** - Costs relating to the core banking software are stated at cost less amortization. Amortization is calculated on a straight-line basis using an annual rate of 10%.

5. CASH & CASH EQUIVALENTS

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

Included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas of $17,667,400 (2007: $15,649,520). All balances with The Central Bank of The Bahamas are non-interest bearing.

	2008	2007
Under 16 days	$ 125,779,412	$ 67,473,268
16 - 30 days	9,728,171	16,006,489
31 - 90 days	28,359,806	39,605,000
91 -180 days	3,260,000	1,545,000
	$ 167,127,389	**$ 124,629,757**

	2008	2007
Cash	$ 6,667,999	$ 4,822,662
Due from banks	107,197,737	71,031,145
Cash and due from banks	113,865,736	75,853,807
Account with The Central Bank of The Bahamas	53,261,653	48,775,950
	$ 167,127,389	**$ 124,629,757**

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

	2008	2007
Bahamas	$ 65,942,000	$ 59,385,661
United Kingdom	524,247	458,175
North America	100,661,142	64,785,921
	$ 167,127,389	**$ 124,629,757**

6. INVESTMENTS

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

			2008	2007
HELD TO MATURITY				
BAHAMAS MORTGAGE CORPORATION BONDS				
Maturity	**Interest Rate**	**Series**		
2007	5.000% effective rate	K	$ -	$ 2,000,000
2007	3.500% effective rate	K	-	700,000
			-	**2,700,000**
BAHAMAS GOVERNMENT REGISTERED STOCKS				
MATURITY	**EFFECTIVE INTEREST RATE**			
Various	Various		25,186,500	25,066,500
BRIDGE AUTHORITY BOND				
Maturity	**Interest Rate**			
2019	1.25% above prime		136,500	136,500

At year-end the Bahamian prime rate was 5.5% (2007: 5.5%).

	2008	2007
AVAILABLE FOR SALE		
1 share held in The Bahamas International Securities Exchange (fully written off)	-	-
Total investments	**$ 25,323,000**	**$ 27,903,000**

The change in the investment portfolio is as follows:

	2008	2007
Beginning Balance	$ 27,903,000	$ 28,903,000
Purchases	3,120,000	-
Redemptions	(5,700,000)	(1,000,000)
Total investments	**$ 25,323,000**	**$ 27,903,000**

7. LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers are as follows:

	2008	2007
Mortgage loans	$ 266,176,954	$ 260,534,541
Commercial loans	152,114,774	142,830,084
Consumer loans	38,086,053	36,218,498
Credit cards	278,110	-
Business overdrafts	43,628,337	30,575,473
Personal overdrafts	17,889,847	12,204,748
Government guaranteed student loans	8,031,362	8,349,121
	526,205,437	490,712,465
LESS: PROVISION FOR LOAN LOSSES:		
At beginning of year	6,040,225	6,505,808
Amount written-off	(1,111,575)	(1,689,314)
Recoveries	317,000	272,597
Provision charged to expense	2,975,095	951,134
At end of year	8,220,745	6,040,225
Accrued interest receivable	4,127,115	2,248,932
Loans and advances to customers, net	**$ 522,111,807**	**$ 486,921,172**

During the year, the Bank wrote-off loans totaling $1,111,575 (2007: $1,689,314) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts.

PROVISION FOR LOAN LOSSES IS AS FOLLOWS:	2008	2007
Specific provisions:		
Mortgage loans	$ 776,416	$ 229,853
Commercial loans	551,180	83,193
Consumer loans	2,266,871	1,465,413
Credit cards	120,000	-
	3,714,467	1,778,459
General provision	4,506,278	4,261,766
TOTAL	**$ 8,220,745**	**$ 6,040,225**

NON-ACCRUAL LOANS ARE AS FOLLOWS:	2008	2007
Mortgage loans	$ 11,493,098	$ 6,604,121
Commercial loans	8,973,758	8,956,854
Consumer loans	4,849,411	2,358,481
Credit card loans	153,434	-
TOTAL	**$ 25,469,701**	**$ 17,919,456**
EXPRESSED AS A PERCENTAGE OF LOAN PORTFOLIO	**4.84%**	**3.65%**

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

	2008	2007
0 - 2 years	$ 98,075,804	$ 110,204,490
3 - 5 years	44,765,717	32,380,668
6 - 10 years	133,834,582	128,783,771
Over 10 years	249,529,334	219,343,536
	$ 526,205,437	**$ 490,712,465**

continued

7. LOANS AND ADVANCES TO CUSTOMERS, NET, CONTINUED

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

	2008		2007	
	Value	No. of Loans	Value	No. of Loans
$0 - $10,000	$ 17,977,746	3,055	$ 9,110,778	4,248
$10,001 - $20,000	28,777,139	1,846	12,702,595	846
$20,001 - $30,000	26,965,680	1,057	11,569,251	477
$30,001 - $40,000	19,157,951	539	9,233,705	266
$40,001 - $50,000	15,029,442	336	9,920,079	221
Over $50,000	418,297,479	2,007	438,176,057	1,841
	$ 526,205,437	**8,840**	**$ 490,712,465**	**7,899**

8. PREPAID EXPENSES AND OTHER ASSETS

Provision against other assets

During the year the Bank converted its core banking system to a new system. As a result of the conversion the Bank experienced some difficulties processing certain transactions. The Bank has taken several remedial steps to resolve any issues resulting from the processing difficulties. The Bank's cash, customer account balances and income may be affected and accordingly management has made a provision in these financial statements for any potential impact on income. This provision of $890,822 adjusts the carrying value of the related transaction balances recorded in Prepaid expenses and other assets from $3,197,131 to $2,306,309. The provision is recorded in non-interest expenses in the consolidated statement of income.

Deferred Taxes

At June 30, 2008 the Bank had a deferred tax asset of $50,669 (2007: 31,764).

9. INVESTMENT PROPERTY

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

It is management's intention to construct a commercial office complex on this land. 30% of the complex will be used to house the Bank's headquarters and the remaining 70% will be available for commercial rental. Management has allocated the land using these percentages and in accordance with IAS 16 Property, Plant and Equipment management has classified the portion of that land that has been allocated to be used for its headquarters as fixed assets and that portion of the land that has been allocated for commercial rental as investment property in accordance with IAS 40: Investment Property. During the year the Bank incurred costs in the amount of $680,267 relative to the architectural design of the commercial office complex. 70% of the cost of $476,187 was allocated to the investment property and $204,080 was allocated to land (fixed assets). During the year, the land was appraised by a qualified appraiser who provided the valuation of the land for 2008.

The movement of Investment property during the year is as follows:

	2008	2007
Beginning balance	$ 3,080,000	$ 3,010,000
Additions	476,187	-
Revaluation gain	45,313	70,000
Ending balance	**$ 3,601,500**	**$ 3,080,000**

10. 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:				
Balance as at June 30, 2006	$ 2,396,675	$ 3,999,615	$ 7,762,683	$ 14,158,973
Additions	-	166,856	987,017	1,153,873
Balance as at June 30, 2007	2,396,675	4,166,471	8,749,700	15,312,846
Additions	204,080	1,078,334	823,511	2,105,925
Disposals	-	-	(1)	(1)
Balance as at June 30, 2008	**$ 2,600,755**	**$ 5,244,805**	**$ 9,573,210**	**$ 17,418,770**
ACCUMULATED DEPRECIATION AND AMORTIZATION:				
Balance as at June 30, 2006	$ (828,770)	$ (2,112,184)	$ (5,764,340)	$ (8,705,294)
Depreciation expense	(43,824)	(501,588)	(986,527)	(1,531,939)
Balance as at June 30, 2007	(872,594)	(2,613,772)	(6,750,867)	(10,237,233)
Depreciation expense	(25,384)	(698,773)	(1,214,423)	(1,938,580)
Balance as at June 30, 2008	**$ (897,978)**	**$ (3,312,545)**	**$ (7,965,290)**	**$ (12,175,813)**
CARRYING AMOUNT:				
June 30, 2008	**$ 1,702,777**	**$ 1,932,260**	**$ 1,607,920**	**$ 5,242,957**
June 30, 2007	**$ 1,524,081**	**$ 1,552,699**	**$ 1,998,833**	**$ 5,075,613**

Land in the amount of $1,105,281 (2007: $1,105,281) is included in land and building at cost.

11. INTANGIBLE ASSETS

	Goodwill	Software	Total
Balance at June 30, 2006	$ 1,115,277	$ 1,004,891	$ 2,120,168
Additions	-	1,353,498	1,353,498
Impairment	(39,518)	-	(39,518)
Balance at June 30, 2007	1,075,759	2,358,389	3,434,148
Additions	-	496,533	496,533
Amortization	-	(210,086)	(210,086)
Closing June 2008	**$ 1,075,759**	**$ 2,644,836**	**$ 3,720,595**

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 managed. As at June 30, 2008, management determined that goodwill was not impaired (2007: $39,518).

12. DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers and banks are as follows:

	2008	2007
Term deposits	$ 444,920,044	$ 379,750,386
Demand deposits	91,280,562	86,880,633
Savings accounts	38,624,738	37,767,963
	574,825,344	504,398,982
Accrued interest payable	5,343,562	4,695,125
	$ 580,168,906	**$ 509,094,107**

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

	2008	2007
Under 31 days	$ 133,174,637	$ 91,302,411
31 - 90 days	217,266,011	103,526,669
91 - 180 days	67,315,773	73,460,386
Over 180 days	157,068,923	236,109,516
	$ 574,825,344	**$ 504,398,982**

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

	2008		2007	
	Value	No. of Deposits	Value	No. of Deposits
$0 - $10,000	$ 22,157,936	31,336	$ 21,985,207	26,724
$10,001 - $20,000	11,811,456	864	11,491,011	829
$20,001 - $30,000	8,291,330	341	9,010,841	371
$30,001 - $40,000	6,811,581	198	5,711,687	165
$40,001 - $50,000	5,795,908	131	5,050,559	114
Over $50,000	519,957,133	854	451,149,677	802
	$ 574,825,344	**33,724**	**$ 504,398,982**	**29,005**

In 1999, The Central Bank of The Bahamas established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of $125,222 (2007:$140,298) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of $50,000.

13. 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% (2007: 5.50%). Interest expense during the year totaled $935,000 (2007: $935,000). These bonds are secured under a trust agreement by specific performing loans, in the Bank's loan portfolio, granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifiable assets which include Government registered stock and cash.

The amounts and maturity dates are as follows:

Description	Maturity	2008	2007
Prime bond series A	Due December 31, 2012	$ 3,500,000	$ 3,500,000
Prime bond series B	Due December 31, 2013	4,800,000	4,800,000
Prime bond series C	Due December 31, 2014	2,600,000	2,600,000
Prime bond series D	Due December 31, 2015	6,100,000	6,100,000
		$ 17,000,000	**$ 17,000,000**

14. MORTGAGE BACKED BONDS

Mortgage backed bonds bearing interest of 1.75% above Bahamian dollar prime rate (effectively 7.25% at year-end) were issued in a private placement on January 1, 2007. Interest expense during the year 2008 totaled $1,450,000 (2007: $728,973). In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio.

Date Redeemable By Bank	Maturity Date		2008	2007
2011	2022	Series F	$ 4,000,000	$ 4,000,000
2011	2023	Series G	4,000,000	4,000,000
2011	2024	Series H	4,000,000	4,000,000
2011	2025	Series I	4,000,000	4,000,000
2011	2026	Series J	4,000,000	4,000,000
			$ 20,000,000	**$ 20,000,000**

15. EQUITY CAPITAL

Capital consists of the following:

	2008	2007
Common shares:		
Authorized - 25,000,000 shares of B$1 each		
Issued and fully paid - 15,600,000 shares (2007: 15,600,000)	$ 15,600,000	$ 15,600,000
Preference shares:		
Authorized - 15,000 shares of B$1,000 each		
Issued and fully paid - 15,000 shares (2007: 15,000)	14,764,990	14,764,990
	$ 30,364,990	**$ 30,364,990**

Preference shares

At the Bank's Annual General Meeting on November 18, 2004, the Bank's shareholders approved a resolution to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares redeemable at the discretion of the Bank. On June 30, 2006 the Bank issued a total of B$15,000,000 in redeemable preference shares at a rate of 7.5% per annum. In accordance with International Financial Reporting Standards, as the preference shares are classified as equity, the dividends on these shares are paid out of retained earnings. Costs which total $235,010 related to the preference share offering were netted against the proceeds.

General reserve

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

16. TREASURY SHARES

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan (see Note 25).

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

The number of treasury shares at June 30, 2008 was 3,855 (2007: 39,755).

17. ADJUSTMENT ARISING UNDER IAS8 – CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

In prior years the Bank recognized commitment fees at the inception of a loan. The Bank has subsequently revised the policy so that commitment fees are recognized over the life of the loan in accordance with IAS 18 *Revenue*. In accordance with IAS 8 *Accounting Policies,* Changes in Accounting Estimates and Errors the Bank retrospectively restated retained earnings as if commitment fees were always recorded under the current policy. The effect of this adjustment was a net decrease in retained earnings as at July 1, 2007 of $3,008,425 (July 1, 2006: $2,772,083).

	Effect on 2008	Effect on 2007
BALANCE SHEET CHANGES		
Increase in liabilities	**$ 3,642,413**	**$ 3,008,425**
Decrease in opening retained earnings	**$ 3,008,425**	**$ 2,772,083**
STATEMENT OF INCOME CHANGES		
Increase in interest income	**$ 946,014**	**$ 1,213,021**
Decrease in fee and other income	**$ 1,580,002**	**$ 1,499,363**
Decrease in net income	**$ 633,988**	**$ 286,342**
EARNINGS PER SHARE		
Earnings per share as previously reported		**0.62**
Earnings per share as restated		**0.61**

18. CONTINGENCIES

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

19. 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:

2009	$1,162,379
2010	$ 980,992
2011	$ 861,718
2012	$ 578,294
2013	$ 162,680

Rental expense (including service charges) totalled $1,025,363 (2007: $1,228,053) net of rental income of $19,800 (2007: $35,489).

All leases contain renewal options for the next 5 years as well as escalation clauses. There are no contingent rent payables or any additional restrictions placed on these lease arrangements.

b. The commitment for loans at June 30, 2008 was $21,410,495 (2007: $19,719,110).

c. The Bank has a commitment for future capital expenditure of $259,976 (2007: $1,607,273).

d. The Bank has an unsecured revolving credit facility of $15,000,000 with Citibank. The facility was undrawn at the consolidated balance sheet date.

e. The Bank has a commitment with Visa of $450,000 (2007: $250,000) for its prepaid and credit lines.

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions and balances with related parties are as follows:

	2008	2007
Investments	$ 25,323,000	$ 27,903,000
Loans and advances to customers, net	$ 20,681,339	$ 18,034,944
Accrued interest receivable	$ 5 84,095	$ 691,819
Prepaid expenses and other assets	$ -	$ 199,824
Deposits from customers and banks	$ 145,063,700	$ 137,516,277
Bonds payable	$ 17,000,000	$ 17,000,000
Accounts payable and other liabilities	$ 521,355	$ 630,628
Dividends payable on preference shares	$ 562,500	$ 562,500
Interest payable on bonds	$ 729,288	$ 567,623
Interest income	$ 1,570,482	$ 2,194,874
Interest expense	$ 5,278,648	$ 5,245,326
Interest income from investments	$ 1,541,757	$ 1,719,748
Key management compensation	$ 1,714,287	$ 1,611,472
Share compensation to key management	$ 159,500	$ -
Rent paid to key management	$ 52,500	$ 2,752

All loans to related parties are secured in the regular course of business and there were no provisions for doubtful debts against any of these balances as at June 30, 2008 (2007: Nil). No provision expense has been recognized in these financial statements on loans to related parties.

21. SAVINGS PLAN

Contributions for the year ended June 30, 2008 totaled $517,410 (2007: $463,862).

The Plan owns 210,826 (2007: 210,826) shares of the Bank. The holdings represent approximately 30% (2007: 30%) of the Plan's net assets.

The Plan has deposits totaling $5,907,638 (2007: $4,726,410) with the Bank.

The Bank serves as the Trustee of the Plan.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Staff costs	$ 13,324,121	$ 11,737,267
Other general and administrative	9,781,294	7,971,174
	$ 23,105,415	**$ 19,708,441**

The number of persons employed by the Bank at June 30, 2008 was 347 (2007: 294) of which 34 (2007: 25) were temporary.

At June 30, 2008 the Bank operated 12 (2007: 11) branches.

23. CHANGES IN OPERATING ASSETS AND LIABILITIES

	2008	2007
Decrease (increase) in accrued interest receivable	$ 107,724	$ (176,198)
(Increase) decrease in prepaid expenses and other assets	(2,929,863)	452,369
Increase in accounts payable and other liabilities	1,018,280	1,433,636
Increase in cheques and other items in transit	3,998,862	5,472,079
Increase in deferred fees	633,988	286,342
	$ 2,828,991	**$ 7,468,228**

24. ASSETS UNDER ADMINISTRATION

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

	2008	2007
Government-guaranteed student education loans	**$64,422,582**	**$ 48,364,588**
Trust assets	**$43,106,288**	**$ 23,229,290**
Fiduciary deposits	**$ -**	**$ 7,486,782**

25. EMPLOYEE STOCK INCENTIVE PLAN

In 2004, the Bank established an Employee Stock Incentive Plan for all permanent employees of the Bank. Individuals who were employees at the time of the Plan's formation were eligible to purchase shares at the agreed option price of $5.80 until the time of expiry. Each employee share option was convertible into one ordinary share of Bank of The Bahamas Limited. The options carried neither rights to dividends nor voting rights. Options were exercisable from the time of vesting to June 30, 2007, date of expiration.

	2007	
	Number of Exercise	Options Price
Balance at July 1, 2006	41,205	
Granted during the prior year	-	
Forfeited during the prior year	-	
Exercised during the prior year	1,450)	$ 5.80
Expired during the prior year	(39,755)	
Balance at July 31, 2007	**-**	

26. DIVIDENDS

During the year the Bank paid dividends on its common shares as follows:

October 4, 2007	$0.16
April 17, 2008	$0.10

During the prior year the Bank paid dividends on its common shares as follows:

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

During the year the total dividends paid on common shares was $4,054,998 (2007: $4,050,116).

During the year the Bank paid dividends on its preference shares of $1,125,000 (2007: $1,064,897).

27. 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 nonfinancial 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 re-pricing within a short period of time, fair values are assumed to be equal to their carrying values.

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

28. 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, namely capital-to-asset, and risk-adjusted capital ratios.

The Bank's capital to asset ratio of 12.57%, (2007: 14.55%) at the end of the fiscal year was above the 5% standard established by The Central Bank of The Bahamas.

The Central Bank of The Bahamas regulations requires, consistent with international best practice, as defined by the, Bank of International Settlements Basel 1 Capital Accord, that the Bank maintains a risk adjusted capital to asset ratio equal to or greater than 8%. The Bank's risk adjusted capital ratio at the end of the fiscal year was 21.49% (2007: 21.16%).

29. COMPARATIVES

In Note 11, computer software previously classified as Work in Progress in fixed assets in the amount of $2,358,389 was reclassified to intangible assets. As a result of the reclassification the acquisition of fixed assets in the prior year that is reported in these consolidated statement of cash flows has been reduced from $2,507,371 to $1,153,873; the difference of $1,353,498 was reclassified as the acquisition of intangible assets.

30. RISK MANAGEMENT

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

Capital risk management - The Bank's goal in managing capital risk is to exceed regulatory capital requirements. The capital structure is designed to provide optimal risk absorption consistent with the risk profile of the Bank's consolidated balance sheet which therefore ensures that the Bank has the ability to continue as a going concern. The capital mix is intended to maximize the return for shareholders. The Bank utilizes a balance of equity and debt issuances to achieve an ideal capital structure as shown in Notes 14 and 15.

At June 30, 2008 the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares and retained earnings. The Bank's Board and Asset/Liability management committee monitor the capital structure and review the structure at least quarterly, reviewing the capital mix and the cost of capital for each class of capital. Ongoing capital management includes the payment of dividends, new share issuances, redemptions of preferences shares and common share issuances.

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

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

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

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

The Bank analyses its exposure on interest sensitive assets and liabilities on a continuous basis. Consideration is given to the impact on net income as movements in interest rates occur. Based on these events, simulations are performed to determine the considered impact on pricing of assets and liabilities, including those pegged to prime rates. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income of a 1% shift in interest rates would have resulted in a maximum increase or decrease of $2.0 million (2007: $1.4 million).

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

Collateral and other enhancements obtained - Where a counterparty fails to perform according to the agreed terms of the contract, one option available to the Bank is to repossess the assets held under a receivership agreement for the management and disposal of the said assets. Collateral repossessed at the balance sheet date are identified as inventory valued at approximately $600,000 and land and physical assets valued at approximately $2,000,000.

Loans and advances to customers' collateral - The Bank assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. If deemed impaired, the impairment is measured as the difference between the carrying value and the recoverable value, being the estimated present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted using the current effective interest rate.

Consumer loans are generally unsecured: however, there are instances where they may be secured as noted in iii below. Credit cards are unsecured. As at the balance sheet loans deemed impaired are collateralized as follows:

i. Mortgages – residential properties;

ii. Commercial loans – real estate and fixed and floating debentures over the business assets including stock;

iii. Consumer – chattel mortgage, real estate, residential properties.

The following table is an analysis of financial instruments by credit quality:

	2008			2007		
	Principal Balance	Restructured	Total	Principal Balance	Restructured	Total
CASH AND CASH EQUIVALENTS						
Neither past due or impaired	$ 167,127,389	$ -	$ 167,127,389	$ 124,629,757	$ -	$ 124,629,757
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 167,127,389	**$ -**	**$ 167,127,389**	**$ 124,629,757**	**$ -**	**$ 124,629,757**
INVESTMENTS						
Neither past due or impaired	$ 25,323,000	$ -	$ 25,323,000	$ 27,903,000	$ -	$ 27,903,000
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 25,323,000	**$ -**	**$ 25,323,000**	**$ 27,903,000**	**$ -**	**$ 27,903,000**
LOANS AND ADVANCES TO CUSTOMERS						
Neither past due or impaired	$ 376,911,458	$ 1,420,882	$ 378,332,340	$ 374,188,979	$ 275,989	$ 374,464,968
Past due but not impaired	122,403,396	-	122,403,396	98,328,041	-	98,328,041
Impaired	25,469,701	-	25,469,701	17,919,456	-	17,919,456
TOTAL	**$ 524,784,555**	**$ 1,420,882**	**$ 526,205,437**	**$ 490,436,476**	**$ 275,989**	**$ 490,712,465**

	2008			2007		
	Principal Balance	Restructured	Total	Principal Balance	Restructured	Total
MORTGAGES						
Neither past due or impaired	$ 184,581,950	$ 1,093,010	$ 185,674,960	$ 212,465,975	$ -	$ 212,465,975
Past due but not impaired	69,008,896	-	69,008,896	41,464,446	-	41,464,446
Impaired	11,493,098	-	11,493,098	6,604,121	-	6,604,121
	$ 265,083,944	**$ 1,093,010**	**$ 266,176,954**	**$ 260,534,542**	**$ -**	**$ 260,534,542**
COMMERCIAL						
Neither past due or impaired	$ 99,559,061	$ 107,523	$ 99,666,584	$ 90,662,223	$ -	$ 90,662,223
Past due but not impaired	43,474,432	-	43,474,432	43,211,007	-	43,211,007
Impaired	8,973,758	-	8,973,758	8,956,854	-	8,956,854
	$ 152,007,251	**$ 107,523**	**$ 152,114,774**	**$ 142,830,084**	**$ -**	**$ 142,830,084**
CONSUMER/GOVERNMENT GUARANTEED STUDENT LOANS						
Neither past due or impaired	$ 31,171,697	$ 220,349	$ 31,392,046	$ 28,280,560	$ 275,989	$ 28,556,549
Past due but not impaired	9,875,958	-	9,875,958	13,652,589	-	13,652,589
Impaired	4,849,411	-	4,849,411	2,358,481	-	2,358,481
	$ 45,897,066	**$ 220,349**	**$ 46,117,415**	**$ 44,291,630**	**$ 275,989**	**$ 44,567,619**
CREDIT CARDS						
Neither past due or impaired	$ 80,566	$ -	$ 80,566	$ -	$ -	$ -
Past due but not impaired	4 4,110	-	44,110	-	-	-
Impaired	153,434	-	153,434	-	-	-
	$ 278,110	**$ -**	**$ 278,110**	**$ -**	**$ -**	**$ -**
BUSINESS OVERDRAFTS						
Neither past due or impaired	$ 43,628,337	$ -	$ 43,628,337	$ 30,575,473	$ -	$ 30,575,473
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 43,628,337	**$ -**	**$ 43,628,337**	**$ 30,575,473**	**$ -**	**$ 30,575,473**
PERSONAL OVERDRAFTS						
Neither past due or impaired	$ 17,889,847	$ -	$ 17,889,847	$ 12,204,748	$ -	$ 12,204,748
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	$ 17,889,847	**$ -**	**$ 17,889,847**	**$ 12,204,748**	**$ -**	**$ 12,204,748**

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

	2008	2007
Satisfactory Risk	$ 291,519,834	$ 338,709,318
Watch List	20,979,496	21,322,465
Sub-standard but not impaired	65,833,010	14,433,185
	$ 378,332,340	$ 374,464,968

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

	2008				
	Residential Mortgage	**Commercial**	**Consumer**	**Credit Card**	**Total**
Past due up to 29 days	$ 25,170,255	$ 10,999,874	$ 4,732,664	$ 80,566	$ 40,983,359
Past due 30 - 59 days	29,133,862	13,964,868	2,491,328	24,973	45,615,031
Past due 60 - 89 days	14,748,889	18,509,690	2,527,290	19,137	35,805,006
	$ 69,053,006	**$ 43,474,432**	**$ 9,751,282**	**$ 124,676**	**$ 122,403,396**

	2007				
	Residential Mortgage	**Commercial**	**Consumer**	**Credit Card**	**Total**
Past due up to 29 days	$ 21,750,688	$ 20,343,454	$ 9,893,368	$ -	$ 51,987,510
Past due 30 - 59 days	12,521,998	8,958,527	2,184,693	-	23,665,218
Past due 60 - 89 days	7,191,759	13,909,026	1,574,528	-	22,675,314
	$ 41,464,445	**$ 43,211,007**	**$ 13,652,589**	**$ -**	**$ 98,328,042**

Provision for losses is as follows:

	2008				
PROVISIONS	**Balance at Beginning of Year**	**Loans Written off**	**Recoveries**	**Provision for Credit Losses**	**Balance at End of Year**
Residential mortgage	$ 229,853	$ (113,779)	$ -	$ 660,342	$ 776,416
Commercial	83,193	(119,085)	24,200	562,872	551,180
Consumer	1,465,413	(878,711)	292,800	1,387,369	2,266,871
Credit card	-	-	-	120,000	120,000
Total provision for losses	**$ 1,778,459**	**$ (1,111,575)**	**$ 317,000**	**$ 2,730,583**	**$ 3,714,467**
Specific provision	$ 1,778,459	$ (1,111,575)	$ 317,000	$ 2,730,583	$ 3,714,467
General provision	4,261,766	-	-	244,512	4,506,278
Total	**$ 6,040,225**	**$ (1,111,575)**	**$ 317,000**	**$ 2,975,095**	**$ 8,220,745**

	2007				
PROVISIONS	**Balance at Beginning of Year**	**Loans Written off**	**Recoveries**	**Provision for Credit Losses**	**Balance at End of Year**
Residential Mortgage	$ 357,538	$ (150,496)	$ 24,155	$ (1,344)	$ 229,853
Commercial	576,923	(126,671)	20,331	(387,390)	83,193
Consumer	1,648,387	(1,412,147)	228,111	1,001,062	1,465,413
Total provision for losses	**$ 2,582,848**	**$ (1,689,314)**	**$ 272,597**	**$ 612,328**	**$ 1,778,459**
Specific provision	$ 2,582,848	$ (1,689,314)	$ 272,597	$ 612,328	$ 1,778,459
General provision	3,922,960	-	-	338,806	4,261,766
Total	**$ 6,505,808**	**$ (1,689,314)**	**$ 272,597**	**$ 960,134**	**$ 6,040,225**

The general provision for losses on loans and advances to customers that have not been identified as impaired is 1.42% (2007: 1.28%) of the non-impaired loans and advances to customers.

Impaired loans and advances to customers are as follows:

	2008		
	Gross Impaired	**Specific Allowance**	**Net Impaired**
Residential mortgage	$ 11,493,098	$ 776,416	$ 10,716,682
Commercial	8,973,758	551,180	8,422,578
Consumer	4,849,411	2,266,871	2,582,540
Credit card	153,434	120,000	33,434
Total	**$ 25,469,701**	**$ 3,714,467**	**$ 21,755,234**
Percentage of loan portfolio	4.86%		
Percentage of total assets	3.43%		

	2007		
	Gross Impaired	**Specific Allowance**	**Net Impaired**
Residential mortgage	$ 6,604,121	$ 229,853	$ 6,374,268
Commercial	8,956,854	83,193	8,873,661
Consumer	2,358,481	1,465,413	893,068
Total	**$ 17,919,456**	**$ 1,778,459**	**$ 16,140,997**
Percentage of loan portfolio	3.68%		
Percentage of total assets	2.72%		

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, 2008	Within 3 Months	3-6 months	7-12 months	1-5 Years	Over 5 years	Not Interest Rate sensitive	Total
ASSETS							
Cash and cash equivalents	$ 164,295,822	$ 1,715,000	$ 1,155,000	$ -	$ -	$ -	$ 167,165,822
average yield	*2.34%*	*2.44%*	*4.35%*	-	-	-	-
Investments	-	-	-	8,478,500	16,844,500	-	25,323,000
average yield	-	-	0.00%	6.16%	6.16%	-	-
Loans and advances to customers, net	42,440,229	45,668,573	9,800,399	47,192,757	377,009,849	-	522,111,807
average yield	*15.12%*	*14.38%*	*11.05%*	*12.01%*	*9.85%*	-	-
Fixed assets, net	-	-	-	-	-	5,242,957	5,242,957
Other assets	-	-	-	-	-	16,338,998	16,338,998
TOTAL	**206,736,051**	**47,383,573**	**10,955,399**	**55,671,257**	**393,854,349**	**21,581,955**	**736,182,584**
LIABILITIES AND EQUITY							
Deposits from customers and bank	350,441,220	106,258,964	117,693,985	2,836,449	2,938,488	-	580,169,106
average yield	*3.38%*	*4.14%*	*4.35%*	*3.28%*	*5.68%*	-	-
Bonds payable	-	-	-	-	17,000,000	-	17,000,000
average yield	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*5.50%*	-	-
Mortgage backed bonds	-	-	-	-	20,000,000	-	2 0,000,000
average yield	-	-	-	-	7.25%	-	-
Other liabilities	-	-	-	-	-	25,071,930 2	5,071,930
Equity	-	-	-	-	-	93,903,315	93,903,315
TOTAL	**350,441,220**	**106,258,964**	**117,693,985**	**2,836,449**	**39,938,488**	**118,975,245**	**736,144,351**
INTEREST RATE SENSITIVITY GAP	**(143,705,169)**	**(58,875,391)**	**(106,738,586)**	**52,834,808**	**353,915,861**	**(97,393,290)**	**38,233**
CUMULATIVE INTEREST RATE SENSITIVITY GAP	**$ (143,705,169)**	**$ (202,580,560)**	**$ (309,319,146)**	**$ (256,484,338)**	**$ 97,431,523**	**$ 38,233**	**$ 76,466**
Average Yield - Earning Assets	**4.96%**	**13.95%**	**10.34%**	**11.12%**	**9.69%**		**8.73%**
Average Yield - Paying Liabilities	**3.38%**	**4.14%**	**4.35%**	**3.28%**	**2.76%**		**3.66%**
	1.58%	**9.81%**	**5.99%**	**7.84%**	**6.93%**		**5.07%**

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