

The Power of Community

ANNUAL REPORT 2005



Bank of The Bahamas
INTERNATIONAL

MISSION STATEMENT

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

OBJECTIVES

- To become a one-stop-shop financial service provider.
- To achieve strategic integration throughout the Americas.
- To create commercially viable synergies with dependent business sectors.
- To establish a healthy, wholesome and opportunistic work environment for employees.
- To maintain the highest level of fiscal and regulatory standards and best practices.



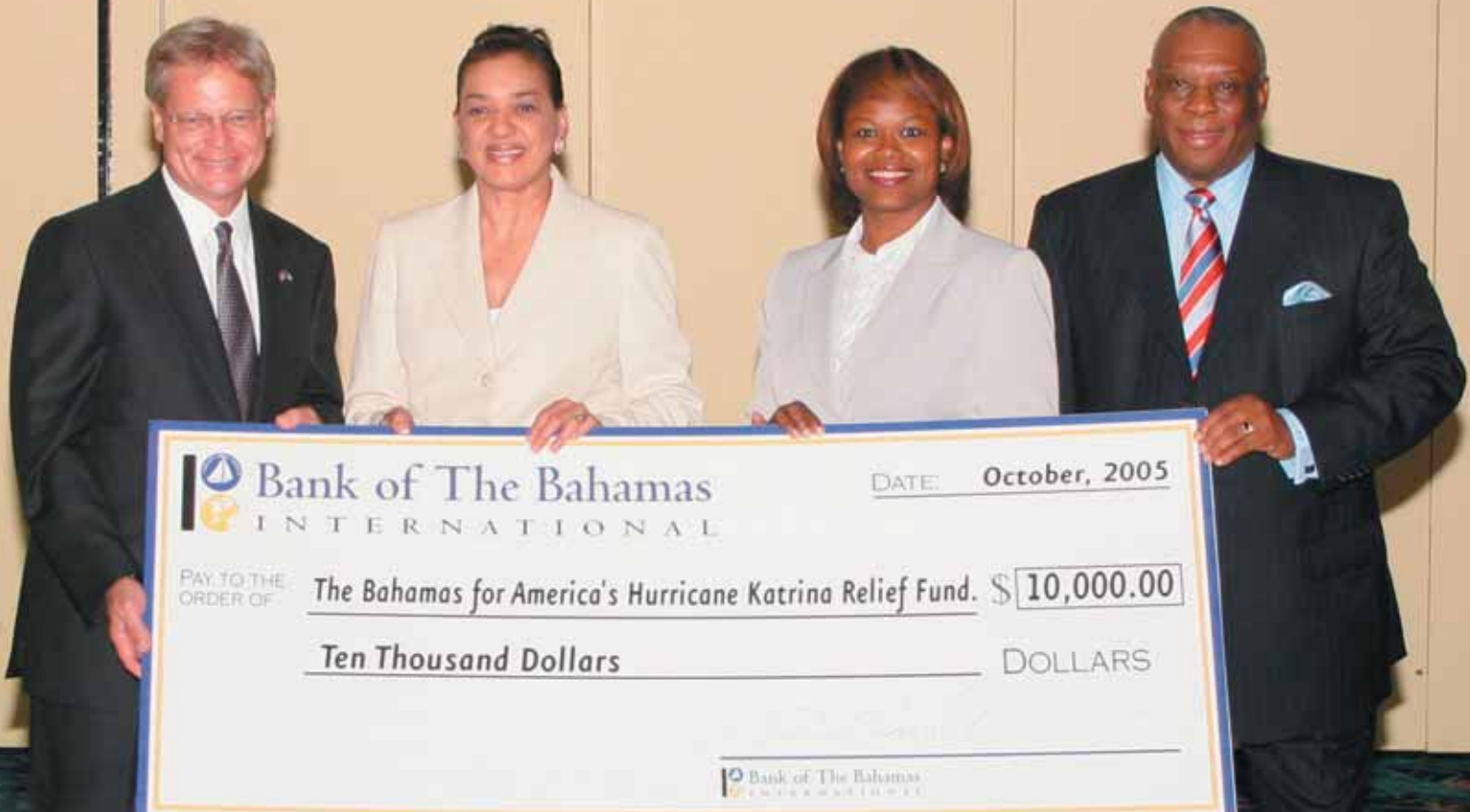


Table of Contents

Bank of The Bahamas Limited Annual Report 2005

Introduction: The Power of Community	3
Letter to Shareholders	4
Executive Statement.....	6
Getting Involved.....	9
Board of Directors.....	10
It's All About People	12
Our Customers	13
Our Employees	15
Our Shareholders.....	16
A Look Ahead: Products & Services	18
Corporate Governance Principles	21
Management Discussion	26
INDEPENDENT AUDITORS' REPORT	32
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005.....	34
Consolidated Balance Sheet	34
Consolidated Statement of Income.....	35
Consolidated Statement of Changes in Equity	36
Consolidated Statement of Cash Flows.....	37
Notes on Consolidated Financial Statements.....	38-49
BANK OF THE BAHAMAS TRUST LIMITED:	50





Bank of The Bahamas reaches out to the international community by donating \$10,000 to The Bahamas For America Hurricane Katrina Relief Fund Telethon. Top: US Ambassador John Rood accepting cheque.



Out of chaos comes order. Out of struggle, strength.

The past year has placed unprecedented demands on peoples of all nations. On Boxing Day, tsunamis struck 11 countries in Southeast Asia ending life as it was known for millions. We in The Bahamas along with the rest of the world watched in horror and disbelief as our brothers and sisters across continents fled the rush of waves, clinging to babies, reaching out a hand to an elderly man helping him to higher ground.

And we reached out our hands. And gave from our hearts.

Months later, we were tested again. Barely had our island nation recovered from the double blows of last September's Hurricanes Frances and Jeanne when Katrina and Rita barreled past this September, gaining steam and finally unleashing the fury of howling winds and pounding, relentless rain on coastal towns all across the Gulf of Mexico, flooding entire cities to roof height and ripping apart lives as they were known from Pensacola, Florida to western Texas.

Two of the five worst hurricanes in recorded weather history, they struck within a month.

And again, The Bahamas reached out.

Struggling to get back on our own feet in some islands, particularly in Grand Bahama, still feeling the economic impact of the 2004 storms, we answered the plea for help from abroad with an outpouring of funds, kindness and caring. The world was not a distant place; TV, the Internet brought the reality into our living rooms and touched our hearts and consciences.

Bank of The Bahamas International, the neighborhood bank with the international reach, collected funds, made substantial donations and, as the national bank, managed accounts for relief funds for all the disasters. It was a small contribution to an overwhelming need, but it reminded us of this:

Agreements are signed and wars fought by governments; humanity knows no borders. Together, we can weather any storm.

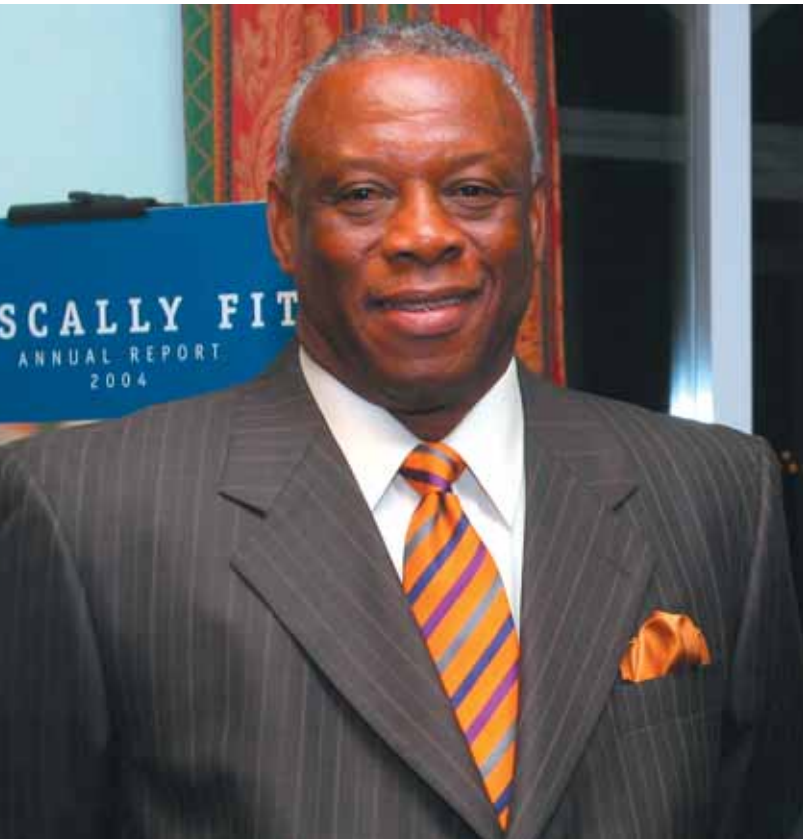
It is said that we only use 10% of our brain. We believe we only use 10% of our humanity until crisis occurs and then what pours out is beyond measure.

This annual report is dedicated to that principle:

Within all of us is lies the strength to weather any storm.

Together we can create order out of chaos, success out of challenge, a re-connection with our brethren across borders, nationalities and artificial divides.

To our strength, our oneness, to The Power of Community.



**As a Bahamian institution,
we are committed to
dedicating all resources
to the improvement
of The Bahamas...**

Letter to Shareholders

I am privileged to report to you as the new Chairman of Bank of The Bahamas Limited. My Chairmanship commenced December 2004, and although I admired the outstanding broad performance of this financial institution from a distance, the insight I have gained from my new role has transformed that admiration to tangible substance. Indeed, Bank of The Bahamas Limited is committed to serve as a prudential beacon within the communities of The Bahamas and I am proud to have been afforded this opportunity by the shareholders to contribute to the positive growth and expansion of this energetic financial institution.

Having had the opportunity to get to know the staff of this institution, I am pleased to report that we are fortunate to have a cadre of committed professionals, many of whom also hold senior designations in several civic and professional organizations. Further, the strong leadership, ethical standards and commitment to the social welfare of all employees exhibited by the Executive Management team under the direction of Managing Director Paul J. I. McWeeney has permeated all levels of the institution resulting in a unique universal harmonization of human capital. This component is the cornerstone in the foundation of sustainable success built by this institution.

The record-setting financial performance of Bank of The Bahamas Limited for the review fiscal year clearly reflects management acumen. Moreover, sound economic conditions coupled with well managed fiscal and monetary policies served to support the strategic execution of business objectives enabling the institution to achieve industry leading results in key financial categories. In this respect, I wish to highlight the 17.8% growth in total assets to B\$453.2 million and a 16.2% growth in net income to B\$7.0 million. Further, earnings per share (EPS) now stand at B\$0.59 with a current share price of B\$7.01 representing annual growth of 16.2% and 12.2% respectively. The financial statements for fiscal year 2005 also reveal other positive indicators that point to a continuation of strong financial performance. The foregoing along with an investment in new



Bank of The Bahamas was a Platinum sponsor of the 2005 Family Island Regatta.

technology and the planned outlay of new and exciting products and services will be the catalyst for sustained broad positive performance for years to come.

Bank of The Bahamas Limited believes in The Power of Community. As a fully owned and managed Bahamian financial institution we readily acknowledge our responsibility to be a good corporate citizen and a role model to others in our industry. Although not of equal size as many of our sector competitors, Bank of The Bahamas Limited stood head to head when called upon to give financial assistance to the Hurricane Relief program to provide assistance to members of our communities who suffered damage from hurricanes Frances and Jeanne. Additionally, we took the lead role in delivering financial aid under the government guaranteed initiatives to hundreds of our brothers and sisters in need throughout the country at that time. More recently, we took another lead role in raising funds for our neighbours to the north who suffered from the effects of hurricanes Katrina and Rita. As a Bahamian institution, we are committed to dedicating all resources to the improvement of The Bahamas and its global reputation as a major financial centre.

I thank the management and staff of this fine institution for having produced such stellar performance. Based on business plans currently in development I am confident future performance will continue to show positive results.

Finally, I wish to thank my fellow directors for their commitment and dedicated service during the year to the positive development of this remarkable institution. Each Director has provided outstanding support and I look forward to the continuation of this relationship as we transform this institution to a proud Bahamian financial enterprise.

Alfred Jarrett, MBA
Chairman



Executive Statement From The Managing Director

It is my very great pleasure to once again report to our stakeholders another year of record-breaking performance. Our dramatic growth in assets—now more than B\$453 million—exceeds market trends and is the fruit of several major undertakings designed to propel our young financial institution into an even more prosperous period in its already impressive history.

One of the key components of our platform for sustainable success has been our investment in human capital, not only from the perspective of acquiring new skill-sets and expanding our in-house expertise but also from the continuation of our commitment to provide a wholesome work environment for our employees. With the assistance of external expertise, the bank has successfully carried out a comprehensive overhaul of its human resource infrastructure. This has resulted in the introduction of a value-for-equity compensation structure albeit at the expense of a necessary but not inconsiderable one-time market realignment cost. This exercise was one of the more significant initiatives ever undertaken by the bank and has helped establish best practice performance standards that are now more appropriately matched with compensation solutions. In an age when valued employee retention is so important to the success of a business, I believe that this is one of the most important investments we could have made. It is an

investment that will benefit employees, customers and shareholders alike for years to come.

Of equal importance is our commitment to the social concerns of the immediate BOB family. We continue to place significant emphasis on prudently expanding financial assistance programs to ensure that all committed staff members have the ability to own their own homes and to establish strong savings/investments plans. Beyond this we continue to do our best to demonstrate our care for staff by being there when they need us most—such as sending a team from Nassau with much needed living essentials for the employees of our Grand Bahama and San Salvador branches immediately following last year's hurricanes or, to cite another example, having an in-house walk-a-thon or cook-out to raise money for dependents in need.

Our commitment to being a good corporate citizen was also demonstrated in our giving to the extended BOB family—the communities of The Bahamas. In this regard, the bank donated B\$100 thousand dollars to the Hurricane Relief Fund; took the lead role in granting hundreds of hurricane financial assistance loans throughout the archipelago; established a bank account to raise funds for the Tsunami victims and, more recently, helped spearhead a telethon to raise funds for victims of Hurricanes Katrina and Rita.

The bank's ability to reward staff and fulfill corporate citizenship obligations while producing strong financial results was made possible not only by committed staff but also by our investment in cutting edge technology enabling competitive differentiation.

Our on-line banking solution continues to be recognized as the market leader and will be enhanced in the coming year to permit additional convenience and functionality for institutions, government entities and the general consumer.

Bank of The
Bahamas
International,
Winner of
the coveted
Bracken
Country Bank
of The Year
Award by
The Banker,
a part of the
Financial
Times Group.

We are proud that our data processing infrastructure is not only the most advanced locally but is among the leaders in the region. While customers can see cheques clear in nearly real time online and keep constant track of their accounts, the significance of the imaging feature will be even greater in the future allowing the bank to align processing of foreign instruments with similar platforms of major global financial institutions. This capability enhances value for customers and shareholders alike. But we will not stop there. We realize the need to further simplify transactions and have therefore agreed to invest in acquiring one of the world's leading core banking solutions. The implementation of this initiative, scheduled to be completed prior to the end of the new financial year, is calculated to create even greater shareholder value.

Our investment in technology is leading the renaissance of our branch banking infrastructure. We invite our stakeholders to visit the recently renovated Harrold Road Branch to gain an appreciation of how the physical remodeling has been used to create an enhanced customer experience. This evolving strategy will be deployed throughout the entire branch and service centre network in the coming years and will facilitate the adoption of our new customer-centric sales strategy—Customer Lifecycle Management—aimed at achieving greater financial fulfillment for our customers.

We are also pleased to announce that the new Exuma Service Centre will open this year. We are also moving closer to making the Miami Service Centre a reality. In the coming months we will announce plans to expand our direct delivery channels to other areas in New Providence and the Family Islands. Further, we continue to make steady progress towards the construction of our new corporate headquarters which will include state-of-the-art training facilities and staff recreational facilities inclusive of a day-care centre for staff dependents.

A key enabler to the initiatives reported is strong financial performance and satisfaction of stakeholder expectations. This year's record-setting financial performance, inclusive of dynamic growth indicators, vindicates our optimism and confident outlook on the future.

Further, we are pleased to inform our stakeholders that our positive financial results were achieved following a substantial allocation of resources to reserves for loan losses and the continued enhancement of our operating infrastructure, including human capital and the related market alignment exercise.

The year in review culminated in the bank's earning of the coveted Bracken Country Award for The Bahamas—a first for The Bahamas, awarded by *The Banker*. This achievement followed being recognized with the "Corporate Excellence" award by the International Association of Administrative Professionals in July 2004. Such local and international recognition from key global bodies clearly demonstrates the high calibre at which the bank operates and the enviable reputation it is steadily building up on the international stage. These achievements are consistent with the standard of excellence which the bank is determined to apply to its every effort and undertaking.

I congratulate the staff of the bank and, in particular, our Deputy Managing Directors and senior managers, for their contribution to the overall strong performance of the bank and in helping the bank to garner the special awards just mentioned. I also thank all staff for their commitment to excellence and the ideals of this institution.

I should like to make special mention of our immediate past Chairman, Mr. Hugh G. Sands, CMG. I thank him for his dedicated service over many long years.

I also welcome our new Chairman, Mr. Alfred Jarrett, MBA, to the BOB family. As a banker of long and proven experience and ability, we look forward to his guidance as we continue to evolve into a robust financial enterprise.

Finally, I also thank my fellow directors for their continued guidance and support.



Paul J. I. McWeeney
Managing Director

Tanya Wright, Kendrick Christie and Paul McWeeney, Bank of The Bahamas executives who exemplify the corporate culture of getting involved.





Getting Involved

Community involvement is a cornerstone of our corporate culture and our belief system at Bank of The Bahamas. Seeking support for a worthy cause, writing a cheque to meet needs are both important means of bettering lives. At Bank of The Bahamas we go a step further. We stretch ourselves personally.

When we roll our sleeves up, extend ourselves, spend evenings or weekends lending a hand, whether we are mentoring a child, re-building a community after a hurricane, promoting trade through an established organisation or maintaining professional standards through a regulatory board, we are not just bankers or financial service providers. We are neighbours, mothers, fathers, sisters, brothers. We are friends. We are part of the community and the community is part of us.

By our actions and our deeds, we at Bank of The Bahamas believe that we build teamwork, inspire energy, demonstrate respect for others and foster innovation.

**INVOLVEMENT: INVESTING IN OUR FUTURE, TOGETHER.
GROWING WITH INTEGRITY, THE TRUE MEANING
OF THE POWER OF COMMUNITY.**

Paul J. I. McWeeney, Managing Director also serves as:

- Chairman - Clearing Banks Association & National Payments Council
- President - Bahamas Institute of Financial Services
- Chairman - St. Augustine's College
- Honorary Consul - Dominican Republic
- Member - Young Presidents Organization

Tanya Wright, Manager, Bank of The Bahamas Trust with responsibility for Business Development and Public Relations, is also:

- President - Bahamas Chamber of Commerce
- Vice President and Director - Caribbean Association of Industry and Commerce
- Frequent guest speaker and panelist in workshops, forums and discussions on national issues and personal financial matters
- Member - Bahamas Bar Association

Kendrick Christie, Financial Controller, donates his time and energy to many worthy causes. He is:

- President - The Bahamas Institute of Chartered Accountants
- Member - Alpha Phi Alpha Fraternity
- Member - Rotary Club of Southeast Nassau
- Treasurer - Rhodes Memorial Methodist Church
- Assistant Treasurer - Bahamas Conference of Methodist Churches in the Caribbean and Americas

Kendrick Christie (top left) with his Alpha Phi Alpha brothers in one of the many programs the fraternity supports. Tanya Wright (middle) takes over from Winston Rolle as President, Bahamas Chamber of Commerce for 2005. Paul McWeeney (top right) and Police Commissioner Paul Farquharson.

Board of Directors

BANK OF THE BAHAMAS LIMITED



Alfred Jarrett, MBA
Chairman



Lourey Smith
Deputy Chairman



Paul Joseph McWeeney
Managing Director



Thomas Maitland Gates
Director



Allan J. Benjamin
Director



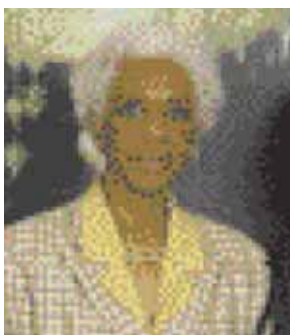
Lennox Clayton
McCartney
Director



Maxwell E. Gibson
Director



Dr. L. Barry Russell
Director



Ruth R. Millar, CMG
Director



Robert D.L. Sands
Director



Patrick Sherman Bain
Director



Lester Smith
Director

BANK OF THE BAHAMAS LIMITED BOARD COMMITTEES

As at October 2005

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



It's All About the People

People—people who need people are the luckiest people in the world.

—Barbra Streisand from the musical *Funny Girl*.

It was the haunting voice of songstress Barbra Streisand that reminded us of a simple truth, how lucky we are when we recognize and admit that we need people—for there is no one among us who does not.

At Bank of The Bahamas, we are reminded every day how much we need people: our staff, our customers, our shareholders.

Loyal customer of Bank of The Bahamas,
William Saunders, owner of Majestic Tours,
voted the most outstanding ground transportation
provider in the world by expedia.com.



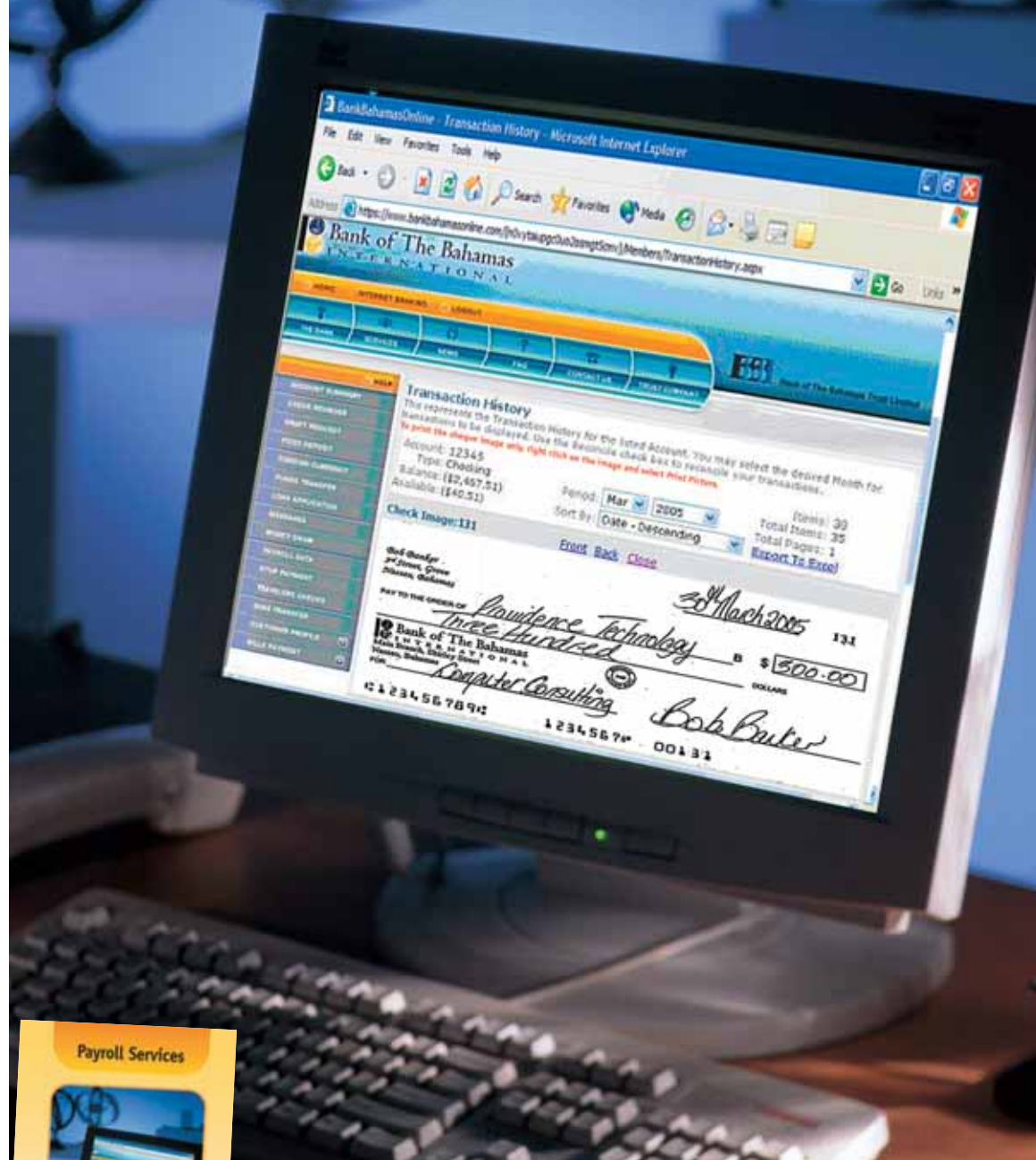
Our Customers: New Products, Enhanced Services

Nearly a half century ago a young man entered what was then the Bank of London and Montreal. He wanted to buy a taxi and needed a loan. It wasn't easy in those days for Bahamians of modest means to get loans, but he did and 48 years later, that gentleman still banks with the same bank, now Bank of The Bahamas International. Only there's a difference. Today William Saunders owns a fleet of buses, trucks, vans and taxis and last year, his business Majestic Tours, was voted the most outstanding transportation provider in the world by expedia.com. And the year before Saunders, a youth who grew up without indoor plumbing or electricity in a cottage on Mackey Street, and now a leader in business and civic affairs, was named Businessperson of the Year by The Bahamas Chamber of Commerce. A man of vision backed by a bank that believed in the power of the Bahamian businessperson.

Five decades of loyalty speaks volumes about service.

In 2005, the bank took steps to build customer loyalty for decades more to come.

By enhancing our relationship with American Express, we made it possible for our customers to pay their bills or get American Express Travellers Cheques at any Bank of The Bahamas branch, or order them online. We responded immediately to lower mortgage rates in keeping with a reduction in the prime rate by The Central Bank and then designed and conducted a mortgage campaign that allowed thousands of persons and families to move into their first home, upgrade an existing residence or move on to a new home. We expanded merchant services, paving the way for businesses to benefit from accepting Visa, American Express, Discover, Mastercard or Diners. We worked with credit card companies to bring information to businesses on how to maximize sales and minimize credit card losses. We expanded ATMs, installed an online banking hotline, concierge service in two branches and reviewed statement processes.



More than 1,000 customers now bank online on a regular basis, taking advantage of features including managing accounts, applying for loans, viewing an amortization schedule, requesting foreign currency drafts or MoneyGram fast money. Bank of The Bahamas International is the only commercial bank in the region to offer cheque imaging. The sophisticated feature that allows customers to see and print out cheques as they clear has been received well by the market, providing a level of comfort to customers who now reconcile and manage current accounts on a daily basis without waiting for end-of-month statements.



The Power of Community starts with our employees



Branch of the Quarter Awards inspire teamwork.



Executive retreat builds unity.



Chairman Alfred Jarrett, MBA awards Carolyn Morris for long service

Our Employees

Bank of The Bahamas increased its staff during the past fiscal year in response to growth. Demand was so great in Exuma that the bank re-located Nassau staff to temporary offices in September as the new branch was still being readied.

More than growth in numbers, the bank invested in and took significant steps toward making Bank of The Bahamas the clear career choice in domestic banking. Early in the fiscal year, we hired consultants to conduct a thorough review of compensation packages as well as opportunities for training and advancement relative to other institutions. As a result, the bank adjusted certain salaries and revised bonus packages to ensure that bank employees were rewarded financially and with security that would be comparable to or exceed competitors. As company loyalty becomes more of an issue throughout the workforce, the bank is increasingly committed to countering the trend of fewer and fewer years on the job. Employees were also rewarded for work and for bringing business into the bank through a series of incentives and bonuses. In one presentation for long-service awards, an employee who received a Movado watch, a \$500 travel voucher and a cheque for \$1,000 turned to the Managing Director and told him she knew exactly what she was going to do with the unexpected funds: buy more shares in the bank. It was a gesture that showed her confidence and reminded all of us how important relationships with the people and the company we work with are. That employee, Carolyn Morris, was among six honoured for long service. Others included Kaye Ward, Karen Laing, Andrea Miller-Bowe, David Ferguson and Clarice Varins.

According to a report in *Cygnus*, interviews of two million employees at 700 companies in the U.S. found that the number one reason for staying or leaving a job is the relationship with the immediate supervisor. Communication is vital; respect for employees' family values is more important than ever before.

A recent Harvard University study reported that 86% of the persons interviewed planned to move on and find other jobs within the next two years, unless trapped by circumstance. Employee loyalty is at an all-time low in America.

At Bank of The Bahamas, we are committed to creating conditions that make going to work a professional challenge and a rewarding experience.



Author Bo Bonnet said ‘Remember that it is not where you come from, or not even where you are; it is where you are going that matters most.’ He was speaking of individuals. I believe it speaks to businesses. Those which dwell on the past and find excuses for the present are less likely to succeed than those that look to the future and find ways.

—Paul J. I. McWeeney



Our Shareholders: Intrinsic and Long Term Value Rising

Bank of The Bahamas Limited has more than 4,000 shareholders with the single largest shareholder remaining the Government of The Bahamas which holds 51% of the Bank's shares. The Government had discussed divesting itself of a portion of those shares but reversed its decision in late 2002 because the investment yielded such positive returns. Despite Government's shareholding since it purchased the Bank of Montreal's domestic business in 1989, and before the Bank went public, Management and Directors have always enjoyed independence without interference from the majority shareholder.

In fiscal year 2005 and looking forward to the coming five years that fall within the 5-year Strategic Plan adopted by the Bank, intrinsic shareholder value can be expected to increase as new products and new means of delivery will allow Bank of The Bahamas to remain the industry leader in innovation. Moreover, the Bank's implementation of its evolving role as the single financial institution for the life cycle of an individual or a business not only portends strength in a profit and loss statement, but broadens and strengthens the operating base to absorb market repercussions and enjoy a wider range of opportunities. The 5-year Strategic Plan moves the Bank into a new dimension of financial services, and prepares Bank of The Bahamas in advance of other domestic institutions for increased trade across borders and the coming tide of seamless economies based on services and e-commerce rather than intensive labour and manufacturing.



Halsbury Chambers participated in the BBI Mortgage Fair.

A Look Ahead

Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.
—Albert Einstein

The storms that swept through the Gulf States on a rampage ripped off roofs, toppled trees, flooded towns and caused fires that destroyed historic structures. But even as they displaced hundreds of thousands of persons, they left in their wake a new sense of community—an appreciation for the borderless character of human endeavour. The struggle of the few was felt by the many; the acts of selfless giving touched the psyche of millions.

It is toward the seamless world beyond borders that Bank of The Bahamas prepares for the future.

BBI demonstrates The Power of Community



Vaughn Delaney, Deputy Managing Director of IT & Human Resources, participates in Halsbury Chambers' Free Legal Clinic.



BBI purchased bullet-proof vests for police.



BBI provided hot meals through the salvation Army.

Bank of The Bahamas International, like any financial institution, exists within the broader environment of economic climate. The continuing expansion of Atlantis with the hotel rooms of Phase III to come on stream in 2006, the ongoing \$1.6 billion renaissance of the Cable Beach area by Baha Mar Development, the construction of luxury residential communities in Old Fort Bay, Lyford Cay, Sandyport and Port New Providence, along with the influx of capital into retail, portends well for the local and Family Island economy in 2006. That projection is critical to the expansion and plans of Bank of The Bahamas International as we undertake several major initiatives including:

- Opening of BBI's first branch in the U.S.
- Opening of Exuma branch
- Membership with VISA International
- Expansion of merchant services, including additional credit cards and training
- Further strengthening of exclusive relationship with American Express and The Platinum Card
- Expansion of online banking product, already the most comprehensive in The Bahamas
- Ground-breaking of new headquarters, West Bay Street, making BBI the first Bahamian corporation to include a fully-staffed day care centre to meet needs of children of those persons employed in the bank and other offices in the building
- Ongoing customer service and information technology training
- Completion of current exercise of technology upgrade and service centers from Grand Bahama in the north to Inagua in the extreme southern Bahamas.

Details on a few key initiatives follow.

Going Abroad

By calendar year-end 2005, Bank of The Bahamas International will be the first Bahamian banking institution with a presence in the U.S. The branch, located on Alhambra Circle, will benefit Bahamians who have personal and business affairs to tend to in the States. We are particularly encouraged about the ability to access funds for medical purposes as we have all heard the tragic stories of Bahamians who could not get the medical treatment they needed for lack of funds or inability to access the funds at the time of emergency.



Thousands attended Bank of The Bahamas mortgage fairs this year, a community effort that brought together diverse businesses and the general public.

Home At Last

Closer to home, literally, a mortgage campaign conducted during the winter of 2005 produced results that exceeded expectations. Those encouraging results reinforced the bank's commitment to make home ownership a reality for more customers.

Thousands of persons attended a mortgage fair in Nassau and more than 500 applications were taken in a single day. Another mortgage fair was held in the town park in Exuma and again the response was overwhelming.

In less than six months, Bank of The Bahamas increased its mortgage portfolio by \$48 million, an increase that bodes well for long-term shareholder value.

Going Back to the Islands

The island of Exuma is one of the hottest real estate spots in the Caribbean and The Bahamas. The boom that began with the creation of Emerald Bay, home to a luxury Four Seasons resort and golf course and the \$100 million resort and residential community of Grand Isle Villas, has changed the face of this once sleepy island that was the original home of so many Bahamian families.

Bank of The Bahamas is now working in partnership with various interests in the Exumas and other Family Islands to provide financing for homes, businesses and rental property under construction. The potential of agreements that have been reached further buoys long-term growth and shareholder value.



More than 1,500 children in New Providence and on several family islands had the summer of their lives, thanks to camps organised and run by the Royal Bahamas Police Force and supported by foundations, friends and volunteers. Bank of The Bahamas was a proud contributor to the camps that included arts and crafts, weaving, swimming, basketball, reading and underlying benefits: an appreciation of and respect for authority, friendship borne of The Power of Community.



“Perseverance is not a long race; it is many short races, one after the other.”

—Walter Elliott, from the book *The Spiritual Life*

CORPORATE GOVERNANCE PRINCIPLES - BANK OF THE BAHAMAS LIMITED

The following principles have been approved by the Board of Directors (the “Board”) and along with the charters of Board committees provide the framework for corporate governance at Bank of The Bahamas Limited (the “Bank”). The Board recognizes that the issues relevant to corporate governance are dynamic and as such will review these principles a minimum of once per year and make any changes necessary.

ROLE OF BOARD OF DIRECTORS

The Board is ultimately responsible for the conduct of the Bank’s affairs and as such reviews policies, procedures, and the performance of management. Whilst the Board delegates day-to-day operations to management, it remains accountable for ensuring that those operations are carried out in compliance with applicable laws and regulations. Additionally the Board is responsible for oversight of the strategy it adopts and ensuring that the Bank’s affairs are consistent with sound banking practices. Accordingly, the Board monitors the Bank’s operations and ensures that management meets the challenges presented as the Bank grows, as its operations become more complex, and as its goals evolve.

In July 2002, a Corporate Governance Handbook was developed which details the duties and potential liabilities of Directors and Officers of the Bank. This handbook outlines relevant Bahamian legislation and evolving best practice standards to ensure that Directors and Officers of the Bank conduct themselves in accordance with those guidelines.

BOARD COMPOSITION, STRUCTURE AND POLICIES

1. Board Size

The Articles of the Bank provide that the Board shall consist of a minimum of 5 and a maximum of 12 Directors. The Board is currently comprised of 11 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.

2. Annual Election of Directors

All Directors, with the exception of the Managing Director, are elected annually at the Bank’s Annual General Meeting. Any casual vacancy in the Board may be filled during the course of the year; however, such appointed Directors serve only until the next Annual General Meeting when they must stand for election by the shareholders.

3. Conflict of Interest

If a Director has a direct or indirect personal interest in a matter before the Board, the Director must abstain from voting or participating directly or indirectly in the deliberations requiring approval. It is expected that any Director who is an interested party will disclose to the Board all relevant, material and non-confidential information regarding such transaction for the purpose of allowing full and adequate evaluation of the same by the Board.



4. Compensation of Directors

The Executive Director receives no remuneration for services performed in his capacity as Director. Each non-executive Director is paid a fee of \$8,000 per annum for his/her services as a Director with the exception of the Chairman and Deputy Chairman whose annual remunerations are \$50,000 and \$10,000 respectively. Such fees are set annually at the Annual General Meeting and are subject to change from time to time.

5. Director Education

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

INDEPENDENCE OF DIRECTORS

The Board is aware of its unique position as it relates to The Government being the majority shareholder. However, the Board is comprised of a substantial majority of Directors who meet The Central Bank of The Bahamas' criteria for independence.

BOARD MEETINGS

1. Frequency of Meetings

Regular meeting dates are established and communicated to the Directors at least a year in advance. Board meetings are held quarterly and special meetings are held when necessary. Following the Annual General Meeting, a Special Meeting is called at which officers, members and chairs of Board Committees are elected or appointed.

2. Attendance at Meetings

Directors are expected to attend all Board meetings in order to keep informed and provide the opportunity for meaningful input into the decision-making process. Regular attendance at all board meetings, together with committee meetings and the Annual General Meeting, is expected of all Directors.

Following is a record of Directors' attendance at the regular quarterly and extraordinary Board meetings for the period July 2004 to May 2005.

Name	BOARD MEETING ATTENDANCE					
	July BOD 04	Nov. BOD 04	Dec. Ex. BOD 04	Jan. BOD 05	Mar. Ex. BOD 05	May BOD 05
*Hugh Sands	☐	☐	NA	NA	NA	NA
*Alfred Jarrett	NA	NA	☐	☐	☐	☐
Lourey Smith	☐	☐	☐	☐	☐	☐
Patrick Bain	☐	☐	☐	☐	☐	☐
Allan Benjamin	☐	☐	☐	☐	☐	☐
Maitland Cates	☐	☐	☐	☐	☐	☐
Maxwell Gibson	☐	☐	☐	☐	☐	☐
Lennox McCartney	☐	☐	☐	☐	☐	☐
Ruth Millar	☐	☐	☐	☐	☐	☐
Barry Russell	☐	☐	☐	☐	☐	☐
Robert Sands	☐	☐	☐	☐	☐	☐
Lester Smith	☐	☐	☐	☐	☐	☐
Paul McWeeney	☐	☐	☐	☐	☐	☐

☐ Present ☐ Absent/Apologies

*Mr. Alfred Jarrett, MBA was appointed as Chairman to the Bank at the Annual General Meeting on 7th December 2004.

3. Preparation for Board Meetings

Board materials are expected to be prepared and distributed 3-5 days in advance of a meeting to give Directors an opportunity to review reports and, where possible, to obtain additional information from management or pose any questions or concerns they may have prior to the meetings.

4. Selection of Agenda Items

The Chairman along with the Managing Director prepares the agenda for each meeting. In addition, Executive Management provides minimum reporting requirements relative to the various departments of the Bank that must be provided for each regular board meeting. Directors may also request that certain items be added to the Agenda for discussion at the Board level.

5. Strategic Plan Review

The Strategic Plan is developed by the Executive Management of the Bank and reviewed by the Board. In May 2005, the Board approved a five-year strategic plan.

BOARD COMMITTEES

The Board has established a number of Committees, each of which is required to meet on a quarterly basis. These Board committees include the:

- Audit, Controls & Procedures Board Committee
- Credit Risk Board Committee
- Corporate Finance & Capital Development Board Committee
- Risk Management Board Committee
- Information & Technology Board Committee and
- Human Resources Board Committee

In January 2005 two new committees, the Corporate Governance Board Committee and the Executive Compensation Board Committee were formed. The KYC and Compliance Committee's name was also changed to Risk Management Board Committee to reflect the evolving mandate of this committee. In addition, the Board Committees were expanded to three Directors per committee.

Ad Hoc Committees are formed if and when special projects arise that require the Board's oversight. A Head Office Board Committee has been established, which will oversee the construction of the Bank's new headquarters on West Bay Street, Nassau, Bahamas.

The Mandate of each Board Committee is outlined below:

AUDIT, CONTROLS & PROCEDURES BOARD COMMITTEE

The Audit Committee provides direct oversight of the Bank's internal and external audit functions. The Committee evaluates and examines all aspects of the workings of the Bank to ensure that the maximum protection is given to the Bank's assets. The Committee works to ensure that the Bank's policies and procedures are maintained in a manner that reflects industry best practices and achieves the highest degree of assurance that the Bank is 'In Control'. It assesses the Bank's control environment taking into account the Bank's character, approach to governance, management, organizational structure, resource availability, procedures and controls and conduct of its staff. It is responsible for assisting the Board in providing for independent review of the effectiveness of the reporting processes, internal controls systems and risk management.

CREDIT RISK BOARD COMMITTEE

Managing risk is of paramount importance to responsible, prudent and successful banking. It is therefore important that the Bank's credit function is conducted in an environment that is highly structured and where common sense and good judgment prevail. The Committee is also guided by the Bank's Credit Policy Guide which details the Bank's credit policies. Branch Credit meetings are regularly held and the Credit Risk Board Committee meets at least once a quarter to review and/or authorize credit requiring their level of approval as well as credit policies and procedures.

CORPORATE FINANCE & CAPITAL DEVELOPMENT BOARD COMMITTEE

The Corporate Finance & Capital Development Board Committee's role is to review the overall financial performance of

the Bank, approve its business strategies and to ensure that the highest level of fiscal integrity is maintained. The primary responsibilities of the Committee include financial analysis, approving business objectives, approving capital expenditures within a set limit, oversight of liquidity and capital, dividend payment recommendation, review of ongoing relationship between the Bank and its regulators.

RISK MANAGEMENT BOARD COMMITTEE

The Risk Management Board Committee's mandate is focused on the identification and assessment of all major areas of risk that may impact the Bank so as to ensure that risk is given sufficient prominence in the decision-making process at all times. In fulfillment of this mandate, the Committee has in place a robust compliance regime designed to promote adherence to relevant legislation and guideline issues from time to time by the appropriate regulatory and supervisory bodies. Of equal significance, the Committee has strong advisory and proactive components that keep pace with evolving best practices relative to procedures and systems of proper conduct.

INFORMATION & TECHNOLOGY BOARD COMMITTEE

A core objective of the Bank is to proactively leverage the latest information technology tools, techniques and systems to build a scalable and adaptable platform that will improve and maximize the productivity and efficiency of the staff and operations company-wide. To this end, the Information Technology ("IT") Committee must be apprised of all existing and new business plans and initiatives, have access to all relevant internal and external audit reports and access to current industry-related technology resources and data in order to recommend the most efficient IT solutions.

HUMAN RESOURCES BOARD COMMITTEE

The Human Resources Board Committee's mandate is to ratify and approve matters pertinent to all aspects of the Human Resource function. The Committee is responsible for the development, approval and implementation of Human Resource initiatives undertaken by the Bank that include the following: Management Succession Plans, Employee Compensation and Benefits, Training Programs, Management Information Systems and other Specialist Requirements.

CORPORATE GOVERNANCE BOARD COMMITTEE

The Corporate Governance Board Committee's mission is to ensure that Directors and Officers of the Bank conduct themselves in accordance with the guidelines as set out in the



Bank of The Bahamas partner Mark Knowles knows The Power of Community. Ranked 2004's number one men's tennis doubles player, he returned home with a message of inspiration.

Directors & Officers Corporate Governance Handbook, the laws of The Commonwealth of The Bahamas, advisories and recommendations made by regulatory and supervisory bodies from time to time and evolving best practices.

EXECUTIVE COMPENSATION BOARD COMMITTEE

The Executive Compensation Board Committee's mission is to review, evaluate, assess and make recommendations as they relate to the remuneration of the Chairman, Directors, Managing Director and the Deputy Managing Directors.

ANNUAL EVALUATION AND SUCCESSION PLANNING

I. Annual Self-Assessment

The Board completes Board assessment evaluations on an annual basis. This review includes an evaluation of the Board's compliance with its corporate governance guidelines and highlights areas where improvement is needed.

2. Succession Planning

The Board is mandated to identify promising individuals who have the best potential for accomplishment and leadership and who are capable of directing the Bank's activities to ensure that its goals and objectives are met. In July 2004 the Board appointed three persons to serve as Deputy Managing Directors to the Bank.

3. Board Certification

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

ON MAY 6, 2005, THE BOARD SUBMITTED ITS ANNUAL CERTIFICATION TO THE CENTRAL BANK OF THE BAHAMAS CONFIRMING ITS COMPLIANCE WITH THE CORPORATE GOVERNANCE GUIDELINES. FOLLOWING IS A COPY OF THE CERTIFICATION:

May 6th, 2005

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

Dear Sirs,
Corporate Governance Certification - 31 December 2004

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

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

- The board has carefully considered the reporting of senior management and other information provided in determining whether the Bank is following the corporate governance *Guidelines* and,
- The board is of the opinion that the Bank is following the *Guidelines*. However, while we recognize that significant progress has been made, we do recognize that continued attention and progress is required in the following areas:
 - I. Improvements to the systems and procedures relating to strengthening our disaster recovery and business continuity planning,
 2. Further strengthening of our Credit Risk Management and,
 3. Enhancements to our policies and procedures documentation.

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

Yours faithfully,

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



Alfred Jarrett, MBA - Chairman



Paul J. I. McWeeney – Managing Director



Stephen Timewell, editor in chief of *The Banker* magazine, presents the coveted Bracken Award for Country Bank of The Year 2005 to Paul McWeeney, managing director of Bank of The Bahamas International.

Management Discussion

AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Description	2005	2004	Change
Interest Income	\$ 27.24	\$ 26.67	2.12%
Net Interest Income	\$ 16.19	\$ 15.81	2.42%
Non Interest Expenses	\$ 15.21	\$ 12.98	17.13%
Net Income	\$ 7.01	\$ 6.03	16.16%
Earnings per Share (EPS)	\$ 0.59	\$ 0.50	16.16%
Total Assets	\$ 453.15	\$ 384.78	17.77%
Loans & Advances to Customers	\$ 352.43	\$ 299.32	17.74%
Total Liabilities	\$ 408.83	\$ 345.45	18.35%
Shareholders' Equity	\$ 44.32	\$ 39.33	12.68%
Capital Ratio	9.78	10.22	-0.44

All amounts are shown in millions except EPS and Capital Ratio
The analysis that follows relates to fiscal year 2005 with comparatives to 2004.

BBI demonstrates The Power of Community by preparing, caring and sharing



American Express training.



Tsunami donation to those in need.



Deputy Managing Director Lynden Nair at a community workshop.

Record setting external reserves and high sector liquidity characterized a strong macro-economic landscape and provided partial impetus for the removal of The Central Bank-imposed Lending Cap and a one-half percent reduction in the prime rate. Those results were realised in spite of the ravages caused by Hurricanes Frances and Jeanne. In fact, insurance settlements arising from the hurricanes helped fuel a strong performance in the construction sector and further buoyed external reserves and liquidity.

Those events combined with the introduction of industry leading products and innovative marketing, resulted in a substantial jump in Loans & Advances to Customers, particularly in the residential mortgages sector. Among the products introduced by the Bank were “Fresh Start”, and “Start Me Up”, both residential mortgage initiatives that received wide market acceptance. Public response to attractive packages that included low interest rates and comprehensive financing exceeded expectations.

At the same time, the Bank expanded its Online Banking offerings employing cutting edge technology to further differentiate itself in the marketplace. One such product was cheque imaging which allows customers to view and print both sides of their cancelled cheques online. Online banking enables customers to manage accounts more easily, keeping constant track of funds available and account balances and it negates the need to wait for month-end bank statements, although printed statements continue to be sent. The online banking cheque imaging feature has been well-received and the Bank remains the only institution to offer this service locally and in the region.

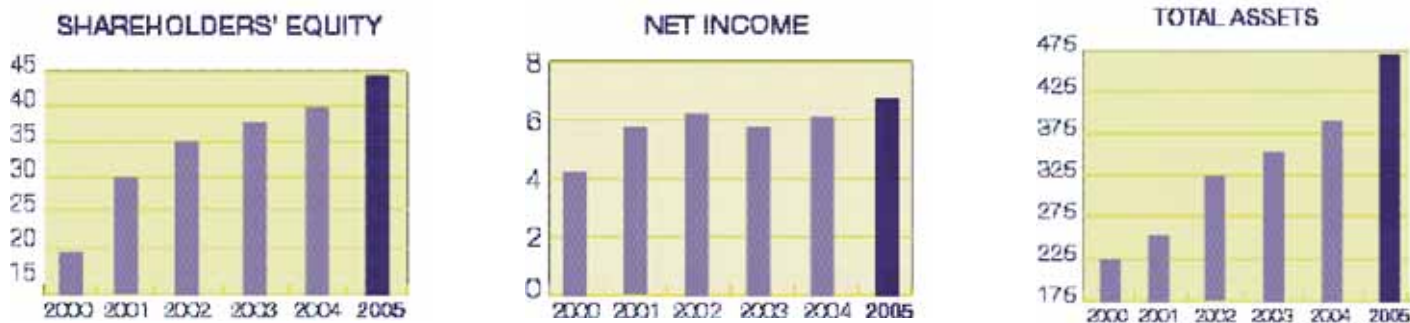
Further, Total Asset and Net Income achieved record levels with the latter growing by 16.16%. One of the more significant components of this result was the 26.82% rise in Non Interest Income clearly demonstrating the growing acceptance of the Bank’s products. During the 2nd quarter of fiscal year 2006, the Bank will unveil a plethora of products that will further entrench it as a market leader.

INTEREST INCOME

During the year, downward pressure was exerted on Interest Income following the one half percentage reduction in the prime rate. In addition, increased competition particularly in the residential mortgage sector and increased liquidity all contributed to declining asset yields, a predictable outcome of the falling interest rates that also served to boost credit growth which was particularly robust during the 4th quarter, yielding a modest Interest Income advancement of 2.12% from \$26,673,554 to \$27,238,551. On the US\$ side, multiple advances in the Federal Reserve Fund’s rate resulted in a sharp increase in US\$ Interest Income.

INTEREST EXPENSE

Interest Expense grew at a tepid rate of 1.68% from \$10,860,857 to \$11,043,758 despite an 18.21% increase in paying liabilities. This occurred as deposit rates fell following the reduction in the prime rate and increased liquidity as well.



NET INTEREST INCOME

The growth in Interest Income outpaced the rise in Interest Expense resulting in a 2.42% or \$382,096 rise in net Interest Income from \$15,812,697 to \$16,194,793. In light of the rise in Loans and Advances to customers during the 4th quarter, Management anticipates further increases in Net Interest Income.

NET PROVISION FOR LOAN LOSSES

Despite an increase in general provisions of \$1,640,208 during the year, Net Provision for Loan Losses dropped dramatically, 60.36%, from \$2,244,994 to \$889,974. Two broad events explain this result. Firstly, recoveries from loans previously written off totalled \$773,397 compared to \$579,493 last year. Furthermore, the strengthening of the Bank's collections and recoveries mechanisms has resulted in an improvement in Non-Accrual Loans from 4.27% to 3.44%.

NON INTEREST INCOME

During the year, Non Interest Income increased 26.82% as the Bank experienced significant advances in service fees and foreign exchange earnings. The significant change in service fees reflects the impact of the vibrant credit growth in 2005 compared to 2004, which was impacted by the Lending Cap. Additionally, efforts by the Bank boosted Non Interest Income significantly through a number of campaigns, including substantial expansion of merchant services. The Bank secured credit card contracts with all major credit card service providers and the Bank now offers commercial customers the ability to accept American Express, Discover, Visa and MasterCard. The Bank also invested in developing merchant loyalty by providing incentives, including training and seminars. The increase in Non Interest Income also resulted from greater use of fee services, including 24-hour banking machines, Moneygram money transfers, issuance of American Express Traveller's Cheques and other American Express products.

NON INTEREST EXPENSES

Non Interest Expenses grew 17.13% as the Bank continued the expansion of services into the Family Islands including Exuma. The community's reception has been encouraging and Management expects the branch to be fully operational by November 2005. Additional branch openings are forecasted in other Family Islands and New Providence as well. The growth in Non Interest Expenses was also influenced by additional products introduced by the Bank, the further strengthening of the Bank's Information Technology Department. These elements caused an unusual increase in the operating efficiency ratio. We are confident that this ratio will return to normal level and indeed improve dramatically in the near term.

NET INCOME

The 17.13% rise in Non Interest Expenses was overshadowed by the 26.82% jump in Non Interest Income and the 60.36% fall in Net Provisions for Loan Losses resulting in a 16.16% growth in Net Income from \$6,033,537 to \$7,008,531. This record-breaking performance resulted in an improvement in EPS from 50 cents to 59 cents.

The Power of Community is demonstrated by



Dedication through professionalism, Deputy Managing Director, Operations, Beverly Farqharon.



Supporting the GGYA, Eleuthera, The Island School.



Helping the goals of the Governor's General Youth Award.

TOTAL ASSETS

Total Assets moved closer to the one-half billion mark following growth in Loans & Advances to Customers and Cash Due From Banks. Much of the growth occurred during the last 6 months of the fiscal period causing Total Assets to settle at its highest level of \$453,145,174, up 17.77% or \$68,367,123 from \$384,778,051.

LOANS & ADVANCES TO CUSTOMERS

Various events were responsible for the tremendous growth in Loans and Advances to Customers. Among them were the reduction in the prime rate, the removal of The Central Bank imposed Lending Cap and healthy sector liquidity, combined with increased marketing by the Bank, particularly on the retail side. The result was an increase of 17.74% or \$53,111,742 in Loans & Advances to Customers from \$299,322,634 to \$352,434,376 in 2005. In addition, at June 30, 2005, loan commitments aggregated \$59,657,991 which was more than 7 times higher than 2004. Those results are even more noteworthy given the overall improvement in Non-Accrual Loans as highlighted above.

Further analysis of Loans & Advances to Customers revealed that Mortgage Loans grew 42.96%, or \$48,389,842, and that portfolio now stands at 45.23% of total loans, up from 37.34% in 2004.

LIQUIDITY

The Bank continued to monitor the adequacy of its liquidity through the employment of a tested regime of statutory and internal standards. At June 30, 2005, the Bank's cash balances stood at \$58,391,204 representing 15.32% of Deposits from Customers and Banks, a significant improvement over 2004.

TOTAL SHAREHOLDERS' EQUITY

While the Bank's Capital ratio of 9.78% remains well in excess of the statutory level, the projected growth rate is such that the Directors believe it prudent to further increase Shareholders' Equity. This will increase the Bank's capacity and remove any impediment to market share enhancement. A \$25 million Common Stock Offering is envisioned to achieve this objective.

The Bank approaches the prospective offering following a fiscal year highlighted by dramatic increases in the three major areas: Total Assets, now at a record high of more than \$453 million, Customer Loans and Advances and recovery figures are at record levels and Non Interest Income up significantly as a result of new products and services well received by the market. Adding to the reassurance that intrinsic Shareholder Value is at a record level are two additional factors: the Bank's improved liquidity, now at over 15% of Deposits, well above policy and statutory requirements, and a solid lending base with nearly half of all Loans and Advances to Customers in the form of long-term mortgages, historically far less vulnerable to market shocks than short-term consumer and commercial lending. Although harder to measure or translate into dollars, the Bank's achievements and awards, including becoming the first Bahamian bank to be ranked among the world's top banks by The Banker, part of the Financial Times Group, and receive the Country Bank of the Year Bracken Award 2005, position Bank of The Bahamas Limited favourably for the Share Offering on the horizon.



> INDEPENDENT AUDITORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

INDEPENDENT AUDITORS' REPORT

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

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



To the Shareholders of
Bank of The Bahamas Limited:

We have audited the accompanying consolidated balance sheet of Bank of The Bahamas Limited (the "Bank") as of June 30, 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte & Touche". The signature is written in a cursive, flowing style.

August 19, 2005

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2005

(EXPRESSED IN BAHAMIAN DOLLARS)

	2005	2004
ASSETS		
Cash and due from banks (Note 4)	\$ 28,242,098	\$ 13,694,256
Account with The Central Bank of The Bahamas (Note 4)	30,149,106	33,392,798
Investments (Note 5)	25,527,300	25,509,500
Loans and advances to customers, net (Notes 6 and 15)	352,434,376	299,322,634
Accrued interest receivable (Note 15)	2,969,882	2,887,810
Prepaid expenses and other assets (Note 15)	1,745,180	3,829,553
Goodwill, net (Note 8)	1,115,277	1,115,277
Customers' liabilities under acceptances, guarantees and letters of credit	2,999,464	1,079,118
Fixed assets, net (Note 7)	7,962,491	3,947,105
TOTAL	\$453,145,174	\$384,778,051
LIABILITIES		
Deposits from customers and banks (Notes 9 and 15)	\$381,280,413	\$319,928,319
Bonds payable (Note 10)	17,000,000	17,000,000
Cheques and other items in transit	1,398,963	203,689
Accounts payable and other liabilities (Note 15)	2,623,309	2,509,133
Accrued interest payable (Note 15)	3,526,092	2,807,635
Dividends payable (Note 21)	-	1,920,000
Acceptances, guarantees and letters of credit	2,999,464	1,079,118
Total liabilities	408,828,241	345,447,894
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	12,000,000	12,000,000
Share premium	7,589,064	7,589,064
Treasury shares (Note 12)	(264,270)	(267,750)
General reserve	1,400,000	1,400,000
Retained earnings	23,592,139	18,608,843
Total shareholders' equity	44,316,933	39,330,157
TOTAL	\$453,145,174	\$384,778,051

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on August 19, 2005, and signed on its behalf by:



Director



Director

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED JUNE 30, 2005

(EXPRESSED IN BAHAMIAN DOLLARS)

	2005	2004
NET INTEREST AND OTHER INCOME:		
Interest income (Note 15)	\$27,238,551	\$26,673,554
Interest expense (Note 15)	11,043,758	10,860,857
Net interest income	16,194,793	15,812,697
Less net provision for loan losses (Note 6)	889,974	2,244,994
Net interest income after net provision for loan losses	15,304,819	13,567,703
Service fees and commissions	3,350,637	2,239,700
Interest income from investments (Note 15)	1,686,591	1,678,916
Net foreign exchange gains	1,431,066	966,170
Other banking income	443,891	565,596
Total	22,217,004	19,018,085
NON-INTEREST EXPENSES:		
General and administrative (Note 17)	13,960,296	11,568,964
Depreciation and amortization expense (Note 7)	1,248,177	1,266,880
Amortization of goodwill	-	148,704
Total	15,208,473	12,984,548
NET INCOME	\$ 7,008,531	\$ 6,033,537
AVERAGE NUMBER OF COMMON SHARES	11,963,100	11,962,500
EARNINGS PER SHARE	\$ 0.59	\$ 0.50

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED JUNE 30, 2005

(EXPRESSED IN BAHAMIAN DOLLARS)

	Share Capital	Share Premium	Treasury Shares	General Reserve	Retained Earnings	Total
Balance at June 30, 2003	\$12,000,000	\$7,589,064	\$ -	\$1,400,000	\$15,695,306	\$36,684,370
Net income	-	-	-	-	6,033,537	6,033,537
Acquisition of treasury shares (Note 12)	-	-	(267,750)	-	-	(267,750)
Dividends:						
Paid (\$0.10 per share)	-	-	-	-	(1,200,000)	(1,200,000)
Proposed (\$0.16 per share)	-	-	-	-	(1,920,000)	(1,920,000)
Balance at June 30, 2004	12,000,000	7,589,064	(267,750)	1,400,000	18,608,843	39,330,157
Net income	-	-	-	-	7,008,531	7,008,531
Sale of treasury shares (Note 12)	-	-	3,480	-	-	3,480
Dividends:						
Paid (\$0.17 per share)	-	-	-	-	(2,025,235)	(2,025,235)
Balance at June 30, 2005	\$12,000,000	\$7,589,064	\$(264,270)	\$1,400,000	\$23,592,139	\$44,316,933

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

(EXPRESSED IN BAHAMIAN DOLLARS)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,008,531	\$ 6,033,537
Adjustments for:		
Depreciation and amortization expense (Note 7)	1,248,177	1,266,880
Amortization of goodwill	-	148,704
Gain on disposal of fixed assets	(16,250)	(5,999)
Writedown of investments	-	35,101
Net provision for loan losses (Note 6)	889,974	2,244,994
	9,130,432	9,723,217
Change in operating assets and liabilities (Note 18)	2,110,208	(20,468,491)
Increase in loans and advances to customers, net	(54,001,716)	(24,870,812)
Increase in deposits from customers and banks	61,352,094	42,130,318
Net cash from operating activities	18,591,018	6,514,232
CASH FLOWS USED IN/FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets (Note 7)	(5,267,599)	(760,546)
Purchase of investments	(1,980,500)	-
Proceeds from disposal of fixed assets	20,286	5,999
Proceeds from maturity of investments	1,962,700	1,100,000
Net cash (used in) from investing activities	(5,265,113)	345,453
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Dividends paid	(2,025,235)	(3,120,000)
Sale (acquisition) of treasury shares (Note 12)	3,480	(267,750)
Net cash used in financing activities	(2,021,755)	(3,387,750)
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	11,304,150	3,471,935
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	47,087,054	43,615,119
CASH AND CASH EQUIVALENTS, END OF YEAR (NOTE 4)	\$58,391,204	\$47,087,054

See notes to consolidated financial statements.

BANK OF THE BAHAMAS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE 1 - GENERAL

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

The 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 Cloughton House, Shirley and Charlotte Streets. The registered office is located at Sassoon House, Shirley Street, Victoria Avenue, Nassau, Bahamas.

The principal business of the Bank is providing commercial banking services through ten branches: four in New Providence, two in Grand Bahama, two in Andros, one in San Salvador and one in Inagua. A wholly owned subsidiary of the Bank, Bank of The Bahamas Trust Limited, was formed in September 2000 to provide trust and related services.

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

The number of persons employed by the Bank at June 30, 2005 was 227 (2004: 198) of which 7 (2004: 1) were temporary.

NOTE 2 - ADOPTION OF NEW INTERNATIONAL ACCOUNTING STANDARDS (IASs)

Goodwill

During the fiscal year, the Bank adopted *IAS 36—Impairment of Assets* and *IAS 38—Intangible Assets* which resulted in a change in the accounting policy for goodwill. Previously, goodwill was amortized over a period of 10 years. Under the new policy, goodwill is stated net of impairment at year-end.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The preparation of the consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The significant accounting policies are as follows:

- a. *Principles of consolidation* - These consolidated financial statements include the Bank's wholly owned subsidiary, Bank of The Bahamas Trust Limited. Intercompany balances have been eliminated upon consolidation.
- b. *Recognition of income* - Income is recognized on an accrual basis, except for loans and advances to customers placed on non-accrual basis and fees, which are recognized on a cash basis.
- c. *Cash and cash equivalents* - Cash and cash equivalents consist of cash, due from banks and an account with The Central Bank of The Bahamas.
- d. *Loans and advances to customers* - Loans and advances to customers are stated at the principal amounts outstanding, net of unearned income and provisions for loan losses.

Unearned income - Unearned income on consumer loans is accrued monthly to income using the Rule of 78 method, which yields a level rate of return over the life of the loan.

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

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

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

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

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

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

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

Loans write-off - Consumer loans are written-off when they are contractually in arrears more than 180 days. All other loans are written-off when the following conditions exist: i) contractually in arrears; ii) underlying collateral has been exhausted; and iii) no payment has been received within 180 days thereafter. Where a loan is being written-off, specific provision is increased to the principal amount of the loan and thereafter the loan is written-off against the provision for credit losses.

- e. *Investments* - Investments classified as held-to-maturity are carried at cost. Investments classified as available-for-sale are initially recognized at cost and subsequently re-measured at fair value. All unrealized gains and losses are included in the consolidated statement of income as they arise.
- f. *Repurchase agreements* - Securities purchased under agreements to resell are recorded as loans and advances to customers. Revenue derived from these transactions is recorded to interest revenue as earned.
- g. *Goodwill* - Goodwill represents the excess of cost of the acquisition over the fair value of net assets acquired by

- the Bank. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.
- h. *Foreign currency translation* - Assets and liabilities in foreign currencies are translated at year-end exchange rates. Income and expenses in other currencies have been translated at rates of exchange prevailing at the end of the month in which the income or expense is recognized. Foreign exchange gains and losses are taken into the consolidated statement of income.
 - i. *Fixed assets* - Fixed assets (excluding building) are stated at cost less accumulated depreciation and amortization. Building is stated at estimated salvage value of \$290,150 with subsequent additions at cost less accumulated depreciation.

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

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

Leasehold improvements are amortized over the unexpired portion of the lease or their estimated useful lives, whichever period is shorter.

- j. *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.
- k. *Related party transactions* - Related parties include all Ministries and Departments of The Bahamas Government, Government Corporations, Subsidiaries and Agencies as well as 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.
- l. *Pension costs* - Pension costs are charged to general and administrative expenses and are funded as accrued.
- m. *Earnings per share* - Earnings per share is computed by dividing the net income by the weighted average number of shares outstanding during the year.
- n. *Assets and liabilities under administration* - Assets and liabilities under administration on behalf of clients are not included in the consolidated balance sheet.

NOTE 4 - CASH AND CASH EQUIVALENTS

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

	2005	2004
Under 16 days	\$52,997,780	\$46,437,054
16 - 30 days	5,043,424	-
31 - 90 days	150,000	650,000
91 - 180 days	200,000	-
	\$58,391,204	\$47,087,054

Included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas of \$30,149,106 (2004: \$33,392,798), which is non-interest bearing.

NOTE 5 - INVESTMENTS

All investments are held with related parties and consist of the following:

			2005	2004
HELD TO MATURITY				
BAHAMAS MORTGAGE CORPORATION BONDS				
MATURITY	INTEREST RATE	SERIES		
2007	5.000% effective rate	K	\$ 2,000,000	\$ 2,000,000
2007	3.500% effective rate	K	700,000	700,000
			\$ 2,700,000	\$ 2,700,000
BAHAMAS GOVERNMENT REGISTERED STOCKS				
2005	.875% above prime	-	1,500,000	
2005	1.25% above prime	-	257,500	
2006	.1562% above prime	86,300	86,300	
2007	1% above prime		1,000,000	1,000,000
2008	6.375%	3,000,000	3,000,000	
2010	.625% above prime	683,500	683,500	
2011	7.000%	3,000,000	3,000,000	
2012	.750% above prime	4,000,000	4,000,000	
2013	1% above prime	675,000	675,000	
2015	.1875% above prime	459,900	459,900	
2018	.5625% above prime	244,000	244,000	
2019	.46875% above prime	273,600	273,600	
2019	.25% above prime	1,546,100	1,546,100	
2020	.5% above prime	1,600	1,600	
2020	.34375% above prime	884,600	884,600	
2020	.1875% above prime	723,200	-	
2020	.21875% above prime	650,700	-	
2021	.375% above prime	869,000	869,000	
2022	.25% above prime	65,200	-	
2022	.3125% above prime	2,352,300	2,352,300	
2022	.40625% above prime	216,000	216,000	
2022	.34375% above prime	1,418,400	1,418,400	
2023	.28125% above prime	79,600	-	
2024	.31250% above prime	110,700	-	
2024	.2500% above prime	223,900	-	
2024	.2813% above prime	102,000	-	
2024	.31250% above prime	25,200	-	
			22,690,800	22,467,800
BRIDGE AUTHORITY BOND				
2019	1.25% above prime	136,500	136,500	
DEPOSIT INSURANCE CORPORATION BOND				
2004	1.25% above prime	-	205,000	
2004	0.25% above prime	-	200	
			-	205,200
AVAILABLE FOR SALE				
1 Share held in The Bahamas International Securities Exchange (fully written off)			-	-
			\$25,527,300	\$25,509,500

NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers are as follows:

	2005	2004
Mortgage loans	\$161,018,512	\$112,628,670
Commercial loans	132,325,737	123,383,755
Consumer loans	24,287,378	18,151,827
Business overdrafts	18,900,991	23,043,842
Personal overdrafts	6,161,258	4,263,423
Government guaranteed student loans	13,310,103	20,133,805
	356,003,979	301,605,322
LESS: PROVISION FOR LOAN LOSSES:		
At beginning of year	2,282,688	5,468,265
Amount written-off	(376,456)	(6,010,064)
Recoveries	773,397	579,493
Provision charged to expense	889,974	2,244,994
At end of year	3,569,603	2,282,688
LOANS AND ADVANCES TO CUSTOMERS, NET	\$352,434,376	\$299,322,634

Included in Commercial loans are Repurchase agreements totaling \$11,240,800 (2004 nil).

During the year, the Bank wrote-off loans totaling \$376,456 (2004: \$6,010,064). Of this amount \$0 (2004: \$1,463,823) was written off against general provision and \$376,456 (2004: \$4,546,241) against specific provision. These loans will be subject to the Bank's ongoing collections efforts.

PROVISION FOR LOAN LOSSES IS AS FOLLOWS:

	2005	2004
Specific provisions:		
Mortgage loans	\$ 314,548	\$ 323,303
Commercial loans	284,400	644,193
Consumer loans	459,379	424,124
	1,058,327	1,391,620
General provision	2,511,276	891,068
TOTAL	\$ 3,569,603	\$ 2,282,688

NON-ACCRUAL LOANS ARE AS FOLLOWS:

Mortgage loans	\$ 7,338,860	\$ 5,816,494
Commercial loans	3,085,360	6,284,949
Consumer loans	1,817,400	778,570

TOTAL	\$ 12,241,620	\$ 12,880,013
--------------	----------------------	----------------------

EXPRESSED AS A PERCENTAGE OF LOAN PORTFOLIO	3.44%	4.27%
--	--------------	--------------

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

	2005	2004
0 - 2 years	\$ 77,384,900	\$116,491,459
3 - 5 years	44,304,950	50,164,458
6 - 10 years	101,621,033	62,764,642
Over 10 years	132,693,096	72,184,763
	\$356,003,979	\$301,605,322

(continued)

NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

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

	2005		2004	
	Value	No. of Loans	Value	No. of Loans
\$0 - \$10,000	\$ 10,130,135	2,685	\$ 7,925,753	2,371
\$10,001 - \$20,000	13,640,072	945	15,548,433	1,035
\$20,001 - \$30,000	8,616,743	347	8,122,253	333
\$30,001 - \$40,000	8,642,358	244	9,112,991	259
\$40,001 - \$50,000	8,703,898	199	7,834,727	174
Over \$50,000	306,270,773	1,262	253,061,165	1,087
	\$356,003,979	5,682	\$301,605,322	5,259

NOTE 7 - FIXED ASSETS, NET

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

	Land and Buildings	Leasehold Improvements	Furniture Fixtures and Equipment	Total
COST:				
Beginning balance	\$1,321,258	\$2,766,257	\$5,672,342	\$ 9,759,857
Additions	3,550,815	550,064	1,166,720	5,267,599
Disposals	-	-	(49,029)	(49,029)
Ending balance	\$4,872,073	\$3,316,321	\$6,790,033	\$14,978,427
ACCUMULATED DEPRECIATION AND AMORTIZATION:				
Beginning balance	\$ 773,493	\$1,271,771	\$3,767,488	\$ 5,812,752
Depreciation/amortization expense	18,017	373,042	857,118	1,248,177
Disposals	-	-	(44,993)	(44,993)
Ending balance	\$ 791,510	\$1,644,813	\$4,579,613	\$ 7,015,936
NET BOOK VALUE:				
June 30, 2005	\$4,080,563	\$1,671,508	\$2,210,420	\$ 7,962,491
June 30, 2004	\$ 547,765	\$1,494,486	\$1,904,854	\$ 3,947,105

NOTE 8 - GOODWILL, NET

	2005	2004
Cost	\$1,115,277	\$1,488,625
Accumulated amortization	-	(373,348)
	\$1,115,277	\$1,115,277

Goodwill arose during the bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the branch where the book of business is being managed. The impairment charge is determined by taking the difference between the present value of the branch's projected cash flow and its book value. Management has determined that there was no impairment to the carrying value of goodwill during 2005.

NOTE 9 - DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers and banks are as follows:

	2005	2004
Term deposits	\$258,780,012	\$236,434,496
Demand deposits	93,709,859	61,658,443
Savings accounts	28,790,542	21,835,380
	\$381,280,413	\$319,928,319

The following is an analysis of deposits from customers and banks in order of maturity:

	2005	2004
Under 31 days	\$205,422,155	\$173,814,427
31 - 90 days	82,619,811	73,716,246
91 - 180 days	53,961,928	35,130,417
Over 180 days	39,276,519	37,267,229
	\$381,280,413	\$319,928,319

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

	2005		2004	
	Value	No. of Deposits	Value	No. of Deposits
\$0 - \$10,000	\$ 17,774,643	20,663	\$ 15,205,965	18,494
\$10,001 - \$20,000	9,803,658	708	7,787,787	570
\$20,001 - \$30,000	7,307,471	302	5,985,966	246
\$30,001 - \$40,000	5,661,722	165	5,668,452	164
\$40,001 - \$50,000	4,347,619	97	3,798,907	85
Over \$50,000	336,385,300	659	281,481,242	625
	\$381,280,413	22,594	\$319,928,319	20,184

In 1999, The Central Bank of The Bahamas established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$85,399 (2004: \$70,103) to the Corporation, which insures the funds of all individual dollar depositors of the Bank up to a maximum of \$50,000.

NOTE 10 - 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% (2004: 6.00%). These bonds are secured under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme as per terms of the Education Guarantee Fund Act, 2001.

The amounts and maturity dates are as follows:

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

NOTE 11 - SHARE CAPITAL

Share capital consists of the following:

	2005	2004
Preference shares:		
Authorized - 25,000 shares of B\$1,000 each		
Issued - Nil	\$ -	\$ -
Common shares:		
Authorized - 25,000,000 shares of B\$1 each		
Issued and fully paid - 12,000,000 shares	12,000,000	12,000,000
	\$ 12,000,000	\$ 12,000,000

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

NOTE 12 - TREASURY SHARES

In 2004, the Bank acquired 45,000 of its shares for the purposes of establishing an employee stock incentive plan (see Note 20). To date 600 (2004: nil) of these shares have been purchased by employees leaving a balance of 44,400 (2004: 45,000).

NOTE 13 - CONTINGENCIES

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

NOTE 14 - COMMITMENTS

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

2006	\$683,970
2007	\$470,593
2008	\$126,541
2009	\$ 5,600
2010	\$ -

Rental expense (including service charges) totaled \$781,214 (2004: \$747,550) net of rental income of \$32,583 (2004: \$36,194).

- b. The commitment for loans at June 30, 2005 was \$59,657,991 (2004: \$8,287,945).
- c. The Bank has a commitment for future capital expenditure of \$3,622,000 (2004: \$3,150,000).

NOTE 15 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions and balances with related parties are as follows:

	2005	2004
LOANS AND ADVANCES TO CUSTOMERS		
Related parties	\$ 31,330,485	\$ 32,991,231
Others	324,673,494	268,614,091
	\$356,003,979	\$301,605,322
ACCRUED INTEREST RECEIVABLE		
Related parties	\$ 1,058,131	\$ 1,780,345
Others	1,911,751	1,107,465
	\$ 2,969,882	\$ 2,887,810

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

(continued)

NOTE 15 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

	2005	2004
PREPAID EXPENSES AND OTHER ASSETS		
Related parties	\$ 125,238	\$ -
Others	1,619,942	3,829,553
	\$ 1,745,180	\$ 3,829,553
DEPOSITS FROM CUSTOMERS AND BANKS		
Related parties	\$ 99,598,773	\$106,617,267
Others	281,681,640	213,311,052
	\$381,280,413	\$319,928,319
ACCOUNTS PAYABLE & OTHER LIABILITIES		
Related parties	\$ 978,829	\$ 255,399
Others	1,644,480	2,253,734
	\$ 2,623,309	\$ 2,509,133
ACCRUED INTEREST PAYABLE		
Related parties	\$ 1,797,645	\$ 1,385,814
Others	1,728,447	1,421,821
	\$ 3,526,092	\$ 2,807,635
INTEREST INCOME		
Related parties	\$ 1,482,692	\$ 1,793,464
Others	25,755,859	24,880,090
	\$27,238,551	\$26,673,554
INTEREST INCOME FROM INVESTMENTS	\$ 1,686,591	\$ 1,678,916
INTEREST EXPENSE		
Related parties	\$ 4,098,862	\$ 4,232,874
Others	6,944,896	6,627,983
	\$11,043,758	\$10,860,857

NOTE 16 - PENSION PLAN

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

Contributions for the year ended June 30, 2005 totaled \$330,653 (2004: \$303,395).

The Plan owns 210,856 (2004: 210,826) shares of the Bank. The holdings represent approximately 30% (2004: 42%) of the Plan's net assets.

The Plan has deposits totaling \$3,099,390 (2004: \$2,829,947) with the Bank.

NOTE 17 - GENERAL AND ADMINISTRATIVE

	2005	2004
Staff costs	\$ 7,815,049	\$ 6,963,902
Retirement and redundancy benefits	298,073	104,133
Other	5,847,174	4,500,929
	\$13,960,296	\$ 11,568,964

NOTE 18 - CHANGES IN OPERATING ASSETS AND LIABILITIES

	2005	2004
Increase in accrued interest receivable	\$ (82,072)	\$ (1,293,320)
Decrease (increase) in prepaid expenses and other assets	2,084,373	(199,033)
Increase (decrease) in accounts payable and other liabilities	114,176	(19,137,190)
Increase in accrued interest payable	718,457	324,870
Increase (decrease) cheques and other items in transit	1,195,274	(163,818)
Decrease in dividends payable	(1,920,000)	-
	\$ 2,110,208	\$(20,468,491)

NOTE 19 - ASSETS UNDER ADMINISTRATION

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

	2005	2004
STUDENT EDUCATION LOANS	\$60,107,478	\$36,678,905
TRUST ASSETS	\$ 7,278,229	\$ 2,960,000

NOTE 20 - EMPLOYEE STOCK INCENTIVE PLAN

On October 28, 2002, the Board of Directors approved an employee stock incentive plan for all employees with a grant of up to 100,000 shares through June 2007. Under the plan, employees are granted options to acquire shares at a defined price over a maximum of two years. On June 30, 2004 the Bank issued 25,000 share options to employees entitling them to acquire 25,000 shares at \$5.80 per share. During the year, employees exercised the option to purchase 600 (2004: 0) shares.

NOTE 21 - DIVIDENDS

On August 19, 2005, the Board of Directors declared dividends of \$0.16 per share aggregating \$1,912,896 payable on August 31, 2005. At June 30, 2004, dividends payable amounted to \$1,920,000.

NOTE 22 - FINANCIAL ASSETS AND LIABILITIES

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

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

Cash resources, 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, fair values are estimated using quoted market prices of similar securities, or by appropriate valuation techniques.

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

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

NOTE 23 - REGULATORY CAPITAL

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

The Bank's capital to asset ratio was 9.79% (2004: 10.22%) at the end of the fiscal year, substantially above the 5% standard established by The Central Bank of The Bahamas.

In the evaluation of risk-adjusted capital ratios, best standards require the Bank to maintain Tier I and total capital ratios of 4% and 8% respectively. At June 30, 2005 the Bank's Tier I and total capital ratios were 14.65% and 15.50% respectively (2004: 16.31% and 16.69% respectively).

NOTE 24 - RISK MANAGEMENT

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

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

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

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 an optimum percentage of its deposits in cash and other liquid assets to mitigate this risk. On a daily basis, the Bank monitors its cash and other liquid assets to ensure that they sufficiently meet the Bank's standards. In addition, the Bank performs regular gap analyses showing the maturity exposure arising from the different maturity of assets and liabilities. As is the case throughout the sector, those gap analysis show that the Bank is heavily liability sensitive in the short term. Regular scenario tests are performed to determine the extent to which the Bank can withstand unforeseen withdrawals and the cost associated with meeting such demands should they arise.

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

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

As of June 30, 2005	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$58,391,204	\$58,391,204
<i>average yield</i>	0.00%	0.00%	-	-	-	-	-
Investments	-	-	86,300	6,700,000	18,741,000	-	25,527,300
<i>average yield</i>	-	-	5.66%	5.46%	6.05%	-	-
Loans and advances to customers, net	41,779,513	26,720,271	3,374,789	50,141,733	218,192,956	12,225,114	352,434,376
<i>average yield</i>	9.94%	7.14%	9.15%	8.17%	8.37%	-	-
Fixed assets, net	-	-	-	-	-	7,962,491	7,962,491
Other assets	-	-	-	-	-	8,829,803	8,829,803
TOTAL	41,779,513	26,720,271	3,461,089	56,841,733	236,933,956	87,408,612	453,145,174
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits from customers and bank	185,715,813	53,961,928	39,235,035	41,484	-	102,326,154	381,280,413
<i>average yield</i>	3.63%	4.44%	4.23%	2.30%	-	-	-
Bonds payable	-	-	-	-	17,000,000	-	17,000,000
<i>average yield</i>	-	-	-	-	5.50%	-	-
Other Liabilities	-	-	-	-	-	10,547,828	10,547,828
Shareholders' equity	-	-	-	-	-	44,316,933	44,316,933
TOTAL	185,715,813	53,961,928	39,235,035	41,484	17,000,000	157,190,915	453,145,174
INTEREST RATE SENSITIVITY GAP	(143,963,300)	(27,241,657)	(35,773,946)	56,800,249	219,933,956	(69,782,303)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP	\$(143,936,300)	\$(171,177,956)	\$(206,951,902)	\$(150,151,653)	\$69,782,303	\$ -	\$ -
Average Yield - Earning Assets	9.94%	7.14%	9.06%	7.85%	8.19%	-	8.27%
Average Yield - Paying Liabilities	3.63%	4.44%	4.23%	2.30%	5.50%	-	3.96%
	6.31%	2.70%	4.83%	5.55%	2.69%		4.31%

Bank of The Bahamas Trust

Six years ago, Bank of The Bahamas International took a monumental step by becoming the first financial institution in the country to offer a broad range of Trust services to Bahamians. We are proud to have been the first to recognise a need, honoured that others followed in order to provide Trust services for their clients.

We take special pride in knowing that Bank of The Bahamas Trust Limited (BBT) has emerged as the premier choice for Bahamians with respect to estate planning and administration as well as other fiduciary services including company incorporation and management. Already educating the community through seminars, clinics, civic group meetings and insurance agency workshops, BBT plans to expand its portfolio in 2006 to make Bahamians more aware of options to secure their assets. Through BBT's community education efforts, increasing numbers of Bahamians recognise the importance of estate planning and are taking steps available to them to minimize public exposure, legal challenges and/or court delays. They know they can trust BBT to assist them with a smooth, confidential and efficient transfer of assets to beneficiaries at the appointed time.

BBT has established client satisfaction over the years and is continuing its commitment to meet the needs of a new generation of clients.

BBT provides an array of Trust services including:

- Pension Trust Services
- Personal Trust Services
- Estate Planning and Administration
- Corporate Executor Services
- Incorporation of Limited Companies & IBC's
- Custodian Services
- Preparation of Wills
- Notary Public





Bank of The Bahamas Trust
Limited Board of Directors:
Seated Tanya Wright, Manager,
L.B. Johnson, Chairman,
Standing (left) William Wallace,
Director and Paul J.I.,
Director.



TRENDS IN TRUSTS

Bank of The Bahamas Trust Limited has experienced solid, steady growth in provision of personal Trust services as described below. In 2004 and 2005, growth in custodial services of pension funds has been especially strong as more attention is being paid by both the public sector and corporate Bahamas to ensure that pension funds were being carefully managed and safeguarded. With nearly \$1 billion in pension funds being held in The Bahamas, we at Bank of The Bahamas Trust Limited accept our role in helping to guard against any possible misuse, either by intention or otherwise, of much of the nation's pension funds.

PENSION FUNDS

Specifically, in the past year and heading into fiscal 2006, the Trust department will strengthen its already significant role in overseeing proper procedures and management policies of private (non-NIB) pension funds, estimated last year at about \$793 million and now approaching the \$1 billion mark.

Contributors spend a lifetime believing that the funds they contribute, along with matching or other contributions from employers in some cases, will be there when they retire. Like employees, employers deserve to contribute to pension funds with confidence, knowing that their contributions are secure. More and more employers are realizing the value of offering a strong pension plan to attract and keep the best qualified staff, the security of those funds becomes increasingly important.

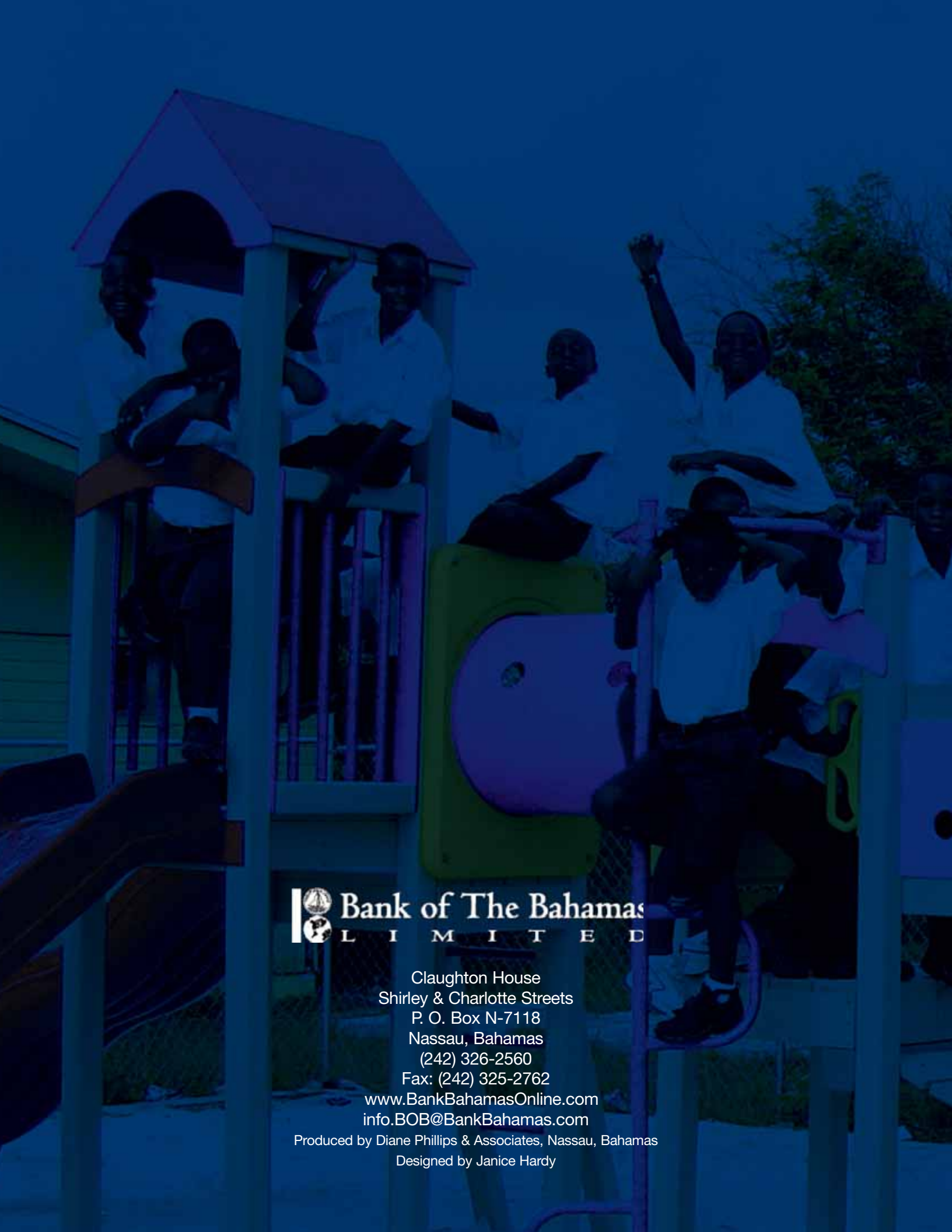
BBT believes that safeguarding pension funds is critical to the future security of our nation and we take this role solemnly and seriously. We remain vigilant, ensuring that those charged with the responsibility of managing and investing pension funds do so in full accordance with the plan, investment guidelines and industry best practices.

At BBT, we pride ourselves on being the first in the industry to recognise the need for safer and more secure means of preserving and protecting wealth for the citizens and residents of The Bahamas. By safeguarding pension funds and creating and administering individual, group and corporate trusts, Bank of The Bahamas Limited and its subsidiary Bank of The Bahamas Trust demonstrate continuing commitment toward the community.

PERSONAL TRUSTS

BBT provides several services to help clients manage assets and financial security. The Insurance Trust protects and distributes insurance policies and pension funds. The Golden Trust provides a safety net for a residence or other long-term assets. Holding a Real Estate Trust can protect assets from liabilities of the beneficiaries and in some cases the Settlor, preserving it for smooth and efficient transfer from one generation to another. The Fortune Trust provides professional managers to protect and oversee investments, real estate holdings and other assets.

The Trust department has experienced steady growth, particularly in estate administration services, including preparation of Wills and Corporate Executor services. We project continued growth in all areas of Trust services including personal and pension fund services.



 **Bank of The Bahamas**
L I M I T E D

Claughton House
Shirley & Charlotte Streets
P. O. Box N-7118
Nassau, Bahamas
(242) 326-2560
Fax: (242) 325-2762
www.BankBahamasOnline.com
info.BOB@BankBahamas.com

Produced by Diane Phillips & Associates, Nassau, Bahamas
Designed by Janice Hardy