



**BANK OF THE BAHAMAS LIMITED**

**Audited Consolidated Financial Statements  
Year Ended June 30, 2009  
with Independent Auditors' Report**

Bank of The Bahamas Limited

Audited Financial Statements

Year ended June 30, 2009

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## **Independent Auditors' Report to the Shareholders and Directors of Bank of The Bahamas Limited**

We have audited the consolidated financial statements of Bank of The Bahamas Limited (the "Bank") which comprise the consolidated balance sheet as of June 30, 2009, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Bank as at June 30, 2008 were audited by another auditor, whose opinion dated October 24, 2008, expressed an unqualified opinion.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

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

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

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

**Independent Auditors' Report to the Shareholders and Directors of  
Bank of The Bahamas Limited (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young*

October 7, 2009

Bank of The Bahamas Limited

Consolidated Balance Sheet  
(Expressed in Bahamian dollars)

June 30, 2009

	Note	2009	2008
<b>ASSETS</b>			
Cash and account with The Central Bank	5	\$ 29,944,137	\$ 59,929,652
Due from banks	5	100,612,566	107,197,737
Investment securities	6	50,679,783	25,323,000
Loans and advances to customers, net	7	555,612,338	522,111,807
Investment property	8	3,876,052	3,601,500
Other assets	9	8,690,850	7,285,752
Property and equipment	10	4,505,107	5,061,859
Intangible assets, net	11	4,378,289	3,901,693
<b>TOTAL</b>		<b>\$ 758,299,122</b>	<b>\$ 734,413,000</b>
<b>LIABILITIES</b>			
Deposits from customers and banks	12	588,089,178	580,168,906
Other borrowed funds	13	37,000,000	37,000,000
Cheques and other items in transit		7,561,710	11,564,332
Other liabilities	14	7,683,686	8,134,034
Deferred loan fees		4,011,894	3,642,413
<b>Total liabilities</b>		<b>644,346,468</b>	<b>640,509,685</b>
<b>EQUITY</b>			
Share capital	15	50,015,990	30,364,990
Share premium		28,587,866	28,587,866
Treasury shares	16	(30,244)	(30,244)
Revaluation reserve	17	22,694	-
Retained earnings		35,356,348	34,980,703
<b>Total equity</b>		<b>113,952,654</b>	<b>93,903,315</b>
<b>TOTAL</b>		<b>\$ 758,299,122</b>	<b>\$ 734,413,000</b>

These consolidated financial statements were approved by the Board of Directors on October 7, 2009, and are signed on its behalf by:

Macgregor Robertson  
Director

Paul McWeeney  
Director

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Income  
(Expressed in Bahamian dollars)

Year ended June 30, 2009

	Note	2009	2008
Interest and similar income	18	\$ 49,754,803	\$ 52,638,682
Interest and similar expense	18	<u>23,349,444</u>	<u>23,199,204</u>
Net interest income	18	26,405,359	29,439,478
Fees and commission income	19	5,798,602	4,264,474
Fees and commission expense		<u>694,265</u>	<u>369,362</u>
Net fees and commission income		5,104,337	3,895,112
Other operating income	20	3,454,891	1,885,602
Total operating income		34,964,587	35,220,192
Credit loss expense, net		<u>(2,596,254)</u>	<u>(2,658,095)</u>
Net operating income		32,368,333	32,562,097
Operating expenses	21	<u>26,580,416</u>	<u>26,461,903</u>
<b>Net income</b>		<b>5,787,917</b>	<b>6,100,194</b>
Net income attributable to preference shares		<u>(1,357,274)</u>	<u>(1,125,000)</u>
<b>Net income available to common shareholders</b>		<b><u>\$ 4,430,643</u></b>	<b><u>\$ 4,975,194</u></b>
Earnings per share			
Basic earnings per ordinary share	27	\$ 0.28	\$ 0.32

See accompanying notes.

Bank of The Bahamas Limited

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

Year ended June 30, 2009

	Share Capital	Share Premium	Treasury Shares	Revaluation Reserve	Retained Earnings	Total Equity
Balance at June 30, 2007	\$ 30,364,990	\$ 28,587,866	\$ (237,329)	\$ -	\$ 34,060,507	\$ 92,776,034
Net income for the year					6,100,194	6,100,194
Sale of treasury shares	-	-	207,085	-	-	207,085
Dividends on preference shares	-	-	-	-	(1,125,000)	(1,125,000)
Dividends paid to ordinary shareholders	-	-	-	-	(4,054,998)	(4,054,998)
Balance at June 30, 2008	\$ 30,364,990	\$ 28,587,866	\$ (30,244)	\$ -	\$ 34,980,703	\$ 93,903,315
Net income for the year	-	-	-	-	5,787,917	5,787,917
Net gains on remeasurement of available-for-sale securities to fair value	-	-	-	22,694	-	22,694
Preference share issuance	19,651,000	-	-	-	-	19,651,000
Dividends on preference shares	-	-	-	-	(1,357,274)	(1,357,274)
Dividends paid to ordinary shareholders	-	-	-	-	(4,054,998)	(4,054,998)
<b>Balance, June 30, 2009</b>	<b>\$ 50,015,990</b>	<b>\$ 28,587,866</b>	<b>\$ (30,244)</b>	<b>\$ 22,694</b>	<b>\$ 35,356,348</b>	<b>\$ 113,952,654</b>

See accompanying notes.

Bank of The Bahamas Limited

Consolidated Statement of Cash Flows  
(Expressed in Bahamian dollars)

Year ended June 30, 2009

	Note	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income		\$ 5,787,917	\$ 6,100,194
Adjustments for:			
Depreciation and amortization		1,757,534	2,148,666
Gain on revaluation of investment property		-	(45,313)
Gain on disposal of fixed assets		(13,545)	(49)
Net provision for loan losses		3,205,261	2,975,095
Net provision for other impairments		(165,000)	890,822
		<u>10,572,167</u>	<u>12,069,415</u>
Change in operating assets and liabilities		(4,607,108)	2,828,991
Increase in loans and advances to customers, net		(36,705,792)	(38,165,730)
Increase in deposits from customers and banks		7,920,272	71,074,799
Net cash (used in)/provided by operating activities		<u>(22,820,461)</u>	<u>47,807,475</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property and equipment		(812,815)	(2,105,925)
Acquisition of intangible assets		(880,418)	(496,533)
Purchase of investments		(25,334,089)	(3,120,000)
Proceeds from disposal of property and equipment		29,401	50
Proceeds from maturity of investments		-	5,700,000
Investment property additions		(274,552)	(476,187)
Net cash used in investing activities		<u>(27,272,473)</u>	<u>(498,595)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Preference shares issuance	15	\$ 19,651,000	\$ -
Dividends paid on common stock		(4,054,998)	(4,054,998)
Dividends on preference shares		(1,357,274)	(1,125,000)
(Decrease)/increase in interest payable on bonds		(716,480)	161,665
Sale of treasury shares		-	207,085
Net cash provided/(used in) by financing activities		<u>13,522,248</u>	<u>(4,811,248)</u>
Net (decrease)/increase in cash and cash equivalents		(36,570,686)	42,497,632
Cash and cash equivalents, beginning of year		167,127,389	124,629,757
Cash and cash equivalents, end of year	5	<u>\$ 130,556,703</u>	<u>\$ 167,127,389</u>
<b>SUPPLEMENTAL INFORMATION:</b>			
Interest received		\$ 48,467,594	\$ 47,607,097
Interest paid		\$ 23,516,509	\$ 17,522,096
Dividends paid		\$ 5,412,272	\$ 5,179,998

See accompanying notes.



# Bank of The Bahamas Limited

## Notes to Consolidated Financial Statements

Year ended June 30, 2009

### **1. General Information**

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

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

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

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

### **2. Basis of Preparation**

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**2. Basis of Preparation (Continued)**

**(a) Adoption of new and revised international financial reporting standards**

The accounting policies adopted are consistent with those used in the previous financial year. The following International Accounting Standards (IAS) issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Interpretations Committee (“IFRIC”) are relevant to the Bank, however, have not been early adopted in these consolidated financial statements:

*IAS 1 - Presentation of financial statements (Revised).* The revised is effective for annual periods after July 1, 2009, standard prohibits the presentation of items of income and expense (that is non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Bank has not implemented the changes required by the standard but does not expect the new standard to have an impact on consolidated operations.

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**2. Basis of Preparation (Continued)**

**(a) Adoption of new and revised international financial reporting standards (continued)**

*IFRS 3 (Revised 2008) - Business Combinations* and *IAS 27 (Revised 2008) 'Consolidated and Separate Financial Statements* - The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Bank's 2010 financial statements. The Bank does not expect adoption of these revised standards to have a significant effect on the consolidated financial statements.

*Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* - Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for annual periods beginning on or after January 1, 2009 with early application permitted. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity. The amendments to IAS 32 and IAS 1 are not expected to have any impact on the financial performance of the Bank as the Bank has not issued such instruments.

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

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation* - IFRIC 16 is effective for accounting periods beginning on or after October 1, 2008 with early application permitted. The interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. This interpretation will have no effect on the Bank's consolidated financial statements.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**2. Basis of Preparation (Continued)**

**(a) Adoption of new and revised international financial reporting standards (continued)**

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

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

**(b) Basis of consolidation**

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date on which control ceases.

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

These consolidated financial statements include the financial statements of the Bank's wholly-owned subsidiary BOB Financial Services Inc, Coral Gables, Florida.

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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

#### **Impairment**

##### *Tangible assets*

The Bank has made significant investments in physical assets. These are tested for impairment when circumstances indicate there may be a potential impairment. Changes in circumstances and management’s evaluations and assumptions may give rise to impairment losses in the relevant future periods. As at June 30, 2009, no impairment losses were recorded for the reporting period.

##### *Depreciation and amortization*

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)**

*Impairment losses on loans and advances to customers and banks*

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

*Investments*

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

*Goodwill*

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

The impairment charge is determined by taking the difference between the present value of the unit's projected cash flow and its book value. As of June 30, 2009 no impairment loss was recognized for the reported period.

Further details are presented in Note 11.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**4. Summary of Significant Accounting Policies**

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

**(a) Revenue recognition**

*Interest and similar income*

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

*Fee and commission income*

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

**(b) Cash and cash equivalents**

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash with The Central Bank of The Bahamas, amounts due from other banks, and short-term government securities.

**(c) Financial assets**

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

*(i) Loans and receivables*

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**4. Summary of Significant Accounting Policies (Continued)**

*(ii) Held-to-maturity financial assets*

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

*(iii) Available-for-sale financial assets*

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



## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### 4. Summary of Significant Accounting Policies (Continued)

##### (d) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**4. Summary of Significant Accounting Policies (Continued)**

**(d) Impairment of financial assets (continued)**

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

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

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

*Provision for loan losses*

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

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

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **4. Summary of Significant Accounting Policies (Continued)**

##### **(d) Impairment of financial assets (continued)**

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

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

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

##### **(e) Foreign currency**

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

##### **(f) Property and equipment**

Property and equipment (excluding the building) are stated at historical cost less accumulated depreciation. The building is stated at estimated salvage value of \$384,951 with subsequent additions at cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charge to the consolidated statement of income during the financial period in which they are incurred.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**4. Summary of Significant Accounting Policies (Continued)**

**(f) Property and equipment (continued)**

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

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

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

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

**(g) Impairment of non-financial assets**

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

**(h) Provisions**

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

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **4. Summary of Significant Accounting Policies (Continued)**

##### **(i) Related parties**

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

##### **(j) Employee benefits**

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's current plan (the "Plan") allows eligible employees (those who have attained 25 years of age and confirmed in their positions) to contribute a minimum of 3.5% of their annual salaries and the Bank contributes 6.5%. Employees become fully vested after 2 years of plan membership. The Plan's costs are charged to general and administrative expenses and are funded as accrued.

##### **(k) Earnings per share**

Earnings per share is computed by dividing the net income attributable to common shareholders by the weighted average number of shares outstanding during the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

##### **(l) Fiduciary activities**

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

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **4. Summary of Significant Accounting Policies (Continued)**

##### **(m) Taxes**

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

##### **(n) Investment property**

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

##### **(o) Goodwill**

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

##### **(p) Amortization of software**

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

##### **(q) Borrowings**

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**4. Summary of Significant Accounting Policies (Continued)**

**(r) Group insurance funds**

Provisions are made for claims notified and for claims incurred but which have not yet been notified. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

**(s) Share capital**

*(i) Share issue costs*

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

*(ii) Dividends on ordinary shares*

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

*(iii) Treasury shares*

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**5. Cash and Cash Equivalents**

The following is an analysis of cash and cash equivalents.

Included in cash and cash equivalents is the statutory reserve account with The Central Bank of The Bahamas of \$19,680,312 (2008: \$17,667,400). All balances with The Central Bank of The Bahamas are non-interest bearing.

	<b>2009</b>	<b>2008</b>
Cash	\$ 5,820,598	\$ 6,667,999
Due from banks	100,612,566	107,197,737
Cash and due from banks	<u>106,433,164</u>	<u>113,865,736</u>
Account with The Central Bank of The Bahamas	24,123,539	53,261,653
	<u><b>\$ 130,556,703</b></u>	<u><b>\$ 167,127,389</b></u>

**6. Investment Securities**

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

	<b>2009</b>	<b>2008</b>
<b>AVAILABLE-FOR-SALE</b>		
Bahamas Registered Stock	\$ 25,111,400	\$ -
Equity Securities	245,383	-
	<u>\$ 25,356,783</u>	<u>\$ -</u>
<b>HELD-TO-MATURITY</b>		
Bahamas Registered Stock	\$ 25,186,500	\$ 25,186,500
Bridge Authority Bond	136,500	136,500
	<u>\$ 25,323,000</u>	<u>\$ 25,323,000</u>
<b>Total investment securities</b>	<u><b>\$ 50,679,783</b></u>	<u><b>\$ 25,323,000</b></u>



Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**6. Investment Securities (Continued)**

As of the year-end reporting date, government securities mainly comprise variable rate bonds tied to the Bahamian \$ Prime Rate issued by The Bahamas Government with interest rates ranging from 5.59% to 7% per annum (2008: from 5.59% to 7.% per annum) and scheduled maturities between 2010 and 2033 (2008: between 2010 and 2033).

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

	<b>Available- for-sale</b>	<b>Held-to- maturity</b>	<b>Total</b>
At July 1, 2007	\$ -	\$ 27,903,000	\$ 27,903,000
Additions	-	3,120,000	3,120,000
Maturities	-	(5,700,000)	(5,700,000)
<b>At June 30, 2008</b>	<b>\$ -</b>	<b>\$ 25,323,000</b>	<b>\$ 25,323,000</b>
At July 1, 2008	\$ -	\$ 25,323,000	\$ 25,323,000
Additions	25,334,089	-	25,334,089
Net fair value gain	22,694	-	22,694
<b>At June 30, 2009</b>	<b>\$ 25,356,783</b>	<b>\$ 25,323,000</b>	<b>\$ 50,679,783</b>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**7. Loans and Advances to Customers, Net**

Loans and advances to customers are as follows:

	<b>2009</b>	<b>2008</b>
Mortgage loans	\$ 248,935,228	\$ 266,176,954
Commercial loans	175,689,311	152,114,774
Consumer loans	53,230,865	38,086,053
Credit cards	1,364,024	278,110
Business overdrafts	57,267,028	43,628,337
Personal overdrafts	16,925,294	17,889,847
Government guaranteed student loans	7,626,571	8,031,362
	<b>\$ 561,038,321</b>	<b>\$ 526,205,437</b>
	<b>2009</b>	<b>2008</b>
<b>LESS: PROVISION FOR LOAN LOSSES</b>		
At beginning of year	\$ 8,220,745	\$ 6,040,225
Amount written-off	(2,253,621)	(794,575)
Recoveries	609,007	317,000
Provision charged to expense	2,596,254	2,658,095
At end of year	9,172,385	8,220,745
Accrued interest receivable	3,746,402	4,127,115
<b>Loans and advances to customers, net</b>	<b>\$ 555,612,338</b>	<b>\$ 522,111,807</b>

During the year, the Bank wrote-off loans totaling \$2,253,621 (2008: \$794,575) against its specific provision. These loans, however, are subject to the Bank's ongoing collections efforts.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

Loan loss provisions are as follows:

	<b>2009</b>	<b>2008</b>
<b>Specific Provisions</b>		
Mortgage Loans	\$ 1,103,340	\$ 776,416
Commercial Loans	1,354,948	551,180
Consumer Loans	1,712,609	2,266,871
Credit Cards	120,000	120,000
	<b>4,290,897</b>	<b>3,714,467</b>
General Provisions	<b>4,881,488</b>	<b>4,506,278</b>
<b>TOTAL</b>	<b>\$ 9,172,385</b>	<b>\$ 8,220,745</b>

Non-accrual loans are as follows:

	<b>2009</b>	<b>2008</b>
Mortgage Loans	\$ 9,950,985	\$ 11,493,098
Commercial Loans	13,090,646	8,973,758
Consumer Loans	1,799,778	4,849,411
Credit Cards	320,458	153,434
<b>TOTAL</b>	<b>\$ 25,161,867</b>	<b>\$ 25,469,701</b>
Percentage of loan portfolio	4.48%	4.84%
Percentage of total assets	3.32%	3.47%

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

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

	<b>2009</b>		<b>2008</b>	
	<u>Value</u>	<u>No. of Loans</u>	<u>Value</u>	<u>No. of Loans</u>
\$0 - \$10,000	\$ 16,273,003	2,856	\$ 17,977,746	3,055
\$10,001 - \$20,000	20,905,947	1,847	28,777,139	1,846
\$20,001 - \$30,000	29,297,967	1,147	26,965,680	1,057
\$30,001 - \$40,000	21,409,408	593	19,157,951	539
\$40,001 - \$50,000	16,337,988	363	15,029,442	336
Over \$50,000	456,814,008	2,075	418,297,479	2,007
	<b>\$ 561,038,321</b>	<b>8,881</b>	<b>\$ 526,205,437</b>	<b>8,840</b>

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

	<b>2009</b>		<b>2008</b>	
Satisfactory Risk	\$ 408,783,687	\$ 291,600,400		
Watch List	22,287,638	20,979,496		
Sub-standard but not impaired	27,359,919	65,752,444		
	<b>\$ 458,431,244</b>	<b>\$ 378,332,340</b>		

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

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

In (\$000s)	2009			2008		
	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL
<b>MORTGAGES</b>						
Neither past due or impaired	\$ 195,812	\$ 3,478	\$ 199,290	\$ 184,582	\$ 1,093	\$ 185,675
Past due but not impaired	34,963	4,731	39,694	69,009	-	69,009
Impaired	5,844	4,107	9,951	11,493	-	11,493
	<u>\$ 236,619</u>	<u>\$ 12,316</u>	<u>\$ 248,935</u>	<u>\$ 265,084</u>	<u>\$ 1,093</u>	<u>\$ 266,177</u>
<b>COMMERCIAL</b>						
Neither past due or impaired	\$ 129,424	\$ 2,523	\$ 131,947	\$ 99,559	\$ 108	\$ 99,667
Past due but not impaired	29,675	977	30,652	43,474	-	43,474
Impaired	12,665	426	13,091	8,974	-	8,974
	<u>\$ 171,763</u>	<u>\$ 3,926</u>	<u>\$ 175,689</u>	<u>\$ 152,007</u>	<u>\$ 108</u>	<u>\$ 152,115</u>
<b>CONSUMER</b>						
Neither past due or impaired	\$ 51,639	\$ 556	\$ 52,195	\$ 31,172	\$ 220	\$ 31,392
Past due but not impaired	6,004	859	6,863	9,876	-	9,876
Impaired	931	869	1,800	4,849	-	4,849
	<u>\$ 58,573</u>	<u>\$ 2,284</u>	<u>\$ 60,857</u>	<u>\$ 45,897</u>	<u>\$ 220</u>	<u>\$ 46,117</u>
<b>CREDIT CARDS</b>						
Neither past due or impaired	\$ 807	\$ -	\$ 807	\$ 81	\$ -	\$ 81
Past due but not impaired	236	-	236	44	-	44
Impaired	320	-	320	153	-	153
	<u>\$ 1,364</u>	<u>\$ -</u>	<u>\$ 1,364</u>	<u>\$ 278</u>	<u>\$ -</u>	<u>\$ 278</u>
<b>BUSINESS OVERDRAFTS</b>						
Neither past due or impaired	\$ 57,267	\$ -	\$ 57,267	\$ 43,628	\$ -	\$ 43,628
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 57,267</u>	<u>\$ -</u>	<u>\$ 57,267</u>	<u>\$ 43,628</u>	<u>\$ -</u>	<u>\$ 43,628</u>
<b>PERSONAL OVERDRAFTS</b>						
Neither past due or impaired	\$ 16,925	\$ -	\$ 16,925	\$ 17,890	\$ -	\$ 17,890
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 16,925</u>	<u>\$ -</u>	<u>\$ 16,925</u>	<u>\$ 17,890</u>	<u>\$ -</u>	<u>\$ 17,890</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

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

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

In (\$000s)	2009				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
Past due up to 29 days	\$ 14,058	\$ 7,994	\$ 1,870	\$ 144	\$ 24,066
Past due 30 - 59 days	15,070	11,229	2,955	58	29,312
Past due 60 - 89 days	10,566	11,429	2,038	35	24,068
	<u>\$ 39,694</u>	<u>\$ 30,652</u>	<u>\$ 6,862</u>	<u>\$ 236</u>	<u>\$ 77,445</u>

In (\$000s)	2008				TOTAL
	RESIDENTIAL MORTGAGE	COMMERCIAL	CONSUMER	CREDIT CARD	
Past due up to 29 days	\$ 25,170	\$ 11,000	\$ 4,813	\$ -	\$ 40,983
Past due 30 - 59 days	29,134	13,965	2,491	25	45,615
Past due 60 - 89 days	14,749	18,510	2,527	19	35,805
	<u>\$ 69,053</u>	<u>\$ 43,474</u>	<u>\$ 9,832</u>	<u>\$ 44</u>	<u>\$ 122,403</u>

**8. Investment Property**

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**8. Investment Property (Continued)**

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

	<b>2009</b>	<b>2008</b>
Beginning balance	\$ 3,601,500	\$ 3,080,000
Additions	274,552	476,187
Revaluation gains	-	45,313
	<b>\$ 3,876,052</b>	<b>\$ 3,601,500</b>

**9. Other Assets**

Other assets are comprised of the following:

	<b>2009</b>	<b>2008</b>
Accounts receivables	\$ 1,735,246	\$ 603,303
Prepaid assets	1,510,703	937,146
Cheque clearing account	3,496,166	497,263
Other assets	1,948,734	5,248,040
	<b>\$ 8,690,849</b>	<b>\$ 7,285,752</b>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**10. Property and Equipment, Net**

The movement in property and equipment during the year is as follows:

	<b>Land and Building</b>	<b>Leasehold Improvements</b>	<b>Furniture, Fixtures and Equipment</b>	<b>Total</b>
<b>COST</b>				
Balance as at June 2007	\$ 2,396,675	\$ 4,166,471	\$ 6,040,784	\$ 12,603,930
Additions	\$ 204,080	\$ 1,078,334	\$ 823,511	\$ 2,105,925
Disposal	\$ -	\$ -	\$ (1)	\$ (1)
Balance as at June 2008	\$ 2,600,755	\$ 5,244,805	\$ 6,864,294	\$ 14,709,854
Additions	\$ 117,021	\$ 152,332	\$ 543,462	\$ 812,815
Disposal	\$ -	\$ -	\$ (117,178)	\$ (117,178)
Balance as at June 2009	\$ 2,717,776	\$ 5,397,137	\$ 7,290,578	\$ 15,405,491
<b>ACCUMULATED DEPRECIATION</b>				
Balance as at June 2007	\$ 872,594	\$ 2,613,771	\$ 4,223,050	\$ 7,709,415
Depreciation	\$ 25,384	\$ 698,773	\$ 1,214,423	\$ 1,938,580
Disposal	\$ -	\$ -	\$ -	\$ -
Balance as at June 2008	\$ 897,978	\$ 3,312,544	\$ 5,437,473	\$ 9,647,995
Depreciation	\$ 5,278	\$ 581,956	\$ 766,478	\$ 1,353,712
Disposal	\$ -	\$ -	\$ (101,322)	\$ (101,322)
<b>Balance as at June 2009</b>	<b>\$ 903,256</b>	<b>\$ 3,894,500</b>	<b>\$ 6,102,629</b>	<b>\$ 10,900,384</b>
<b>NET BOOK VALUE :</b>				
<b>Balance as at June 30, 2009</b>	<b>\$ 1,814,519</b>	<b>\$ 1,502,637</b>	<b>\$ 1,187,949</b>	<b>\$ 4,505,107</b>
<b>Balance as at June 30, 2008</b>	<b>\$ 1,702,777</b>	<b>\$ 1,932,261</b>	<b>\$ 1,426,822</b>	<b>\$ 5,061,859</b>

Land in the amount of \$1,105,281 (2008: \$1,105,281) is included in land and building.



Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**11. Intangible Assets, Net**

	<b>Goodwill</b>		<b>Software</b>		<b>Total</b>	
Opening June 30, 2007	\$	1,075,759	\$	2,539,487	\$	3,615,246
Additions		-	\$	496,533	\$	496,533
Amortisation		-	\$	(210,086)	\$	(210,086)
Closing June 30, 2008	\$	1,075,759	\$	2,825,934	\$	3,901,693
Opening June 30, 2008	\$	1,075,759	\$	2,825,934	\$	3,901,693
Additions		-	\$	880,418	\$	880,418
Amortisation		-	\$	(403,822)	\$	(403,822)
<b>Closing June 30, 2009</b>	<b>\$</b>	<b>1,075,759</b>	<b>\$</b>	<b>3,302,530</b>	<b>\$</b>	<b>4,378,289</b>

Goodwill arose during the bank's acquisition of the business of the former Workers Bank Limited. Goodwill is allocated to the Harrold Road Branch where the book of business is managed. As at June 30, 2009, management determined that goodwill was not impaired (2008: \$0).

**12. Deposits from Customers and Banks**

Deposits from customers and banks are as follows:

	<b>2009</b>		<b>2008</b>	
Term deposits	\$	457,221,372	\$	444,920,044
Demand deposits		83,164,614		91,280,562
Savings accounts		41,810,215		38,624,738
		582,196,201		574,825,344
Accrued interest payable		5,892,977		5,343,562
	\$	588,089,178	\$	580,168,906

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**12. Deposits from Customers and Banks (Continued)**

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

	<b>2009</b>		<b>2008</b>	
	Value	No. of <u>Deposits</u>	Value	No. of <u>Deposits</u>
\$0 - \$10,000	\$ 22,443,053	29,662	\$ 22,157,936	31,336
\$10,001 - \$20,000	12,064,740	875	11,811,456	864
\$20,001 - \$30,000	8,230,141	338	8,291,330	341
\$30,001 - \$40,000	6,823,077	198	6,811,581	198
\$40,001 - \$50,000	2,939,516	123	5,795,908	131
Over \$50,000	529,695,674	865	519,957,133	854
	<b>\$ 582,196,201</b>	<b>32,061</b>	<b>\$ 574,825,344</b>	<b>33,724</b>

In 1999, The Central Bank of The Bahamas established the Deposit Insurance Corporation (the "Corporation"). The Bank paid an annual premium of \$188,801 (2008:\$ 125,222) to the Corporation, which insures the funds of all individual Bahamian dollar depositors of the Bank up to a maximum of \$50,000.

**13. Other Borrowed Funds**

**Bonds payable**

Bonds payable were issued to the National Insurance Board on May 1, 2002, and bear interest at the Bahamian dollar prime rate which at year-end was 5.50% (2008: 5.50%). Interest expense during the year totaled \$935,000 (2008: \$935,000). These bonds are secured under a trust agreement by specific performing loans granted under the Government Guaranteed Advanced Education Loan Scheme and/or other qualifiable assets which include Government registered stock and cash.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**13. Other Borrowed Funds (Continued)**

The amounts and maturity dates are as follows:

<b>Description</b>	<b>Maturity</b>	<b>2009</b>	<b>2008</b>
Prime bond series A	Due December 31, 2012	\$ 3,500,000	\$ 3,500,000
Prime bond series B	Due December 31, 2013	4,800,000	4,800,000
Prime bond series C	Due December 31, 2014	2,600,000	2,600,000
Prime bond series D	Due December 31, 2015	6,100,000	6,100,000
		<u>\$ 17,000,000</u>	<u>\$ 17,000,000</u>

**Mortgage backed bonds**

Mortgage backed bonds bearing interest of 1.75% above Bahamian dollar prime rate which at year-end was 7.25% were issued in a private placement on January 1, 2007. Interest expense during the year 2009 totaled \$1,450,000 (2008: \$1,450,000). In accordance with the trust agreement, these bonds are secured by the equivalent amount of performing mortgage loans in the Bank's loan portfolio.

<b>Description</b>	<b>Maturity</b>	<b>2009</b>	<b>2008</b>
Mortgage backed bonds Series F	2022	\$ 4,000,000	\$ 4,000,000
Mortgage backed bonds Series G	2023	4,000,000	4,000,000
Mortgage backed bonds Series H	2024	4,000,000	4,000,000
Mortgage backed bonds Series I	2025	4,000,000	4,000,000
Mortgage backed bonds Series J	2026	4,000,000	4,000,000
		<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**14. Other Liabilities**

Other liabilities consist of the following:

	<b>2009</b>	<b>2008</b>
Accounts Payable	\$ 1,755,904	\$ 2,709,890
Other Liabilities	3,103,750	2,207,271
Due to Education Loan Authority	557,951	-
Cardholders Liability	1,491,906	2,419,564
Group Insurance Funds	774,175	797,309
	<b><u>\$ 7,683,686</u></b>	<b><u>\$ 8,134,034</u></b>

**15. Share Capital**

Share capital consists of the following:

**EQUITY CAPITAL**

	<b>2009</b>	<b>2008</b>
Authorized:		
150,000, preference shares of B\$1,000 each (2008: 15,000)	\$ 150,000,000	\$ 15,000,000
25,000,000 Ordinary shares of B\$1 each (2008: 25,000,000)	\$ 25,000,000	\$ 25,000,000
Issued and fully paid:		
34,415.99 preference shares of B\$1,000 each (2008:14,764.99)	\$ 34,415,990	\$ 14,764,990
15,596,145 Ordinary shares of B\$1 each (2008: 15,596,145)	\$ 15,569,756	\$ 15,569,756

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**15. Share Capital (Continued)**

*Preference shares*

The Bank's shareholders have approved resolutions to increase the authorized share capital of the Bank and allow the issuance of non-voting cumulative preference shares redeemable at the discretion of the Board of Directors. On June 30, 2006 and during May 2009 the Bank issued a total of B\$15,000,000 and B\$20,000,000 in redeemable preference shares at a rate of 7.5% and 8% respectively per annum. In accordance with International Financial Reporting Standards, as the preference shares are classified as equity, the dividends on these shares are paid out of retained earnings. Costs totaling \$235,010 and \$349,000 related to the preference share offering respectively were netted against the proceeds.

**16. Treasury Shares**

In 2004, the Bank acquired 45,000 of its shares for the purpose of establishing an employee stock incentive plan. On June 30, 2007, the stock plan expired. The number of shares remaining at June 30, 2009 was 3,855 (2008: 3,855).

**17. Revaluation Reserve**

The revaluation reserve is comprised of the net gain on remeasurement of available-for-sale securities to fair value as of the reporting date.

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ -	\$ -
Fair value gains, net during the year	22,694	-
<b>Balance, end of year</b>	<b>\$ 22,694</b>	<b>\$ -</b>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**18. Net Interest Income**

	<b>2009</b>	<b>2008</b>
<b>Interest and similar income</b>		
Cash and short term investments	\$ 1,011,856	\$ 3,753,789
Investment securities	1,989,831	1,541,757
Loans and advances to customers	46,753,116	47,343,136
	<u>49,754,803</u>	<u>52,638,682</u>
<b>Interest and similar expense</b>		
Banks and customers	20,964,444	20,144,300
Debt securities	2,385,000	3,054,904
	<u>23,349,444</u>	<u>23,199,204</u>
<b>Total net interest income</b>	<b><u>\$ 26,405,359</u></b>	<b><u>\$ 29,439,478</u></b>

**19. Fee and Commission Income**

	<b>2009</b>	<b>2008</b>
Deposit services fees and commissions	\$ 2,100,960	\$ 1,417,379
Credit services fees and commissions	1,991,283	1,242,891
Card services fees and commissions	1,617,928	1,543,304
Other fees and commissions	88,431	60,900
<b>Total fee and commission income</b>	<b><u>\$ 5,798,602</u></b>	<b><u>\$ 4,264,474</u></b>

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**20. Other Operating Income**

	<b>2009</b>	<b>2008</b>
Foreign exchange	\$ 1,222,219	\$ 1,551,744
Gain on property revaluation	-	45,313
Other	2,232,672	288,545
<b>Total other operating income</b>	<b>\$ 3,454,891</b>	<b>\$ 1,885,602</b>

**21. Operating Expenses**

	<b>2009</b>	<b>2008</b>
Staff costs	\$ 15,276,840	\$ 13,324,121
Occupancy	3,123,478	3,491,854
Information technology	898,755	1,250,618
Depreciation and amortization	1,757,534	2,148,666
Provision against other assets	(165,000)	890,821
Travel and stationery	794,189	759,405
Licenses and other fees	1,871,272	1,556,827
Advertising, marketing and donations	868,195	696,598
Other expenses	2,155,153	2,342,993
<b>Total operating expenses</b>	<b>\$ 26,580,416</b>	<b>\$ 26,461,903</b>

**22. Contingencies**

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**23. Commitments**

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

No later than 1 year	\$ 1,218,356
Later than 1 year and no later than 5 years	1,925,510
Total	<u><u>\$ 3,143,866</u></u>

Rental expense (including service charges) totaled \$1,570,879 (2008:\$1,220,220) net of rental income of \$20,698 (2008: \$19,800).

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

(b) The commitment for loans at June 30, 2009 was \$23,856,882 (2008: \$21,410,495).

(c) The Bank has a commitment for future capital expenditure of \$282,293 (2008:\$259,976).

(c) The Bank has a commitment with Visa of \$450,000 (2008: \$450,000).



## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### 24. Transactions and Balances with Related Parties

All loans to related parties are secured in the regular course of business; there were no provisions for doubtful debts against any of these balances as at June 30, 2009 (2008: Nil). No provision expense has been recognized in these financial statements on loans to related parties.

	<b>Government</b>	<b>Other Government Entities</b>	<b>Key Management</b>	<b>Total 2009</b>	<b>Total 2008</b>
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 24,123,539	\$ -	\$ 24,123,539	\$ 53,261,653
Investment securities	\$ 50,434,400	\$ -	\$ -	\$ 50,434,400	\$ 25,323,000
Loans and advances to customers	\$ 5,030,340	\$ 7,034,981	\$ 2,887,779	\$ 14,953,100	\$ 20,681,339
Other Assets	\$ 848,960		\$ -	\$ 848,960	\$ 584,095
<b>Liabilities</b>					
Deposits from customers and banks	\$ 24,102,216	\$ 123,575,680	\$ 858,690	\$ 148,536,586	\$ 145,063,700
Other borrowed funds	\$ -	\$ 17,000,000	\$ -	\$ 17,000,000	\$ 17,000,000
Other liabilities	\$ -	\$ 12,808	\$ -	\$ 12,808	\$ 1,250,623
<b>Revenues</b>					
Interest Income	\$ 2,314,831	\$ 415,267	\$ 148,943	\$ 2,879,041	\$ 3,112,239
Total	\$ 2,314,831	\$ 415,267	\$ 148,943	\$ 2,879,041	\$ 3,112,239
<b>Expenses</b>					
Interest Expense	\$ 1,015,410	\$ 6,141,161	\$ 33,403	\$ 7,156,571	\$ 5,278,648
Directors fees	\$ -	-	164,760	164,760	159,841
Share compensation	\$ -	-	-	-	159,500
Short-term employee benefits	\$ -	-	2,512,838	2,512,838	1,669,053
Post employment benefits	\$ -	-	129,842	129,842	97,734
Termination benefits	\$ -	-	490,035	490,035	-
Total	\$ 1,015,410	\$ 6,141,161	\$ 3,330,878	\$ 10,487,449	\$ 7,364,776

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**25. Employee Benefits**

The Bank has a defined contribution plan (the “Plan”) in which eligible employees (those having attained 25 years of age and confirmed in their positions) contribute a minimum of 3.5% of their annual salaries and the Bank contributes 6.5%. Employees become fully vested after 2 years of plan membership. The plan assets are managed by an independent third party investment manager.

Contributions for the year ended June 30, 2009 totaled \$583,568 (2008: \$517,410).

The Plan owns 210,826 (2008: 210,856) shares of the Bank. The holdings represent approximately 17% (2008: 30%) of the Plan’s net assets.

The Plan has deposits totaling \$5,687,956 (2008: \$5,907,638) with the Bank.

The Bank serves as the Trustee of the Plan.

**26. Assets under Administration**

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

	<b>2009</b>	<b>2008</b>
Government- guaranteed student education loans	\$ 81,209,420	\$ 64,422,582
Trust assets	\$ 45,399,863	\$ 43,106,288

**27. Dividends and Earnings per Share**

Dividends to the Bank’s shareholders are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid by the Company to ordinary shareholders in 2009 totaled \$4,054,998 or \$0.26 per share (2008: \$4,054,998 or \$0.26 per share).

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**27. Dividends and Earnings per Share (Continued)**

During the year the Bank paid dividends on its preference shares of \$1,357,274 (2008:\$1,125,000).

	<b>2009</b>	<b>2008</b>
Net income attributable to equity shareholders	\$ 5,787,917	\$ 6,100,194
Preference share dividends	<u>(1,357,274)</u>	<u>(1,125,000)</u>
Net income attributable to ordinary shareholders	<u>\$ 4,430,643</u>	<u>\$ 4,975,194</u>
Weighted average number of ordinary shares outstanding	<u>15,596,145</u>	<u>15,586,073</u>
Basic earnings per ordinary share	<u>\$ 0.28</u>	<u>\$ 0.32</u>

**28. Fair Value of Financial Assets and Liabilities**

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

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

**Cash and cash equivalents, other assets and other liabilities**

Due to their short-term maturity, the carrying values of these financial instruments are assumed to approximate their fair values.

**Investments**

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

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **28. Fair Value of Financial Assets and Liabilities (Continued)**

##### **Loans**

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

##### **Deposits**

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

#### **29. Regulatory Capital**

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

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

##### **Capital risk management**

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

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**29. Regulatory Capital (Continued)**

At June 30, 2009 the capital structure of the Bank consists of equity held by common shareholders, including issued capital, share premium, preference shares and retained earnings. The Bank's Board and Asset/Liability management committee monitor the capital structure and review the structure at least quarterly, reviewing the capital mix and the cost of capital for each class of capital. Ongoing capital management includes the payment of dividends, new share issuances, redemptions of preferences shares and common share issuances.

**Regulatory capital**

(in \$'000s)	<b>Actual 2009</b>	<b>Actual 2008</b>
Tier 1 capital	113,001	92,828
Tier 2 capital	5,726	4,506
Total capital	<u>118,727</u>	<u>97,334</u>
Risk weighted assets	<u>449,031</u>	<u>433,264</u>
Tier 1 capital ratio	14.75%	12.50%
Total capital ratio	15.50%	13.11%

Regulatory capital consists of Tier 1 capital, which comprises share capital, less goodwill and retained earnings including current year profit. The other component of regulatory capital is Tier 2 capital, which comprises long term debt, revaluation reserves on available-for-sale securities and general reserves.

The Central Bank of The Bahamas regulations requires, consistent with international best practice, as defined by the Bank of International Settlements Basel 1 Capital Accord, that the Bank maintains a risk adjusted capital to asset ratio equal to or greater than 8%. The Bank's risk adjusted capital ratio at the end of the fiscal year was 25.17% (2008: 21.43%).

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **30. Comparatives**

In Note 10, computer software classified within the furniture, fixtures and equipment category representing a balance of \$181,098 in property and equipment was reclassified to Intangible Assets, net. Also reclassified was a credit of \$2,170,387 from Other Assets to Other Liabilities, and a \$3,500 debit from Other Liabilities to Other Assets.

#### **31. Risk Management**

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

##### **Credit risk**

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

The Bank assesses credit exposure on loans by utilizing risk ratings. The ratings are categorized into a variety of segments such as minimal risk, moderate risk, high risk and non-performing. The purpose of credit rating is to provide a simple, but effective and ongoing system of credit risk gradation by which relative credit worthiness of borrowers may be identified and accordingly the level of credit enhancements, degree of monitoring, frequency of reviews, level of provisioning, and pricing can be determined. The credit rating would reflect both the likelihood of default and the potential extent of loss given default.

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**31. Risk Management (Continued)**

**Credit risk (continued)**

The credit worthiness of most borrowers is not constant over a period of time. For this reason changes in ratings must reflect changes in the relative strength of the borrowers and their obligations. Appropriate credit ratings must be assigned to every borrowing relationship. A rating must be assigned at the time of credit extension and reviewed and updated in each periodic review or if the situation warrants a change at any other time. A rating change highlights a change in the credit worthiness, or corrects a previous rating that did not fully reflect the quality of the credit. Because of their very nature, changes are to be expected more frequently among credits with lower ratings than among credits of higher ratings. Typically loans within a retail credit portfolio which are performing are not assessed for changes in ratings unless the customer approaches the Bank for additional credit.

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

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**31. Risk Management (Continued)**

**Credit risk (continued)**

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

In (\$000s)	2009			2008		
	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL	PRINCIPAL BALANCE	RESTRUCTURED	TOTAL
<b>CASH AND CASH EQUIVALENTS</b>						
Neither past due or impaired	\$ 130,568	\$ -	\$ 130,568	\$ 167,127	\$ -	\$ 167,127
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 130,568</u>	<u>\$ -</u>	<u>\$ 130,568</u>	<u>\$ 167,127</u>	<u>\$ -</u>	<u>\$ 167,127</u>
<b>INVESTMENT SECURITIES</b>						
Neither past due or impaired	\$ 50,680	\$ -	\$ 50,680	\$ 25,323	\$ -	\$ 25,323
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
	<u>\$ 50,680</u>	<u>\$ -</u>	<u>\$ 50,680</u>	<u>\$ 25,323</u>	<u>\$ -</u>	<u>\$ 25,323</u>
<b>LOANS AND ADVANCES TO CUSTOMERS</b>						
Neither past due or impaired	\$ 451,874	\$ 6,557	\$ 458,431	\$ 376,911	\$ 1,421	\$ 378,332
Past due but not impaired	70,878	6,567	77,445	122,403	-	122,403
Impaired	19,760	5,402	25,162	25,470	-	25,470
	<u>\$ 542,512</u>	<u>\$ 18,526</u>	<u>\$ 561,038</u>	<u>\$ 524,785</u>	<u>\$ 1,421</u>	<u>\$ 526,205</u>

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

**Operational risk**

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



## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### 31. Risk Management (Continued)

##### Foreign exchange risk

The Bank holds assets and liabilities denominated in currencies other than Bahamian dollars, the measurement currency of the Bank. Consequently the Bank is exposed to foreign exchange risk since the values of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Bank manages these positions by matching assets with liabilities wherever possible. The table below summarized the Bank's exposure to foreign currency exchange risk at June 30, 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

##### Concentrations of currency risk

As at June 30, 2009	B\$	US\$	CAD\$	GPB£	Other	Total
<b>Assets</b>						
Cash and central bank balances	\$ 28,110,178	\$ 93,146,713	\$ 5,966,157	\$ 2,956,446	\$ 377,209	\$ 130,556,703
Financial assets - held to maturity	25,323,000	-	-	-	-	25,323,000
Financial assets - available for sale	25,111,400	245,383	-	-	-	25,356,783
Loans and advances	527,680,662	27,931,676	-	-	-	555,612,338
<b>Total financial assets</b>	<b>\$ 606,225,240</b>	<b>\$ 121,323,772</b>	<b>\$ 5,966,157</b>	<b>\$ 2,956,446</b>	<b>\$ 377,209</b>	<b>\$ 736,848,824</b>
<b>Liabilities</b>						
Deposits from customers and banks	\$ 485,182,016	\$ 95,396,207	\$ 5,611,148	\$ 1,936,997	\$ 10,228	\$ 588,136,596
Other borrowed funds	37,000,000	-	-	-	-	37,000,000
Cheques and other items in transit	2,779,627	4,018,426	363,152	381,335	19,170	7,561,710
<b>Total financial liabilities</b>	<b>\$ 524,961,643</b>	<b>\$ 99,414,633</b>	<b>\$ 5,974,300</b>	<b>\$ 2,318,332</b>	<b>\$ 29,398</b>	<b>\$ 632,698,306</b>
<b>Net on-balance sheet financial position</b>	<b>\$ 81,263,597</b>	<b>\$ 21,909,139</b>	<b>\$ (8,143)</b>	<b>\$ 638,114</b>	<b>\$ 347,811</b>	<b>\$ 104,150,518</b>
<b>As at June 30, 2008</b>						
Total financial assets	\$ 580,311,905	\$ 131,463,446	\$ 6,882,880	\$ 487,554	\$ 566,486	\$ 719,712,271
Total financial liabilities	507,296,030	109,339,633	6,709,513	430,943	54,296	623,830,415
<b>Net on-balance sheet financial position</b>	<b>\$ 73,015,875</b>	<b>\$ 22,123,813</b>	<b>\$ 173,368</b>	<b>\$ 56,611</b>	<b>\$ 512,190</b>	<b>\$ 95,881,856</b>

## Bank of The Bahamas Limited

### Notes to Consolidated Financial Statements (Continued)

#### **31. Risk Management (Continued)**

##### **Concentrations of currency risk**

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

The Bank analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration pricing, renewal of existing positions, and capital funding. Based on these scenarios, the bank calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. Based on the simulations performed, the impact on net income and consequently shareholders equity of a 100 basis point shift would be a maximum increase or decrease of \$1.8 million (2008:\$2.0 million).

##### **Liquidity risk**

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

Bank of The Bahamas Limited

Notes to Consolidated Financial Statements (Continued)

**31. Risk Management (Continued)**

**Liquidity risk (continued)**

The following tables summarizes the carrying amount of consolidated financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date.

<b>June 30, 2009</b> (in \$000s)	<b>Within 3 months</b>		<b>3-12 months</b>		<b>1-5 years</b>		<b>Over 5 years</b>		<b>Total</b>
Cash and cash equivalents	\$	130,557	\$	-	\$	-	\$	-	\$ 130,557
Investment Securities	\$	-	\$	-	\$	16,588	\$	34,092	\$ 50,680
Loans and advances to customers, net	\$	45,705	\$	44,092	\$	102,182	\$	363,633	\$ 555,612
<b>Total financial assets</b>	\$	176,262	\$	44,092	\$	118,770	\$	397,725	\$ 736,849

<b>June 30, 2009</b> (in \$000s)	<b>Within 3 months</b>		<b>3-12 months</b>		<b>1-5 years</b>		<b>Over 5 years</b>		<b>Total</b>
Deposits from customers and banks	\$	385,767	\$	154,469	\$	15,098	\$	32,802	\$ 588,136
Other borrowed funds	\$	-	\$	-	\$	37,000	\$	-	\$ 37,000
Cheques and other items in transit	\$	-	\$	7,562	\$	-	\$	-	\$ 7,562
<b>Total financial liabilities</b>	\$	385,767	\$	162,031	\$	52,098	\$	32,802	\$ 632,698

<b>Net on balance sheet position</b>	\$	(209,505)	\$	(117,939)	\$	66,672	\$	364,923	\$ 104,151
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<b>June 30, 2008</b> (in \$000s)	<b>Within 3 months</b>		<b>3-12 months</b>		<b>1-5 years</b>		<b>Over 5 years</b>		<b>Total</b>
Total financial assets	\$	206,735	\$	58,339	\$	55,672	\$	393,854	\$ 714,600
Total financial liabilities	\$	350,441	\$	235,517	\$	39,836	\$	2,939	\$ 628,733
<b>Net on balance sheet position</b>	\$	(143,706)	\$	(177,178)	\$	15,836	\$	390,915	\$ 85,867