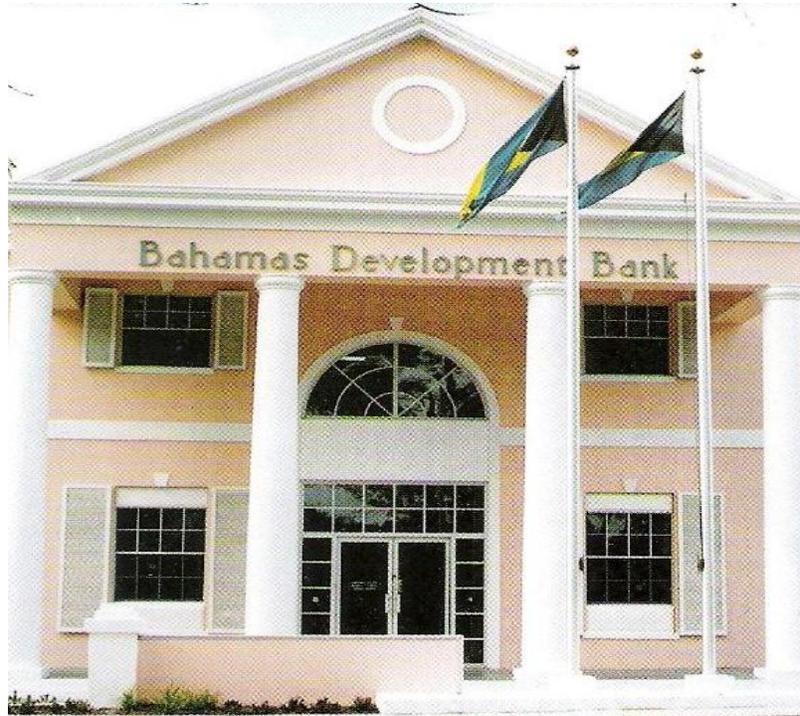


# **BAHAMAS DEVELOPMENT BANK**

## **ANNUAL REPORT 2010**



**FORGING AHEAD WITH RESILIENCE**

(Inside Cover)

The Bahamas Development Bank should be regarded as an organ of national development. The Board is resolute in its view that the BDB has not yet reached the end of its useful life. As with other institutions – the police, national defense, public healthcare – the BDB exists because it serves a national need that the private sector cannot or is reluctant to fill. For the foreseeable future, there is no credible, sustainable alternative to the BDB as a source of funding for business projects for new and existing Bahamian entrepreneurs. In the Board's view, it is in the country's national interest to maintain a redefined BDB.

## **MISSION STATEMENT**

To finance economically viable small and medium enterprises in a sustainable manner and to foster economic expansion and diversification throughout The Bahamas.

## **OUR OBJECTIVES**

To make a significant and balanced contribution to diversifying our national economy

To be well managed financially

To be staffed with skilled and motivated employees

To deliver the highest level of customer service

## TRIBUTE

*The financial management and reporting for the Bahamas Development Bank is performed by its Accounting Department, led by the Financial Controller. This year we lost our Financial Controller, a dear colleague and friend, Ms. Catherine Patton. Catherine's untimely death was a tremendous loss to this institution and The Bahamas at large. We pay tribute to the selfless, giving life of Ms. Patton, as the Department, led by a newly appointed Controller, seeks to honor her fine legacy of excellence.*

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**BAHAMAS DEVELOPMENT BANK**  
**BOARD OF DIRECTORS**

**Darron Cash, Chairman**

Anton Sealy, Deputy Chairman

Anthony Woodside, Acting Managing Director

Harold Watson, Director

Janet Lisa Bostwick, Director

Perry Cancino, Director

Jessup Johnson, Director

Philcher Grant-Farquharson, Director

Lindsay Williamson, Director

Jamal Moss, Director



## **BAHAMAS DEVELOPMENT BANK**

### **MANAGEMENT TEAMS**

#### ***Executive Management Team***

**Anthony Woodside, Acting Managing Director**

Justin Sturup, Deputy Managing Director

Garnell Pelecanos, Financial Controller

Jacqueline Beneby, Manager Human Resources & Administration

Steine Campbell, Manager, Credit

Anita Ramsey, Corporate Secretary & Manager Compliance

#### ***Operations and Technical Management Team***

John Archer, Manager, Delinquency Control & Collections

Dale McHardy, Manager, Special Projects

Alonzo Hinsey, Information Technology Manager

## **Bank's Profile:**

The Bahamas Development Bank, a wholly owned government institution, was established in 1974 by an Act of Parliament. It became operational on July 21, 1978. Its office was located in Rawson Square on Bay Street, across from the historic House of Parliament prior to its current location in Cable Beach.

### **Our principal functions are to:**

- Promote industrial, agricultural and commercial development
- Facilitate participation in approved economic enterprises
- Stimulate and enhance the economic development of the Bahamas
- Finance economically viable projects that:
  - A. Create employment
  - B. Utilize Bahamian materials and resources
  - C. Reduce imports and increase exports
  - D. Introduce new technology
  - E. Promote prosperity for all Bahamians

### **The Bank provides funding for the following sectors:**

- Agriculture
- Fisheries
- Manufacturing
- Services
- Tourism
- Transportation

### **The Bank provides funding inclusive of the following projects/activities:**

- Purchase of moveable fixed assets; for example machinery and equipment (new and used)
- Expansion and/or rehabilitation of existing enterprises
- Construction of commercial structures (expansion or modification)
- Permanent working capital as part of the project under consideration.

## **The Macro and Micro Environment**

### ***International Economic Context***

For the greater part of 2010 the global economy was in turmoil, stemming from the initial crisis, internationally, in the sub-prime mortgage market. The economies of the Bahamas' major trading partners, the USA and United Kingdom, experienced notable contraction, notwithstanding attempts at stimulating economic activities through a series of bailout packages. Employment levels and consumer confidence dropped sharply.

However, according to the International Monetary Fund (IMF), there was some rebound in the global economy towards the latter part of the year and financial conditions were improving markedly. Given the lag effect, conditions remained generally difficult for many economies with the exception of China, India and Brazil, which continued to experience growth, albeit at a reduced rate. Regional economies, which have become increasingly dependent on tourism-related services, were seriously impacted, with many of them experiencing declines in Gross Domestic Product (GDP).

### ***Domestic Economic Development***

Indications are that the domestic economy eased onto a path for growth during 2010, supported by a modest improvement in tourism output, as prospects for recovery began to look more favourable in tourism's main source markets. However, construction activity remained mild, owing to subdued foreign tourism-related investment and domestic private sector projects. In this context, consumer demand conditions were relatively weak, being further hindered by the continuing high unemployment levels. On the price index side, reported inflation was low, despite the modest firming in international oil prices. The contraction in economic activity was influenced by declines

in the main productive sectors of tourism, construction and agriculture. These factors impacted the financial results of the Bank.

The pertinent issues of corporate governance and regulation have caused the Bank to adopt as its theme, **“Forging Ahead with Resilience”** – representing the strategy required to propel and sustain the institution. It is important that all stakeholders adopt this view given the contraction in economic activity arising from the decline in the major production sectors of the economy, and the resulting increase in the level of unemployment. The tightening in the economy reinforced the need for the survival of the Bahamas Development Bank (BDB), an institution that has previously provided sterling support to the economy for more than thirty two years.

# Management’s Overview & Discussion

## Financial

The overall financial performance of the Bahamas Development Bank has been one of improvement. Although the Bank experienced a loss for the year 2010, the loss is significantly less than the previous year, reflecting in part, the Bank’s strides in various aspects of its financial performance.

### Net Income



The loss for the year was approximately \$1.0 million, compared to \$2.67 million in 2009, an improvement of \$1.67 million, and \$5.27 million in 2008. There were several major contributing factors to this achievement; chiefly the submission of government guarantee claims that amounted to \$0.87 million recovery of loan losses. Other significant contributing factors were a reduction in loan interest expense and an increase in other income as well as management’s commitment to reducing expenses evidenced by the continued decreases in salaries as well as general and administrative expenses.

## Net Interest Income



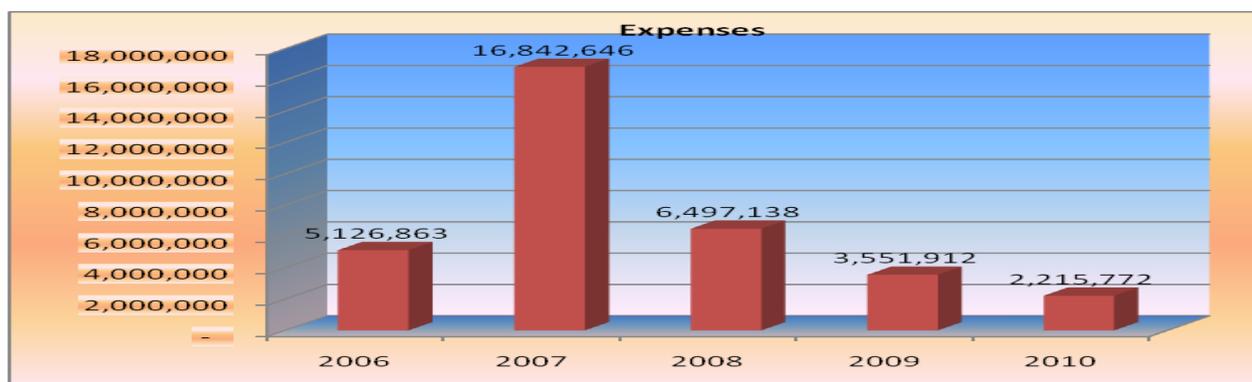
The Net Interest Income (NII) was \$0.05 million this year. Although Net Interest Income has been decreasing over the past several years, we have seen a slight increase in 2010 despite the weakening of the loan portfolio. BDB was able to maintain a steady level of loan interest income at \$2.5 million in 2010 and 2009, however this level represents a 22% decline from 2008. The change in NII was due mainly to the reduction in interest expense for the servicing of long term debt – as the debt level decreased the applicable interest decreased, resulting in the above-mentioned reduction in interest expense.

## Other Income



Other Income increased by \$0.12 million to \$0.21 million in 2010. This was due mainly to a foreign exchange gain on European debt and an increase in loan recoveries.

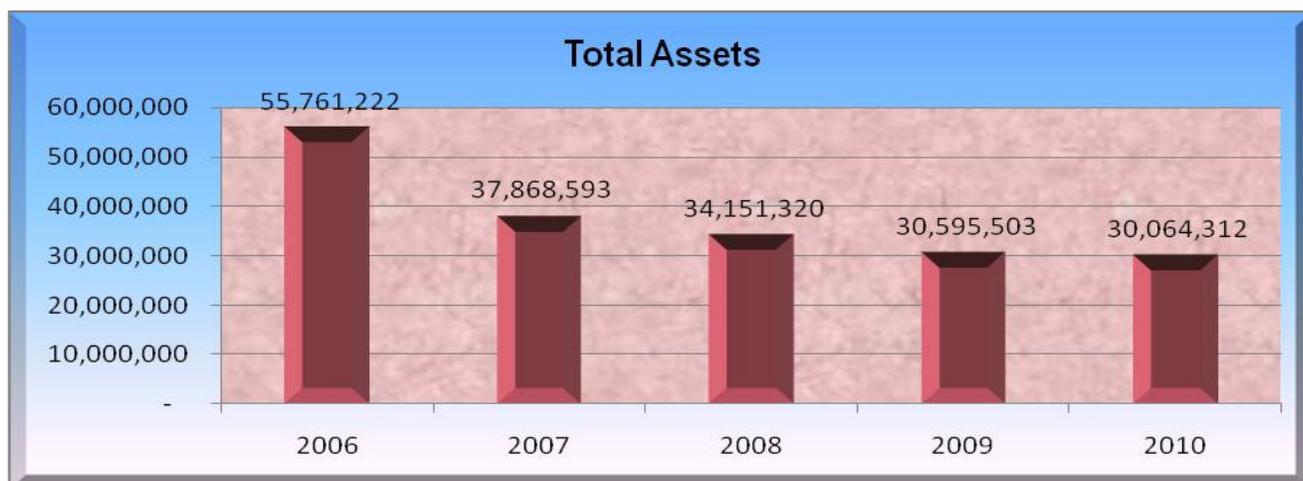
## Operational and Administrative Expenses



At \$2.21 million, total expenses decreased by \$1.34 million or approximately 38% - a trend that has continued from 2008. The decrease in expenses is attributed to three major expense classes:

- **Recovery of loan losses** - The Bank for the first time in its recent history, has been able to enjoy a recovery of loan losses. The recovery of \$0.87 million is explained in detail in the Bank Operations section on page 13 of this report.
- **Salaries and staff expenses** have declined by \$0.21 million to \$2.22 million due to management's attrition plan. With a definitive attrition plan geared towards the reduction in staff costs, Management reduced the staff compliment from 42 employees to 38. Details of the plan can be found in the Human Resources section on page 15 of this report.
- **General and administrative expenses** have declined by \$0.13 million to \$0.43 million due to a reduction in monthly expenses achieved through strict adherence to budget. Additionally, during the period 2009/2010, Management began a methodical process of reviewing its administrative contracts among its various vendors and service providers. Areas such as security, office supplies, building maintenance, vehicle operating expense, consulting fees, legal fees, staff travel, and telephone services (land and wireless) were reviewed with action being immediately taken to reduce costs. Plans were developed to address exorbitant

expenses, measures were taken internally to curtail spending, contracts were re-negotiated and service providers whose focus was the provision of proper customer service were selected. Inasmuch as this approach resulted in a decrease in general administrative expenses totaling \$0.13 million, this process will continue in 2011.



Total Assets have remained relatively stable at \$30.06 million compared to \$30.60 million in 2009, although there have been significant increases and decreases in particular asset classes:

- Fixed Assets increased by almost 55%, from \$0.35 million to \$0.54 million with the purchase of a new Loan Information System (details of which can be found in the Information Technology section on page 16 of this report).
- Cash at Bank has more than quadrupled from \$0.54 million to \$2.35 million; this was due mainly to the Bahamas Government's direct payment of the Bank's long term debt.
- Accrued interest receivable also increased dramatically due mostly to the recording of daily accruals for interest income from fixed deposits.
- The decrease in loans receivable has balanced the above-mentioned increases so that the overall change in total assets was negligible.

Total Liabilities have increased slightly from \$50.44 million to \$50.90 million, although there have been significant changes in particular liability classes:

- Customer deposits have decreased from \$1.04 to \$0.44 million due to sharp drops in security deposits and the change in use of the client funds account. In

addition to being used as the expenditure account for payments made on behalf of clients from funds deposited with the Bank, this account is also used for expenditures made on clients' behalf where there are no funds on deposit. Such expenditures are necessary to secure the Bank's assets but result in an advance to the client. As a result, the account is now titled "Other customer deposits/advances – net".

- Security deposits have been applied against non-performing loans to liquidate the account.
- "Other customer deposits/ advances –net" includes carried forward balances and deposits made by customers for use in expenditures made on their behalf by BDB as well as charges for such expenditures necessitated by collection efforts (such as storage, legal fees, advertisements etc.) where the funds were not in the client account. The net result of such transactions this year was (\$0.17 million) for a \$0.34 million reduction in overall customer deposits.
- Accrued interest payable also decreased due to timely payments of interest. Liabilities also include a new classification namely, "Due to the Bahamas Government" which includes all payments made on behalf of BDB less any claims (government guarantee, interest subsidy) approved for payment to BDB.



In the absence of additional capital injection from the Bahamas Government, shareholder's equity remains unchanged from the previous year.

## **Bank Operations**

The year ended December 31<sup>st</sup>, 2010 was very challenging. The country experienced high unemployment, pervasive uncertainty and apprehension about the economy and reduced aggregate demand. Additionally, industry-wide tightening of credit contributed to increased hardship and payment difficulties for our clients, many of whom were unable to service their indebtedness to us due to lower sales volumes, increased costs, or outright business closure.

Despite the challenging economic conditions, the Bank made progress on a number of non-performing accounts in 2010. At December 31<sup>st</sup>, approximately \$3.0 million in accounts were eligible for restructuring under the Bank's policy. However management decided not to process those restructures at the time, given the economic conditions and level of uncertainty. Expectations are that as the economy returns to positive growth in 2011 the risks associated with those accounts will decline sufficiently to permit their restructuring.

Efforts to liquidate non- performing assets were moderately successful. In 2010 the Bank sold assets valued at \$0.94 million. Regrettably, the Bank experienced inordinate delays from Government agencies when attempting to liquidate leasehold assets. In 2010, BDB was unable to conclude sales of mortgaged leaseholds valued at approximately **\$0.8 million** because of its inability to obtain leasehold extensions and transfers in a timely manner.

At present, assets listed for sale exceed \$8.0 million. Management is taking steps to maximize exposure of these properties for sale and to create policies that will remove traditional barriers to having them sold. These initiatives include employing the web more effectively, publishing a newspaper supplement advertising properties for sale, providing financing to qualified bidders under specific circumstances, and facilitating possible payout agreements.

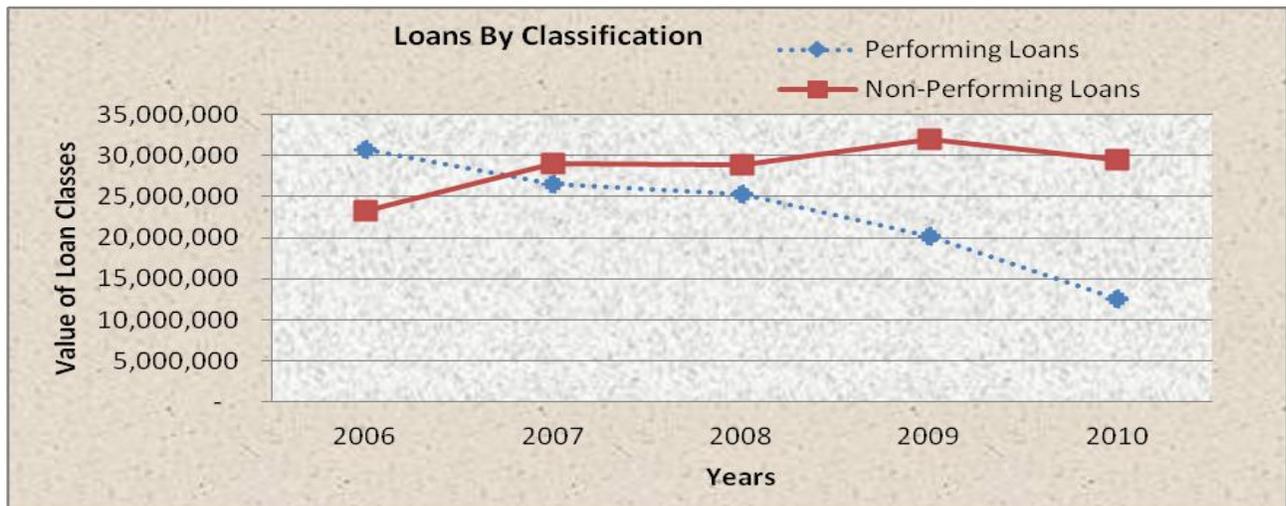
## Table 1 - Summary of Portfolio Activity

Portfolio Opening Balance		\$52,148,099
Add New Loans		647,846
		<u>52,795,945</u>
Less: Loan Write-Offs Against Provision	7,651,583	
Loan Pay downs / Payouts/Liquidations	<u>3,094,813</u>	
Less Portfolio decreases		10,746,396
Portfolio Closing Balance		<u><u>\$42,049,549</u></u>

Table 1 summarizes BDB's portfolio activity for the year. Overall, the loan portfolio decreased by 19%, due primarily to loan write-offs, which accounted for 71% of Portfolio decreases during the year (please refer to Table 1). The remaining 29% consisted of loan pay downs, payouts and liquidations.

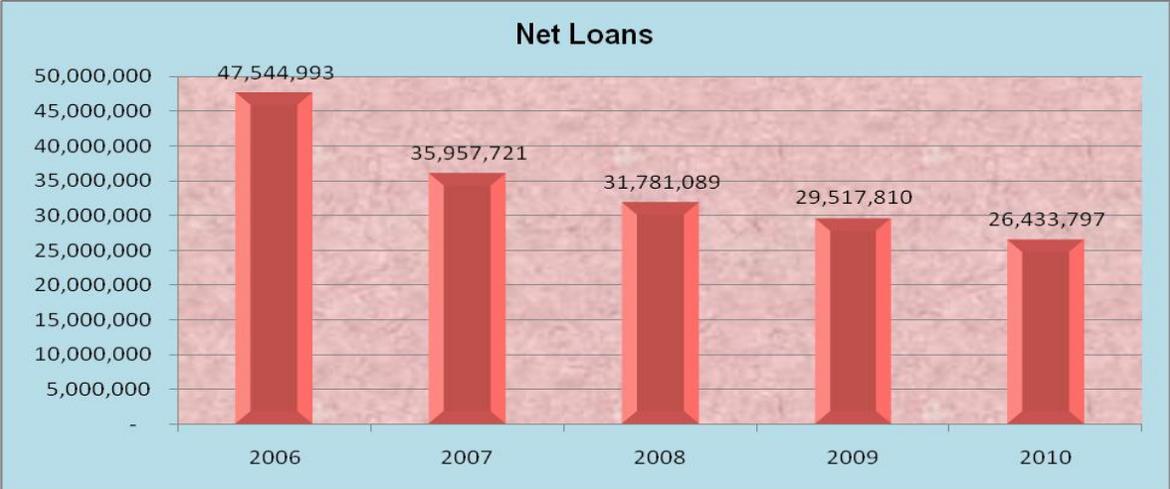
Going forward, more emphasis will be placed on increasing performing assets. Initially, this will be accomplished through an aggressive, but prudent, programme of loan restructuring and loan refinancing. Simultaneously, management will implement programmes to increase and expedite loan approvals and disbursements.

### Performing / Non-Performing Accounts

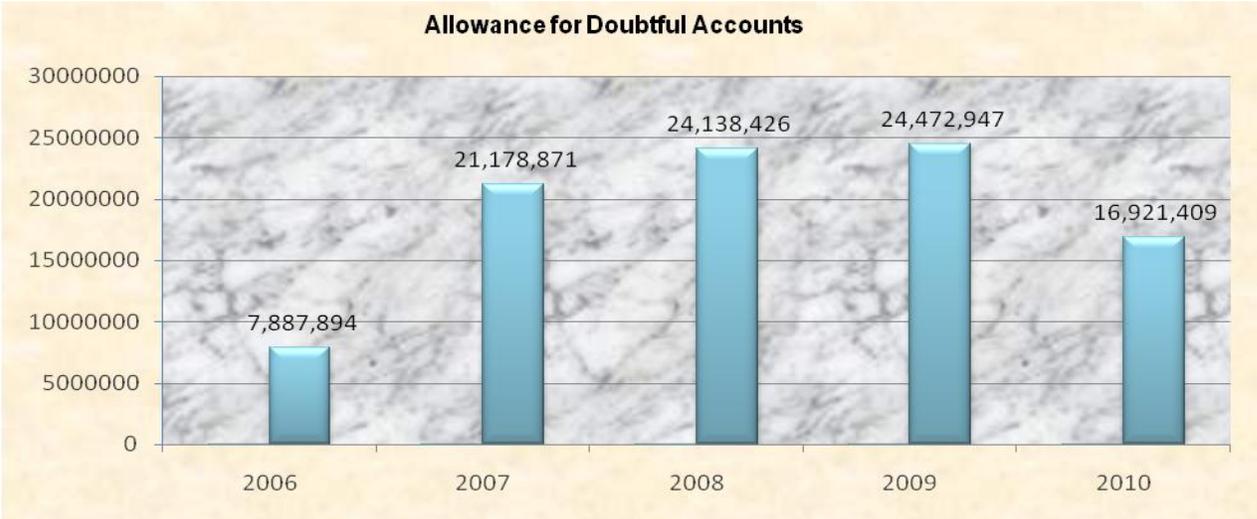


The level of non-performing loans (although slightly reduced from last year) outpaced performing loans in the portfolio; resulting in a nine percentage point increase in the rate of non-performing loans. Contributing to this was a slippage of approximately \$5.3 million in value, particularly among accounts in the commercial fishing and hotel sectors in the family islands.

At \$26.43 million net loans were down by \$3.09 million or 12% from the previous year.



The Allowance for doubtful accounts declined from \$24.47 million to \$16.92 million primarily because of the Bank’s decision to write-off accounts with the lowest probability of collection. Consequently, the provision for doubtful debts dropped from 82% of the loan portfolio to 64% the total loan portfolio.



## **Settlement of Government Loan Guarantees**

In 2010 the Government approved settlement of twenty four claims, totaling \$0.87 under its Small Business Loan Guarantee Programme.

The Guarantee of Loans (Small Businesses) Regulations, 1998 provides additional security to approved lenders who wish to make loans to borrowers for the commencement or expansion of a small business. If the borrower defaults on the loan, the approved lender can claim from the Government for the lower of the outstanding loan amount or the maximum amount guaranteed. The claims submission process is a complex one, details of which are outlined in section 18 of Chapter 345 of the Guarantee of Loans (Small Businesses) Regulations, 1998.

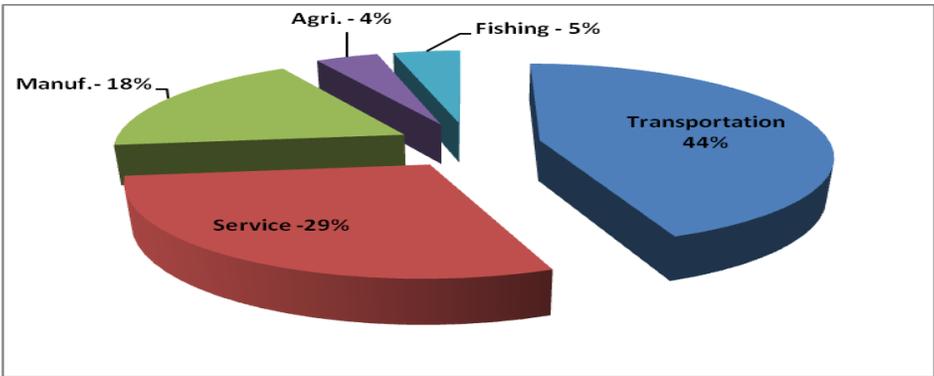
The positive impact on the 2010 financial statements is notable and the Government's cooperation in the settlement of the claims is commendable. It is anticipated that another \$1.0 million claims on existing guarantee policies will be processed in 2011. With the use of the guarantee programme the BDB is now able to consider viable projects that do not fully meet its collateral requirements.

# DEPARTMENTAL REVIEWS

## CREDIT DEPARTMENT

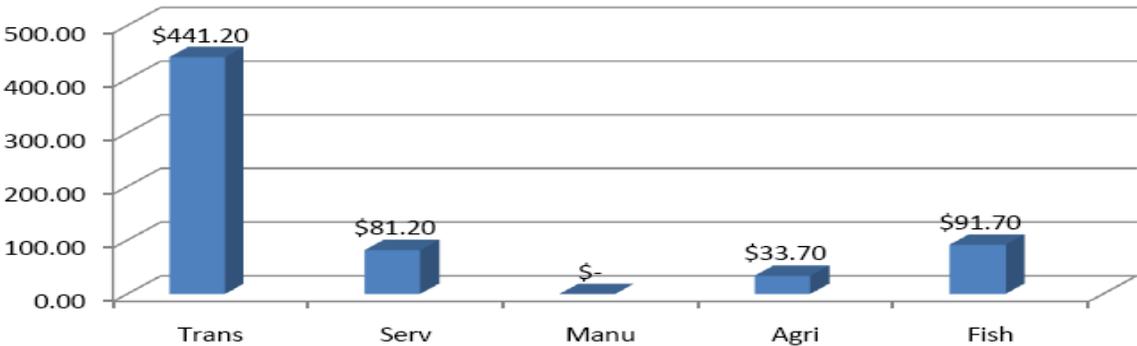
In January 2010, the Bank’s cash balance stood at \$0.53. During the year, twenty-five loans were approved totaling approximately \$1.2 million. This represents a slight improvement over the previous fiscal year. During 2009, eighteen loans with an aggregate value of \$0.69 million were approved.

**LOAN APPROVALS BY SECTOR – 2010**



Of the amount approved, actual amounts disbursed in 2010 totaled \$0.65 million compared with \$0.55 million disbursed in 2009.

**LOAN DISBURSEMENTS BY SECTOR – 2010 (in thousands)**



In 2011, the Bank proposes to focus its credit efforts on productive sector loans with moderate risks and employment generation potential (projects that create two or more

sustainable jobs). A stated goal of this effort is to book a minimum of \$2.0 million in new loans during the year. As a means of achieving this goal, the Bank will host several closed, non-publicized workshops with target groups and work with potential borrowers to establish businesses in diverse industries. Additionally, we will seek to assist our high-rated, existing customers with the recapitalization of their operations as needed.

## **HUMAN RESOURCES DEPARTMENT**

The Human Resources Department refocused its efforts in order to maximize performance, reduce waste and improve internal and external effectiveness. With this forming the foundation of the Human Resources plan for 2010, the watch words became timeliness, proper management, cost-effectiveness and adding value to the organization as a whole.

Through a definitive attrition plan geared towards the reduction in staff cost, the staff compliment was reduced from forty-two employees to thirty-eight employees, thereby enabling the Bank to realize an annual savings of \$0.21 million. The attrition plan also reduced other staff benefit costs company-wide. The staff was then challenged to become more efficient and effective in the execution of their duties. Greater attention was given to proper time management, and linking expected performance to redesigned job descriptions. Further, the reward system was then linked to a carefully devised merit increase system which was linked to a specifically developed Management-by-Objectives system. This method proved to be reliable as evidenced by the year-over-year improvement in job performance.

Additionally, the Bank through the Human Resources Department shifted some of its focus to reduction of the overall cost of the medical insurance benefit in addition to negotiating a change in the management of the pension plan. The result was a change in the medical health care provider. A reduction in medical cost to the Bank, in the amount of \$0.52 million, was realized for the period. It should be noted that the rising cost of health care nationwide will result in a slight increase for the period 2011/2012.

Further, the Bank commenced the conversion of its Defined Benefit pension plan to a Defined Contribution plan. This change was undertaken with a view to reducing the Bank's pension cost and to giving employees the option to increase their retirement benefits while simultaneously giving them direct control over the investment of their retirement funds. Several providers were considered and a decision was made to select the company that could best work with the Bank to manage the retirement plan. It is anticipated that this decision will result in a difference in this expense of approximately \$0.09 million per annum.

### **INFORMATION TECHNOLOGY**

In February 2010 the Bahamas Development Bank replaced its antiquated loan management system at a cost of \$0.37 million with Clareti Banking System, a programme designed by Gresham Computing of Toronto, Canada. The transition to the new system was substantially completed on May 1, 2010 as scheduled, and within budget. End-users were trained via a train-the-trainer program – which was relatively effective among the credit staff. A new Loan Management System was imperative for the delivery of vital information needed to manage the loan portfolio.

The system now enables officers to monitor accounts to control delinquency and non performing ratios. In addition to the management and control features, the new system is used by the Credit Department to assist in the loan application process of new clients. It is expected that the new loan management system will improve the effectiveness and efficiency of the loan cycle.

## **LOOKING AHEAD**

In 2011, the Bank will continue its efforts to significantly reduce risk exposure, through the application of proven techniques, while improving portfolio performance. There will be focus on supporting each sector (particularly those with potential for export or import replacement) through methodical marketing efforts and operational assistance among the various agencies. Also, extensive improvements will be made to our service delivery while further operational reform will be implemented to enhance our clients' experiences.

In forging ahead with resilience, the Bank's leadership is convinced that there remains a demand for a modernized, improved and sustainable development banking institution such as the Bahamas Development Bank. The staff of the Bank is dedicated to the necessary metamorphosis of this institution and they are committed to making it a lender of first choice, while significantly improving its financial performance to be in line with industry standards.