

Management Annual Review



2019





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Our Vision, Mission and Values



Our Mission

To be the Government's catalyst in facilitating and stimulating Sustainable Development through economic expansion and diversification throughout the Commonwealth of The Bahamas.

Our Vision

To be the Developmental Financial Institution (DFI) of choice for Sustainable Development throughout The Bahamas.



Our Values

We foster trust and integrity among our customers and colleagues.

We uphold accountability and transparency to our stakeholders.

We are professionals and deliver excellent customer service.

We provide innovative products and services.



Meet the Board



Mr. Charles Barnett
Chairman



Rev. Cedric Moss
Deputy Chairman



Kirvy Ferguson
Director



Mrs. Annete Cash
Director



Mrs. Rose Delancy
Director



Mr. Charles Farquharson
Director



Mr. William Fountain
Director



Mr. Don Martn
Director



Mrs. Nadine Saunders
Director



Mr. Dave Smith
Director

Board Committees Mandate 2019

Legal & Human Resources Committee

Members



Mr. William Fountain
Chairman



Mrs. Annette Cash
Member

Mandate

- Advises the Board of Directors on matters involving legislation affecting the Bank directly or the market where it operates.
- Ensures that standard form contracts between the Bank and others are consistent with the Act and reflect the best interest of the Bank.
- Oversees and advises the Board of Directors on corporate policies and strategies related to human resources, including policies governing recruitment, retention, training, compensation, pension plans, and performance management.

Audit, Finance & IT Committee

Mandate

- Advises the Board of Directors on the soundness of the financial management of BDB by overseeing BDB's standards of integrity and conduct, internal control systems, financial control and audit processes, including internal audits, the annual financial audit and any periodic special examination.
- Advises the Board as a matter of good governance and risk management on how the Bank should anticipate the unexpected and plan to preserve the continuity of business which minimizes disruption of service in situations of calamity or crises.
- Makes recommendations regarding related investments and ensure that the Bank's Plan is in compliance with its mandate.
- Ensures that BDB's key risks are identified and appropriately managed by recommending risk management policies to the Board regarding such key risks as financial, credit, market, strategic investment and operational.

Members



Mr. Kirvy Ferguson
Chairman



Mr. Charles Farquharson
Member

Small Business Advisory Committee (SBAC)

Members



Mr. Charles Barnett
Chairman



Mr. Don Martin
Member



Mr. Dave Smith
Member

Mandate

- Makes recommendations to the Board for loan approvals, credit risk policies, guarantees, private equity transactions and any other project proposals that they would have reviewed as per Part III Section 12 of the BDB Act.

Ethics Committee

Members



Mr. Charles Farquharson
Chairman



Mr. William Fountain
Deputy Chairman



Rev. Cedric Moss
Member



Mrs. Annette Cash
Member



Mrs. Nadene Saunders
Member



Mr. Don Martin
Member

Mandate

- Advises the Board of Directors on matters involving ethical behavior and legislation affecting the Bank directly or the market where it operates.



Managing Director's Remarks



Mr. Dave Smith
Managing Director

2019 has been a year of tremendous change for The Bahamas Development Bank

Since taking office in August 2018, there has been a concerted effort to address the legacy issues that have adversely impacted financial performance, operational efficiency, and public perception of The Bank over the past years. The pace of change has been tremendous but well worth the prolonged effort, as the results are apparent in 2019. The balance sheet reflects the successful execution of our strategy to reduce the NAL rate from over 60% to 25% by year-end. We have implemented Standard Operating Procedures to control operational efficiency and upgraded our technological systems to keep pace with the demands of modern development

financing and help us achieve operational sustainability in the short-term.

Human Capital capacity has been a major focus for 2019 to ensure that we are able to respond to the growing demand for SDG impact and improved service responsiveness. I am proud of the work that all employees have put in to support the vision, mission, and values of our organization. The Balanced Scorecard Approach to management has driven staff engagement, strategic decisions, accountability, and an execution-focused culture. BDB employees now have a greater appreciation of how their tasks directly correlate with operational success within our organization and nationally. Targeted training and a situational management style have increased human capacity in all functional areas. In addition to investment in the existing



staff complement, our recruitment effort has resulted in several talented new team members who are already fully engaged.

Stakeholder relationships are central to BDB's operational philosophy of collaboration, communication, consistency and community. We intend to leverage our improved performance and resource capacity to access low cost funding that will, in turn, have a positive impact on our ability to finance a growing number of projects. Lower cost of funding and forging stronger partnerships with other Development Finance Institutions, such as the Caribbean Development Bank (CDB), the Inter-American Development Bank (IDB), and the European Investment Bank (EIB) will provide the foundation for BDB to advance its development-oriented mandate. This is a pivot away from a singular focus on credit facilities. Relationships with institutions that including the Caribbean Agricultural Research and Development Institute (CARDI) and the Inter-American Institute for Cooperation on Agriculture (IICA) will provide needed technical support to project planning, execution, and monitoring. Public engagement, particularly through the Bahamas Business

Outlooks have yielded tremendous Business Development opportunities on multiple islands that align with BDB's mandate to serve the entire archipelago. We continue to successfully advance our Strategic Development Initiatives (SDI) through active collaboration with our partners for the benefit of the entire Bahamian economy. These SDIs focus on financial sustainability and impact as regards Sustainable Development Goals (SDGs). This makes for a holistic approach to development financing.

Simultaneously, we are working to clearly define a forward-looking Strategic Plan for 2020-2024. With the support of CDB, the new Strategic Plan will integrate international paradigms of development, including the Sustainable Development Goals into operations at BDB. While financial sustainability is critical for maintaining long term viability, impact will be given equal importance as we continue to take tangible steps towards transforming the BDB into a professional organization able to rapidly respond to national developmental needs. We are optimistic that the accomplishments of 2019 will be a springboard for a productive 2020.



Management Team



Dave Smith
Managing Director



Justin Sturup
Deputy Managing Director



Ashley Outten
Financial Controller



Marsha Moncur
Assistant Manager - Freeport



Alonzo Hinsey Jr
Administration & Information
Technology Manager

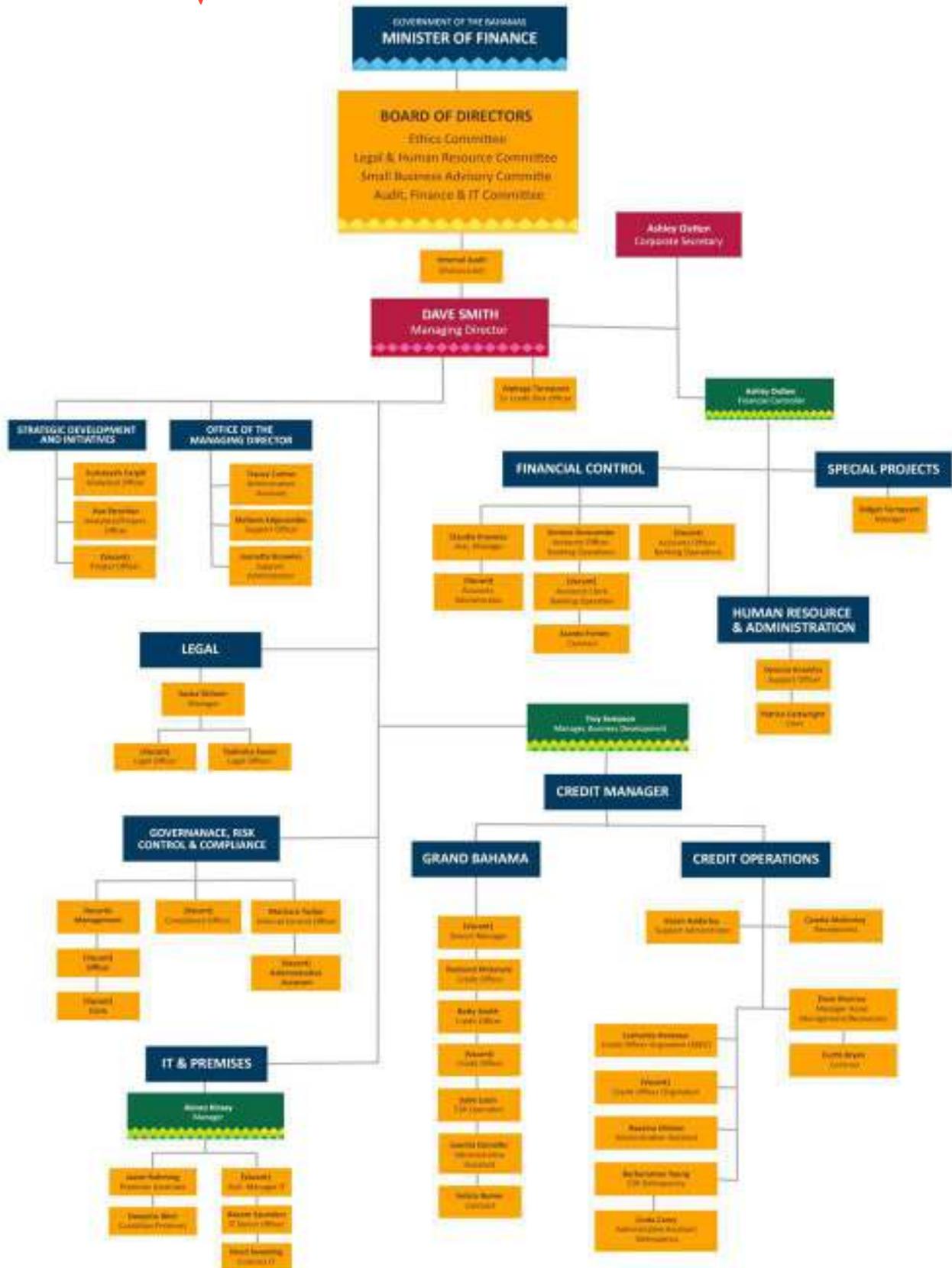


Gidget Turnquest
Special Projects Manager



Sasha Skinner
Legal & Compliance
Manager

Organization Chart





Strategic Priorities

Reducing the Non-Accrual Loan Rate

- ✓ The Information Collection Management System (ICMS) has been implemented. It will bring about greater efficiency and discipline/control in managing delinquency and better manage exposure to curtail NALs;
- ✓ Classification of Loan Portfolio enhanced (e.g. Pass, Special Mention, Substandard, Doubtful, Loss) to better monitor and inform actions by management and review cycles;
- ✓ Adoption of IFRS 9; and
- ✓ Aggressively undertaking legal action with respect to accounts 90 plus days in arrears.

Securing Additional Funds for On-lending

- ✓ Conversion of NIB Bond to loan to facilitate the release of \$11.90m in Sinking Funds for on-lending;
- ✓ Sale of Properties associated with NALs totaling \$18.84m (loan value); and
- ✓ Explore the possibility of taking Fixed Deposits from the Public (e.g. \$25m);
- ✓ Investigated the criteria for “soft loans” explored with European Investment Bank.

Improving Public Perception of the Bank

- ✓ Implemented the Media Working Group (MWG) to give specific forums to the above;
- ✓ Undertook regular speaking engagements including, Grand Lucayan Employee Investment Opportunities (GB), Business Outlook (e.g. New Providence, Eleuthera, etc.), Courtesy Call CARDI and IICA (NP) and SBDC Launch meeting (GB);
- ✓ Engaged Royann Dean Consulting to collaborate on BDB’s rebranding initiative; and
- ✓ Established the Warren Logan Rolle Apprenticeship Program launched to mark 40th Anniversary in honor of Mr. Warren Logan Rolle, First Managing Director of BDB.
- ✓ Appearances by Dave Smith & Troy Sampson on various talk shows and Business Outlook conferences;
- ✓ Various press releases in the dailies to inform about BDB’s mandate under the BDB Act, 1974 inclusive of new initiatives (i.e. Apiary, Small Ruminants, Poultry, etc.);
- ✓ BDB’s mandate under the BDB Act, 1974 inclusive of new initiatives (i.e. Apiary, Small Ruminants, Poultry, etc.);

Advancing Sectorial Initiatives

The following projects are being advanced:



Small Ruminant Project
Agriculture



Industrialization of Cascarilla
Manufacturing



Apiary
Industrial

- ✓ Small Ruminant Project in Long Island - To improve food security and rejuvenate decreasing population in various settlements;
- ✓ Cascarilla - broaden economic participation and benefit from the significant value achieved with essential oil extraction; and
- ✓ Apiary - To increase Bahamian ownership and reduce imports.

Enhanced credit adjudication and credit monitoring policies

- ✓ Developed Credit Operations Dashboard to enable monitoring of the pipeline and performance of delinquencies;
- ✓ Developed Credit Administration Database to reduce the administrative burden and improve efficiency;
- ✓ Improved monitoring of Politically Exposed Persons (PEPs) and Government employees to comply with AML Legislation;
- ✓ ICMS implemented Q3-2019 to improve control / management of delinquencies;
- ✓ Credit and customer service training conducted along with the development of “Exposure Maps” to improve overall Human Capital cross-functionality within Credit Operations;
- ✓ Drafted and implemented Standard Operating Procedures (SOPs) (e.g. Onboarding, Write-Off Procedure, Delinquency, etc.) to increase empowerment, efficiency, consistency of effort and accountability; and
- ✓ Improved monitoring of Borrower Covenants (e.g. financial statements, insurances, appraisals, etc.).

Achieving Financial Sustainability

- ✓ Expense Management - expenses reviewed monthly against budget and savings embraced where possible;
- ✓ Removal of Interest Rate Cap being addressed with MoF and especially in view of reduction in subvention;
- ✓ Conversion of Due to Bahamas Govt. Debt to Equity – \$21m to reflect subvention as income instead of liability;
- ✓ NAL rate, Corporate Governance and Balance Sheet being addressed to position BDB to access soft funding from institutions like CDB and EID; and
- ✓ Adding resources to support revenue activities (e.g. credit) such as increasing the loan portfolio.



Rebranding

The work to re-engineer processes and human capacity at BDB has resulted in an organization that is not the same as it was two (2) years ago. In keeping with the spirit of transformation, The Bank sought to develop a new brand that fully reflects the values expressed by the staff who give life to The Bank and the critical National Development role that BDB plays.

In October 2019, The Bank secured the services of Royann Dean Consulting to develop the new branding. The first phase of the project, Discovery, involved a staff survey to assess the values that capture the essence of BDB and the perceptions surrounding the historical logo. Staff got the opportunity to explore these topics in a discussion session with the consulting firm. The outcome of these activities was twofold. The first was a summary report that ultimately outlined the direction for the brand narrative, messaging, voice and other communication elements. The second was a creative brief that provided the foundation for the look and feel of the brand identity for The “New” BDB including the logo and brand elements.

These sessions revealed that staff at BDB have a deep patriotism and love for The Bahamas. There is a genuine desire to advance the national interest combined with an optimism for the future. Despite challenges, BDB is an intrepid institution that is continually moving forward. Collaboration is a key feature of the Bank’s operations. These values were distilled into the imagery selected for the visual identity.



The hummingbird reflects the dynamic and energetic nature of BDB. The colors express the vibrant optimistic tone that we strive to put forward. In addition to its beauty, and despite its size, the hummingbird is utilitarian in nature, cross pollinating fruit trees everywhere it goes. As the National Development Bank tasked with investing in Bahamian businesses for the purposes of economic development, BDB seeks to spread opportunity and prosperity across our archipelago. The iconography of the hummingbird is supported by a new modern typeface and graphical elements.



Looking forward to 2020, BDB intends to complete the rebranding exercise by introducing the relaunched bank to external stakeholders. Backed by the substantive transformation, the rebrand represents the beginning of a new and brighter chapter in BDBs history.

Information Technology

In 2019 the Information Technology Department implemented new loan and collections management systems, a banking platform along with several databases. These robust systems corrected significant “legacy issues” in our operations, particularly as it relates to internal control, customer service, reporting, and compliance. Since the implementation of the systems, the BDB has become more efficient and controlled resulting in improved customer satisfaction, greater productivity and overall cost reduction.



BDB has also improved its digital footprint via facebook, LinkedIn, etc. to stay competitive. Currently, BDB is enhancing the Bank’s website to ensure our customers can contact and locate information about the Bank at the click of a button.

BDB has begun digitization of all documents to aid in the improvement of efficiency of core business processes and facilitate electronic workflows.



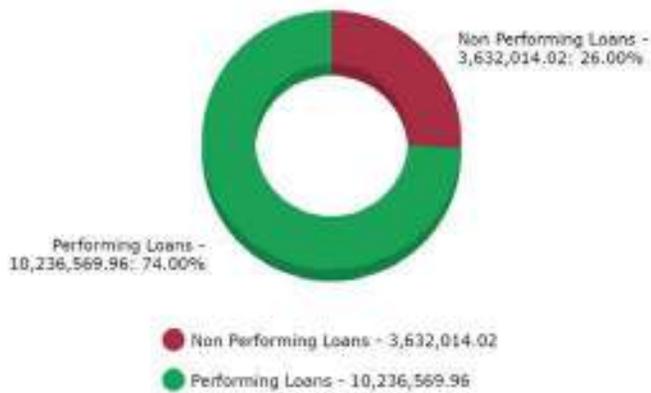


Credit Operations

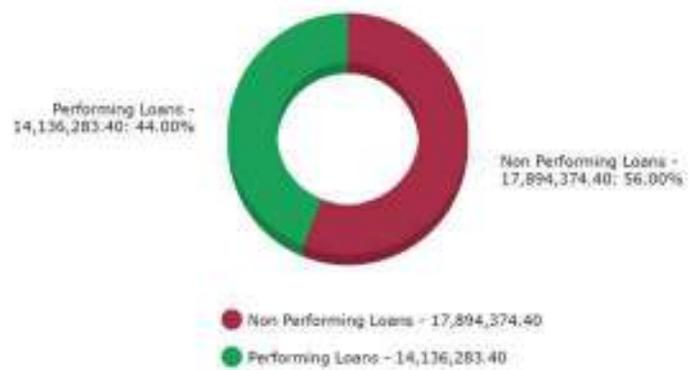
Since the beginning of 2019, Credit operations has continued to make a concerted effort to manage its loan portfolio and reduce the level of NAL. As of the 4th quarter 2019, the total loan portfolio balance was recorded at \$30.7 million, which reflected a decrease of 1% compared to the previous quarters.

The below graph illustrates the Non-Performing Loans compared to the Performing Loans for 2019

Performing/Non Performing Loans 2019



Performing/Non Performing Loans 2018

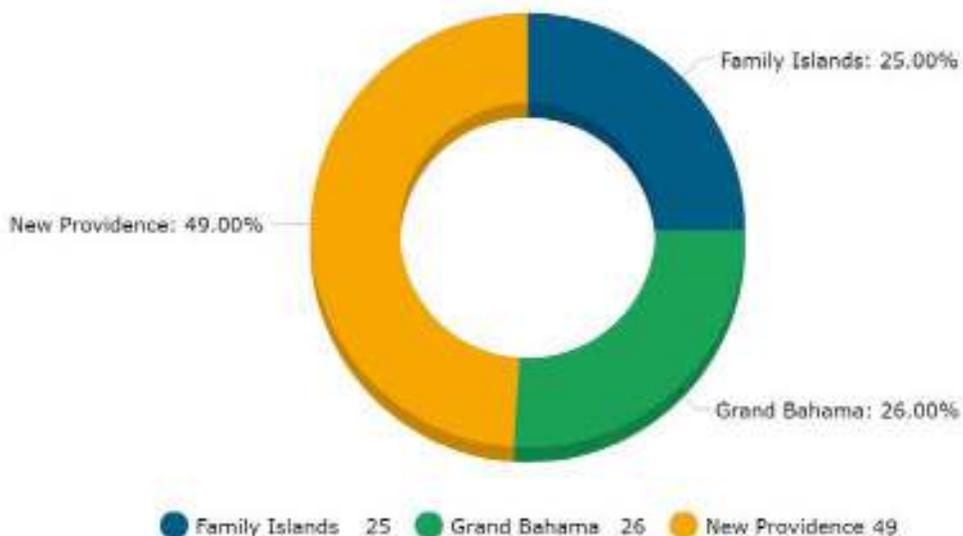


BDBs loan portfolio growth and sustainability can only have a great and positive impact on the NPL if islands that have the potential to impact the economy through natural resources and possible innovative ideas is sufficiently tapped into. As you can see in the graph below, Nassau and Grand Bahama has had the largest impact on BDBs loan portfolio. However, the opportunity to expand and capitalize on new opportunities throughout the family of islands is immense. The favorable circumstance for us to identify and develop new relationships within these family of islands will now be the center of our focus.

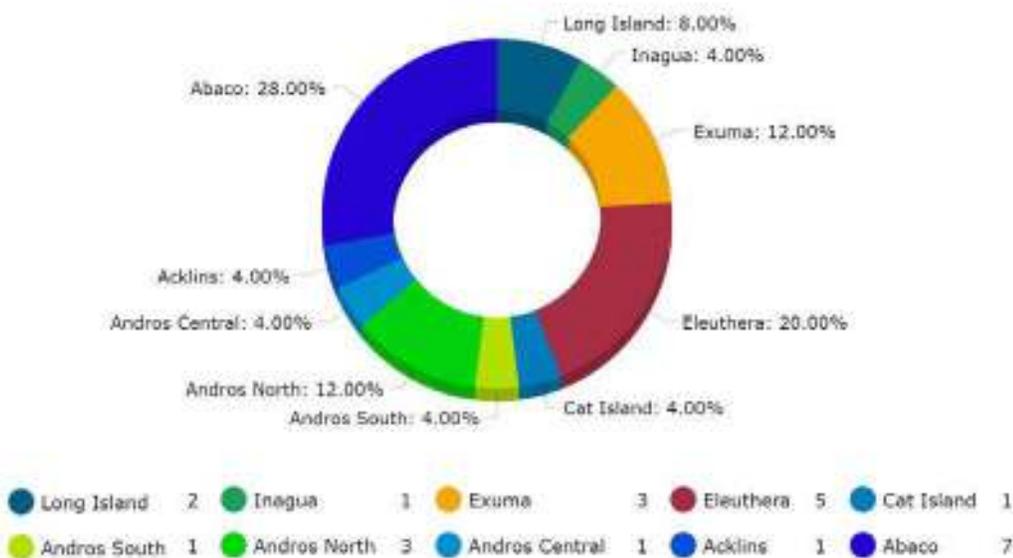
As indicated by the graph below, customers in New Providence and Grand Bahama made up the bulk of the Bank's portfolio in 2019. While this distribution is partially the result of the population demographics across the archipelago, BDB is renewing its focus on Family Island development.

In addition to increased Family Islands Visits, The Bank is actively pursuing partnerships with agencies that can help to close "the last mile" between BDB and Family Island clients.

Loans for New Providence, Grand Bahama & The Family Islands

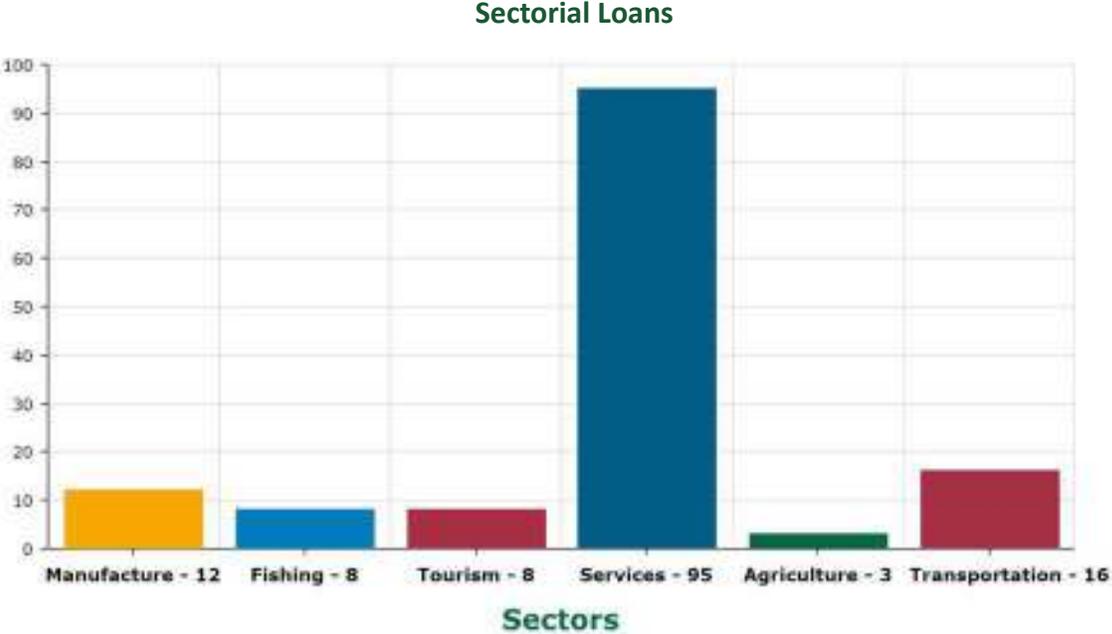


Loans for The Family Islands



The Bank finances projects in key sectoral or enterprise areas Manufacturing, Agriculture and Fisheries, Tourism, Transportation and Services. To reflect the growing needs of the country, Technology has been recently added. The portfolio distribution by sector shows that there is a need for greater diversification.

The Bank recognizes that financing alone is not enough to scale up production in sectors where infrastructure, technical support and low cost inputs are lacking. Special Projects, such as the Small Ruminant Program in Long Island and the Apiary Project in Grand Bahama serve to lower the risk associated with agricultural loans and increase the likelihood of farmer success.



In the coming year, BDB will continue to build its portfolio while focusing on diversification both geographically and sectorally



Strategic Development and Initiatives

The Bahamas Development Bank is committed to Sustainable Development that improves quality of work and provides greater returns for Bahamians. The Strategic Development and Initiatives Unit focuses on the (14) economic sectors identified for growth and job creation in the 2018-2020, “Roadmap to Economic Growth and Diversification”. The Unit employs a comprehensive approach that combines creative concessionary financing, technical assistance and policy advocacy in collaboration with a diverse group of partners to stimulate tangible industrial development. SDI is pivotal in Sustainable Development Goal (SDG) advancement as projects are designed, executed and monitored with SDG accomplishment in mind. Over 2019, several SDI projects have made considerable advancement.

Airbnb



The short term rental market offers an opportunity for economic empowerment for Bahamians through direct involvement in the tourism accommodations market. Additionally, Airbnb’s experiences platform provides wider promotional reach for experiential tourism e.g. tours. BDB entered into a collaboration with Airbnb to develop a program designed to increase Airbnb adoption, particularly on Exuma. Discussions were also held with the President of Commonage Land in Exuma to determine how best to support Airbnb development on Commonage Land.

Apiary

Apiarists on Grand Bahama continued to expand their market penetration, both domestically and abroad. Building on the success of the Apiary Program in Grand Bahama, BDB entered into discussions to expand the project to other islands particularly on Exuma, where the Exuma Foundation has completed training for numerous beekeepers on the island. BDB intends to support national Apiary development with a symposium that brings together beekeepers, buyers and key decision makers. Unfortunately disruptions due to Hurricane Dorian in September 2019, negatively impacted the sector with significant damages to hives and loss of infrastructure. These resources will be rebuilt in 2020 with greater climate resiliency and business continuity planning.



Cascarilla Industrialization

The dry rocky setting of the Southern Islands offer the best conditions in the world for growing Cascarilla. The endemic species, Bahamian Cascarilla, (*croton eluteria*) generates such a high potency Cascarilla essential oil that our bark is particularly valuable. This essential oil is used in a wide range of products including Campari Liquor. The oil has medicinal uses, is an insect repellent, and is sought after by the perfume industry. Compared to the bark, the oil is valued at many multiples per ounce. Cascarilla bark has been exported from the Bahamas for decades but the average Acklins and Crooked Islander receives a miniscule proportion of the true value of this unique resource, about \$6 per pound.



The Bahamas Development Bank in collaboration with the Ministry of Agriculture, Department of Forestry, Department of Cooperatives, BAIC, and private concerns continue to work together to industrialize Cascarilla production for the betterment of the entire community in the Southern Bahamas. In November 2019, Garnell Pelecanos, along with members of the Cascarilla oversight committee, visited Acklins and Crooked Islands to collect samples and perform distillation testing. It is anticipated that BDB will provide financing for the processing plant once the requisite approvals and land grants are in place.

The planned distillation facility will allow for Cascarilla oil to be extracted on Acklins Island. Cascarilla farmers in the Southern Islands have formed a cooperative that will collectively farm and harvest the plant to supply the distillation facility and receive a share of the proceeds from Cascarilla oil sales. Farming the Cascarilla plant ensures that the population remains healthy and sustainable. It also reduces the burden on harvesters, who will no longer have to travel long distances over difficult terrain to find a supply of the plant.

Poultry Revitalization

Poultry producers in The Bahamas have been hampered by adverse weather conditions, competition from lower priced foreign substitutes, inconsistent inputs and lack of access to capital. In 2019 BDB articulated a Poultry Revitalization Project for Grand Bahama in partnership with a private interest that would increase local production by about 4 million birds annually. In support of this project, The Ministry of Agriculture provided a lease for 5 acres of land in Grand Bahama.



Renewable Energy

The Bahamas has committed to utilizing at least 30% of renewable energy in our energy matrix under The National Energy Policy. In 2019, The Bank met with Energy Service Companies to discuss a mutual arrangement to increase access to solar financing on the local market. These conversations will inform revisions to the solar energy programs developed in 2019.



Small Ruminant Revitalization Program

Small Ruminants, particularly sheep and goats have historically been produced on Long Island, Bahamas at a subsistence level as farmers lack awareness of modern farming techniques necessary to increase productivity. Long Island, like many other Family Islands has seen declining economic activity and subsequent population



emigration to other islands. Investment in viable industries, in combination with training for small scale producers is necessary to stimulate commercial activity and support livelihoods.

The Small Ruminant Revitalization Program (SRRP) is a collaboration between The Bahamas Development Bank (BDB), The Ministry of Agriculture and Marine Resources (MAMR) and the Caribbean Agricultural Research & Development Institute (CARDI). The program aims to re-invigorate small ruminant (sheep and goat) and pigs stocks in The Bahamas by offering a combination of training and financing to new and existing farmers, starting with Long Island. It is anticipated that the program will increase herd size on Long Island and ultimately the available breeding stock in The Bahamas through the establishment of a breeding center and concessionary financing. It is anticipated that the program will offer youth on Family

Islands an opportunity for employment in their own communities, disperse wealth via new businesses, and make a marginal step toward food security by providing fresh meat to Bahamians and visitors.

The SRRP program's objectives for the next five years are to:

- ✓ Increase import substitution of small ruminants and pigs by 2.5% over a five year period;
- ✓ Expand Family Island economies by 1% annually over the next five years;
- ✓ Create 10 new jobs on each Family island involved;
- ✓ Establish at least 5 commercially viable small ruminant and pig farming enterprises within the Bahamas annually; and
- ✓ Arrest the flight of young persons from the small Family Island communities to urban centers.

Looking forward to 2020, BDB will focus on project implementation as well as project design in Green, Orange, and Blue Economies.

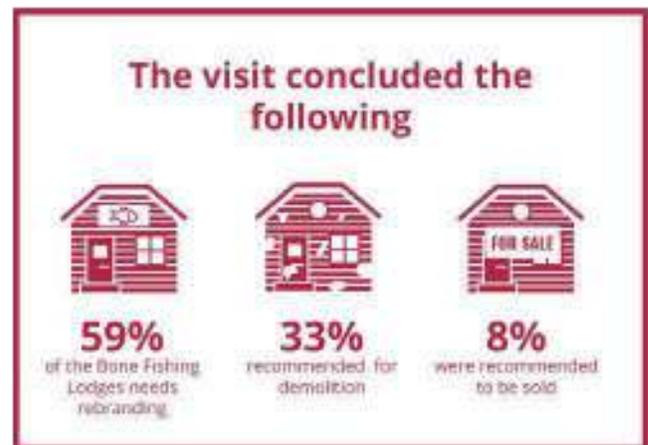


Asset Management

Over the years The Bahamas Development Bank has been faced with many legacy issues relative to non-performing loan accounts. In 2019 a robust approach was taken to effectively manage the loan portfolio in an effort to reduce risk.

Bahamas Development Bank Bone Fishing - Initiative

In order to determine the viability and status of all Bone Fishing Lodges throughout the country, a comprehensive review which included travel to all of them was undertaken. This review focused on business operations and lodge upkeep. The portfolio of lodges had an approximate valued of \$5.0m and after reviewing and visiting (12) twelve of Bonefish Lodges, we discovered that only half of them (6) six, were partially operational. Of the remaining lodges, (4) four were closed and (2) two were pending sale. The visit concluded the following;



Insurances

- ✓ During the year, an effort was made to correct the legacy issues regarding building and life insurances. In order to facilitate these efforts, a review was undertaken on the loan portfolio. The findings of the review revealed that out of all accounts reviewed, the vast majority of underlying collateral assets and borrowers were found to be uninsured. To mitigate this risk, and from the data received, approximately one hundred and eighty-eight thousand dollars (\$188k) was spent to insure assets valuing in the neighborhood of \$14m. We continue to make strides in our efforts with respect to correcting the legacy issues.
- ✓ We attempted on numerous occasions to visit Abaco to conduct site visits/inspections after the passing of Hurricane Dorian however, the lack of living accommodations and transportation nullified our efforts. It is our intent to visit the island as soon as practicable.

Standard Operating Procedures (SOP)

- ✓ In an effort to streamline activities and correct procedural deficiencies, a number of Asset Management Standard Operating Procedures were generated in the following areas:
 - **Client/Site Visits**
 - **Insurance Claims - Disaster Recovery**
 - **Judgment**

Insurances Notices

- ✓ During the year an eviction notice was issued to the owner of property situated on the island of Sandy Point Abaco. The property has been appraised at \$326,000.
- ✓ BDB will continue to enforce eviction notices where necessary (court ordered vacant possessions)

Hurricane Dorian Damages

- ✓ Numerous assets and businesses attached to the Bank's loan portfolio were adversely affected by the passing of Hurricane Dorian which decimated parts of Abaco and Grand Bahama.

Grand Bahama

Hurricane Dorian impacted more than 80% of overall properties/structures resulting in property damage valued in excess of 3M.

Abaco

Properties valued in excess of \$2.0m were affected by the passing of Hurricane Dorian. To date however; we are unable to visit the areas due to the lack of accommodations/ vehicle rental on the Island.

Recoveries/ Properties Sold

- ✓ Presently, BDB has \$2.0m in active sales, some of which require legal assistance.
- ✓ Additionally, BDB is upgrading the Bank's website with a view to increase advertisement and sales of distressed properties going forward.

Commercially Owner Occupied and Rental Offices

- ✓ It is recognized that a greater focus must be placed on liquidating distressed properties. Many of these accounts fall in the non-performing loan category and thus adversely impact the Bank's bottom line. These distressed properties have an approximate value \$6.0m.



Human Resources

Human Capital

Over the past 12+ months, BDB has provided training for “people managers” to improve delegation, empowerment and accountability. Support staff training via exposure maps will ensure improvement in skill and job knowledge throughout the bank and underpins succession planning that will ensure business continuity and operational agility. Management has established a Human Resources Review Committee (HRRC) for collective decision making.

Where existing staff members have not embraced opportunities for change or have been unable to adjust to the organizational requirements, new hires have been engaged as part of BDB’s retooling exercise. Recruitment to date has been achieved within budget targets by replacing staff members who exit with new employees who possess

greater fit.

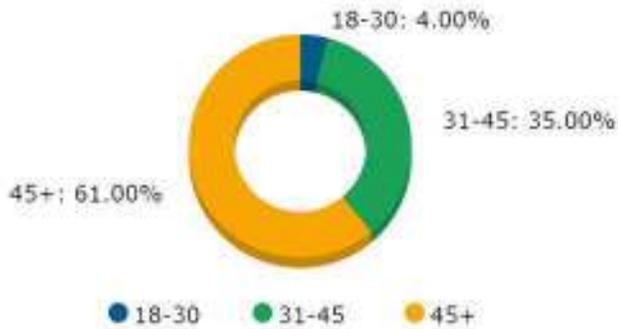
For example, the employees holding professional certification increased by 100% and employees holding a first degree (e.g. BA / BsC) increased by 120%. Conversely, staff members holding up to a High School Diploma decreased by approximately 50%.

Compared to 2018, BDB hired more millennials and the more mature staff (e.g. 45+) was reduced by 36%. This resulted in a changing working environment culture.

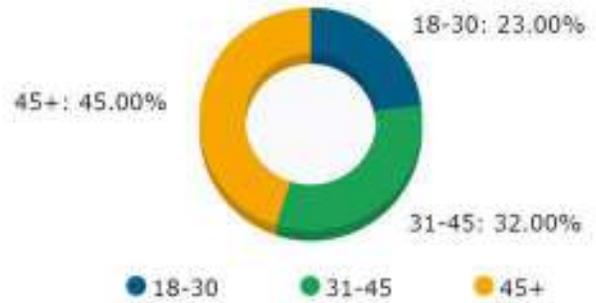
Essentially there has been no marked changes in the composition of the ratio of support staff to managers. Notwithstanding, a concerted effort continues to be made toward improving coaching and accountability.



Employee Age 2018



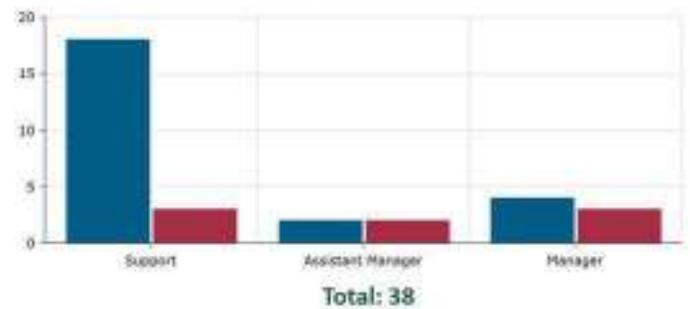
Employee Age 2019



Staff Demographic 2018

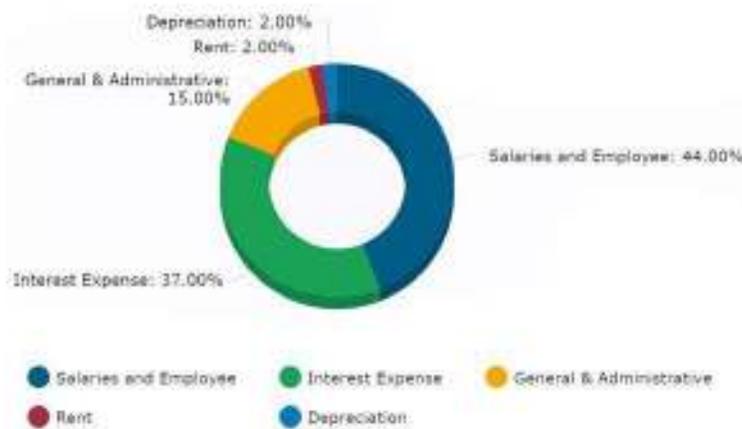


Staff Demographic 2019



Human Capital Expense Analysis

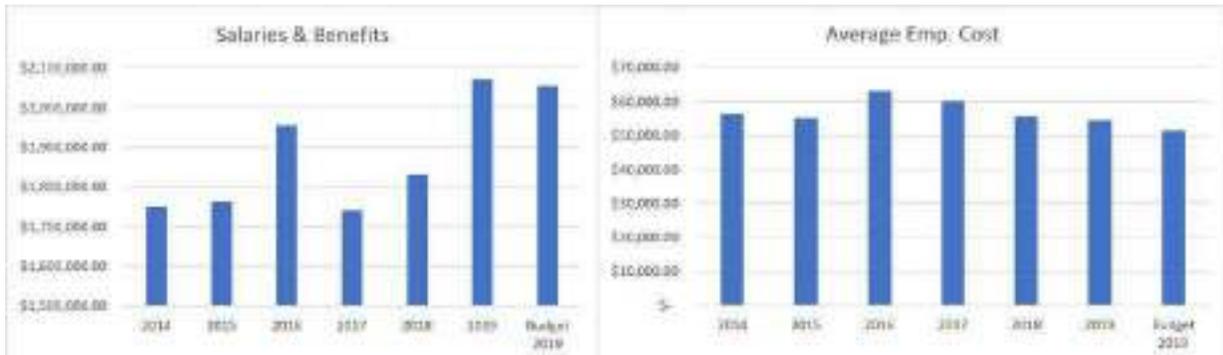
Expense Distribution



It has been observed from various interviews and offers that BDB's salary scales are not able to attract the required / needed talent. Salary expectations generally are 20- 25% higher than BDB is able to offer. This has been particularly challenging in terms of adequately / competently staffing Credit Operations. In this circumstance, Management is reviewing and intends to propose a change in salary scales during 2020.

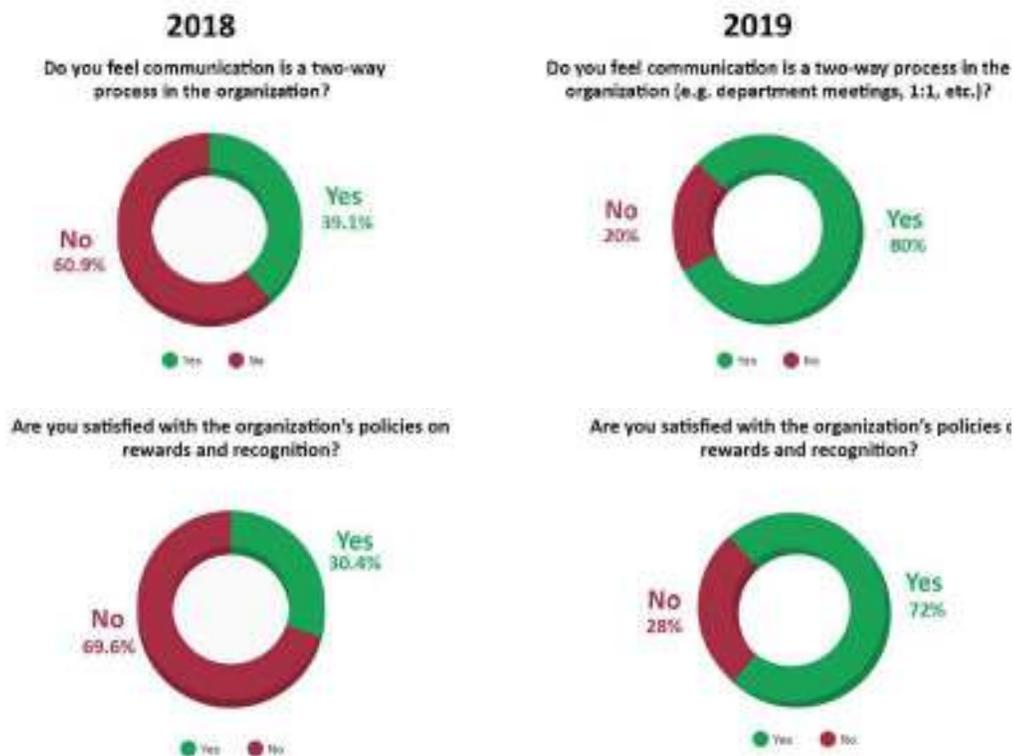
The cost for salaries and benefits for the period 2014 – 2019 is depicted in the table below.

	2014	2015	2016	2017	2018	2019	Budget 2019
Salaries & Benefits	\$1,751,313.16	\$1,764,296.03	\$1,955,776	\$1,741,563	\$1,831,045	\$2,072,667	\$2,055,830
Number of Staff	31	32	31	29	33	38	40
Average Emp. Cost	\$56,493.97	\$55,134.25	\$63,089.55	\$60,053.90	\$55,486.21	\$54,543.87	\$51,395.75



Employee Engagement

The previous Performance Management processes were not adequately executed and therefore did not properly identify the actual performance levels and / or gaps of employees resulting in less than optimal staff performance / accountability throughout the Bank. The aforementioned process contributed to the poor level of staff engagement assessed in 2018. Action to improve employee engagement included commencement of more consistent departmental meetings, 1:1 coaching sessions, roundtable discussions with MD, People Manager training, transparency / Balanced Scorecard decision making, etc. The result was a slight improvement in engagement over 2018 toward the target of 60% employee engagement. Sample questions from the employee engagement survey are as follow.



Employee Performance Management System

As BDB continues to evolve into a Performance Driven environment, we have developed the Employee Performance Management process to enhance performance in order to compensate and reward accordingly. This practice involves strategic use of performance measures and standards to establish performance targets and goals, to prioritize and allocate resources and to inform managers about needed adjustments or changes in policy or program directions to meet goals

Performance Management becomes more important as our culture becomes more defined.

Here is a list of key elements of the process:

- The process is jointly owned by the employee and manager who collaboratively establish objectives and review the achievement of objectives.
- Individual expectations support results.

What we hope to achieve:

1. Decrease subjectivity in the appraisal process because of clear expectations
2. Increase accountability through functional performance
3. Provide more constant and structured feedback
4. Employees taking responsibility for their career paths
5. Goal clarity
6. Build higher performing teams
7. Enhance employee development
8. Enhance leadership skills

Employees may be recognized for a salary increase or a promotion on the basis of their individual qualifications, abilities, attitude, team effort and contribution to the efficient and profitable operations of the Bank. Bonuses are not guaranteed. The decision to pay a bonus during

any given year will be based primarily on the performance of the Bahamas Development Bank and secondarily the employee's performance. If the performance of the Bank is not satisfactory, a decision could be made for no bonus pay out during that fiscal year.

Warren Logan Rolle Apprenticeship Program

The Bahamas Development Bank's Warren Logan Rolle Apprenticeship Program seeks to provide a student who has a sound academic background, with the opportunity to participate in a four- year apprenticeship program. The apprentice may be considered for full-time employment with Bahamas Development Bank, upon completion of the program. During this four-year apprenticeship program, the selected candidate will be expected to:

- Be enrolled in the University of The Bahamas pursuing a Bachelor's Degree within a field of study relevant to the financial services sector;
- Maintain a GPA of 3.0 or above; and
- Work at The Bahamas Development Bank while pursuing his/her studies.



Miss Octovia Green has been selected as the apprentice.



Governance, Risk, Control, and Compliance

At The Bahamas Development Bank, we are focused on the importance of good governance. This means that we strive toward ensuring that our processes, policies, and procedures focus on efficiency and adequate internal control. Over the past year, The Bank has made significant strides in seeking to rectify compliance-related legacy issues. The Bank has implemented a Compliance Management Database to aid in the administrative and reporting functions. One of the major projects with the implementation of the database was ensuring sure that all customer accounts were appropriately risk-rated per the FTRA, 2018 requirements. This implementation will also help the bank to improve their risk rating status with our primary regulator the Compliance Commission who noted during their 2019 review that the Bank’s compliance deficiencies included but were not limited to the following:



- | | |
|---|---|
| 1. Updating AML Policies | 4. Suspicious Transaction Reporting Procedures |
| 2. Risk-Based Customer Verification Procedures | 5. Internal Compliance Reviews |
| 3. Transaction Record-Keeping Procedures | |

In an attempt to rectify these issues the Bank identified several critical procedures that were to be completed before 31 December 2019. As of 31 December, there were 14 procedures and 5 guidance notes drafted and approved by Management.

Several other databases are expected to be developed within the upcoming year to assist in other functional areas such as Risk and Control. The implementation of these databases is in line with the Bank’s move toward a more digital environment. In the area of Risk and Control in 2019, there were 5 internal audits conducted. Their ratings were noted as follows:

- | | |
|--|---|
| 1. Client Onboarding – KYC Documentation (Rating - High risk) | 3. Collateral Register (Rating – High risk) |
| 2. Loan Documentation (Rating – High risk) | 4. Fixed Asset Register (Rating – High Risk) |
| | 5. Know Your Employee (Rating – Medium Risk) |

The department is responsible for document control and this entails the digitizing, organizing, and maintenance of customer files. In previous years BDB has relied heavily on maintaining physical documentation and therefore this project is expected to be very labor-intensive and time-consuming. The project will ensure that record retention requirements are formally established and adhered to and that an organized filing system is implemented. The decision was made to use the DocuWare Document Management System to assist the department in this project.

Finally, in accordance with the FTRA, 2018 The Bank began the process of implementing an Enterprise Risk Management System using the resources that were available in house. This resulted in 2 employees being sent for training on the COSO Enterprise Risk Management Framework in Orlando, Florida in April 2019. Both employees completed the training and received the necessary certification. The next step included documenting a Enterprise Risk Management Policy and a Risk Inventory. It is anticipated that ongoing training will be provided to staff to ensure that all individuals understand their responsibilities concerning the risk management process. For an added level of comfort, The Bank will be seeking the assistance of an external consultant to review The Bank’s internal control environment and provide recommendations on how to improve our systems. We look forward to greater levels of efficiency and improved processes to ensure that our customers receive a quality experience from The Bahamas Development Bank.

Financial Overview

Cash Balances

As at December 31, 2019, the cash balance stood at \$16.7 m. A net decrease of 7.76% (\$1.41m) over previous month's cash balance of \$18.21m. The cash balance has decreased over the previous month as funds for mail boat customers were withdrawn in the amount of \$0.83m. Additionally, BDB paid the insurance premiums on properties held as collateral in the amount of \$.39m. Cash related expenses of the Bank totaled \$0.35m of which \$0.15m (44.32%) were paid in Salaries and Staff Costs. Funds on deposit by the Bank's customers total \$3.08m of which \$1.92m is allocated to Ministry of Transport for subsidy payments to mail boat operators. As at December 31, 2019, the Bank has available cash of \$0.73m resulting in a shortfall of \$0.68m in funds to lend. Management has allocated approximately \$1.41m to cover 6 months of the Bank's expenses.

The Board of Directors have committed/approved \$0.66m

in loans that have not been disbursed to date. For the year, BDB has disbursed (12) twelve client loans in the amount of \$0.17m and staff loans/advances in the amount of \$0.17m.

Due to Hurricane Dorian, negotiations for sale with key clients came to a halt as a result of significant damage to their properties. Insurance checks were received in the amount of approximately \$1.0m.



Long Term Debt

Over the next 5 years, BDB will be required to make principal repayments on its bonds i/a/o \$26m should there be no bond to loan conversion. As it currently stands, BDB is required to make principal repayments from the Sinking Fund which currently has a balance of \$12.32m. By 2021 the Sinking Funds will be exhausted and BDB will be unable to meet its principal repayment obligations.

On September 30th, 2019 BDB received approval from Ministry of Finance (MOF) as guarantor to the debt upon conversion. A resolution is currently awaiting Cabinet/Parliament approval. Upon approval of the resolution from Cabinet/Parliament, BDB will proceed to make the relevant accounting entries.

Additionally, BDB took out a mortgage in the amount of \$1.30m for its new premises from NIB. As with other long-term debt, the Bank will pay for the debt via the Government subvention.

In October 2019, BDB received approval from the MOF to convert the outstanding balance in the Due to Bahamas Government Account from Debt to Equity. This conversion resulted in a positive impact on the Bank's negative share equity from \$-33.32m to \$-10.35 m.

Interest Income/ (Loss)

During the month of December 2019, BDB earned interest revenue of \$0.14m which is 28.68% (\$0.06m) less than budgeted of \$0.23m. In December 2019, BDB experienced a net operating loss of \$5.24m which is 6,345% (\$5.16m) more than budgeted. This loss was due, in part, to the adoption of International Financial Reporting Standards (IFRS) 9 which requires recognition of impairment losses on a forward looking basis. This means that impairment loss is recognized before the occurrence of any credit event. For the year, BDB has generated income of \$3.21m and a loss of \$8.03m. The net operating loss continues to be impacted by the lack of interest revenue being generated from loans in addition to the limited amount of recoveries on loans. For 2019, the Bank's impairment expense is \$6.57m compared to budgeted recoveries of \$0.70m. A staggering difference of \$7.28m.

Due to Hurricane Dorian, BDB has given a grace period to all performing clients in the The Abacos and Grand Bahama. The average monthly interest income for these clients total \$30,169. The potential 3-month impact to interest revenue is \$90,510.

To obtain sustainable profitability, BDB will have to place an additional \$40m of loans in the Bank's performing book in addition to changing the policy on the mandated interest rate cap, expand product offering and approved enterprises.

For an illustrative view of the Bank's 2019 performance, see Table 1 below:

Table 1

Description	Oct-19	Nov-19	Dec-19	Actual to Date	Budget to Date	Difference
Interest Income	144,621	132,713	143,318	2,125,952	2,772,269	(646,317)
Other Income	45,931	189,951	648,901	1,085,446	332,534	752,912
Interest Expense	147,612	142,827	147,532	1,700,750	1,662,708	38,042
Impairment Expense (Recovery)	(58,333)	(58,333)	5,635,559	6,575,633	(700,000)	7,275,633
Operating Expenses	305,643	276,480	250,159	2,964,660	3,117,907	(153,248)
Net Income/(Loss)	\$ (204,370)	\$ (38,309)	\$ (5,241,031)	\$ (8,029,653)	\$ (975,812)	\$ (7,053,841)

Expense Analysis

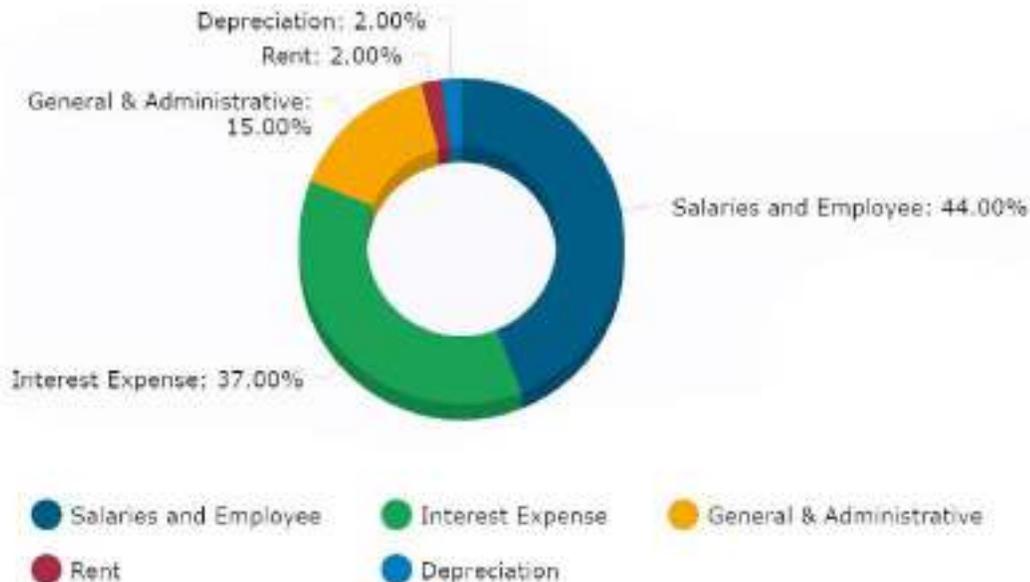
In December 2019, the operating expenses are \$0.39m. For 2019, BDB's annual operating expense totals \$4.67mil. Year to date, operating expenses have performed better than projected by \$0.12 (2.41%). Salaries and Employee cost comprise the largest share of BDB's operating expense of 43.58% followed by interest expense (cost of funding) which comprises 36.45%. For illustrative purposes, see Table 2 and Graph 1 below:

Table 2

Expenses	Oct-19	Nov-19	Dec-19	Actual to Date	Actual Distribution	Budget to Date	Difference	Variance
Salaries and Employee	\$ 198,459	\$ 183,624	\$ 157,041	\$ 2,033,384	43.58%	\$ 2,055,830	\$ (22,446)	-1.09%
Interest Expense	\$ 147,612	\$ 142,827	\$ 147,532	\$ 1,700,750	36.45%	\$ 1,662,708	\$ 38,042	2.29%
General & Administrative	\$ 89,889	\$ 76,754	\$ 74,522	\$ 750,729	16.09%	\$ 876,280.24	\$ (125,552)	-14.33%
Rent	\$ 9,488	\$ 7,567	\$ 8,492	\$ 99,523	2.13%	\$ 94,704	\$ 4,819	5.09%
Depreciation	\$ 7,807	\$ 8,436	\$ 10,104	\$ 81,036	1.74%	\$ 91,093	\$ (10,057)	-11.04%
Total Expenses	\$ 453,255	\$ 419,307	\$ 397,691	\$ 4,665,421	100.00%	\$ 4,780,615	\$ (115,195)	-2.41%

Graph 1

Expense Distribution





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