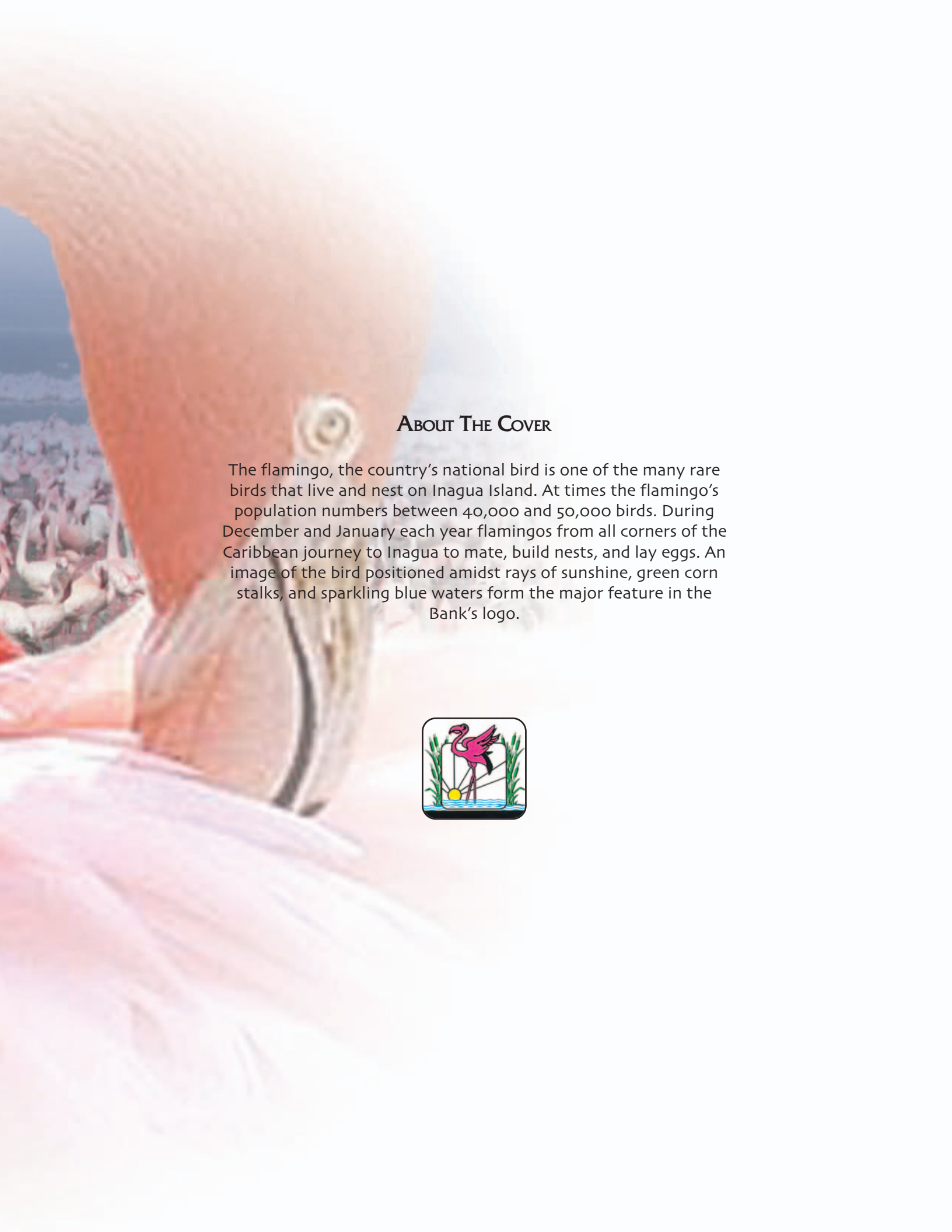


Bahamas Development Bank
2005
Annual Report





ABOUT THE COVER

The flamingo, the country's national bird is one of the many rare birds that live and nest on Inagua Island. At times the flamingo's population numbers between 40,000 and 50,000 birds. During December and January each year flamingos from all corners of the Caribbean journey to Inagua to mate, build nests, and lay eggs. An image of the bird positioned amidst rays of sunshine, green corn stalks, and sparkling blue waters form the major feature in the Bank's logo.



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



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BAHAMAS DEVELOPMENT BANK ANNUAL REPORT 2005

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CHAIRMAN'S REPORT

With a customer base of about 1200, the Bank's assets increased by 6.5% to \$55.9 million dollars inclusive of loans receivable which increased by 4.4% in 2005. Interest income increased by 18% to over \$5.0 million dollars, resulting in an operating profit and a significant decline of \$2.1 million dollars in the net overall loss of the Bank. Management accepted the challenge of the Board, as these results were partly made possible by the reduction of non-performing loans to 38.5%, down from 49.9% in 2004.

In developing approved small business, the Bank has a unique statutory mandate: (i) to grant loans and other financial assistance to Bahamians; and (ii) generally to give advice and technical assistance to such persons. Added to this, the minister responsible for the Bank, the Minister of Finance, The Right Honourable Perry G. Christie, Prime Minister, has given his policy direction that the Bank should become more relevant and helpful to small businesses.

It is with these mandates in mind that the bank through its Business Advisory Services Unit in conjunction with the College of The Bahamas, and the Caribbean Development Bank, has taken the BDB and its Board to the people by holding town meetings and business development seminars in each of the family Islands.

This proactive approach has yielded immediate dividends by way of loan applications and in planting the seeds of entrepreneurship in the Family Islands. It has also contributed, along with the Government's demonstrated commitment to the development of the small business sector by the establishment of The Venture Capital Fund, The Domestic Investments Board, and the revitalization of BAIC, to the recent decision of some commercial banks to establish specific staff and funding for the express purpose of lending for the development of small businesses.

In 2005, Parliament unanimously approved its guarantee for the Bank to issue a further series of bonds in the amount, of twenty five million dollars (\$25,000,000) which the Bank can borrow to on-lend to small businesses over the next few years. It was encouraging that for the first time in the 28-year history of the Bank the private sector took up \$4,000,000 of those bonds.

The Board approved a new strategic plan for 2005 to 2009 and a new Staff Training Policy aimed at making the bank staff more qualified, more efficient, more customer friendly, and its portfolio more diversified and relevant by introducing new products particularly aimed at cottage industries, women, and youth entrepreneurs.

My special thanks go to Board Members who continue to serve enthusiastically without any remuneration and the management and staff who have generally demonstrated cooperation and professionalism in carrying out their duties.

K. Neville Adderley

CHAIRMAN



K. NEVILLE
ADDERLEY

BOARD OF DIRECTORS

BAHAMAS DEVELOPMENT BANK



K. Neville Adderley
CHAIRMAN



Fritz Stubbs
DEPUTY CHAIRMAN



Clinton Clarke
DIRECTOR



Chandra Sands
DIRECTOR



Peter Mitchell
DIRECTOR



Angela Sawyer
DIRECTOR



Charlene Storr
DIRECTOR



George E. Rodgers
MANAGING DIRECTOR

EXECUTIVE MANAGEMENT AT WORK



Anthony Woodside
Deputy Managing
Director

George E. Rodgers
Managing Director

Catherine Patton
Financial Controller

BANK 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, with its office at Rawson Square on Bay Street, just across the street from the historic Houses of Parliament.

Our principal functions are to:

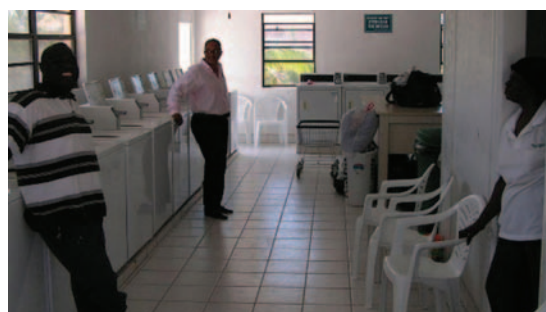
- Promote industrial, agricultural and commercial development;
- Facilitate participation in approved economic enterprises;
- Stimulate and enhance the economic development of The Bahamas
- Finance economically viable projects that:
 - a. Create employment
 - b. Utilize Bahamian materials and resources
 - 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 for the following projects/activities:

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



Managing Director's Report

FINANCIAL PERFORMANCE SUMMARY

Despite a modest 4.36% growth in loan receivables, gross and net interest income grew by 18% and 32% respectively over the period under review. Liquidations and loan restructurings were the main drivers of interest income in 2005 coupled with expense and net loss reductions.

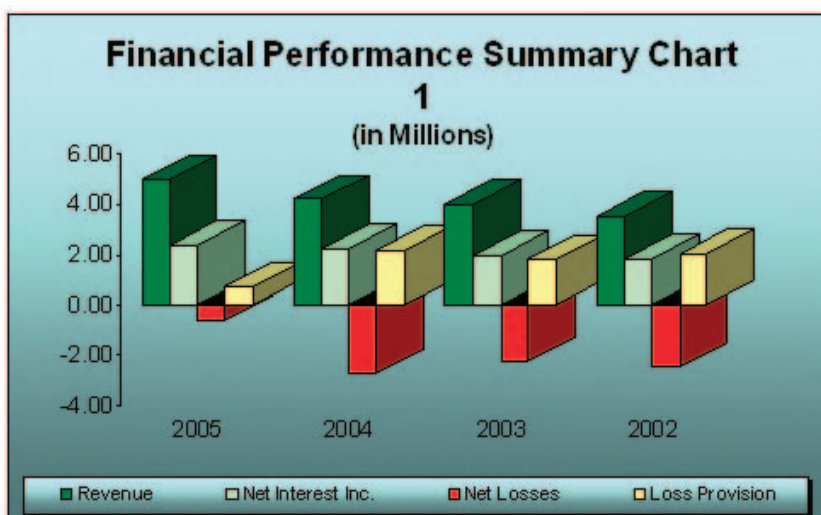


George E. Rodgers

- Managing Director

Through a consistent program of increased supervision, public education, account restructurings, and loan liquidations, the Bank's non-performing ratio declined from 50% to 39% — an 11 percentage point decline. Consequently, provisioning expense declined by 68% from \$2.20 million to just under \$0.70 million. These factors contributed to generating positive operational cash flows of just over \$0.36 million and a 77% improvement in net operating results.

Other expenses grew by just over 1% (exclusive of loan receivables provision) to \$2.82 million.



LENDING ACTIVITY

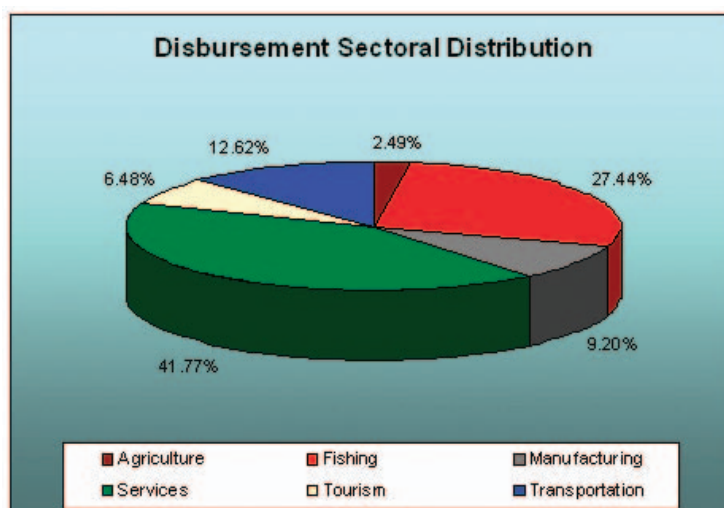
Lending activity remained strong throughout the year. \$8.6 million in new loans were approved, while \$9.0 million was disbursed. As at December 31, un-disbursed loan commitments totaling \$1.8 million dollars remained pending.

The Bank achieved a modest 4% increase in its loan portfolio — despite significant resolutions of non-performing assets.

Services and fishing projects demanded 70% of all disbursements made during 2005. The agriculture and manufacturing sectors accounted for less than 10% of disbursements. Regional lending remained balanced relative to population distribution. The Northern Bahamas (Grand Bahama, Abaco, Bimini, and the Berry Islands) received 27.4% of disbursements, which totaled \$2.5 million. The Central Bahamas received 62.8%, and the Southern Bahamas received 9.8%.

TREASURY AND FINANCING ACTIVITIES

Through prudent management of resources and credit commitments, we averted tight liquidity situations. All sinking fund requirements, repayment commitments and loan disbursement obligations were met as contracted.

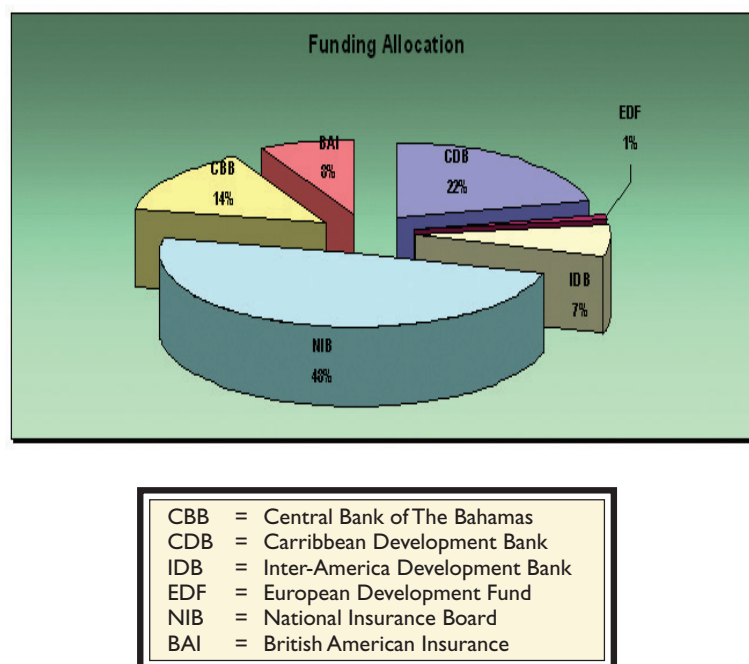


In 2005, BDB completed its drawdown on the \$25 million NIB Bond issue with a \$1 million drawdown. We also issued \$4 million 5.5% Series CBDB bonds resulting in a \$5 million cash flow injection to support the Bank's on-lending activities. Net losses were funded by way of a \$1.25 million equity injection.

At year end, total cash balances stood at approximately \$7.8 million (14% of total assets) and disbursement commitments at year end totaled \$1.87 million.

ENTREPRENEURIAL TRAINING ACTIVITIES AND TECHNICAL ASSISTANCE

We are mandated and committed to developing entrepreneurs throughout this archipelago. To fulfill this obligation, we established the Business Advisory Services Unit. This new unit was instituted to provide training and consultancy services to the Bank's customers. During the year in review, the Bank conducted four seminars, training some 75 entrepreneurs in areas of Accounting and Record-keeping, Small Business Management and Marketing.



We also assisted a number of Bahamian entrepreneurs in improving their operations through on-site delivery of consultancy services in Accounting and Marketing. Customers in Grand Bahama and Abaco have benefited from this program.

In Nassau we established a Small Business Resource Center. This facility is open to the public and contains materials useful to small business owners, managers and potential entrepreneurs.

VISIT TO WASHINGTON, D.C.

In August, under the leadership of the Chairman of the Board, the Bank dispatched a delegation to Washington D.C. The team's mission was threefold: 1) to study the small business support infrastructure with a view improving BDB's delivery mechanisms, 2) to identify opportunities for cooperation between BDB and US Agencies that would be of mutual benefit to our respective efforts to support SME's, and 3) identify possible funding sources that could be accessible by Bahamian citizens.

Emerging from the visit were several ideas that are now being evaluated for future consideration. These ideas we believe will lead to new processes, products and opportunities for entrepreneurs in the not-too-distant future.



BDB AND BAIC JOINT STRATEGY

Effective May 23, 2005, the government made a strategic decision to merge the Business Services Division of the Bahamas Industrial and Agricultural Corporation (BAIC) with that of the Bahamas Development Bank (BDB). In this regard, five employees of BAIC were seconded to the BDB. The increased human resources expanded the Bank's ability to monitor existing accounts in order to recognize and cure SME projects with potential problems quickly. The move was also made to increase the Bank's competence in formulating new products to facilitate the start-up and growth of SME's, as well as to boost the range and scope of the accounting and business advisory services launched by the Bank.



BDB Invest in Bottle Water Plant

Arthur's Town, Cat Island

Oasis Springs Refreshing Water - located in Arthur's Town, Cat Island is a Reverse Osmosis Water Facility where Mr. Derence Rolle serves as President/ CEO and Financial Controller and Mrs. Thomasina Rolle-Wilson, as Vice-President, Technology and Quality Control Manager. Mr. Rolle, aside from this venture, is also an Economist and an Attorney-at-Law. Mrs. Wilson works as a Deputy Director with the Department of Environmental Health Services within the Ministry of Health and Environment in New Providence. She has



been a civil servant for more than 23 years; 12 of which she served in the Ministry of Agriculture and Fisheries. In the early 1990's, she studied Environmental Management in Edinburgh Scotland where she obtained a Master of Science Degree in Environmental Protection and Management. She is currently responsible for the training and information technology transfer in waste management and other related areas throughout the Bahamas.

Mrs. Rolle-Wilson was asked what lured her to this particular service, more particularly to the Island of Cat Island. She expounded on the fact that, since Cat Island is more south-centrally located, it made an excellent choice for the production and distribution of services to the southern islands. Additionally, she felt that it was also important for the economic growth of the island itself. She also said that elaborate thought and planning ensued prior to the establishment of the business. The decision to provide the service of bottled water to the local community, was based on a number of factors; (1) This particular service was not offered at the time; (2) Visual assessments revealed large amounts of bottled water were being transported from Nassau to Cat Island via the mail boats; and (3) A feasibility study that was done sometime in 2002. These factors along with the impacts of the environmental (such as bad weather), and non-environmental constraints (loss of bottles in transport, the high cost of freight and local transportation in getting the water to the local community), made Cat Island a compelling choice for the birth of Oasis Springs Refreshing Water.

Currently Mr. Rolle and Mrs. Wilson as partners employ three workers including a driver/distributor, and two laboratory technicians. Although the facility is still relatively young, distribution is not limited to the people of Cat Island but they have also included Cockburn Town, San Salvador as a distribution point. In the near future, they have plans to expand their market to include other southern islands that are in close proximity to Cat Island including Rum Cay, Long Island and Exuma, and eventually Inagua. They anticipate they would become the premiere choice of bottled water for the entire southern Bahamas. They also anticipate that after some needed expansion of the plant, they would soon begin processing ice for the island, as this uses basically the same process as the water purification.

Mrs. Rolle-Wilson emphasizes that the Bank exercises due process in the granting of loans to their clients. She is grateful for the assistance and support that was given when she applied for the loan. The bank is also consistent in their follow-up process, in that, they visit the plant from time to time to ensure that the project is progressing in the anticipated direction.

BDB Finances Limousine Transport to Serve Emerald Bay Four Seasons

Great Exuma



The Bahamas Development Bank has made it a prime focus to become involved with the provision of capital to assist projects in the Family Islands that are linked to our tourism sector. With this in mind, Exuma Transit Services Limited, located on the picturesque island of Great Exuma, can be hailed as a testament. Based on information from the present operations manager, Ms. Franquis Cartwright, Exuma Transit Services was formed in November 2003 to meet the demands of the newly opened Four Seasons Resort on the island of Great Exuma. Their motto states "We are here to

take care of all your transportation needs.” The company knows how important it is to feel comfortable while moving around the island; whether one is on vacation or a returning resident. Their aim is to arrange a friendly, efficient, and safe transfer for their clients. Exuma Transit Services boast about their efficiency and quality service as their seasoned courteous professionals are complemented with a fleet of approximately thirty- eight vehicles offering a variety of choices. Potential clients can also view the company's fare sheet within each vehicle in their fleet. They cater to various budgets and preferences. The company knows how valuable its clients' time is and makes it their aim to get you -the client-to your final destination hassle free in a timely and relaxing fashion. The final goal of Exuma Transit Services is to get you to where you want to go as safely as they can. Their vehicles are maintained on a timely basis to assist in keeping the client safe and providing a hassle free trip to and from your destination.

If you are ever planning a trip to Exuma, please contact Ms. Franquisha Cartwright or the friendly staff at Exuma Transit at 1-242-345-0232/1/3 or at their e-mail-www.exumatransitservices.com for all your transportation needs.

Powerboat Adventures – Captain Nigel Bower

Ship Channel Cay in the Exumas



Powerboat Adventures is a Bahamian Company that opened its doors in 1989 with a 30' Scarab vessel salvaged from the Bahamas Defence Force by Captain Nigel Bower who is the sole owner. During the first year Mr. Bower ran some 89 trips and knew that he had an original idea that tourists enjoyed. Following this, he embarked on a voyage to secure a boat that was capable of handling rougher seas and carrying more passengers –in turn he purchased

his next addition to his fleet– a three engine Midnite Express with the capability of accommodating 18 passengers. This vessel assisted with pushing the company forward for the next five years resulting in its continued growth as the company grew by 10% in revenue every year to the point that they were

able to build their first new boat which was a 40' performance Powerboat although they were on a "shoe string budget" (as stated by Capt. Bower). The company continues to strive and capture market acceptance due to good service and word of mouth. With internet advances coming fully on stream, the company embarked on marketing its product with an online reservation service, capturing guests' interest from abroad. Locally, sales associates were utilized to drum up additional demand for the company's service. In 1999 the company realized overwhelming demand, which signaled the need for another boat. This was in spite of additional competition that had now entered the market. To meet this need for a new boat, a third boat was constructed and added to the company's fleet with a carrying capacity of 60 passengers, and would assist with excursions between Nassau and the Exumas. With this addition the company was still constantly plagued with cancellations due to rough seas, rising fuel costs and mechanical problems with outboards, at this point Captain Bower went back to the drawing board to find and build the ideal vessel for the present condition and times. According to Captain Bower, "after three years of hard work and the incredible assistance from The Bahamas Development Bank they were able to commission the M/V New horizon—a 60' Powerboat with three diesel engines and jet drive propulsion". With this addition that has only been in operation for about a month—the company has already experienced a difference in their bottom-line. This new addition is pegged to take the company forward into new frontiers and act as a catalyst to keep Powerboat Adventures as a frontline tourism company of The Bahamas.

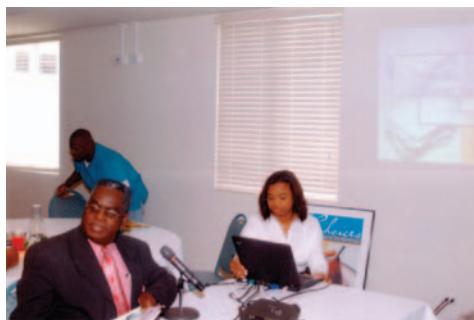
Business Information Centre (BIC) Opens

During the year, the Bank implemented a Business Information Centre (BIC), which is housed in its premises on Cable Beach. Under the auspices of the Business Advisory Services Unit (BASU), this resource library provides literary and computer aides in almost all aspects of business opportunities, business start-ups, business plans, marketing, pricing, accounting and record-keeping, etc.



Other services provided include:

- Free assistance and support for new and existing business enterprises.
- Technological support via access to a computer with software, printer and copier
- Business counseling and advice
- Seminars, workshops and cohorts
- A courteous, knowledgeable and skilled staff is on hand to respond to all queries or to refer clients for more detailed and technical information.



STAFF MEMBERS As At DECEMBER 31, 2005

ABACO BRANCH

Loran Coleby
Kimberley Rolle

FREEPORT BRANCH

Marsha Moncur
Ophelia Rolle
Justin Sturup

NASSAU BRANCH

Trevor Adderley
Larry Alcime
John Archer
Elizabeth Armbrister
Benjamin Bailey
Lenora Bethel
Carolyn Bonimy
Steine Campbell
Linda Carey
Tracey Culmer
Debbieann Darville
Brenda Delancy
Jerome Ferguson
Beryl Gibson
Jazel Hall
Annamae Hamilton
Alonzo Hinsey
Claudia Knowles
Jerome Mackey
Dale McHardy
Don Major
George Miller
Paul Moxey
Catherine Patton
Donna Pratt
Latoya Pratt
Anita Ramsey
George Rodgers
Floretta Rolle
Tadnisha Saunders
Timika Sherman
Gurth Smith
Andrew Stanford
Valerea Swain-Miller
Gidget Bullard-Turnquest
Lamont Wallace
Anthony Woodside
Barbaramae Young





Bahamas Development Bank
Financial Statements
31 December 2005



BDO Mann Judd
Chartered Accountants
& Consultants

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Ansbacher House, East Street
Nassau, Bahamas
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Fax: (242) 325-6592
Email: info@bdomannjudd.com
www.bdoglobal.com

REPORT OF THE AUDITORS TO THE DIRECTORS OF BAHAMAS DEVELOPMENT BANK

We have audited the accompanying balance sheet of Bahamas Development Bank as at 31 December 2005 and the related statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the management of Bahamas Development Bank. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of Bahamas Development Bank as at 31 December 2005 and the results of its operations, changes in equity, and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

BDO Mann Judd

**Chartered Accountants
Nassau Bahamas
28 April 2006**

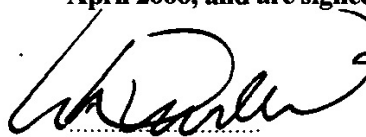
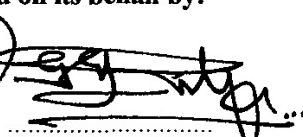


BAHAMAS DEVELOPMENT BANK

BALANCE SHEET AS AT 31 DECEMBER 2005
(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2005</u> \$	<u>2004</u> \$
ASSETS			
Cash and due from banks		1,057,656	2,057,700
Interest bearing deposits with bank	4	6,621,817	4,060,950
Loans receivable	5	47,416,462	45,434,634
Accrued interest receivable		93,380	180,068
Other assets		143,188	135,116
Fixed assets	6	<u>537,237</u>	<u>571,509</u>
		<u>\$55,869,740</u>	<u>\$52,439,977</u>
LIABILITIES			
Customer deposits	7	1,848,517	1,811,689
Accrued interest payable		488,358	444,969
Accrued expenses		109,265	128,293
Long-term loans	8	<u>51,475,092</u>	<u>48,229,308</u>
		<u>53,921,232</u>	<u>50,614,259</u>
EQUITY			
Share capital	9	24,084,917	23,334,917
Reserve fund	10	273,128	273,128
Accumulated deficit		<u>(22,409,537)</u>	<u>(21,782,327)</u>
		<u>1,948,508</u>	<u>1,825,718</u>
		<u>\$55,869,740</u>	<u>\$52,439,977</u>

The statements were approved by the board of directors and authorised for issue on 28 April 2006, and are signed on its behalf by:



 Director Director

The notes on pages 25 to 37 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u>	<u>2004</u>
	\$	\$
INTEREST INCOME		
Interest on loans	4,333,595	3,576,906
Interest on subsidy	434,971	360,884
Interest on deposits	<u>231,576</u>	<u>298,158</u>
Total interest income	5,000,142	4,235,948
Interest expense	<u>(2,411,566)</u>	<u>(2,274,923)</u>
Net interest income	2,588,576	1,961,025
OTHER INCOME		
Fees and commissions	245,039	271,550
Net foreign exchange gain	57,894	--
Other income	<u>6,609</u>	<u>9,599</u>
	<u>2,898,118</u>	<u>2,242,174</u>
OTHER EXPENSES		
Salaries and staff expenses	1,720,227	1,691,071
General and administrative	837,425	787,936
Allowance for loan losses	701,728	2,198,360
Depreciation	185,731	181,717
Rent	80,217	78,611
Net foreign exchange loss	<u>--</u>	<u>55,737</u>
	<u>(3,525,328)</u>	<u>(4,993,432)</u>
NET LOSS FOR THE YEAR	<u><u>\$(627,210)</u></u>	<u><u>\$(2,751,258)</u></u>

The notes on pages 25 to 37 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Share capital</u> \$	<u>Reserve fund</u> \$	<u>Accumulated deficit</u> \$	<u>Total</u> \$
1 January 2004	22,084,917	273,128	(19,031,069)	3,326,976
Shares issued	1,250,000	--	--	1,250,000
Net loss for the year	--	--	(2,751,258)	(2,751,258)
31 December 2004	23,334,917	273,128	(21,782,327)	1,825,718
Shares issued	750,000	--	--	750,000
Net loss for the year	--	--	(627,210)	(627,210)
31 December 2005	<u>\$24,084,917</u>	<u>\$273,128</u>	<u>\$(22,409,537)</u>	<u>\$1,948,508</u>

The notes on pages 25 to 37 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> \$	<u>2004</u> \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(627,210)	(2,751,258)
Adjustment for items not involving the movement of cash:		
Loss on disposal of fixed asset	108	--
Depreciation	185,731	181,717
Allowance for loan losses	701,728	2,198,360
Net foreign exchange loss	--	55,737
Operating profit/(loss) before working capital changes	260,357	(315,444)
Decrease/(increase) in accrued interest receivable	86,688	(68,423)
Increase in other assets	(8,072)	(20,423)
Increase in accrued interest payable	43,389	104,395
(Decrease)/increase in accrued expenses and other liabilities	(19,028)	6,938
Net cash provided/(used) by operating activities	<u>363,334</u>	<u>(292,957)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(2,683,556)	(5,618,522)
Purchase of fixed assets	(151,567)	(88,841)
Net cash used by investing activities	<u>(2,835,123)</u>	<u>(5,707,363)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in customer deposits	36,828	562,198
Net increase in long-term debt	3,245,784	5,726,416
Increase in share capital	750,000	1,250,000
Net cash provided by financing activities	<u>4,032,612</u>	<u>7,538,614</u>
Net increase in cash and cash equivalents	1,560,823	1,538,294
Cash and cash equivalents at beginning of the year	<u>6,118,650</u>	<u>4,580,356</u>
Cash and cash equivalents at end of the year	<u>\$7,679,473</u>	<u>\$6,118,650</u>

The notes on pages 25 to 37 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. INCORPORATION AND ACTIVITIES

The Bahamas Development Bank ("The Bank") was established by the Bahamas Development Bank Act 1974 ("The Act") and is wholly-owned by the Government of The Commonwealth of the Bahamas ("The Bahamas Government").

The principal activities of The Bank are:

- a) to promote industrial, agricultural and commercial development in The Commonwealth of The Bahamas through the financing of, or the investing in, approved enterprises;
- b) to encourage the participation in approved enterprises by citizens of The Commonwealth of The Bahamas and
- c) generally to promote and enhance the economic development of The Commonwealth of The Bahamas.

At 31 December 2005 The Bank had 44 employees (2004: 39) and its main place of business is Cable Beach, West Bay Street, Nassau, Bahamas.

2. BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results can differ from those estimates.

Interest on loans

Interest on loans is accrued and credited to income based on the principal amount outstanding. Interest income is only accrued on performing loans. The Bank considers those loans with arrears amounting to less than three months normal activity as performing.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

3. ACCOUNTING POLICIES (cont)

Interest on loans (cont)

Accrual of interest on loans classified as non-performing is discontinued and previously recorded but unpaid interest is reversed and charged against current operations. Interest income on non-performing loans is recognised only when received or when the loan is refinanced and projected cash proceeds are deemed sufficient to repay both principal and interest.

Allowance for loan losses

The allowance is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance account. Provisions for loan losses and recoveries on loans previously written off are added to the allowance account.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets at the following rates per annum:

Computer equipment & software	20%
Furniture, fixtures & fittings	10%
Office machines	20%
Motor vehicles	25%
Leasehold improvements	10%
Other	20%

Foreign currencies

All amounts in these financial statements are expressed in Bahamian dollars, as most transactions are in Bahamian dollars. Transactions in foreign currencies have been translated into Bahamian dollars at the rates of exchange prevailing on the transaction dates. Balances maintained in such currencies at the year-end date are translated at the rates of exchange prevailing at that date. Gains and losses on translation are recognised in the statement of operations.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

3. ACCOUNTING POLICIES (cont)

Loans receivable

The loans are classified as loans and receivables originated by the enterprise and not held for trading. These loans, which have a fixed maturity period, are measured at amortised cost, using the effective interest rate method, and are subject to review for impairment.

4. INTEREST BEARING DEPOSITS WITH BANK

The deposits with bank have been set aside as a sinking fund to fulfil the requirement under Section 18(d) of The Act. The sinking fund is required for the redemption of the series A, B and C bonds issued to the National Insurance Board and British American Insurance Company of The Bahamas Limited as disclosed in note 8.

These deposits earn interest at annual rates of 3.50% to 4.50% (2004: 3.50% to 4.50%)

5. LOANS RECEIVABLE

	<u>2005</u>	<u>2004</u>
	\$	\$
Performing	32,341,899	25,421,912
Non-performing	20,266,768	25,380,446
Extraordinary advances	2,225,531	1,815,681
Employees	<u>732,261</u>	<u>535,075</u>
	55,566,459	53,153,114
Less: Allowance for loan losses	(8,149,997)	(7,448,269)
Deferred income	<u>—</u>	<u>(270,211)</u>
	<u><u>\$47,416,462</u></u>	<u><u>\$45,434,634</u></u>

The above outstanding loans earned interest at rates ranging from 0% to 14% per annum.

Deferred income represents past due interest income capitalised as a result of the refinancing of certain loans.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

5. LOANS RECEIVABLE (cont)

An analysis of the change in the allowance for loan losses account is as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Balance brought forward	7,448,269	5,253,911
Increase in provision	701,728	2,198,360
Loans written off	<u>—</u>	<u>(4,002)</u>
Balance carried forward	<u>\$8,149,997</u>	<u>\$7,448,269</u>

6. FIXED ASSETS

	<u>Computer equipment & software</u>	<u>Furniture fixtures & fittings</u>	<u>Office machines</u>	<u>Motor vehicles</u>	<u>Leasehold improvements</u>	<u>Other</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
COST							
1 January 2005	1,081,790	241,045	227,967	123,816	819,739	140,908	2,635,265
Additions	76,794	16,117	8,366	49,990	—	300	151,567
Disposal	<u>—</u>	<u>—</u>	<u>(380)</u>	<u>(44,902)</u>	<u>—</u>	<u>—</u>	<u>(45,282)</u>
31 December 2005	<u>1,158,584</u>	<u>257,162</u>	<u>235,953</u>	<u>128,904</u>	<u>819,739</u>	<u>141,208</u>	<u>2,741,550</u>
DEPRECIATION							
1 January 2005	762,890	203,389	216,677	63,781	694,532	122,487	2,063,756
Charge for the year	116,469	9,005	3,873	32,099	17,272	7,013	185,731
Disposal	<u>—</u>	<u>—</u>	<u>(272)</u>	<u>(44,902)</u>	<u>—</u>	<u>—</u>	<u>(45,174)</u>
31 December 2005	<u>879,359</u>	<u>212,394</u>	<u>220,278</u>	<u>50,978</u>	<u>711,804</u>	<u>129,500</u>	<u>2,204,313</u>
NET BOOK VALUE							
31 December 2005	<u>\$279,225</u>	<u>\$44,768</u>	<u>\$15,675</u>	<u>\$77,926</u>	<u>\$107,935</u>	<u>\$11,708</u>	<u>\$537,237</u>
31 December 2004	<u>\$318,900</u>	<u>\$37,656</u>	<u>\$11,290</u>	<u>\$60,035</u>	<u>\$125,207</u>	<u>\$18,421</u>	<u>\$571,509</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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7. CUSTOMER DEPOSITS

	<u>2005</u>	<u>2004</u>
	\$	\$
Security deposits held as collateral for loans	683,966	668,124
Loan prepayments	580,171	370,290
Insurance premiums	139,338	113,443
Legal fees, stamp tax, recording fees, etc.	92,610	81,569
Other	<u>352,432</u>	<u>578,263</u>
	<u><u>\$1,848,517</u></u>	<u><u>\$1,811,689</u></u>

8. LONG-TERM LOANS

	<u>2005</u>	<u>2004</u>
	\$	\$
Caribbean Development Bank	11,117,807	12,034,254
European Development Fund	425,545	504,082
Inter-American Development Bank	3,631,740	4,115,972
National Insurance Board	25,000,000	24,000,000
The Central Bank of the Bahamas	7,300,000	7,575,000
British American Insurance Co., Ltd	<u>4,000,000</u>	<u>—</u>
	<u><u>\$51,475,092</u></u>	<u><u>\$48,229,308</u></u>

The main characteristics of the long-term loans are as follows:

Caribbean Development Bank

The Bank has two loans outstanding with Caribbean Development Bank, as follows:

- (i) The first loan is repayable in quarterly instalments of \$126,262, payable in US Dollars at a variable interest rate of 6.00% (2004: 5.50%). The loan is due to be repaid by 30 June 2012.
- (ii) The second loan is repayable in quarterly instalments of US\$270,172, at a variable interest rate of 6.00% (2004: 5.50%). The loan is due to be repaid by 1 October 2012.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

8. LONG-TERM LOANS (cont)

European Development Fund

The loan is repayable in Euros in semi-annual instalments expressed as a percentage of the outstanding loan balance, at an interest rate of 1.00% (2004: 1.00%). The loan is due to be repaid by 1 February 2020.

Inter American Development Bank

The loan is repayable in semi-annual instalments of US\$242,116 at a variable interest rate of 4.45% (2004: 4.99%). The loan is due to be repaid 30 March 2013.

National Insurance Board

The Bank has issued six bonds to the National Insurance Board, as follows:

- (i) The first bond, Series A, is guaranteed by The Bahamas Government with an interest rate at prime (5.50%) repayable in semi-annual instalments with a redemption period of 20 years, maturing on 1 December 2020.
- (ii) The second bond, Series A, is guaranteed by The Bahamas Government with an interest rate at prime (5.50%) repayable in semi-annual instalments with a redemption period of 20 years, maturing on 1 January 2024.
- (iii) The third bond, Series B, is guaranteed by The Bahamas Government with an interest rate of 1.00% below prime (4.50%) repayable in semi-annual instalments with a redemption period of 15 years, maturing on 1 July 2016.
- (iv) The fourth bond, Series B, is guaranteed by The Bahamas Government with an interest rate of 1.00% below prime (4.50%) repayable in semi-annual instalments with a redemption period of 15 years, maturing on 1 July 2017.
- (v) The fifth bond, Series B, is guaranteed by The Bahamas Government with an interest rate of 1.00% below prime (4.50%) repayable in semi-annual instalments with a redemption period of 15 years, maturing on 1 August 2017.
- (vi) The sixth bond, Series B, is guaranteed by The Bahamas Government with an interest rate of 1.00% below prime (4.50%) repayable in semi-annual instalments with a redemption period of 15 years, maturing on 1 September 2018.

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8. LONG-TERM LOANS (cont)

British American Insurance Company of the Bahamas Limited

The Bank has issued a Series C bond to British American Insurance Company of the Bahamas Limited, which guaranteed by The Bahamas Government with an interest rate of prime (5.50%) repayable in semi-annual instalments with a redemption period of 20 years maturing 29 June 2025.

The Central Bank of the Bahamas

The Bank has three loans outstanding with The Central Bank of the Bahamas as follows:

- (i) The first loan is repayable in semi-annual instalments of \$62,500, at an interest rate of 2.00%. The loan is due to be repaid by 10 July 2009.
- (ii) The second loan is repayable in semi-annual instalments of \$75,000 at an interest rate of 2.00%. The loan is due to be repaid by 21 April 2018.
- (iii) The third loan is repayable in semi-annual instalments of \$87,500 at an interest rate of 2.00%. The loan is due to be repaid by 28 October 2018.

Under Section 18(d) of The Act The Bank is required to establish a sinking fund for the redemption of the bonds. At the year end an amount of \$6,621,817 (2004: \$4,060,950) was held on interest bearing deposits. See note 4.

The Bahamas Government guarantees long-term debt due to the Caribbean Development Bank, the Inter-American Development Bank and the European Development Fund. Unused lines of credit amounted to \$Nil as at 31 December 2005 (2004: \$0.7million).

In accordance with the provisions of the Bahamas Development Bank Act, Chapter 357 of the Revised Statute Law of The Bahamas 2000, section 15, The Bank has been approved to raise \$25 million by way of bond issuance. Unused bond issuance amounted to \$21 million as at 31 December 2005.

Principal repayments of long-term debt for each of the next five years is as follows:

Years	\$
2006	2,623,511
2007	2,623,852
2008	2,624,193
2009	2,624,364
2010	2,499,704

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9. SHARE CAPITAL

	<u>2005</u>	<u>2004</u>
	\$	\$
Authorised		
10,000,000 shares of \$5 each	\$50,000,000	\$50,000,000
	<u> </u>	<u> </u>
Issued and fully paid		
4,816,983 (2004: 4,666,983) shares of \$5 each	\$24,084,917	\$23,334,917
	<u> </u>	<u> </u>

All issued shares are owned and held by The Bahamas Government.

10. RESERVE FUND

Under Section 19 of the Act, The Bank is to set aside each year a minimum of 25% of net profits (if any) to a Reserve Fund to meet contingencies and for other purposes for which it may be required.

11. COMMITMENTS

At 31 December 2005 The Bank was committed to extend credit based on approved but undisbursed loans amounting to \$1,864,810 (2004: \$1,561,173).

The Bank was also committed to rent payments as noted below.

The Bank's Nassau premises were leased from the Hotel Corporation of the Bahamas for an initial period of five years beginning in 1992 with an option to renew for another five years at an annual rent of \$50,000 per annum. The Bank has not renewed its lease agreement but is continuing to pay the rent in accordance with the expired lease agreement.

The Bank's Abaco office is leased for an initial period of five years beginning 1 December 2005 at a monthly rent of \$1,000.

The lease on The Bank's Freeport office is for an initial period of five years beginning 1 July 2002 at a monthly rent \$1,376, with a five percent increase at the beginning of the second year and each subsequent year thereafter.

BAHAMAS DEVELOPMENT BANK
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12. INTEREST SUBSIDY

During 2001 The Bahamas Government agreed the following:

- that the lending rate for The Bank should be between 1.00% and 2.50% above prime depending on risk factors; and
- to subsidise the difference between The Bank's lending rate and The Bank's normal spread of 5.00%.

Total interest subsidy for the year amounted to \$434,971 (2004: \$360,884). Included in other assets is accrued interest subsidy of \$63,181 (2004: \$67,504).

13. MATURITY OF SIGNIFICANT ASSETS & LIABILITIES

	<u>Past Due</u>	<u>Up to 1Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Assets:					
Cash and due from banks	—	1,057,656	—	—	1,057,656
Interest bearing deposits with banks	—	6,621,817	—	—	6,621,817
Loans receivable	2,805,576	1,085,903	18,391,786	33,283,194	55,566,459
Accrued interest receivable	—	93,380	—	—	93,380
Other assets	—	143,188	—	—	143,188
	<u>\$2,805,576</u>	<u>\$9,001,944</u>	<u>\$18,391,786</u>	<u>\$33,283,194</u>	<u>\$63,482,500</u>

	<u>Past Due</u>	<u>Up to 1Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Liabilities:					
Customer deposits	—	1,848,517	—	—	1,848,517
Accrued interest payable	—	488,358	—	—	488,358
Accrued expenses	—	109,265	—	—	109,265
Long-term loans	—	2,623,511	12,872,158	35,979,423	51,475,092
	<u>\$—</u>	<u>\$5,069,651</u>	<u>\$12,872,158</u>	<u>\$35,979,423</u>	<u>\$53,921,232</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

14. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities according to geographic region and industry sector:

Cash and due from banks	<u>2005</u>	<u>2004</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	<u> </u>	<u> </u>
<u>Industry</u>		
Financial Sector	100.00	100.00
	<u> </u>	<u> </u>
 Interest bearing deposits with bank	 <u>2005</u>	 <u>2004</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	<u> </u>	<u> </u>
<u>Industry</u>		
Financial Sector	100.00	100.00
	<u> </u>	<u> </u>
 Loans receivable	 <u>2005</u>	 <u>2004</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	<u> </u>	<u> </u>
<u>Industry</u>		
Agriculture	3.00	3.00
Fishing	15.00	16.00
Transportation	16.00	16.00
Tourism	19.00	20.00
Manufacturing	5.00	4.00
Service	41.00	40.00
Staff	1.00	1.00
	<u> </u>	<u> </u>
	100.00	100.00
	<u> </u>	<u> </u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

14. CONCENTRATIONS OF ASSETS AND LIABILITIES (cont)

Long-term loans	<u>2005</u>	<u>2004</u>
	%	%
<u>Geographic Region</u>		
Barbados	21.60	24.95
Europe	0.80	1.05
North America	7.10	8.53
Bahamas	<u>70.50</u>	<u>65.47</u>
	<u>100.00</u>	<u>100.00</u>
<u>Industry</u>		
Financial Sector	<u>100.00</u>	<u>100.00</u>

15. FINANCIAL INSTRUMENTS

Interest rate risk

The Bank provides financial and technical assistance to Bahamian entrepreneurs in the areas of agriculture, fishing, marine and land transportation, tourism, manufacturing, service enterprises and other commercial operations.

The Bank minimises interest rate risk through the lending of monies at fixed rates of interest financed by fixed rate long-term debt which are specifically earmarked to finance projects in the above mentioned economic sectors.

Credit risk

The Bank mitigates credit risk on its loan portfolio by requiring borrowers to provide collateral up to 143% of the loan balance and limiting the total value of any loan originated to a single individual or entity to 10% of total capital. Collateral held includes land, buildings, equipment, motor vehicles and boats.

Fair Values

The Bank considers the carrying values of their financial assets and financial liabilities to approximate their fair values.

BAHAMAS DEVELOPMENT BANK
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16. RELATED PARTY DISCLOSURE

Salaries and other short-term employee benefits paid to key management personnel totalled \$531,385. Loans to key management personnel of the Bank totalled \$196,236. The loans bear interest at a rate of 5.50% are unsecured and have fixed terms of repayment.

At year-end there were three loans due from family members of key management personnel of the Bank, which totalled \$1,102,422. These loans have fixed terms of repayment and bear interest at rates ranging from 8.00% to 10.50%. Two of the loans were fully secured, while the other loan was partially secured. Additionally, one of the loans was classified as non-performing.

17. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN

The Bank operates a defined benefit contributory pension plan for the majority of its employees. The amount recognised as an asset in the balance sheet in respect of The Bank's defined benefit contributory pension plan is as follows

	<u>2005</u>	<u>2004</u>
	\$	\$
Present value of funded obligations	3,095,700	2,544,876
Fair value of plan assets	<u>(3,666,321)</u>	<u>(3,309,161)</u>
	(570,621)	(764,285)
Actuarial gain arising during the year	<u>5,082</u>	<u>268,585</u>
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	(565,539)	(495,700)
Less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	<u>(565,539)</u>	<u>448,913</u>
	<u>\$--</u>	<u>\$(46,787)</u>

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17. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont)

The expenditure recognised in the statement of operations in respect of The Bank's defined benefit pension plan is as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Current service cost	118,203	129,394
Interest cost	157,309	160,576
Expected return on plan assets	(203,865)	(183,818)
	71,647	106,152
Less: increase in amounts limited by paragraph 58 of International Accounting Standard 19	<u>23,052</u>	<u>33,283</u>
	<u>\$94,699</u>	<u>\$139,435</u>

Movement in the net asset recorded in the balance sheet are as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Net asset at beginning of the year	46,787	80,070
Net expense recognised in the statement of operations	94,699	106,152
Employer contributions	(141,486)	(139,435)
Net asset at end of the year	<u>\$--</u>	<u>\$46,787</u>

Principal actuarial assumptions used at the balance sheet date are as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	6.00%	6.00%
Expected return on plan assets	6.00%	6.00%
Expected rate of salary increase	7.13%	7.13%
Average expected remaining working lives of employees (years)	14.00	14.00

The actual return on plan assets during the year was \$179,985 (2004: \$172,586).



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