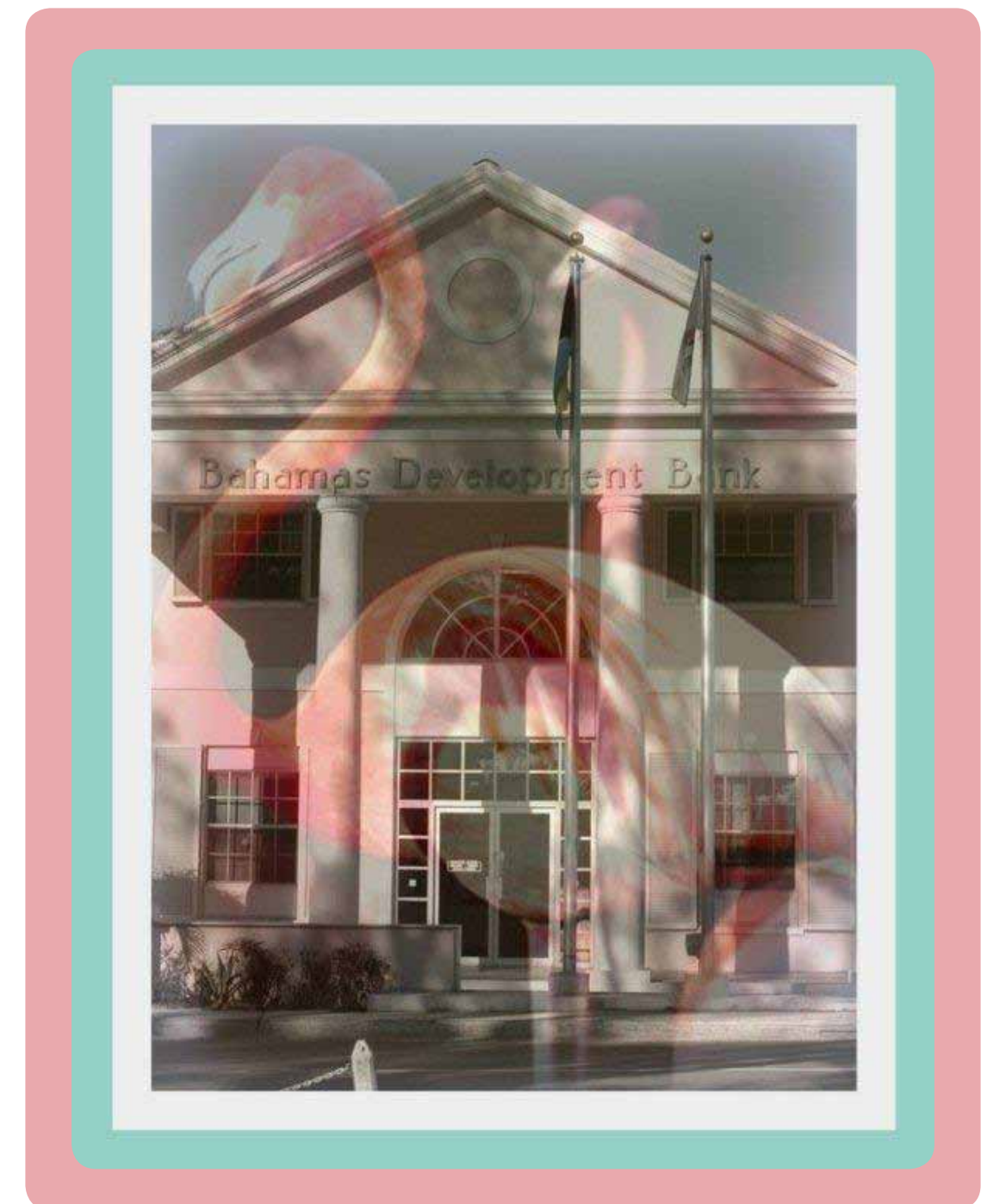


BAHAMAS DEVELOPMENT BANK

A N N U A L R E P O R T 2 0 1 1



THE CHANGING FACE OF BDB

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

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011



21. RELATED PARTIES

Salaries and other short-term employee benefits paid to key management personnel totalled \$449,193 (2010: \$428,587). Loans to key management personnel of the Bank totalled \$153,522 (2010: \$65,197). 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 \$142,658 (2010: \$1,079,827) and were classified as non-performing. These loans have fixed terms of repayment and bear interest at rates at 8.50% to 10.50%. The loans are fully secured.

The Bank is related in terms of common ownership to all the Bahamas Government corporation and agencies. Transactions with such related entities are at arm's length basis.

22. FINANCING OF OPERATIONS

The Bank has incurred significant losses and reduction of equity due to the performance of its loan portfolio and loan provisioning. While its liquidity and ability to meet obligations may be significantly impacted by the loan losses, the Directors are satisfied that the Bank is currently a going concern and that the preparation of these accounts on that basis is appropriate due to the continuing support of the Bahamas Government.

23. CORRESPONDING FIGURES

The presentation of certain corresponding figures has been reclassified to conform with the current year's presentation.

5th June, 2012

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of the Prime Minister
Sir Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, Bahamas

Dear Prime Minister:

In accordance with Section 22(1) of the Bahamas Development Bank Act 2000, I have the privilege of submitting to you on behalf of the Board of Directors, the Annual Report of the Bank for the year 2010. The audited financial statements of the Bank for the year are also included with this report.

Respectfully yours,

A handwritten signature in black ink, appearing to read "D. Cash", is written over a circular stamp.

Darron B. Cash
Chairman

The notes on pages 34 to 50 form an integral part of these financial statements.

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

19. FINANCIAL RISK MANAGEMENT (cont)

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligation as they fall due. The Bank’s approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Bank ensures that it has sufficient liquid assets to settle currently maturing obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Bank’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Management mitigates this risk by not investing significantly in securities affected by market risk.

20. DEFINED CONTRIBUTION PENSION PLAN

On 1 February 2011, the Bank changed its pension plan from a Defined Benefit Plan to Defined Contribution Plan where both the Bank (employer) and the employees will contribute 5% of their equivalent gross salary. Employees have the option to contribute additional sums voluntarily.

Furthermore, the pension plan is now administered by Colina Financial Advisors Limited (CFAL). However, the Bank continues to administer the funds for the retirees existing as of 31 December 2011 year end.

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

19. FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Bank's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities.

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

Credit risk is the risk of financial loss arising if a customer or counter-party fails to meet its contractual obligations. The Bank mitigates credit risk on its loan portfolio by requiring borrowers to provide collateral equivalent to 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.

The notes on pages 34 to 50 form an integral part of these financial statements.

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BAHAMAS DEVELOPMENT BANK
BOARD OF DIRECTORS

Darron Cash, Chairman
Anton Sealy, Deputy Chairman
Anthony Woodside, Managing Director, *Acting*
Harold Watson, Director
J. Lisa Bostwick, Director
Perry Cancino, Director
Jessup Johnson, Director
Philcher Grant-Farquharson, Director
Lindsay Williamson, Director
Jamal Moss, Director

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

18. CONCENTRATIONS OF ASSETS AND LIABILITIES (cont)

Loans receivable	<u>2011</u>	<u>2010</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Agriculture	4.30	3.96
Fishing	10.88	13.01
Transportation	13.78	10.56
Tourism	22.12	20.46
Manufacturing	10.43	6.60
Service	37.18	44.19
Staff	<u>1.31</u>	<u>1.22</u>
	100.00	100.00
	=====	=====
Long-term debt	<u>2011</u>	<u>2010</u>
	%	%
<u>Geographic Region</u>		
Barbados	3.59	8.20
Europe	0.48	0.60
North America	1.25	2.70
Bahamas	<u>94.68</u>	<u>88.50</u>
	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	<u>100.00</u>	<u>100.00</u>
	=====	=====

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

17. MATURITY OF SIGNIFICANT ASSETS & LIABILITES (cont)

	<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	--	945,052	--	--	945,052
Accrued interest payable	--	596,615	--	--	596,615
Accrued expenses	--	139,873	--	--	139,873
Long-term loans	--	2,466,406	6,515,179	49,265,463	58,247,048
Due to the Bahamas Government	--	--	--	8,844,799	8,844,799
	--	4,147,946	6,515,179	58,110,262	68,773,387
	==	=====	=====	=====	=====

18. 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>2011</u>	<u>2010</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====
Interest bearing deposits with bank	<u>2011</u>	<u>2010</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====

The notes on pages 34 to 50 form an integral part of these financial statements.



BAHAMAS DEVELOPMENT BANK
Executive Management Team



Justin Sturup
Deputy Managing Director



Anthony Woodside,
Managing Director, Acting



Garnell Pelecanos,
Financial Controller



Jacquelyn Beneby
Human Resources Manager



Steine Campbell,
Senior Credit Manager



Anita Ramsey,
Corporate Secretary



BAHAMAS DEVELOPMENT BANK

Operations and Technical Management Team



John Archer
Delinquency Control and Collections Manager



Dale McHardy
Special Projects Manager



Alonzo Hinsey
Information Technology Manager

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15. COMMITMENTS (cont)

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 lease on the Bank’s Freeport office is for an initial period of three years beginning 1 January 2009 at a monthly rent of \$3,500.

16. 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 \$453,459 (2010: \$451,397). Included in other assets is accrued interest subsidy of \$NIL (2010: \$NIL).

17. MATURITY OF SIGNIFICANT ASSETS & LIABILITES

	<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	--	2,680,610	--	--	2,680,610
Interest in deposits with banks	--	332,993	--	--	332,993
Loans receivable	5,349,165	4,488,269	12,689,575	20,279,320	42,806,329
Accrued interest receivable	--	471,249	--	--	471,249
Other assets	--	71,577	--	--	71,577
	<u>5,349,165</u>	<u>8,044,698</u>	<u>12,689,575</u>	<u>20,279,320</u>	<u>46,362,758</u>

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

12. RESERVE FUND

Under Section 20 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.

13. RECOVERY OF LOAN LOSSES

Included in the account are settlement of claims amounting to \$841,848 (2010: \$867,552) that the Bahamas Government authorised during the year for the guaranteed loans in default.

14. GENERAL AND ADMINISTRATIVE

	<u>2011</u>	<u>2010</u>
	\$	\$
Utilities	91,591	81,713
Professional fees	89,405	37,318
Telephone, telex and cable	67,962	70,455
Travel and transportation	64,169	46,853
Computer expenses	63,487	30,882
Repairs and maintenance	58,256	84,973
Insurance	25,603	26,727
Office supplies and printing	17,280	9,952
Advertising	9,722	8,730
Entertainment	6,698	9,966
Miscellaneous	<u>32,589</u>	<u>25,085</u>
	<u>526,762</u>	<u>432,654</u>

15. COMMITMENTS

As at year-end, the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$715,973 (2010: \$565,156).

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

The notes on pages 34 to 50 form an integral part of these financial statements.

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. Its office was located in Rawson Square on Bay Street, across from the historic House of Parliament prior to its current location in Cable Beach.

Our principal functions are to:

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

The Bank provides funding for the following sectors:

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

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

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



Message from the Managing Director, Acting.....

Although the Bahamas Development Bank has experienced many challenges throughout its history, the Bank has begun its trek towards sustainability. Through the efforts of the management and staff and with the Government’s support BDB has shown year over year improvement in recent fiscal periods. This is no small feat considering the many impediments to success that development banks have faced historically and presently in the face of a world wide economic contraction.

Through collaboration with the Bahamas Government, BDB will continue to provide the capital and support needed for small and medium sized enterprises to develop and flourish in our country. BDB will focus on development banking in its truest sense with financing and giving technical support to projects that will expand the economy. We look forward to continuing our service.

Anthony Woodside

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

9. LONG-TERM LOANS (cont)

The Bahamas Government guarantees long-term debt due to the Caribbean Development Bank, the Inter-American Development Bank and the European Development Fund.

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

Years	\$
2012	2,466,406
2013	1,215,249
2014	433,064
2015	433,433
2016	4,433,433

10. DUE TO THE BAHAMAS GOVERNMENT

The principal and interest repayments on the long term debts due during the year amounting to \$5,590,791 are paid by The Bahamas Government on behalf of the Bank. The government has agreed to pay the long term debts of the Bank until further notice.

Furthermore, the government has agreed to apply the government guarantee claims and interest subsidies due to the Bank during the year amounting to \$1,361,479 against the above transfers made on behalf of the Bank.

The net loan payable is interest free and is due on demand.

11. SHARE CAPITAL

	<u>2011</u>	<u>2010</u>
	\$	\$
Authorised		
10,000,000 shares of \$5 each	50,000,000	50,000,000
Issued and fully paid		
5,792,051 shares of \$5 each	28,960,256	28,960,256

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

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

9. LONG-TERM LOANS (cont)

National Insurance Board

The Bank has issued twenty-one (21) bonds to the National Insurance Board, as follows:

Bond	Series	Amount \$	Rate	Issue Date	Year of Maturity
1	A	10,000,000	4.75%	28/11/2000	2020
2	B	4,000,000	3.75%	22/06/2001	2016
3	B	1,000,000	3.75%	14/06/2002	2017
4	B	2,000,000	3.75%	31/07/2002	2017
5	B	2,000,000	3.75%	15/08/2003	2018
6	A	2,000,000	4.75%	29/12/2003	2024
7	A	2,000,000	4.75%	25/03/2004	2024
8	A	1,000,000	4.75%	29/09/2004	2024
9	B	1,000,000	3.75%	16/06/2005	2020
13	C	2,000,000	4.75%	05/05/2006	2026
14	D	2,000,000	3.75%	11/08/2006	2021
15	D	1,000,000	3.75%	03/01/2007	2022
16	C	2,000,000	4.75%	06/02/2007	2027
17	C	2,000,000	4.75%	05/04/2007	2027
18	D	2,000,000	3.75%	02/08/2007	2022
19	D	2,000,000	3.75%	30/11/2007	2022
20	C	2,000,000	4.75%	02/04/2008	2028
21	D	2,000,000	3.75%	18/08/2008	2023
22	C	2,000,000	4.75%	14/11/2008	2028
23	C	1,000,000	4.75%	31/03/2009	2029
24	D	<u>1,000,000</u>	3.75%	31/03/2009	2024
		<u>46,000,000</u>			

Under Section 19(b) 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 \$16,941,294 (2010: \$16,130,649) was held on interest bearing deposits. See Note 5.

In accordance with the provisions of The Bahamas Development Bank Act, Chapter 357 of the Revised Statue Law of The Bahamas 2000, Section 16, the Bank has been approved to raise \$50 million by way of bond issuance; which is fully drawn.

The notes on pages 34 to 50 form an integral part of these financial statements.

The Macro and Micro Environment

International Economic Context

The year 2011 began in a revival manner, albeit delicate and unbalanced. However, by the fourth quarter, the energy of global recovery became sluggish as the world economy was in the middle of a chaotic period with expansion and self assurance being negatively impacted by the sovereign debt crisis in European Union coupled with world-wide high unemployment. However, economic indicators in the United States continued to strengthen, with real GDP growing to 3.0% in the last quarter of 2011 from 1.8% in the preceding three month period (retrieved from The Central Bank of the Bahamas Quarterly Economic Review, December 2011).

Domestic Economic Context

Implications are that the domestic economy sustained an optimistic, although gentle growth momentum in 2011. Foreign investment activity coupled with the continuing Bahamas Road Improvement Project kept afloat the construction sector, and the tourism sector benefitted from higher hotel earnings. However, according to the Central Bank of The Bahamas quarterly Economic Review for December 2011, there was a decline in both bank liquidity and external reserves in the latter part of the year due to an increase in consumer demand. Given the continual challenges in employment and business conditions, banks' credit quality indicators remained high. Additionally, the weighted average interest rate spread reduced due to the reduction in the prime rate by .75 points to 4.75% in June, thus reducing the lending rates.

In an effort to reposition itself in the local and regional markets and in refocusing on our mandate, management has adopted as its theme, "The Changing Face of BDB". This represents our commitment to improving our quality of service, productivity, risk management and technical support to the business community after having acknowledged the presence of deficiencies in various areas.

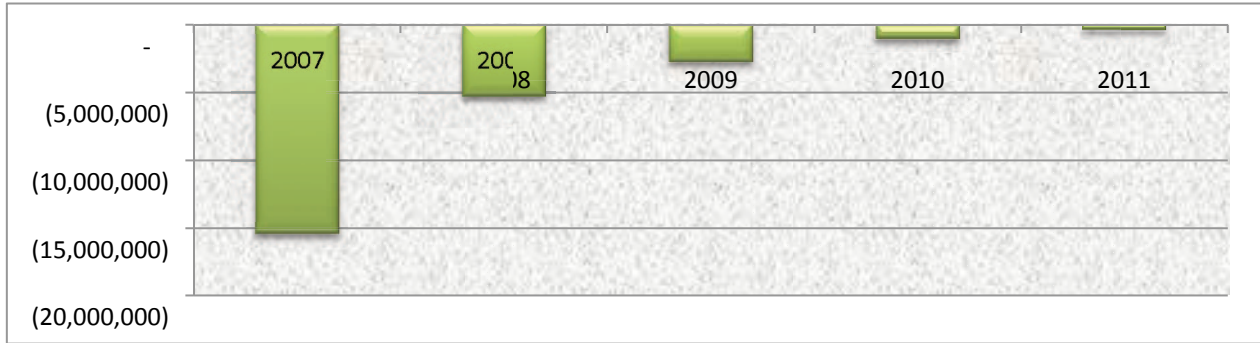
The metamorphosis has begun.....

Management' s Overview & Discussion

Financial

The overall financial performance of the Bahamas Development Bank has been one of further improvement. Although the Bank experienced a loss for the year 2011, the loss is significantly less than that of the previous year. This reflects a trend in the right direction due mainly to the Bank's strides in various aspects of its financial management.

Net Income



The loss for the year was approximately \$0.3 million, compared to \$1.0 million in 2010 and \$2.67 million in 2009, an improvement of \$0.7 and \$1.67 million respectfully. There were several major contributing factors to this achievement, chiefly the submission of government guarantee claims that amounted to \$0.84 million recovery of loan losses. Other significant contributing factors were the write-down of loan loss provision in the amount of \$0.6 million, an increase in fees and commissions, as well as management's commitment to reducing expenses evidenced by the continued decreases in total Other Expenses.

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

9. LONG-TERM LOANS (cont)

Inter American Development Bank

The loan is repayable in semi-annual instalments of US\$242,116 at a variable interest rate of 1.92% (2010: 4.02%). The loan is due to be repaid 30 March 2013.

The Central Bank of The Bahamas

The Bank has two loans outstanding with The Central Bank of The Bahamas, as follows:

- (i) The first loan is \$900,000 which is repayable in semi-annual instalments of \$75,000 at an annual interest rate of 2.00%. This loan is due to be repaid by 21 April 2018.
- (ii) The second loan is \$4,250,000 which is repayable in semi-annual instalments of \$125,000 at an annual interest rate of 2.00%. This loan is due to be repaid by 28 October 2028.

The Central Bank of The Bahamas holds the following bonds:

Bond	Series	Amount	Rate	Issue Date	Year of Maturity
		\$			
10	C	2,000,000	4.75%	13/7/2005	2025
11	C	1,000,000	4.75%	17/10/2005	2025
12	C	1,000,000	4.75%	19/10/2005	2025
		4,000,000			

The interest on the bonds is payable in semi-annual instalments.

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

9. LONG-TERM LOANS

	<u>2011</u>	<u>2010</u>
	\$	\$
Caribbean Development Bank	2,090,007	3,639,669
European Development Fund	280,693	322,078
Inter-American Development Bank	726,348	1,210,580
National Insurance Board	46,000,000	46,000,000
The Central Bank of the Bahamas	<u>9,150,000</u>	<u>9,550,000</u>
	58,247,048	60,722,327
Less: Sinking Fund	<u>(16,941,294)</u>	<u>(16,130,649)</u>
	<u>41,305,754</u>	<u>44,591,678</u>
Long-term loans:		
Current portion	2,466,037	2,466,037
Non-current portion	<u>38,839,717</u>	<u>42,125,641</u>
	<u>41,305,754</u>	<u>44,591,678</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:

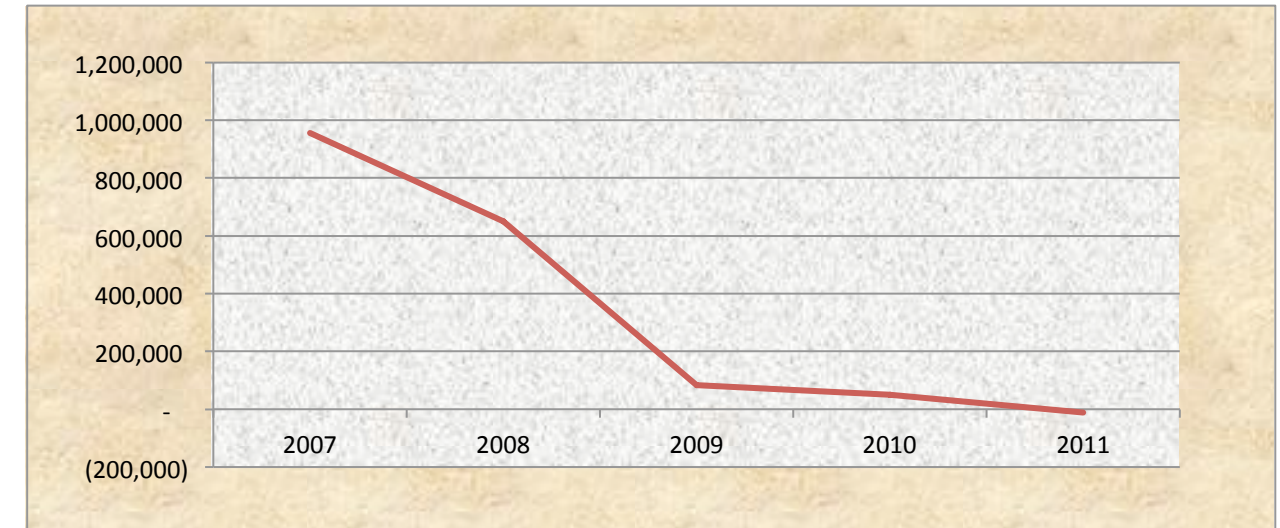
- (i) The first loan of \$468,972 is repayable in quarterly instalments of US\$117,243 at a variable interest rate of 3.66% (2010: 4.50%). This loan is due to be repaid by 1 October 2012.
- (ii) The second loan of \$1,621,035 is repayable in quarterly instalments of US\$270,172 at a variable interest rate of 3.66% (2010: 4.50%). This loan is due to be repaid by 1 April 2013.

European Development Fund

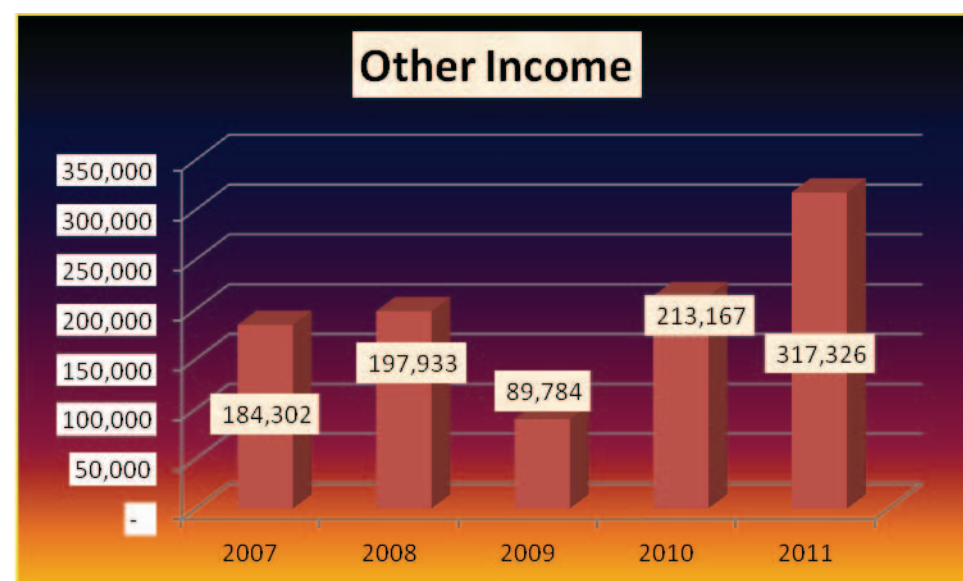
The loan is repayable in Euros in semi-annual instalments expressed as a percentage of the outstanding loan balance, at an interest rate of 1.00% (2010: 1.00%). The loan is due to be repaid by 1 February 2020.

The notes on pages 34 to 50 form an integral part of these financial statements.

Net Interest Expense

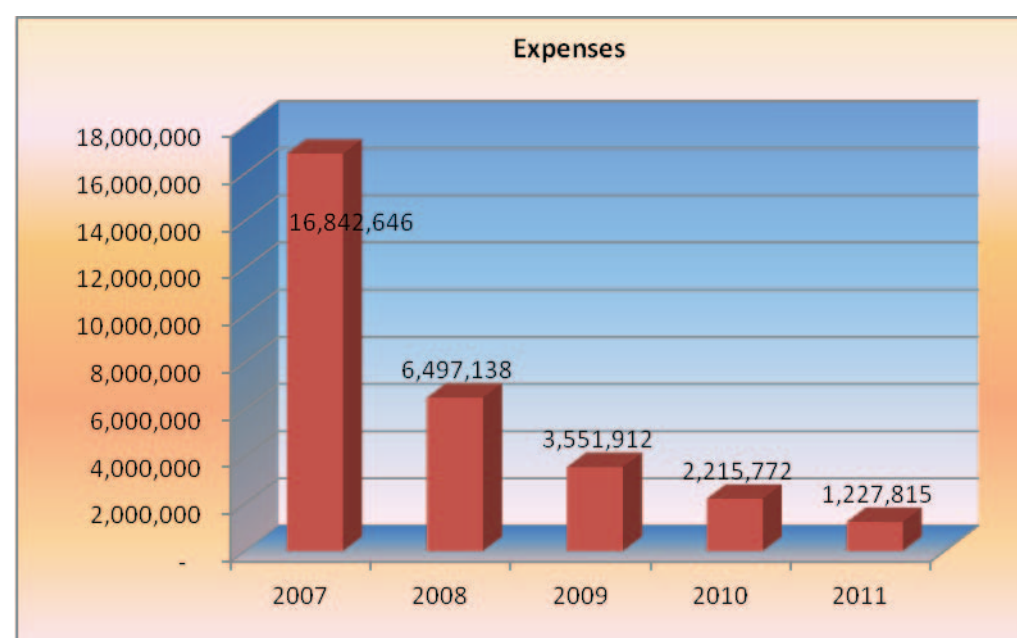


The Net Interest Expense (NIE) was \$0.01 million this year. Although Net Interest Income has been decreasing over the past several years, we have seen a bigger decrease in 2011 and a further weakening of the loan portfolio. BDB was not able to maintain a steady level of loan interest income reflected by a drop of \$0.5 million from \$2.5 million in 2010 and 2009. This level represents 18% decline from 2010. Although we did enjoy a reduction in the interest rate and by extension interest expense for the servicing of long term debt, we also suffered a decrease in interest income on loans due mainly to difficulties experienced in collections in a depressed economy.



Other Income increased by \$0.10 million to \$0.32 million in 2011. This was mainly attributable to an increase in loan recoveries and the introduction of revised schedule of fees for client services.

Operational and Administrative Expenses



BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

7. LOANS RECEIVABLE

	2011	2010
	\$	\$
Performing	14,525,291	12,508,242
Non-performing	26,504,528	29,541,307
Extraordinary advances	1,237,540	744,789
Employees	538,970	560,868
	<u>42,806,329</u>	<u>43,355,206</u>
Less: Allowance for loan losses	(16,253,860)	(16,921,409)
	<u>26,552,469</u>	<u>26,433,797</u>
Loans receivable:		
Current portion	8,599,887	8,218,583
Non-current portion	<u>17,952,582</u>	<u>18,215,214</u>
	<u>26,552,469</u>	<u>26,433,797</u>

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

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

	2011	2010
	\$	\$
Balance brought forward	16,921,409	24,472,947
(Decrease)/increase in provision	(594,927)	100,000
Loans written off	<u>(72,622)</u>	<u>(7,651,538)</u>
Balance carried forward	<u>16,253,860</u>	<u>16,921,409</u>

8. CUSTOMER DEPOSITS

	2011	2010
	\$	\$
Security deposits held as collateral for loans	197,708	254,090
Loan prepayments	280,070	185,314
Insurance premiums	106,568	106,666
Legal fees, stamp tax, recording fees, etc.	62,195	62,791
Other customer deposits/advances - net	<u>298,511</u>	<u>(172,137)</u>
	<u>945,052</u>	<u>436,724</u>

The notes on pages 34 to 50 form an integral part of these financial statements.

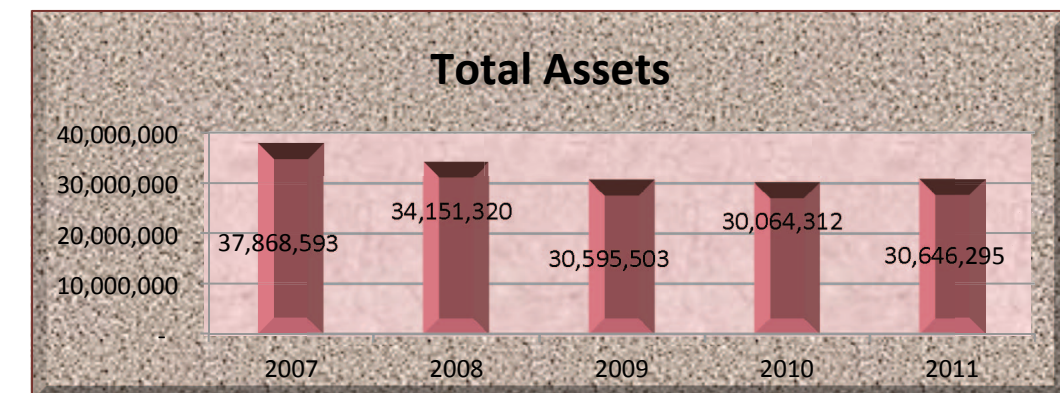
BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011	1,630,393	283,710	270,987	131,990	925,002	198,463	3,440,545
Additions	<u>22,966</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>117,091</u>	<u>8,857</u>	<u>148,914</u>
31 December 2011	<u>1,653,359</u>	<u>283,710</u>	<u>270,987</u>	<u>131,990</u>	<u>1,042,093</u>	<u>207,320</u>	<u>3,589,459</u>
DEPRECIATION							
1 January 2011	1,264,940	250,631	252,159	93,157	846,921	189,435	2,897,243
Charge for the year	<u>100,850</u>	<u>6,551</u>	<u>5,297</u>	<u>15,500</u>	<u>18,272</u>	<u>8,349</u>	<u>154,819</u>
31 December 2011	<u>1,365,790</u>	<u>257,182</u>	<u>257,456</u>	<u>108,657</u>	<u>865,193</u>	<u>197,784</u>	<u>3,052,062</u>
NET BOOK VALUE							
31 December 2011	<u>287,569</u>	<u>26,528</u>	<u>13,531</u>	<u>23,333</u>	<u>176,900</u>	<u>9,536</u>	<u>537,397</u>
31 December 2010	<u>365,453</u>	<u>33,079</u>	<u>18,828</u>	<u>38,833</u>	<u>78,081</u>	<u>9,028</u>	<u>543,302</u>

At \$1.2 million, total expenses decreased by \$.99 million or approximately 45% - a trend that has continued from 2008. The decrease in expenses is attributed to two major expense classes:

- **Recovery of loan losses** - The Bank has again this year, been able to enjoy a recovery of loan losses. The recovery of \$1.53 million is a combination of recoveries from claims made against delinquent accounts secured by the Government Guarantee Program, and recoveries from a reduction in the loan loss provision, in compliance with the established provisioning policy.
- **Salaries and staff expenses** have declined by \$0.25 million to \$1.98 million, a trend that has also continued from 2009. Management has employed efforts to contain staff costs while strategically making strides in developing its staff compliment. Further details can be found in the Human Resources section on page 23 of this report.



Total Assets have remained relatively stable at \$30.60 million compared to \$30.06 million in 2010, although there have been significant increases and decreases in particular asset classes:

- Fixed Assets decreased marginally as there were no major fixed asset purchases.
- Cash at Bank has increased slightly from \$2.34 million to \$2.68 million. Due primarily to the Bahamas Government's direct payment of the Bank's long term debt, BDB has been able to maintain a steady cash flow.
- Accrued interest receivable also increased slightly as timed deposits naturally increase over time as interest earned is retained.

The notes on pages 34 to 50 form an integral part of these financial statements.

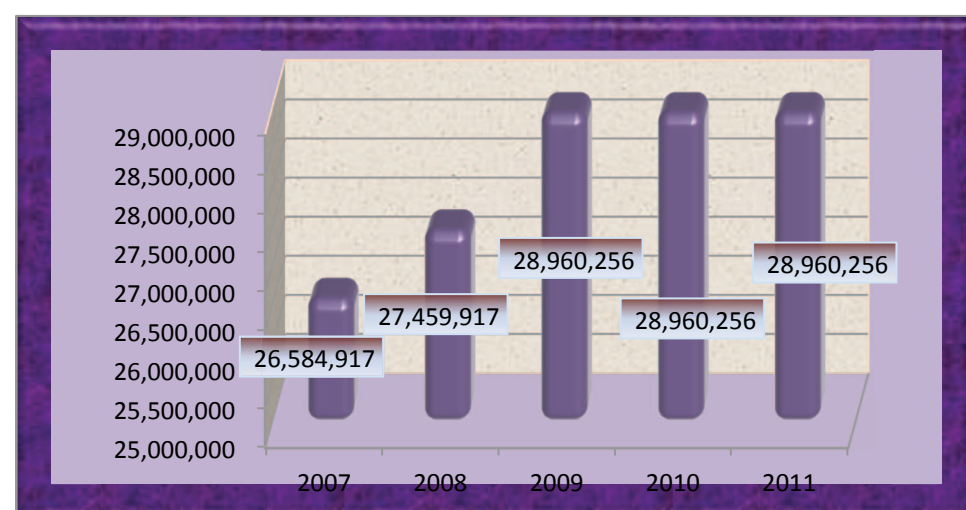
BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

- The Current portion of the loans receivable has increased by \$0.38 million as the portfolio continues to age with very few new loans being added. The Allowance for loan losses has decreased by \$0.67 million with the continued use of the established provisioning policy. All factors combined, account for a negligible change in Loans receivable in the amount of \$0.12 million.

Total Liabilities have increased slightly from \$50.90 million to \$51.83 million, although there have been significant changes in particular liability classes:

- Customer deposits have increased from \$0.44 million to \$0.95 million. This amount represents deposits only and is not netted against advances for other expenditure as in the previous year.
- Accrued interest payable also decreased from \$1.2 million to \$0.60 million due to timely payments of interest. Liabilities also include a new classification namely, "Due to the Bahamas Government" which includes all payments made on behalf of BDB less any claims (i.e. government loan guarantee program and interest subsidy) approved for payment to BDB.
- The Current portion of long-term loans remains unchanged from the previous year. This amount will remain the same until 2013 as seen in the latter section of Note 9.

Shareholder's Equity



In the absence of additional capital injection from the Bahamas Government, Share capital remains unchanged from the previous year.

4. NEW AND AMENDED STANDARDS

IFRS 13 Fair Value Measurement – Issued in May 2011

IFRS 13 defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Bank does not expect any changes on the financial statements upon the future adoption of the above amendment.

5. INTEREST BEARING DEPOSITS WITH BANK

The deposits with bank have been set aside as a sinking fund to fulfil the requirement under Section 19(b) of The Act. The sinking fund is required for the redemption of the series A, B, C and D bonds issued to The National Insurance Board and The Central Bank of The Bahamas, as disclosed in Note 9.

These deposits earn interest at annual rates of 2.25% to 4.75% (2010: 3.00% to 5.50%).

The sinking fund is also comprised of Bahamas Government Registered Stocks, which are being held for the long term and stated at amortized cost, which approximates fair value. The stocks bear interest at prime and have maturity dates of 2021 through 2024.

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. ACCOUNTING POLICIES (cont)

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 comprehensive loss.

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. NEW AND AMENDED STANDARDS

There are no International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Bank.

At the date of authorisation of the financial statements, the following new standards, amendments and interpretations issued but not yet effective for the financial year 1 January 2011 and not early adopted:

IFRS 9 Financial Instruments – Issued in November 2009 and amended in October 2010

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. This standard will eventually replace IAS 39 – Financial Instruments: Disclosure and Presentation. This standard is effective for annual periods beginning on or after January 2013, with earlier application permitted.

The Bank will check the classification and measurement of its financial assets and liabilities upon the future adoption of the above standard.

The notes on pages 34 to 50 form an integral part of these financial statements.

DEPARTMENTAL REVIEWS

Operations Unit

The Operations Unit is comprised of the Special Projects Department, Delinquency and Collections Department, Credit Department and the Grand Bahama Branch. During 2011, the Operations Unit of the Bank focused its attention on 1) addressing the fundamental weaknesses in the Bank's delinquency control and collection policies and processes 2) identifying alternative sources of revenues that offer higher margins and 3) improving the quality of customer service via change in our culture. We made meaningful progress in each of the areas targeted and a summary of what was achieved follows.

Special Projects

The Special Projects Department took steps to identify alternative sources of income for the Bank. Although the results of such steps may not be enjoyed until late 2012, Management has:

1. Established a MOU with the Grand Bahama Port Authority and Caribbean Export Development Agency to provide and facilitate the acquisition of Grant Funding for Bahamian Citizens.
2. Provided proposals to the Government to provide management support and oversight for the Jump-start and Self-starter programs.
3. Began ground work for establishing a consultancy and technical assistance arm in the Bank.

Delinquency Control and Collections (DCC)

During 2011, priority and focused attention was placed on developing the capabilities of the Bank to meaningfully and effectively improve and manage its loan portfolio. In this regard, Management:

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. Assessed the Bank's delinquency control and collections policies and processes.
2. Crafted a comprehensive policy and standard operating procedures manual which was approved by the Board of Directors and subsequently implemented in the Bank to address several delinquency control weaknesses uncovered in our assessment of our processes.
3. Re-allocated our staff complement to effectively implement the Bank's collection strategy, policies and procedures
4. Created a reporting structure that supports timely decision-making on delinquent accounts and trained the DCC managers and staff in their use.
5. Worked to create a culture of accountability and urgency within the department

These steps have begun to produce the desired result.

Portfolio Quality Report

as at Year Ended December 31, ...

	2011	2010	2009	2008	2007
Performing	14,525,291.00	12,508,242.00	20,236,197.00	25,280,297.00	26,471,973.00
Non-Performing	26,504,528.00	29,541,307.00	31,911,902.00	28,885,366.00	29,032,957.00
Total Portfolio	41,029,819.00	42,049,549.00	52,148,099.00	54,165,663.00	55,504,930.00
Allowances	16,253,860.00	16,921,409.00	24,472,947.00	24,138,426.00	21,178,877.00
Net Portfolio	24,775,959.00	25,128,140.00	27,675,152.00	30,027,237.00	34,326,053.00

Non-Performing Rate	65%	70%	61%	53%	52%
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During the year we made measurable progress in the area of delinquency control and collections. We managed to curtail the account slippages (which accelerated between 2009 and 2010) via strict account supervision policies and procedures; our strategy to address hardcore delinquencies yielded a \$3.04 million drop in the nominal value of non-performing accounts. Loan write-offs accounted for less than 2.5% of the total reduction, concurrently, the nominal value of our performing portfolio increased by approximately 16.13%. The aforementioned combined yielded a five percentage point improvement in the Bank's non-performing rate from 70% to 65% for the period under review.



3. ACCOUNTING POLICIES

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.

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%

The notes on pages 34 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 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.

Its main place of business is Cable Beach, West Bay Street, Nassau, Bahamas.

2. BASIS OF PREPARATION

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

The preparation of the financial statements in conformity with IFRS 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.

We have also slowed the rate at which the total value of the portfolio has been declining. In 2011, the net contraction of the total portfolio decreased to just 1.40%; compared with an annualized average of 9.85% over the prior three years.

Our systematic approach to working long standing non-performing accounts reassure us that by the end of 2012, appropriate action would have been taken on every single account and our portfolio would have been effectively cleaned up.

Going forward, we will continue to focus on reducing the nominal value of non-performing accounts. This will be achieved by ensuring that the main elements of the policies and processes established are solidified in the organization's culture and that changes necessary to improve results are quickly adopted.

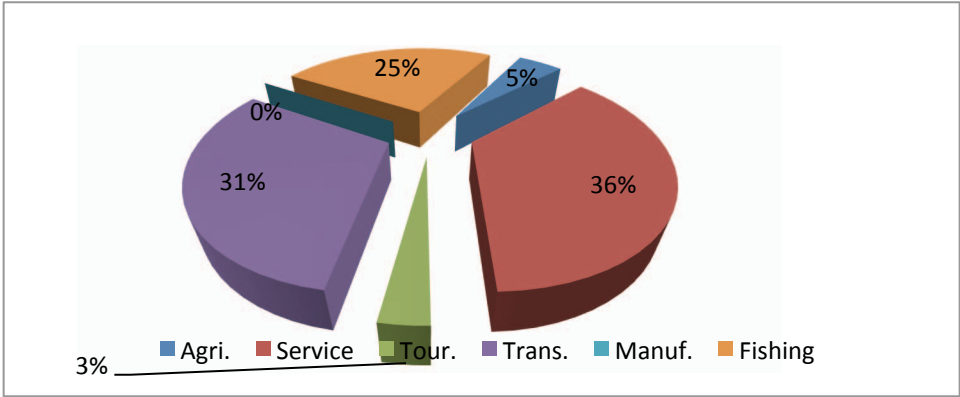
CREDIT DEPARTMENT

The year began as it ended in 2010, with some uncertainty as to the reformation of the Bank. Despite this, the Credit Department focused on improving efficiencies, developing stronger relationships with our clients, and implementing initiatives to better meet our core mandate. This began with ongoing staff training and the revamping of various internal policies and procedures. Small progress was made, and we will continue our effort with renewed focus in the coming year.

In light of the Bank's limited availability of funds for onward lending, as well as marginal improvements in the country's economy overall, twenty two loans were approved in 2011 - a slight fall-off compared to the twenty five approved in 2010. The total dollar amount of \$1.72 million however, reflected an approximate increase of 43% in comparison to \$1.2 million in 2010.

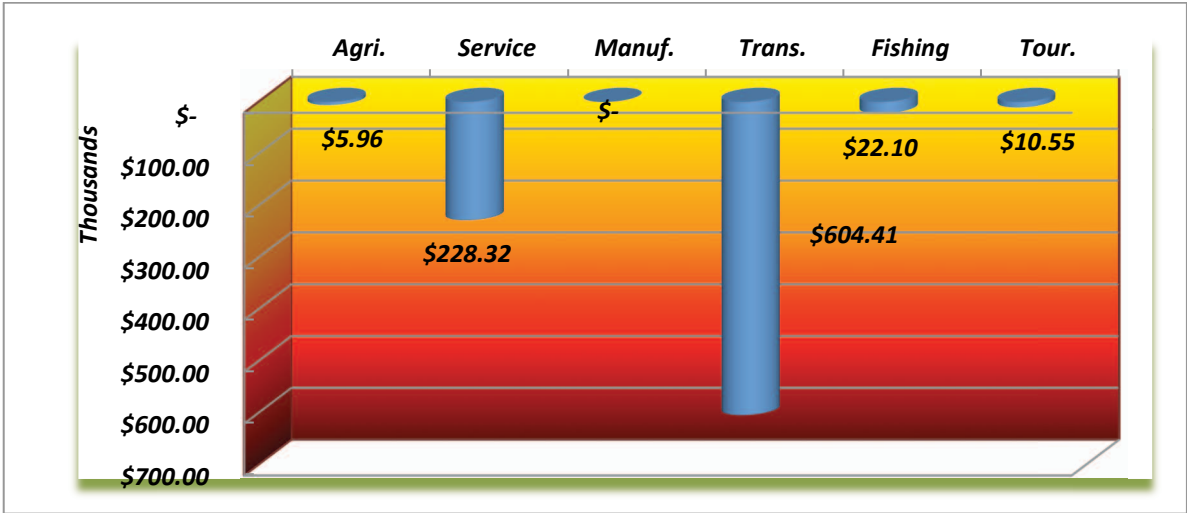
The notes on pages 34 to 50 form an integral part of these financial statements.

LOAN APPROVALS BY SECTOR - 2011



Actual disbursements in 2011 totaled \$0.87 million, which was a growth of approximately 34% in comparison to \$.065 million in 2010.

LOAN DISBURSEMENTS BY SECTOR – 2011 ('000s)



2012 will bring a new era for the Bank, as it widens its menu of services and support to the Bahamian entrepreneurs. A more structured and focused marketing strategy will be implemented to create a greater diverse and risk-balanced portfolio. Through public education, we will encourage entrance into new industries, particularly where use of our natural resources provide sustained opportunities. We will continue to develop and train our staff to ensure that they are necessarily equipped in order to provide superior and

BAHAMAS DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(345,806)	(991,649)
Adjustment for items not involving the movement of cash:		
Net gain on disposal of fixed asset	--	(6,622)
Depreciation	154,819	190,004
Operating loss before working capital changes:	(190,987)	(808,267)
Increase in accrued interest receivable	(138,601)	(569,791)
Decrease in other assets	960	25,946
Decrease in accrued interest payable	(559,292)	(392,152)
Increase/(decrease) in accrued expenses and other liabilities	37,545	(6,383)
Net cash used by operating activities	<u>(850,375)</u>	<u>(1,750,647)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase)/decrease from loans receivable	(118,672)	3,084,013
Proceeds from disposal of fixed assets	--	7,410
Purchase of fixed assets	(148,914)	(383,465)
Net cash (used)/provided by investing activities	<u>(267,586)</u>	<u>2,707,958</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase/(decrease) in customer deposits	508,328	(604,805)
Net repayment of long-term loans	(3,285,924)	(3,153,869)
Increase in due to the Bahamas Government	4,227,132	4,617,667
Net cash provided by financing activities	<u>1,449,536</u>	<u>858,993</u>
Net increase in cash and cash equivalents	331,575	1,816,304
Cash and cash equivalents at beginning of the year	<u>2,349,035</u>	<u>532,731</u>
Cash and cash equivalents at end of the year	<u>2,680,610</u>	<u>2,349,035</u>

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Share capital</u> \$	<u>Reserve fund</u> \$	<u>Accumulated deficit</u> \$	<u>Total</u> \$
1 January 2010	28,960,256	273,128	(49,081,727)	(19,848,343)
Net loss for the year	--	--	(991,649)	(991,649)
31 December 2010	28,960,256	273,128	(50,073,376)	(20,839,992)
Net loss for the year	--	--	(345,806)	(345,806)
31 December 2011	<u>28,960,256</u>	<u>273,128</u>	<u>(50,419,182)</u>	<u>(21,185,798)</u>

knowledgeable service. Quality assurance initiatives will be implemented to ensure significant improvements in the experiences of both our existing and prospective clients.

GRAND BAHAMA BRANCH

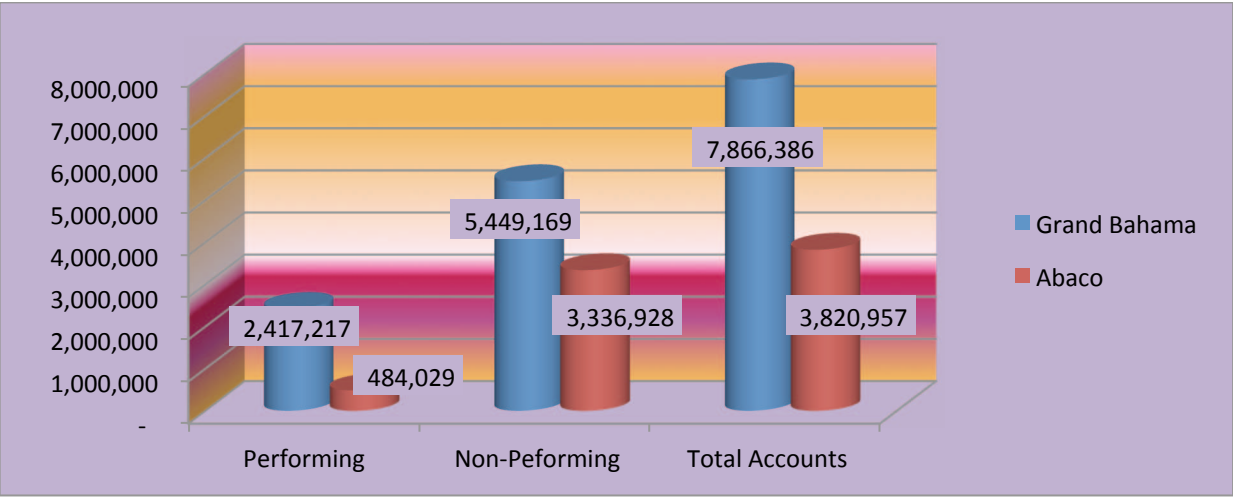
Grand Bahama's Economy

The general synopsis of Grand Bahama's economy reflects a predominantly dim state which in part is a result of the worst ever global financial crisis. The poor state of the island's economy was further exacerbated by 15.4% unemployment rate (retrieved from Dept of Statistics, Labor Force and its Components, 2011). This rate is expected to increase by an additional 5.8% by the first quarter of 2012.

Portfolio Performance

The Grand Bahama Branch portfolio is made up of Grand Bahama and Abaco accounts. A comparison of the Branch portfolio for the periods 2010 and 2011 reveals a total portfolio growth of 18.7% representing 9 loans. New loans were mainly in the service sector. We are making a concerted effort to change this however. In an effort to reduce the country's foreign import cost and bring diversification to Grand Bahama Island, it is the objective of the Branch, in keeping with the overall objective of BDB, to put more emphasis and focus on projects in the manufacturing and agricultural sectors. As with the entire Bahamas, the island imports significant amounts of pure agricultural products. It is believed that with the implementation of new hydroponic and aquaponic projects, the island will be able to materially reduce such imports.

A summary of the Grand Bahama Branch's portfolio and its classification is shown below:



As the graph above reflects, Abaco accounts are performing poorly. The Branch has been faced with challenges as it relates to collection, repossession, and proper monitoring of projects due to geographical disparities. These issues have recently been addressed with the implementation of the Bank's revised Standard Operating Procedures (SOPs) coupled with regularly scheduled visits, representation by a local law firm, and continuous communication with government officials on the island who have agreed to assist the Bank where necessary.

Moving Forward

The Branch having recognized its problem areas, is now taking several essential steps to correct its delinquency status while simultaneously increasing its portfolio with innovative, industrious and viable projects. To obtain first-hand and diverse views of exactly which sectors will facilitate such projects, the Branch has began its Know Your Neighbor Program. This program takes all staff out into the community to speak with and discuss one-on-one the needs of the island as seen by the employed, unemployed, private, government or self employed individuals. This information will be used in the Bank's decision making process.

In 2012, the Operations Unit will work aggressively to resolve hardcore delinquencies and reduce the number and value of accounts classified as non-performing assets. However, significant focus will also be shifted to our Credit Department. Emphasis will be placed on growing the loan portfolio with a higher quality loans while building our

BAHAMAS DEVELOPMENT BANK
STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>2011</u>	<u>2010</u>
	\$	\$
INTEREST INCOME		
Interest on loans	2,063,784	2,530,760
Interest subsidy	453,459	451,397
Interest on deposits	<u>46,484</u>	<u>27,121</u>
Total interest income	2,563,727	3,009,278
Interest expense	<u>(2,575,118)</u>	<u>(2,959,459)</u>
Net interest (expense)/income	(11,391)	49,819
OTHER INCOME		
Fees and commissions	51,476	27,755
Net foreign exchange gain	6,157	27,602
Recovery of loan losses	13 1,531,353	882,033
Other income	<u>1,464</u>	<u>6,818</u>
	<u>1,590,450</u>	<u>944,208</u>
OTHER EXPENSES		
Salaries and staff costs	1,979,806	2,227,770
General and administrative	14 526,762	432,654
Depreciation	154,819	190,004
Rent	<u>97,781</u>	<u>96,385</u>
	<u>2,759,168</u>	<u>2,946,813</u>
Operating loss	(1,180,109)	(1,952,786)
Sinking fund income	<u>834,303</u>	<u>961,137</u>
NET LOSS FOR THE YEAR	<u>(345,806)</u>	<u>(991,649)</u>

BAHAMAS DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

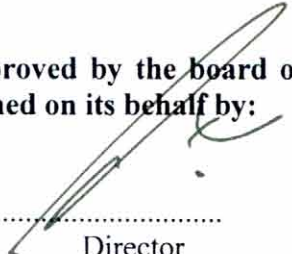
(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2011</u> \$	<u>2010</u> \$
FIXED ASSETS	6	537,397	543,302
LOANS RECEIVABLE	7	17,952,582	18,215,214
CURRENT ASSETS			
Cash and due from banks		2,680,610	2,349,035
Accrued interest receivable		804,242	665,641
Other assets		71,577	72,537
Current portion of loans receivable	7	<u>8,599,887</u>	<u>8,218,583</u>
		<u>12,156,316</u>	<u>11,305,796</u>
CURRENT LIABILITIES			
Customer deposits	8	945,052	436,724
Accrued interest payable		596,615	1,155,907
Accrued expenses		139,873	102,328
Current portion of long-term loans	9	<u>2,466,037</u>	<u>2,466,037</u>
		<u>4,147,577</u>	<u>4,160,996</u>
NET CURRENT ASSETS		8,008,739	7,144,800
LONG-TERM LOANS	9	38,839,717	42,125,641
DUE TO THE BAHAMAS GOVERNMENT	10	<u>8,844,799</u>	<u>4,617,667</u>
		<u>(21,185,798)</u>	<u>(20,839,992)</u>
EQUITY			
Share capital	11	28,960,256	28,960,256
Reserve fund	12	273,128	273,128
Accumulated deficit		<u>(50,419,182)</u>	<u>(50,073,376)</u>
		<u>(21,185,798)</u>	<u>(20,839,992)</u>

The statements were approved by the board of directors and authorised for issue on 14 May 2012, and are signed on its behalf by:



 Director



 Director

customer's capacity to manage their business ventures where elementary skills are missing.

HUMAN RESOURCES DEPARTMENT

Consistent with the general direction being taken world –wide, the Human Resources, Training and Administration Department focused much of its attention to the further reduction in salaries and staff costs. This was done in conjunction with the reengineering of processes geared at enhancing and rewarding performance, improving customer service and promoting the existence and strength of the Bank. 2011 was a year that brought about both tangible and measurable change amongst the staff and the organization as a whole.

The use of the attrition method for cost savings on salaries remained the focus as well as turning to other methods that would have reduced cost during the peak of the economic downturn. The aging population of the Bank led to one retirement during 2011 and will continue to do so over the next few years. Additionally, resignations also led to opportunities for further savings despite the increase in The National Insurance Contribution ceiling.

Additionally, in February 2011 the Board of Directors through the Human Resources Department shifted some of their focus to a change in the management of the pension plan. The plan was converted from a Defined Benefit Plan, being managed by a small committee appointed by employees, to a Defined Contribution Plan. The Defined Contribution Plan, which is being managed by Colina Financial Advisors (CFAL) Limited, gave employees the option to have a greater stake in the investment of their pension funds and gave them an opportunity to make additional voluntary payments. This amendment in the pension benefit changed the contribution of the Bank from 11.8% to 5%, which is now matched at a rate of 5% by the employees. This gave rise to significant annual savings.



Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Bahamas Development Bank as at 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 in the financial statements which states that the Bank continues to incur significant losses and reduction of equity. However, the Directors are satisfied that the Bank is currently a going concern and that the preparation of these accounts is appropriate due to the continuing support of the Bahamas Government.

BDO

Chartered Accountants

Nassau Bahamas

14 May 2012

Through its employees, the Bahamas Development Bank has over the past year, demonstrated its perseverance in the market and only through the adaptation of new methodologies and the movement towards a paradigm shift in how our products and services are delivered, will we further fulfill our true mandate. We are committed to realistically changing the face of the Bahamas Development Bank, employee by employee.

It is envisaged that during 2012, emphasis will continue to be placed on training and developing the employees of the Bank to position them to not only be leaders in the financial services industry locally but to be regional leaders in the area of development banking. With the completion of a comprehensive training needs assessment exercise, training programs in Superior Customer Service, legal document preparation, credit and collection techniques and training geared at strengthened business acumen will be delivered to the employees. The introduction of a Management Development Program is also proposed for selective employees as a part of the Bank's succession plan.

INFORMATION TECHNOLOGY

With the full implementation of Clareti Banking System, our employees now have the information that is needed at their finger-tips, to perform their job functions accurately and expeditiously. This allows them to be more effective and efficient in the loan cycle process and with delinquency control measures. Clareti, with modifications, has also been of great assistance to other banking support services. The IT Department has also upgraded our information security systems and controls and upgraded hardware to reduce delays and mitigate risks.

During the upcoming year, the Bahamas Development Bank will focus on making information more accessible to its end-users and implement the ability for our staff to access customer information anytime-anywhere. Our Customer Service Representatives (CSR) will be able to access their customer accounts while on site visits in New Providence and the Family Islands.



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REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF BAHAMAS DEVELOPMENT BANK

We have audited the accompanying financial statements of Bahamas Development Bank which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive loss, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

LOOKING AHEAD

Similar to strides made in specific areas in 2011, in 2012, the Bank will continue its efforts to significantly reduce risk exposure, through the application of proven techniques, while improving portfolio performance. We will endeavor to be focused on supporting each sector (particularly those with potential for export or import replacement) through methodical marketing efforts and synchronization among the various departments. The Bank will continue to expand on the improvements already made to our service delivery, while further operational reform will be implemented to enhance our clients' experiences. We will fervently and relentlessly pursue and sustain improved customer service.

The "Changing Face of BDB" concept is the genesis for a modernized, improved and sustainable development banking institution in The Bahamas. The management and staff of the Bank will continue to be dedicated to the necessary changes that the institution has made and will continue to make in order to position itself as a lender of first choice. This will be done in tandem with significantly improving BDB's financial performance by strengthening operational weaknesses, finding and pursuing new revenue streams and developing a performance-based, customer service-oriented culture within the organization.



BAHAMAS DEVELOPMENT BANK

FINANCIAL STATEMENTS

31 DECEMBER 2011