

BAHAMAS DEVELOPMENT BANK

FINANCIAL STATEMENTS

31 DECEMBER 2011

BAHAMAS DEVELOPMENT BANK

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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.

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.

A handwritten signature in blue ink, appearing to read 'BDO'.

**Chartered Accountants
Nassau Bahamas
14 May 2012**

BAHAMAS DEVELOPMENT BANK

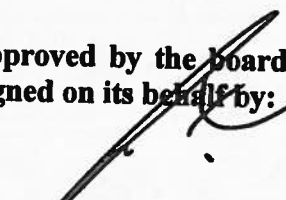
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011
(Expressed in Bahamian Dollars)

	<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

The notes on pages 7 to 23 form an integral part of these financial statements.

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>

The notes on pages 7 to 23 form an integral part of these financial statements.

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>

The notes on pages 7 to 23 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2011**

	<u>2011</u> \$	<u>2010</u> \$
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	<u>154,819</u>	<u>190,004</u>
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	<u>37,545</u>	<u>(6,383)</u>
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	<u>(148,914)</u>	<u>(383,465)</u>
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	<u>4,227,132</u>	<u>4,617,667</u>
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><u>2,680,610</u></u>	<u><u>2,349,035</u></u>

The notes on pages 7 to 23 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.

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

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%

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.

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

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.

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>

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

7. LOANS RECEIVABLE

	<u>2011</u>	<u>2010</u>
	\$	\$
Performing	14,525,291	12,508,242
Non-performing	26,504,528	29,541,307
Extraordinary advances	1,237,540	744,789
Employees	<u>538,970</u>	<u>560,868</u>
	42,806,329	43,355,206
Less: Allowance for loan losses	<u>(16,253,860)</u>	<u>(16,921,409)</u>
	<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:

	<u>2011</u>	<u>2010</u>
	\$	\$
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

	<u>2011</u>	<u>2010</u>
	\$	\$
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>

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.

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	<u>1,000,000</u>	4.75%	19/10/2005	2025
		<u>4,000,000</u>			

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

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

46,000,000

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 Statute 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.

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.

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.

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 & 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	--	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>

BAHAMAS DEVELOPMENT BANK
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17. MATURITY OF SIGNIFICANT ASSETS & LIABILITIES (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
	==	==

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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>100.00</u>	<u>100.00</u>
<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	1.31	1.22
	100.00	100.00
	<u>100.00</u>	<u>100.00</u>
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	94.68	88.50
	100.00	100.00
	<u>100.00</u>	<u>100.00</u>
<u>Industry</u>		
Financial Sector	100.00	100.00
	<u>100.00</u>	<u>100.00</u>

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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.

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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.

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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.