

BAHAMAS DEVELOPMENT BANK

FINANCIAL STATEMENTS

31 DECEMBER 2018

BAHAMAS DEVELOPMENT BANK

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REPORT OF THE AUDITORS TO THE BOARD OF BAHAMAS DEVELOPMENT BANK

Opinion

We have audited the accompanying financial statements of Bahamas Development Bank ("The Bank"), which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bahamas Development Bank as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in The Bahamas, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 27 regarding the continued operations of the Bank. The Bank's total liabilities exceeded total assets by \$33,302,184 (2017: \$32,381,398) and has an accumulated deficit of \$62,535,568 (2017: \$61,614,782) as at 31 December 2018. However, the Directors are satisfied that the Bank is currently a going concern and that the preparation of these accounts on that basis is appropriate since the Bank has been receiving financing from the Government of The Bahamas. The Bank will continue to rely on the Government's support in the foreseeable future.

Other Matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by other auditors whose report dated 20 March 2018, expressed an unqualified opinion on these financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements (cont)

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditors' responsibilities for the audit of the financial statements is located in an Appendix to this report. This description forms part of our auditors' report.

BDO

**Chartered Accountants
Nassau Bahamas
18 April 2019**

APPENDIX TO THE AUDITORS' REPORT

Detailed Description of Our Responsibilities

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018
(Expressed in Bahamian Dollars)

	<u>Notes</u>	<u>2018</u> \$	<u>2017</u> \$
ASSETS			
Cash	5	2,904,510	4,315,409
Restricted deposits – sinking fund	5	12,228,017	13,745,553
Loans receivable	6	22,082,564	21,325,062
Interest receivable	6	292,961	238,428
Other assets	7	482,002	606,406
Fixed assets, net	8	<u>189,585</u>	<u>126,156</u>
TOTAL ASSETS		<u>\$38,179,639</u>	<u>\$40,357,014</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	9	1,035,347	1,189,405
Accounts payable and accrued expenses	10	449,778	422,977
Bonds payable	11	41,000,000	43,000,000
Loans payable	12	2,545,371	2,804,976
Interest payable		380,839	402,958
Due to The Bahamas Government	13	<u>26,070,488</u>	<u>24,918,096</u>
Total liabilities		<u>71,481,823</u>	<u>72,738,412</u>
EQUITY			
Share capital	14	28,960,256	28,960,256
Reserve fund	15	273,128	273,128
Accumulated deficit		<u>(62,535,568)</u>	<u>(61,614,782)</u>
Total Equity		<u>(33,302,184)</u>	<u>(32,381,398)</u>
TOTAL LIABILITIES AND EQUITY		<u>\$38,179,639</u>	<u>\$40,357,014</u>

The audited statements were approved by the board of directors and authorised for issue on 18 April 2019, and are signed on its behalf by:

.....

Director

.....

Director

The notes on pages 8 to 43 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS****FOR THE YEAR ENDED 31 DECEMBER 2018**

	<u>Notes</u>	<u>2018</u> \$	<u>2017</u> \$
INTEREST INCOME			
Loans		1,709,944	1,273,614
Sinking fund		282,348	496,556
Interest subsidy	16	434,392	248,757
Deposits		<u>25,884</u>	<u>37,364</u>
Total interest income		2,452,568	2,056,291
Interest expense		<u>(1,747,155)</u>	<u>(1,818,816)</u>
Net interest income		705,413	237,475
LOAN RECOVERY	6	764,667	991,486
OTHER INCOME	17	<u>299,965</u>	<u>329,696</u>
TOTAL INCOME		<u>1,770,045</u>	<u>1,558,657</u>
NON-INTEREST EXPENSES			
Staff costs	18	(1,911,307)	(1,841,151)
General and administrative costs	19	(711,267)	(731,223)
Depreciation		<u>(52,052)</u>	<u>(57,426)</u>
Total non-interest expenses		<u>(2,674,626)</u>	<u>(2,629,800)</u>
NET LOSS FOR THE YEAR		<u>(904,581)</u>	<u>(1,071,143)</u>
OTHER COMPREHENSIVE LOSS			
Actuarial loss on defined benefit plan		<u>(16,205)</u>	<u>--</u>
TOTAL COMREHENSIVE LOSS FOR THE YEAR		<u><u>\$(920,786)</u></u>	<u><u>\$(1,071,143)</u></u>

The notes on pages 8 to 43 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	<u>Share capital</u> \$	<u>Reserve fund</u> \$	<u>Accumulated deficit</u> \$	<u>Total</u> \$
1 January 2017	28,960,256	273,128	(60,543,639)	(31,310,255)
Net loss for the year	--	--	(1,071,143)	(1,071,143)
31 December 2017	28,960,256	273,128	(61,614,782)	(32,381,398)
Net loss for the year	--	--	(904,581)	(904,581)
Other comprehensive loss				
Actuarial loss on defined benefit plan	--	--	(16,205)	(16,205)
31 December 2018	<u>\$28,960,256</u>	<u>\$273,128</u>	<u>\$(62,535,568)</u>	<u>\$(33,302,184)</u>

The notes on pages 8 to 43 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	<u>2018</u> \$	<u>2017</u> \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(904,581)	(1,071,143)
Adjustment for:		
Depreciation	52,052	57,426
Decrease in loans receivable provision	(760,193)	(983,983)
Loans receivable write-off	(43,134)	--
Interest income from loans and deposits	(2,018,176)	(1,310,979)
Interest subsidy	(434,392)	(248,757)
Interest expense	<u>1,747,155</u>	<u>1,818,816</u>
Operating loss before working capital changes	(2,361,269)	(1,738,620)
Decrease in loans receivable	45,825	821,366
Decrease in other assets	124,404	192,893
(Decrease)/increase in customer deposits	(154,058)	412,676
Increase in accounts payable and accrued expenses	10,596	83,901
Interest received	2,398,035	1,560,831
Interest paid	<u>(1,769,274)</u>	<u>(2,724,415)</u>
Net cash used in operating activities	<u>(1,705,741)</u>	<u>(1,391,368)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	<u>(115,481)</u>	<u>(37,148)</u>
Net cash used in investing activities	<u>(115,481)</u>	<u>(37,148)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds	(2,000,000)	(3,000,000)
Repayment of loans payable	(259,605)	(841,444)
Decrease in restricted deposits – sinking fund	1,517,536	2,226,134
Increase in due to The Bahamas Government	<u>1,152,392</u>	<u>3,465,576</u>
Net cash provided by financing activities	<u>410,323</u>	<u>1,850,266</u>
Net (decrease)/increase in cash and cash equivalents	(1,410,899)	421,750
Cash and cash equivalents at beginning of the year	<u>4,315,409</u>	<u>3,893,659</u>
Cash and cash equivalents at end of the year	<u><u>\$2,904,510</u></u>	<u><u>\$4,315,409</u></u>

The notes on pages 8 to 43 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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.

The Bank officially commenced its operations on 30 March 1978. The Bank’s registered head office is located at Cable Beach, West Bay Street, Nassau, The 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.

3. ACCOUNTING POLICIES

Presentation of financial statements

The financial statements are presented in accordance with IAS 1, *Presentation of Financial Statements (Revised 2007)*. The Bank has elected to present the “Statement of profit or loss and other comprehensive loss” in one statement.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (cont)

Presentation of financial statements (cont)

Management's use of judgment and estimates

The Bank uses accounting estimates and assumptions in the preparation of financial statements. Although these estimates are based on management's best knowledge of current events and transactions, actual results may ultimately differ from those estimates. The effect of any changes in estimates will be continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following presents a summary of these significant judgements and estimates:

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Taxes

On 1 January 2015, the Government of The Bahamas implemented the Value Added Tax ("VAT") regime, with three (3) categories for goods and services, which includes two rates of VAT of 7.5% and 0% and third category classified as Exempt. On 1 July 2018, the VAT rate was increased from 7.5% to 12%. The Bank has registered with the Ministry of Finance and is a VAT registrant with a VAT certificate and Tax Identification Number 100100934 and is obligated to comply with the Act and Associated Regulations.

Income that is subject to tax is recognised gross of the taxes and the corresponding withholding tax is recognised as an expense in the statement of comprehensive operations. No other taxes are applicable to the Bank.

Operating lease commitments – Bank as lessee

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Bank. Lease contracts, which transfer to the Bank substantially all the significant risks and rewards incidental to ownership of the leased items, are classified as finance leases. Otherwise, they are considered as operating leases.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (cont)

Judgment (cont)

Operating lease commitments – Bank as lessee (cont)

The Bank entered into a commercial property lease and determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the property and therefore accounts for the contract as an operating lease.

Estimates

Estimation of useful lives of fixed assets

The Bank estimates the useful lives of its fixed assets based on the period over which the assets are expected to be available for use. The estimated useful lives of the fixed assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of the fixed assets is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts of timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As at 31 December 2018, the Bank's fixed assets - net amounted to \$189,585 (2017: \$126,156), as disclosed in Note 8.

Cash and restricted deposits – sinking fund

Cash is comprised of cash at bank and in hand, which are subject to an insignificant risk of change in value. Restricted deposits – sinking fund are short-term deposits with contractual maturities of one year or less and are being held in escrow for long-term loan repayments.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (cont)

Loans payable

Loans payable are long-term loans and initially recognised at fair value, net of issue costs incurred, and are subsequently recognised at amortised cost. Any difference between net proceeds and the redemption value is recognised in the statement of profit or loss and other comprehensive loss over the period of the borrowing using the effective interest method.

Bonds payable

Bonds payable are initially recognised at fair value, net of issue costs incurred, and are subsequently recognised at amortised cost. Any difference between net proceeds and the redemption value is recognised in the statement of profit or loss and comprehensive loss over the period of the borrowing using the effective interest method.

Customer deposits

Customer deposits are recognised when the Bank has a legal or constructive obligation as a result of past event, and it is probable that a payment will be required to settle the obligation.

Income and expense

Interest income and expense are recognised using the effective interest method. Interest subsidy is charged against the Due to The Bahamas Government account and is recognised as income in the period in which the conditions attached to them have been satisfied. These amounts are presented gross in the statement of profit or loss and other comprehensive loss.

All other income and expenses are recognised on the accrual basis of accounting.

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 2018

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.

Defined contribution pension plan

The Bank pays fixed contributions into an independent entity in relation to a pension plan for its qualified employees. The Bank has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the statement of profit or loss and comprehensive loss in the period that relevant employee services are received.

Defined benefit plan

The Bank continues to administer the Defined Benefit Pension Plan for existing retirees. The members will be paid monthly pension and lump sum benefits in accordance with the rules of the Defined Benefit Retirement Plan. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out on a regular basis. Remeasurements are recognised in other comprehensive income when they occur. Past service cost is recognised immediately in the period of a plan amendment or curtailment.

The asset or liability amount recognised in the statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less, the fair value of plan assets.

Related party transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. The parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (cont)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in the contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or there is substantial change in the asset.

Foreign currency transactions

Transactions in currencies other than Bahamian dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of the financial position date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Gains and losses arising on translation are included in the statement of profit or loss and other comprehensive loss.

4. NEW AND AMENDED STANDARDS

The Bank has adopted the following new and revised Standards and Interpretations issued by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to the Bank's operations and effective for the current accounting period.

IFRS 9 (issued November 2009 and amended October 2010 and July 2014)

This standard amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in IAS 39 have been eliminated.

Under IFRS 9, there are three categories of financial assets:

- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. NEW AND AMENDED STANDARDS (cont)

IFRS 9 (issued November 2009 and amended October 2010 and July 2014)(cont)

IFRS 9 also requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the fair value of a financial liability that is designated at fair value through profit or loss (using the fair value option) that relate to changes in the reporting entity's own credit risk are normally recognised in other comprehensive income.

The changes are to be applied prospectively from the date of adoption. The effective date of the amendments is 1 January 2018. Adoption of this standard did not have a significant impact on the financial statements since the Bank's financial assets are at amortised cost.

The Bank's financial asset at amortised cost pertains to cash and cash equivalent, loans receivable and interest receivable which are not significantly exposed to credit risk thus no ECL was recognised.

IFRS 15 – Revenue from Contracts with Customer (issued May 2014 and amended September 2015)

This standard establishes a single and comprehensive framework which sets out how much revenue is to be recognised, and when. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The core principle is that a vendor should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the vendor expects to be entitled in exchange for those goods or services. Revenue will now be recognised by a vendor when control over the goods or services is transferred to the customer.

The application of the core principle in IFRS 15 is carried out in five steps:

- Step 1: Identify the contract
- Step 2: Identify separate performance obligations
- Step 3: Determine the transaction price
- Step 4: Allocate transaction price to performance obligations
- Step 5: Recognise revenue as or when each performance obligation is satisfied.

The standard is effective for annual periods commencing on or after 1 January 2018.

Adoption of this standard did not have a significant impact on the Bank's financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. NEW AND AMENDED STANDARDS (cont)

Annual Improvements to IFRSs 2014-2016 Cycle

There were three amendments as part of the 2014-2016 Annual Improvements Cycle. These were made to IFRS 1, IFRS 12 and IAS 28.

- IFRS 1 – effective 1 January 2018

A number of short-term exemptions in IFRS 1 First Time Adoption of International Financial Reporting Standards were deleted. The reliefs provided by these exemptions were no longer applicable.

- IAS 28 – effective 1 January 2018

IAS 28 Investments in Associates and Joint Ventures, permits an investment in an associate or joint venture to be measured at fair value through profit or loss, instead of the equity method being applied, if the investment is held directly or indirectly through a venture capital organisation, unit trust or similar entities. IAS 28 was amended to specify that a qualifying entity may elect to measure investments in associates and joint ventures at fair value through profit or loss on an investment-by-investment basis, upon initial recognition.

The Bank has already adopted improvements to IFRS 12 in 2017. The adoption of improvements to IFRS 1 and IAS 28 did not have a significant impact on the Bank's financial statements.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration – effective 1 January 2018

IFRIC 22 addresses how to determine the date of transaction for the purpose of determining the spot exchange rate used to translate foreign currency transactions on initial recognition in circumstances when an entity pays or receives some or all of the foreign currency consideration in advance of the recognition of the related asset, expense or income.

The interpretation states that the date of the transaction, for the purpose of determining the spot exchange rate used to translate the related asset, expense or income (or part of it) on initial recognition, is the earlier of:

- (a) The date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and
- (b) The date that the asset, expense or income (or part of it) is recognised in the financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. NEW AND AMENDED STANDARDS (cont)

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration – effective 1 January 2018 (cont)

Adoption of this interpretation did not have a significant impact on the Bank's financial statements.

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 31 December 2018. They have not been adopted in preparing the financial statements and are expected to affect the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated below.

IFRS 16 – Leases (issued January 2016)

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. For many entities the effect of bringing all leases on the statement of financial position will be very significant and will require careful planning, including for commercial effects.

In the statement of profit or loss and other comprehensive income, the application of IFRS 16 will result in a depreciation charge (within operating expenses) and an interest expense.

The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements.

IFRS 16 has an effective date of 1 January 2019, with early application permitted only if IFRS 15 has also been adopted.

The Bank will review any contract that meets the definition of a lease upon future adoption of this standard.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. NEW AND AMENDED STANDARDS (cont)

Annual Improvements to IFRSs 2015-2017 Cycle

There were four amendments as part of the 2015-2017 Annual Improvements Cycle. These were made to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

- IFRS 3 - *effective 1 January 2019*

A bank remeasures its previously held interest in a joint operation when it obtains control of the business.

- IFRS 11 - *effective 1 January 2019*

A bank does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IFRS 12 - *effective 1 January 2019*

A bank accounts for all income tax consequences of dividend payments in the same way.

- IAS 23 - *effective 1 January 2019*

A bank treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The Bank does not expect any significant impact on the financial statements upon the future adoption of the above improvements.

5. CASH AND RESTRICTED DEPOSITS – SINKING FUND

	<u>2018</u>	<u>2017</u>
	\$	\$
Cash at banks	2,903,710	4,314,609
Cash on hand	<u>800</u>	<u>800</u>
	<u>\$2,904,510</u>	<u>\$4,315,409</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5. CASH AND RESTRICTED DEPOSITS – SINKING FUND (cont)

The Bank earns interest on cash at banks at the prevailing market interest rates. The average interest rate for the year ended 31 December 2018 was 0.75% (2017: 0.75%). Interest income earned and collected on cash at banks during the year amounted to \$25,884 (2017: \$37,364)

	<u>2018</u>	<u>2017</u>
	\$	\$
Fixed deposits	11,864,517	13,382,053
Bahamas Government Registered Stocks	<u>363,500</u>	<u>363,500</u>
	<u>\$12,228,017</u>	<u>\$13,745,553</u>

In accordance with Section 19 of the Act, the Bank established a sinking fund for the partial redemption of the Series A, B, C and D bonds issued to the National Insurance Board and the Central Bank of The Bahamas. The fixed deposits with maturity of six (6) months to one (1) year earn interest at an annual rate of 1.00% to 2.00% (2017: 1.00% to 3.50%). The Bahamas Government Registered Stocks are being held for the long term and are stated at the amortised cost, which approximates fair value. The stocks bear interest at 5.00% and 5.03% and have maturity dates of 2024 through 2025.

As at 31 December 2018, interest receivable from restricted deposits – sinking fund amounted to \$182,084 (2017: \$384,310) as disclosed in Note 7. Interest income from sinking fund earned during the year amounted to \$282,348 (2017: \$496,556).

6. LOANS RECEIVABLE

	<u>2018</u>	<u>2017</u>
	\$	\$
Performing	13,253,534	10,507,159
Non-performing	18,289,443	21,176,593
Extraordinary Advances	2,066,860	1,990,359
Employees	<u>485,396</u>	<u>466,947</u>
	34,095,233	34,141,058
Less: Allowance for loan losses	<u>(12,012,669)</u>	<u>(12,815,996)</u>
	<u>\$22,082,564</u>	<u>\$21,325,062</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

6. LOANS RECEIVABLE (cont)

	<u>2018</u>	<u>2017</u>
	\$	\$
Current portion	13,412,626	10,974,106
Non-current portion	<u>8,669,938</u>	<u>10,350,956</u>
	<u>\$22,082,564</u>	<u>\$21,325,062</u>

The above outstanding loans earned interest rates ranging from 0% to 14% per annum. Interest income on loans earned during the year amounted to \$1,709,944 (2017: \$1,273,614). Interest receivable as at 31 December 2018 amounted to \$292,961 (2017: \$238,428).

Loan recovery earned during the year are as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Decrease in provision for loan losses	760,193	983,983
Loan losses recovery	<u>4,474</u>	<u>7,503</u>
	<u>\$764,667</u>	<u>\$991,486</u>

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

	<u>2018</u>	<u>2017</u>
	\$	\$
Balance, beginning of the year	12,815,996	13,799,979
Decrease in provision for loan losses	(760,193)	(983,983)
Write-offs	<u>(43,134)</u>	<u>--</u>
Balance, end of the year	<u>\$12,012,699</u>	<u>\$12,815,996</u>

The aging of loans receivable as at 31 December 2018 is as follows:

<u>Current</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>Over 90 days</u>	<u>Total</u>
\$	\$	\$	\$	\$
<u>\$11,860,411</u>	<u>\$967,627</u>	<u>\$584,588</u>	<u>\$8,669,938</u>	<u>\$22,082,564</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

6. LOANS RECEIVABLE (cont)

<u>2017</u>				
<u>Current</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>Over 90 days</u>	<u>Total</u>
\$	\$	\$	\$	\$
\$8,769,158	\$1,414,594	\$790,354	\$10,350,956	\$21,325,062
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. OTHER ASSETS

	<u>2018</u>	<u>2017</u>
	\$	\$
Interest receivable from restricted deposits – sinking fund	182,084	384,310
Offset loans	166,305	78,561
Accounts receivable	41,832	50,471
Late fee receivable	11,900	10,187
Security deposits	8,900	8,900
Prepayments	6,216	23,275
VAT receivable	31,645	31,645
Others	<u>33,120</u>	<u>19,057</u>
	<u>\$482,002</u>	<u>\$606,406</u>

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

8. FIXED ASSETS

	Computer equipment & software \$	Furniture fixtures & fittings \$	Office machines \$	Motor vehicles \$	Leasehold improvements \$	Other \$	Total \$
COST							
1 January 2018	1,793,085	288,892	288,534	146,480	1,073,281	248,687	3,838,959
Additions	<u>40,230</u>	<u>3,819</u>	<u>3,552</u>	<u>--</u>	<u>67,880</u>	<u>--</u>	<u>115,481</u>
31 December 2018	<u>1,833,315</u>	<u>292,711</u>	<u>292,086</u>	<u>146,480</u>	<u>1,141,161</u>	<u>248,687</u>	<u>3,954,440</u>
DEPRECIATION							
1 January 2018	1,764,812	288,037	282,377	146,480	1,003,511	227,586	3,712,803
Charge for the year	<u>23,240</u>	<u>1,475</u>	<u>2,189</u>	<u>--</u>	<u>17,851</u>	<u>7,297</u>	<u>52,052</u>
31 December 2018	<u>1,788,052</u>	<u>289,512</u>	<u>284,566</u>	<u>146,480</u>	<u>1,021,362</u>	<u>234,883</u>	<u>3,764,855</u>
NET BOOK VALUE							
31 December 2018	<u>\$45,263</u>	<u>\$3,199</u>	<u>\$7,520</u>	<u>\$--</u>	<u>\$119,799</u>	<u>\$13,804</u>	<u>\$189,585</u>
31 December 2017	<u>\$28,273</u>	<u>\$855</u>	<u>\$6,157</u>	<u>\$--</u>	<u>\$69,770</u>	<u>\$21,101</u>	<u>\$126,156</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

9. CUSTOMER DEPOSITS

	<u>2018</u>	<u>2017</u>
	\$	\$
Mailboat subsidy – Ministry of Transport	375,940	565,170
Other customer deposits and advances	251,437	252,536
Loan prepayments	178,507	97,679
Security deposits held as collateral for loans	98,553	132,184
Legal fees, stamp tax, recording fees, etc.	85,596	54,243
Insurance premiums	29,667	50,662
Apiculture Program – Grand Bahama	<u>15,647</u>	<u>36,931</u>
	<u>\$1,035,347</u>	<u>\$1,189,405</u>

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	<u>2018</u>	<u>2017</u>
	\$	\$
Pension plan benefit obligations	364,271	176,930
Accrued expenses	46,404	213,058
Other accounts payable	34,871	32,989
VAT payable	<u>4,232</u>	<u>--</u>
	<u>\$449,778</u>	<u>\$422,977</u>

11. BONDS PAYABLE

	<u>2018</u>	<u>2017</u>
	\$	\$
National Insurance Board	37,000,000	39,000,000
The Central Bank of The Bahamas	<u>4,000,000</u>	<u>4,000,000</u>
	<u>\$41,000,000</u>	<u>\$43,000,000</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. BONDS PAYABLE (cont)

The Central Bank of The Bahamas (CBOB)

As at 31 December 2018 and 2017, the Bank issued the following bonds to CBOB:

<u>Bond</u>	<u>Series</u>	<u>2018</u>	<u>2017</u>	<u>Rate</u>	<u>Issue Date</u>	<u>Year of</u>
		\$	\$			<u>Maturity</u>
10	C	2,000,000	2,000,000	4.25%	13/7/2005	2025
11	C	1,000,000	1,000,000	4.25%	17/10/2005	2025
12	C	<u>1,000,000</u>	<u>1,000,000</u>	4.25%	19/10/2005	2025
		<u>\$4,000,000</u>	<u>\$4,000,000</u>			

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

National Insurance Board (NIB)

As at 31 December 2018, the Bank had outstanding bonds with the NIB, as follows:

<u>Bond</u>	<u>Series</u>	<u>2018</u>	<u>2017</u>	<u>Rate</u>	<u>Issue Date</u>	<u>Year of</u>
		\$	\$			<u>Maturity</u>
1	A	10,000,000	10,000,000	4.25%	28/11/2000	2020
2	B	-	2,000,000	3.25%	15/08/2003	2018
3	A	2,000,000	2,000,000	4.25%	29/12/2003	2024
4	A	2,000,000	2,000,000	4.25%	25/03/2004	2024
5	A	1,000,000	1,000,000	4.25%	29/09/2004	2024
6	B	1,000,000	1,000,000	3.25%	16/05/2005	2020
7	C	2,000,000	2,000,000	4.25%	05/05/2006	2026
8	D	2,000,000	2,000,000	3.25%	11/08/2006	2021
9	D	1,000,000	1,000,000	3.25%	03/01/2007	2022
10	C	2,000,000	2,000,000	4.25%	06/02/2007	2027
11	C	2,000,000	2,000,000	4.25%	05/04/2007	2027
12	D	2,000,000	2,000,000	3.25%	02/08/2007	2022
13	D	2,000,000	2,000,000	3.25%	30/11/2007	2022
14	C	2,000,000	2,000,000	4.25%	02/04/2008	2028
15	D	2,000,000	2,000,000	3.25%	18/08/2008	2023
16	C	2,000,000	2,000,000	4.25%	14/11/2008	2028
17	C	1,000,000	1,000,000	4.25%	31/03/2009	2029
18	D	<u>1,000,000</u>	<u>1,000,000</u>	3.25%	31/03/2009	2024
		<u>\$37,000,000</u>	<u>\$39,000,000</u>			

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. BONDS PAYABLE (cont)

National Insurance Board (NIB)

During the year, a bond of \$2,000,000 (2017: \$3,000,000) matured. In 2017, interest rates for Series B and D was reduced from 3.75% to 3.25%.

Interest expense for these bonds incurred during the year amounted to \$1,691,980 (2017: \$1,751,370) of which \$371,538 (2017: \$393,264) was accrued at year end.

	<u>2018</u>	<u>2017</u>
	\$	\$
Current portion	--	2,000,000
Non-current portion	<u>41,000,000</u>	<u>41,000,000</u>
	<u>\$41,000,000</u>	<u>\$43,000,000</u>

12. LOANS PAYABLE

	<u>2018</u>	<u>2017</u>
	\$	\$
European Investment Bank	45,371	54,976
The Central Bank of The Bahamas	<u>2,500,000</u>	<u>2,750,000</u>
	<u>\$2,545,371</u>	<u>\$2,804,976</u>

The Central Bank of The Bahamas

As at 31 December 2018, the Bank had an outstanding loan of \$2,500,000 (2017: \$2,750,000) with the Central Bank of The Bahamas. The loan bears interest at 2.00% per annum. During the year, the Bank paid \$250,000 (2017: \$800,000). The loan is repayable in semi-annual instalments of \$125,000 and is due to be repaid on 28 October 2024.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

12. LOANS PAYABLE (cont)

European Investment Bank

As at 31 December 2018, the Bank had an outstanding loan with the European Investment Bank with a principal balance of \$45,371 (2017: \$54,976), of which \$9,605 (2017: \$41,444) was paid during the year. 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% (2017: 1.00%). The loan is due to be repaid by 1 February 2020. The Bahamas Government also guarantees long-term debt due to European Investment Bank.

	<u>2018</u>	<u>2017</u>
	\$	\$
Current portion	250,000	282,300
Non-current portion	<u>2,295,371</u>	<u>2,522,676</u>
	<u>\$2,545,371</u>	<u>\$2,804,976</u>

13. DUE TO THE BAHAMAS GOVERNMENT

	<u>2018</u>	<u>2017</u>
	\$	\$
Balance as at 1 January 2018	24,918,096	21,452,520
Bonds and loans payments	2,003,442	3,878,471
Interest subsidy	(434,392)	(248,757)
Administration fee – Mailboat operators	(200,612)	(164,138)
Pension received – BAIC employees	<u>(216,046)</u>	<u>--</u>
	<u>\$26,070,488</u>	<u>\$24,918,096</u>

The principal and interest payments on bonds and loans payable during the year totalled \$2,003,442 (2017: \$3,878,471) are paid by The 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 guarantee claims and interest subsidy due to the Bank during the year, amounting to \$434,392 (2017: \$248,757) against the above transfers made on behalf of the Bank.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

13. DUE TO THE BAHAMAS GOVERNMENT (cont)

Additionally, the Government has agreed for the Bank to apply administrative fees to facilitate the Government's Mailboat subsidy on behalf of the Ministry of Transport and Aviation. The fee of 2.50% applied during the year amounted to \$200,612 (2017: \$164,138).

During the year, the Government paid the Bank administration fees of 5.00% for administering the Micro Loans program.

Due to The Bahamas Government is interest free and unsecured.

14. SHARE CAPITAL

	<u>2018</u>	<u>2017</u>
	\$	\$
Authorised		
10,000,000 shares of \$5 each	\$50,000,000	\$50,000,000
	<u> </u>	<u> </u>
Issued and fully paid		
5,792,051 shares of \$5 each	\$28,960,256	\$28,960,256
	<u> </u>	<u> </u>

15. 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. At 31 December 2018, the total amount of Reserve Fund was \$273,128 (2017: \$273,128).

16. INTEREST SUBSIDY

During 2001, the Government mandated that the lending rate for the Bank be ranging between 1.00% and 2.50% above the prime rate depending on risk factors. Following that requirement, the Government agreed to subsidise the difference between the Bank's lending rate and the Bank's normal spread of 5.00%.

The total interest subsidy for the year amounted to \$434,392 (2017: \$248,757), as disclosed in Note 13.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

17. OTHER INCOME

	<u>2018</u>	<u>2017</u>
	\$	\$
Fees and commissions	304,117	279,279
Other income	17,802	38,348
Net foreign exchange (loss)/gain	<u>(21,954)</u>	<u>12,069</u>
	<u>\$299,965</u>	<u>\$329,696</u>

18. STAFF COSTS

	<u>2018</u>	<u>2017</u>
	\$	\$
Salaries	1,440,414	1,353,259
NIB, pension and insurance	276,334	295,917
Board expenses	80,262	90,358
Staff benefits and other	58,177	57,197
Executive allowances	<u>56,120</u>	<u>44,420</u>
	<u>\$1,911,307</u>	<u>\$1,841,151</u>

19. GENERAL AND ADMINISTRATIVE COSTS

	<u>2018</u>	<u>2017</u>
	\$	\$
Repairs and maintenance	121,517	122,114
Rent	104,798	104,750
Computer expenses	91,878	81,942
VAT	82,455	--
Utilities	66,635	63,530
Telephone, telex and cable	60,148	63,376
Travel and transportation	28,047	33,215
Advertising	27,184	17,327
Security expense	24,781	23,188
Office supplies and printing	24,719	15,681
Insurance	24,092	25,229
Bank charges	9,136	4,141
Professional fees	7,413	164,494
Subscriptions and entertainment	7,320	6,502
Miscellaneous	<u>31,144</u>	<u>5,734</u>
	<u>\$711,267</u>	<u>\$731,223</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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. Employees who were already retired at the time of change were kept under the Defined Benefit Plan. See Note 21 for the detailed disclosure. As at 31 December 2018 and 2017, all funds were administered by Colina Financial Advisors Limited.

Pension contributions during the year amounted to \$22,088 (2017: \$64,916), which is included in NIB, Pension and Insurance expenses, as disclosed in Note 18. While pension plan benefit obligations as at 31 December 2018 amounted to \$364,271 (2017: \$176,930), as disclosed in Note 10.

21. DEFINED BENEFIT PENSION PLAN

An independent actuarial valuation of the Bank's defined benefit pension plan was performed for the year ended 31 December 2017. Based on management's valuation, there is no significant change on the pension plan benefit obligation during the year. The movements in the non-contributory defined benefit obligation are as follows:

	<u>2017</u>
	\$
Present value of obligation at start of year	861,767
Interest cost	40,886
Benefits paid	(88,084)
Actuarial gain on obligation due to financial assumption changes	(12,479)
Actuarial loss on obligation due to experience	<u>9,855</u>
Present value of obligation at end of year	<u>\$811,945</u>
Fair value of plan assets at start of year	530,275
Expected return on plan assets	24,312
Benefits paid	(88,084)
Actuarial loss on plan assets	<u>(18,829)</u>
Fair value of plan assets at end of year	<u>\$447,674</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

21. DEFINED BENEFIT PENSION PLAN (cont)

The amount recognised as a liability in the statement of financial position in respect of the Bank's defined benefit pension plan is as follows:

	<u>2017</u>
	\$
Present value of funded obligations	811,945
Fair value of plan assets	<u>(447,674)</u>
	<u>\$364,271</u>

The expense recognised in the statement of profit or loss and other comprehensive loss in respect of the Bank's defined benefit pension plan is as follows:

	<u>2017</u>
	\$
Current service cost	--
Net interest expense	<u>16,574</u>
Expense recognised in income statement	<u>\$16,574</u>
Actuarial loss recognised in other comprehensive loss (OCL)	<u>\$16,205</u>

Movements in the net liability recorded in the statement of financial position are as follows:

	<u>2017</u>
	\$
Net liability at beginning of year	331,492
Net expense recognised in net income	16,574
Amount recognised in OCL	<u>16,205</u>
Net Liability at end of year	<u>\$364,271</u>

Principal actuarial assumption used in determining present value of obligation:

	<u>2017</u>
Discount rate at end of year	<u>5.2%</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

22. COMMITMENTS

As at year-end, the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$162,222 (2017: \$943,456).

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 lease agreement has not been renegotiated however the lessor has allowed payments to continue in accordance with the expired lease agreement.

The lease on the Bank's Freeport office from Jurosbi Investments Ltd was for an initial period of three (3) years beginning December 2011 at a monthly rent of \$3,500, and has since been renewed for an additional three (3) years from 1 December 2017 through November 2020. The Bank also has an option to renew the lease term for an additional one (1) year.

Rent expense paid and incurred during the year amounted to \$104,798 (2017: \$104,750) as disclosed in Note 19.

As at 31 December 2018, the Bank had outstanding commitments for future minimum lease payments under non-cancellable operating lease, which falls due as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Not later than one year	67,000	67,000
Later than one year but not more than five years	<u>38,500</u>	<u>80,500</u>
	<u>\$105,500</u>	<u>\$147,500</u>

23. RELATED PARTIES

Related parties comprise i) Government ministries and departments; ii) Government corporations and agencies' iii) entities controlled by the Government; iv) entities in which the Government has a significant ownership interest; and v) key management personnel. Transactions that the Bank has with such related parties entities are disclosed on the statement of financial position and accompanying notes. The amounts and terms of these transactions are discussed and agreed upon by the parties.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

23. RELATED PARTIES (cont)

Salaries and other employee benefits paid to key management personnel totaled \$661,305 (2017: \$600,622). Loans to key management personnel of the Bank totaled \$132,161 (2017: \$166,174). The loans bear interest at a rate of 4.25% (2017: 4.25%), are secured and have fixed terms of repayment. Other bank employees receive loans on the same terms.

At year end, there was one (1) loan due from family members of key management personnel of the Bank, which totaled \$73,197 (2017: \$73,197) and was classified as non-performing. This loan has a fixed term of repayment and bear interest at a rate of 10.50% (2017: 10.50%). The loan is fully secured.

24. ASSET UNDER MANAGEMENT

Micro Loan Program Design and Implementation

In 2016, Ministry of Finance (MOF) and the Bank have consented to enter the partnership agreement to provide some assistance to Micro, Small and Medium Enterprises (MSME) via the MOF's Micro Loan Program (MOF-MLP). Once the facility is approved by the MOF-MLP Committee, the Bank was responsible in administering the loan program. The Bank, through its loan management system, will keep a file on all MOF-MLP borrowers for tracking purposes and will be responsible for collection of payments and following-up with delinquent clients. As at 31 December 2018, the total micro-loans that are off-balance sheet amounted to \$3,496,520 (2017: \$3,609,770). As at 31 December 2018, the off-balance sheet cash that the Bank holds in reference to the micro loan program was \$172,927 (2017:82,936)

**Sustainable Development (Agriculture Fund) Micro Loan Program (SDAF-MLP)
Design and Implementation**

Similarly, in 2017, an Executing Agency Services Agreement was executed between the Bank and MOF. The latter has facilitated the release of residual Agricultural Credit Guarantee Fund from Central Bank to the Bank for on-lending in the agriculture sector. The funds will be treated as "Assets under Management" for MOF.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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24. ASSET UNDER MANAGEMENT (cont)

**Sustainable Development (Agriculture Fund) Micro Loan Program (SDAF-MLP)
Design and Implementation (cont)**

The Bank designed a micro loan program for the Sustainable Development Agriculture and Fisheries Joint Committee which was established to resuscitate and catapult agriculture and agri-business to significance in the Bahamas economy. Applicants seeking consideration under the Sustainable Development (Agriculture Fund) Micro Loan Program (SDAF-MLP) Design and Implementation will be required to submit all documents directly to the BAMSI or a BDB Designate. Once the facility is approved, the Bank will be responsible in administering the loan program. The Bank, through its loan management system, will keep a file on all MOF-MLP borrowers for tracking purposes and will be responsible for collection of payments and following-up with delinquent clients. As at 31 December 2018, the total agricultural loans that are off-balance sheet amounted to \$162,068 (2017: \$26,137). As at 31 December 2018, the off-balance sheet cash that the Bank holds in reference to the micro loan program was \$477,725 (2017: \$540,470)

25. CONCENTRATIONS OF ASSETS AND LIABILITIES

As at 31 December 2018, the Bank has the following concentrations of assets and liabilities according to geographic region and industry sector:

	<u>Geographic Region</u>	<u>Industry</u>	<u>2018 %</u>	<u>2017 %</u>
Cash	Bahamas	Financial Sector	100	100
Loans receivable	Bahamas	Service	48.04	48.01
Loans receivable	Bahamas	Tourism	18.80	17.34
Loans receivable	Bahamas	Fishing	11.51	11.91
Loans receivable	Bahamas	Manufacturing	8.72	11.00
Loans receivable	Bahamas	Transportation	9.51	8.36
Loans receivable	Bahamas	Agriculture	1.90	1.93
Loans receivable	Bahamas	Staff	<u>1.52</u>	<u>1.45</u>
			100.00	100.00
Long-term debt	Bahamas	Financial Sector	99.90	99.88
Long-term debt	Europe	Financial Sector	<u>0.10</u>	<u>0.12</u>
			100.00	100.00

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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26. 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
- Reputational risk
- Compliance 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.

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations 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.

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

26. FINANCIAL RISK MANAGEMENT (cont)

Liquidity risk (cont)

The following tables summarise the maturity profile of the Bank's financial assets and liabilities as at 31 December 2018 based on contractual maturities:

	<u>On Demand</u>	<u>Less than one</u>	<u>One to five</u>	<u>Over five</u>	<u>No specific</u>	<u>Total</u>
	\$	year	years	years	maturity	\$
		\$			\$	
Financial Assets						
Cash	2,904,510	--	--	--	--	2,904,510
Restricted deposits – sinking fund	--	11,315,948	--	363,500	548,569	12,228,017
Loans receivable	--	3,885,812	6,550,783	11,645,969	--	22,082,564
Interest receivable	--	292,261	--	--	--	292,261
Other assets	--	<u>475,786</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>475,786</u>
	<u>2,904,510</u>	<u>15,969,807</u>	<u>6,550,783</u>	<u>12,009,469</u>	<u>548,569</u>	<u>37,983,138</u>
Financial Liabilities						
Customer deposits	--	1,035,347	--	--	--	1,035,347
Accounts payable and accrued expenses	--	449,778	--	--	--	449,778
Bonds payable	--	--	26,000,000	15,000,000	--	41,000,000
Loans payable	--	250,000	2,295,371	--	--	2,545,371
Interest payable	--	380,839	--	--	--	380,839
Due to the Bahamas Government	--	--	--	--	26,070,488	26,070,488
	--	<u>2,115,964</u>	<u>28,295,371</u>	<u>15,000,000</u>	<u>26,070,488</u>	<u>71,481,823</u>
	<u>\$2,904,510</u>	<u>\$13,853,843</u>	<u>\$(21,744,588)</u>	<u>\$(2,990,531)</u>	<u>\$(25,521,919)</u>	<u>\$(33,498,685)</u>
Liquidity gap						

BAHAMAS DEVELOPMENT BANK

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26. FINANCIAL RISK MANAGEMENT (cont)

Liquidity risk (cont)

		2017				
	<u>On Demand</u>	<u>Less than one</u>	<u>One to five</u>	<u>Over five</u>	<u>No specific</u>	<u>Total</u>
	\$	year	years	years	maturity	\$
Financial Assets						
Cash	4,315,409	--	--	--	--	4,315,409
Restricted deposits – sinking fund	--	12,838,710	--	363,500	543,343	13,745,553
Loans receivable	--	12,519,971	3,214,261	5,590,830	--	21,325,062
Interest receivable	--	238,428	--	--	--	238,428
Other assets	--	551,486	--	--	--	551,486
	<u>4,315,409</u>	<u>26,148,595</u>	<u>3,214,261</u>	<u>5,954,330</u>	<u>543,343</u>	<u>40,175,938</u>
Financial Liabilities						
Customer deposits	--	1,189,405	--	--	--	1,189,405
Accounts payable and accrued expenses	--	422,977	--	--	--	422,977
Bonds payable	--	2,000,000	20,000,000	21,000,000	--	43,000,000
Loans payable	--	282,300	1,272,676	1,250,000	--	2,804,976
Interest payable	--	402,958	--	--	--	402,958
Due to the Bahamas Government	--	--	--	--	24,918,096	24,918,096
	<u>--</u>	<u>4,297,640</u>	<u>21,272,676</u>	<u>22,250,000</u>	<u>24,918,096</u>	<u>72,738,412</u>
Liquidity gap	<u>\$4,315,409</u>	<u>\$21,850,955</u>	<u>\$(18,058,415)</u>	<u>\$(16,295,670)</u>	<u>\$(24,374,753)</u>	<u>\$(32,562,474)</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

26. FINANCIAL RISK MANAGEMENT (cont)

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's credit risk is primarily attributable to its cash and deposits with other banks and financial institutions and credit exposures to customers, including outstanding loan receivables and committed transactions. The Bank places cash and deposits with reputable local banks and financial institutions. All local contracted banks and financial institutions are regulated and monitored by the Central Bank of The Bahamas and account for 100% of cash deposits at year-end.

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 Bank's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date and is summarised as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Cash (excluding cash in hand)	2,903,710	4,314,609
Loans receivable	22,082,564	21,235,062
Interest receivable	292,961	238,428
Restricted deposits – sinking fund	<u>12,228,017</u>	<u>13,745,553</u>
	<u>\$37,507,252</u>	<u>\$39,533,652</u>

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.

Interest rate is the potential adverse risk on earnings caused by movements in interest rates/ The Bank's interest bearing assets and liabilities expose it to cash flow interest rate risk. Interest margins may increase or decrease as the result of such changes and may reduce or increase losses in the event that unexpected movements arise.

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.

BAHAMAS DEVELOPMENT BANK**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018****26. FINANCIAL RISK MANAGEMENT (cont)**

The table below summarizes the Bank's exposure to interest rate risk. It includes the Bank's interest bearing financial assets and liabilities at carrying amounts categorised by maturity dates:

	On <u>Demand</u> \$	Less than one <u>year</u> \$	2018 One to five <u>years</u> \$	Over five <u>years</u> \$	<u>Total</u> \$
Financial Assets					
Cash (excluding cash in hand)	2,903,710	--	--	--	2,903,710
Restricted deposits – sinking fund	--	11,864,517	--	363,500	12,228,017
Loans receivable	--	3,885,812	6,550,783	11,645,969	22,082,564
Interest receivable	<u>--</u>	<u>292,961</u>	<u>--</u>	<u>--</u>	<u>292,961</u>
	<u>2,903,710</u>	<u>16,043,290</u>	<u>6,550,783</u>	<u>12,009,469</u>	<u>37,507,252</u>
Financial Liabilities					
Bonds payable	--	--	28,295,371	15,000,000	43,545,371
Loans payable	--	250,000			
Interest payable	<u>--</u>	<u>380,839</u>	<u>--</u>	<u>--</u>	<u>380,839</u>
	<u>--</u>	<u>630,839</u>	<u>28,295,371</u>	<u>15,000,000</u>	<u>43,926,210</u>
Interest sensitivity gap	<u>\$2,903,710</u>	<u>\$15,412,451</u>	<u>\$(21,744,588)</u>	<u>\$(2,990,531)</u>	<u>\$(6,418,958)</u>

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26. FINANCIAL RISK MANAGEMENT (cont)

	On <u>Demand</u> \$	Less than one year \$	2017 One to five years \$	Over five years \$	<u>Total</u> \$
Financial Assets					
Cash (excluding cash in hand)	4,314,609	--	--	--	4,314,609
Restricted deposits – sinking fund	--	12,838,710	--	906,843	13,745,553
Loans receivable	--	12,519,971	3,214,261	5,590,830	21,325,062
Interest receivable	<u>--</u>	<u>238,428</u>	<u>--</u>	<u>--</u>	<u>238,428</u>
	<u>4,314,609</u>	<u>25,597,109</u>	<u>3,214,261</u>	<u>6,497,673</u>	<u>39,623,652</u>
Financial Liabilities					
Bonds payable	--	2,000,000	20,000,000	21,000,000	43,000,000
Loans payable	--	282,300	1,272,676	1,250,000	2,804,976
Interest payable	<u>--</u>	<u>402,958</u>	<u>--</u>	<u>--</u>	<u>402,958</u>
	<u>--</u>	<u>2,685,258</u>	<u>21,272,676</u>	<u>22,250,000</u>	<u>46,207,934</u>
Interest sensitivity gap	<u>\$4,314,609</u>	<u>\$22,911,851</u>	<u>\$(18,058,415)</u>	<u>\$(15,752,327)</u>	<u>\$(6,584,282)</u>

The sensitivity analysis has been performed based on the exposure to interest rates of financial assets and liabilities at the statement of financial position date. A 50 (2017: 50) basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables remained constant, the Bank's equity position for the year ended 31 December 2018 would increase/decrease by \$32,094 (2017: \$32,921). This is mainly attributable to the Bank's exposure to interest rates in its fixed rate liabilities.

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 return. Management mitigates this risk by not investing significantly in securities affected by market risk.

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26. FINANCIAL RISK MANAGEMENT (cont)

Reputational risk

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources which negatively impact the image or public profile of the Bank. The Bank manages this risk by only engaging in transactions with reputable entities, and adhering to a robust know-your-customer ("KYC") regime for current and prospective clients.

Compliance risk

Compliance risk arises in situations where the laws or rules governing certain activities of the Bank are not complied with. The Bank mitigates this risk by continuously educating its staff in this area and by employing its own Compliance Department to ensure that the laws and regulations that affect the client's business are adhered to.

27. FINANCING OF OPERATIONS

The Bank has incurred significant operating losses in recent years and such losses are projected for the future. The Bank is dependent on funding from the Government and it is anticipated that such funding, via the Government's subsidy, will continue to be made available at a level sufficient to allow the Bank to adequately maintain its operations.

The Bank is not subject to externally imposed capital requirements.

28. SUBSEQUENT EVENTS

On 24 August 2018, National Insurance Board ("NIB") agreed in principle to convert the Bank issued bonds held by NIB totalling \$37,000,000 to an equivalent value 20-year 3.94% coupon loan. The agreement giving effect to the said conversion was not executed at the date of the financial statements.

On 21 February 2019, the Bank received a directive to vacate the building. The Bank is actively searching for a new place of business.

29. COMPARATIVE FIGURES

Presentation of certain comparative balances has been re-stated in order to conform with the current year's presentation.