

**BAHAMAS DEVELOPMENT BANK
FINANCIAL STATEMENTS**

DECEMBER 31, 2006

BAHAMAS DEVELOPMENT BANK

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**INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF
BAHAMAS DEVELOPMENT BANK**

We have audited the accompanying financial statements of Bahamas Development Bank, which include the balance sheet at December 31, 2006 and the statements of operations, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the Directors of the Bank, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Bank's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 auditor's 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. 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, these financial statements present fairly, in all material respects, the financial position of Bahamas Development Bank as at December 31, 2006, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The financial statements of the Bank, as at December 31, 2005, and for the year then ended, were audited by other auditors, whose report dated April 28, 2006 expressed an unqualified opinion on those statements.

MOORE STEPHENS BUTLER & TAYLOR

CHARTERED ACCOUNTANTS

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Emphasis of Matter

Without qualifying our opinion thereon, these financial statements are prepared on the going concern assumption. The liquidity position of the Bank and the continuing deficits indicate that the Bank will require equity injection from the Government of the Bahamas if it is to continue as a going concern.



NASSAU, BAHAMAS
May 24, 2007

MOORE STEPHENS BUTLER & TAYLOR
Chartered Accountants

BAHAMAS DEVELOPMENT BANK
BALANCE SHEET
AS AT DECEMBER 31, 2006

	NOTES	2006	2005
ASSETS			
Cash		\$ 47,923	\$ 1,057,656
Cash, interest bearing deposits	3	7,080,202	6,621,817
Investments	4	363,500	0
Loans	5	47,544,993	47,416,462
Other assets		133,884	143,188
Accrued interest receivable		119,544	93,380
Fixed assets	6	471,176	537,237
		<u>\$ 55,761,222</u>	<u>\$ 55,869,740</u>

LIABILITIES

Accounts payable and accrued expenses		\$ 134,702	\$ 109,265
Accrued interest payable		513,466	488,358
Customer deposits	7	1,847,639	1,848,517
Long-term debt	8	53,148,310	51,475,092
		<u>55,644,117</u>	<u>53,921,232</u>

SHAREHOLDERS' EQUITY

Share capital	9	25,584,917	24,084,917
Reserve fund	10	273,128	273,128
Deficit		(25,740,940)	(22,409,537)
		<u>117,105</u>	<u>1,948,508</u>
		<u>\$ 55,761,222</u>	<u>\$ 55,869,740</u>

Approved by: 
Director


Director

The accompanying notes are an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2006

	2006	2005
Interest Income		
Interest – loans	\$ 3,491,573	\$ 4,333,595
– subsidy	384,530	434,971
– deposits	<u>236,071</u>	<u>231,576</u>
	4,112,174	5,000,142
Interest expense	<u>(2,592,665)</u>	<u>(2,411,566)</u>
Net interest income	<u>1,519,509</u>	<u>2,588,576</u>
Other Income		
Fees and commissions	325,047	245,039
Net foreign exchange gain (loss)	(47,982)	57,894
Other income (loss)	<u>(1,114)</u>	<u>6,609</u>
	<u>275,951</u>	<u>309,542</u>
Expenses		
Salaries and staff expenses	2,114,724	1,864,628
Allowance for loan losses	1,951,653	701,728
General and administrative	773,894	693,024
Depreciation	206,375	185,731
Rent	<u>80,217</u>	<u>80,217</u>
	<u>5,126,863</u>	<u>3,525,328</u>
LOSS FOR THE YEAR	\$ (3,331,403)	\$ (627,210)

The accompanying notes are an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2006

	<u>Share Capital</u>	<u>Reserve Fund</u>	<u>Deficit</u>
Balance as January 1, 2005	\$ 23,334,917	\$ 273,128	\$(21,782,327)
Shares issued	750,000	0	0
Loss for the year	<u>0</u>	<u>0</u>	(627,210)
Balance as at December 31, 2005	24,084,917	273,128	(22,409,537)
Shares issued	1,500,000	0	0
Loss for the year	<u>0</u>	<u>0</u>	(3,331,403)
Balance as at December 31, 2006	\$ <u>25,584,917</u>	\$ <u>273,128</u>	\$ <u>(25,740,940)</u>

The accompanying notes are an integral part of these financial statements.

**BAHAMAS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006**

	2006	2005
Cash flows from (used by) operating activities:		
Loss	\$ (3,331,403)	\$ (627,210)
Adjustments for:		
Loss on disposal of fixed assets	0	108
Depreciation	206,375	185,731
Allowance for loan losses	<u>1,951,653</u>	<u>701,728</u>
	(1,173,375)	260,357
Changes in operating assets and liabilities		
Change in accrued interest receivable	(26,164)	86,688
Change in other assets	9,304	(8,072)
Change accounts payable and accrued expenses	25,437	(19,028)
Change in accrued interest payable	<u>25,108</u>	<u>43,389</u>
Net cash from (used by) operating activities	(1,139,690)	363,334
Cash flows from (used by) investing activities:		
Increase loans	(2,080,184)	(2,683,556)
Purchase investments	(363,500)	
Purchase of fixed assets	<u>(140,314)</u>	<u>(151,567)</u>
Net cash used by investing activities	(2,583,998)	(2,835,123)
Cash flows from (used by) financing activities:		
Net increase of long-term debt	1,673,218	3,245,784
Increase (decrease) deposits	(878)	36,828
Increase share capital	<u>1,500,000</u>	<u>750,000</u>
Net cash from financing activities	<u>3,172,340</u>	<u>4,032,612</u>
INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	(551,348)	1,560,823
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,679,473</u>	<u>6,118,650</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>7,128,125</u>	\$ <u>7,679,473</u>

Cash is comprised of cash and interest bearing deposits

The accompanying notes are an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

1. GENERAL INFORMATION

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

The principal activities of the Bank are:

- a) to promote industrial, agricultural, and commercial development in The Commonwealth of The Bahamas through the financing of, or 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 had 39 employees at December 31, 2006 (2005 – 44) and its main place of business is at Cable Beach, West Bay Street, Nassau, Bahamas.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies are as follows:

- a) Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions that effect the reported amounts. The estimates are based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimated.

- b) Interest on loans

Interest on loans is accrued and credited to income based on 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 recognized only when received or when the loan is refinanced and projected cash

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b) Interest on loans (cont'd)

proceeds are deemed sufficient to repay both principal and interest.

c) 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 of loans previously written off are added to the allowance account.

d) 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 and software	20%
Furniture, fixtures & fittings	10%
Office machines	20%
Motor vehicles	25%
Leasehold improvements	10%
Other	20%

e) 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 method, and are subject to review for impairment.

f) Foreign currency translation

Assets and liabilities in other currencies are translated at year-end exchange rates. Revenue and expenses have been converted at rates approximating those prevailing at the date of the transaction. Foreign currency gains and losses are taken into the statement of income. Unrealized gains and losses arising from translation are included in the statement of income.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

3. INTEREST BEARING DEPOSITS

Deposits with bank have been set aside as a sinking fund to fulfil the requirements 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 British American Insurance Company of The Bahamas Limited as disclosed in note 8.

These deposits earn interest at annual rates of **3.50% - 4.50%** (2005 – 3.50% - 4.50%). Interest earned included in Interest Income was **\$218,478** (2005-\$176,036)

4. INVESTMENTS

Investments are held for the long term and stated at amortized cost, which approximates fair value. The investments consist of Bahamas Government Registered Stock bearing interest at prime, **5.5%**, + **.25 - .28125%** and with maturity dates of 2021 through 2024. The investments are part of the sinking fund as described in Note 3.

Interest earned included in Interest Income was **\$10,421** (2005 – \$0.00).

5. LOANS

Loans is comprised as follows:

	<u>2006</u>	<u>2005</u>
Performing	\$ 30,747,266	\$ 32,341,899
Non-performing	23,340,935	20,266,768
Extraordinary advances	587,061	2,225,531
Employees	<u>757,625</u>	<u>732,261</u>
	55,432,887	55,566,459
Less:		
Allowance for loan losses	(7,887,894)	(8,149,997)
	<u>\$ 47,544,993</u>	<u>\$ 47,416,462</u>

The interest rates applicable to these loans vary between **0.00%** and **14.00%** (2005 – 0.00% and 14.00%).

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

5. LOANS (cont'd)

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

	<u>2006</u>	<u>2005</u>
Balance brought forward	\$ 8,149,997	\$ 7,448,269
Increase in provision	1,951,653	701,728
Loans written off	<u>(2,213,756)</u>	<u>0</u>
Balance carried forward	\$ <u>7,887,894</u>	\$ <u>8,149,997</u>

6. FIXED ASSETS

Fixed assets is comprised as follows:

	Computer Equipment & Software	Furniture, fixtures & fittings	Office machines	Motor vehicles	Leasehold improve ments	Other	Total
COST	\$	\$	\$	\$	\$	\$	\$
January 01, 2006	1,158,584	257,162	235,953	128,904	819,739	141,108	2,741,450
Additions	44,621	16,464	17,964	20,000	0	49,870	148,919
Disposals	<u>(8,605)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(425)</u>	<u>(9,030)</u>
December 31, 2006	<u>1,194,600</u>	<u>273,626</u>	<u>253,917</u>	<u>148,904</u>	<u>819,739</u>	<u>190,553</u>	<u>2,881,339</u>
DEPRECIATION							
January 01, 2006	879,252	212,399	220,278	50,978	711,804	129,502	2,204,213
Additions	126,058	9,846	7,544	36,809	15,752	10,366	206,375
Disposals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(425)</u>	<u>(425)</u>
December 31, 2006	<u>1,005,310</u>	<u>222,245</u>	<u>227,822</u>	<u>87,787</u>	<u>727,556</u>	<u>139,443</u>	<u>2,410,163</u>
NET BOOK VALUE							
December 31, 2006	189,290	51,381	26,095	61,117	92,183	51,110	471,176
December 31, 2005	279,332	44,763	15,675	77,926	107,935	11,606	537,237

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

7. CUSTOMER DEPOSITS

Deposits are due as follows to:

	<u>2006</u>	<u>2005</u>
Customer Deposits		
Security deposits held as collateral for loans	\$ 722,377	\$ 683,966
Loan repayments	484,575	580,171
Insurance premiums	219,308	139,338
Legal fees, stamp tax, recording fees, etc.	119,256	92,610
Other	302,123	352,432
	<u>\$ 1,847,639</u>	<u>\$ 1,848,517</u>

8. LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
Caribbean Development Bank	\$ 9,532,070	\$ 11,117,807
European Development Fund	443,732	425,545
Inter-American Development Bank	3,147,508	3,631,740
The Central Bank of The Bahamas	7,025,000	7,300,000
National Insurance Board	29,000,000	25,000,000
British American Insurance Co., Ltd.	4,000,000	4,000,000
	<u>\$ 53,148,310</u>	<u>\$ 51,475,092</u>

Long-term debt is comprised as follows:

A. Caribbean Development Bank

The bank has two loans outstanding with Caribbean Development Bank. The first loan is repayable in quarterly installments of 126,262, payable in US Dollars. The loan is due to be repaid by June 30, 2012. The second loan is repayable in quarterly installments of US \$270,172. The loan is due to be repaid by October 1, 2012. The interest rate is variable, last half of the year being set at of **6.25%** (2005 – 6.00%).

B. European Development Fund

The loan is repayable in Euro Dollars (ECU 336,237) in installments calculated at a .01% semi-annual increasing percentage, 2006-1.68%, of the original loan balance, ECU 690,000. The interest rate is 1.00%. The loan is due to be repaid by February 1, 2020.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

8. LONG-TERM DEBT (cont'd)

C. Inter American-Development Bank

The loan is repayable in semi-annual installments of US \$242,116 at a variable interest rate, last half of the year being set at of **5.41%** (2005 – 4.45%). The loan is due to be repaid March 30, 2013.

D. The Central Bank of the Bahamas

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

- (i). The first loan, \$375,000 is repayable in semi-annual installments of \$62,500 at an annual interest rate of 2.00%. The loan is due to be paid by July 10, 2009.
- (ii). The second loan, \$1,650,000 is repayable in semi-annual installments of \$75,000 at an annual interest rate of 2.00%. The loan is due to be repaid by April 21, 2018.
- (iii). The third loan, \$5,000,000 is repayable in semi-annual installments of \$125,000 beginning 2009 at an annual interest rate of 2.00%. The loan is due to be repaid by November 25, 2029.

E. National Insurance Board

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

<u>BOND</u>	<u>SERIES</u>	<u>AMOUNT</u>	<u>RATE</u>	<u>YEAR OF ISSUE</u>	<u>YEAR OF MATURITY</u>
1	A	\$ 10,000,000	5.50%	2000	2020
2	B	4,000,000	4.50%	2001	2016
3	B	1,000,000	4.50%	2002	2017
4	B	2,000,000	4.50%	2002	2017
5	B	2,000,000	4.50%	2003	2018
6	A	2,000,000	5.50%	2003	2023
7	A	2,000,000	5.50%	2004	2024
8	A	1,000,000	5.50%	2004	2024
9	B	1,000,000	4.50%	2005	2020
13	C	2,000,000	5.50%	2006	2026
14	D	<u>2,000,000</u>	4.50%	2006	2021
		<u>\$ 29,000,000</u>			

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

8. LONG-TERM DEBT (cont'd)

F. British American Insurance Company of the Bahamas Limited

The Bank has issued three bonds to British American Insurance Company of the Bahamas Limited, as follows:

<u>BOND</u>	<u>SERIES</u>	<u>AMOUNT</u>	<u>RATE</u>	<u>YEAR OF ISSUE</u>	<u>YEAR OF MATURITY</u>
10	C	\$ 2,000,000	5.50%	2005	2025
11	C	1,000,000	5.50%	2005	2025
12	C	<u>1,000,000</u>	5.50%	2005	2025
		<u>\$ 4,000,000</u>			

Under Section 19(b) of The Act, the Bank is required to establish a sinking fund for the redemption of the bonds. At the year end an amount of **\$7,443,702** (2005-\$5,620,340) was held as a sinking fund as described in notes 3 and 4.

In accordance with the provisions of the Bahamas Development Bank Act, Chapter 357 of the Revised Statue Law of The Bahamas 2000, Section 16, the Bank has been approved to raise \$50 million by way of bond issuance; unissued totalled \$17,000,000.

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

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

<u>Year</u>	<u>Amount</u>
2007	\$ 2,375,838
2008	2,376,202
2009	2,376,421
2010	2,626,803
2011	2,627,113

9. SHARE CAPITAL

<u>CAPITAL STRUCTURE</u>	<u>2006</u>	<u>2005</u>
Authorized		
10,000,000 shares of \$5.00 each	<u>\$50,000,000</u>	<u>\$50,000,000</u>
Issued and fully paid		
5,116,983(2005 -- 4,816,983) shares		
of \$5 each	<u>\$25,584,917</u>	<u>\$24,084,917</u>

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

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

10. RESERVE FUND

Under Section 20 of the Act, the Bank is to set aside each year a minimum of 25% of the net profits (if any) to a Reserve Fund to meet contingencies and for other purposes for which it may be required.

11. COMMITMENTS

The Bank was committed to extend credit based on approved but undisbursed loans as at December 31, 2006 amounting to **\$266,878** (2005 - \$1,864,810).

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

- a). 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.
- b). The Bank's Abaco office is leased for an initial period of five years beginning December 1, 2005, at a monthly rent of \$1,000.
- c). The lease on the Bank's Freeport office is for an initial period of five years beginning July 1, 2002, at a monthly rent of \$1,376, with a 5% increase at the beginning of the second year and each subsequent year thereafter.

12. INTEREST SUBSIDY

During 2001 The Bahamas Government agreed the following:

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

Total interest subsidy for the year amounted to **\$384,530** (2005 - \$434,971). Included in Other assets is accrued interest subsidy of **\$73,335** (2005 - \$63,181).

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

13. MATURITY OF SIGNIFICANT ASSETS & LIABILITIES

	<u>Past Due</u>	<u>Up to 1 Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Assets:					
Cash	\$ 0	\$ 47,923	\$ 0	\$ 0	\$ 47,923
Interest bearing deposits	0	7,080,202	0	0	7,080,202
Loans	2,794,390	2,118,945	17,167,024	33,352,528	55,432,887
Accrued interest	0	119,544	0	0	119,544
Investments	0	0	0	363,500	363,500
Other assets	0	133,884	0	0	133,884
	<u>\$ 2,794,390</u>	<u>\$ 9,500,498</u>	<u>\$ 17,167,024</u>	<u>\$ 33,716,028</u>	<u>\$ 63,177,940</u>
Liabilities:					
Accrued expenses	\$ 0	\$ 134,702	\$ 0	\$ 0	\$ 134,702
Accrued interest payable	0	513,466	0	0	513,466
Customer deposits	0	1,847,639	0	0	1,847,639
Long term loans	0	2,623,852	12,872,817	37,651,641	53,148,310
	<u>\$ 0</u>	<u>\$ 5,119,659</u>	<u>\$ 12,872,817</u>	<u>\$ 37,651,641</u>	<u>\$ 55,644,117</u>

14. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

Cash	<u>2006</u>	<u>2005</u>
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Financial Sector	<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>
Interest bearing deposits		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Financial Sector	<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2006

14. CONCENTRATIONS OF ASSETS AND LIABILITIES (cont'd)

Loans	<u>2006</u>	<u>2005</u>
Geographic Region		
Bahamas	<u>100.00%</u>	<u>100.00%</u>
Industry		
Agriculture	3.50%	3.00%
Fishing	13.00%	15.00%
Transportation	17.00%	16.00%
Tourism	18.00%	19.00%
Manufacturing	5.00%	5.00%
Service	42.00%	41.00%
Staff	<u>1.50%</u>	<u>1.00%</u>
	<u>100.00%</u>	<u>100.00%</u>
Long-term loans		
Geographic Region		
Barbados	17.90%	21.60%
Europe	.80%	.80%
North America	5.90%	7.10%
Bahamas	<u>75.40%</u>	<u>70.50%</u>
	<u>100.00%</u>	<u>100.00%</u>
Industry		
Financial Sector	<u>100.00%</u>	<u>100.00%</u>

15. FINANCIAL INSTRUMENTS

Interest rate risk

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

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

Credit risk

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

BAHAMAS DEVELOPMENT BANK
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YEAR ENDED DECEMBER 31, 2006

16. FINANCIAL INSTRUMENTS (cont'd)

Fair Values

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

17. RELATED PARTIES

Salaries and other short-term employee benefits paid to key management personnel totalled **\$558,392** (2005-\$531,385). Loans to key management personnel of the Bank totalled **\$193,468** (2005-\$196,326). The loans bear interest at a rate of 5.50%, are unsecured and have fixed terms of repayment.

At year-end there were two loans due from family members of key management personnel of the Bank, which totalled **\$984,767** (2005-\$1,102,422). These loans have fixed terms of repayment and bear interest at rates at 8.50% and 10.50%. Both loans were fully secured. Additionally, one of the loans, \$115,174 was classified as non-performing.

18. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN

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

	<u>2006</u>	<u>2005</u>
Present value of funded obligations	\$ 3,426,311	\$ 3,095,700
Fair value of plan assets	<u>(4,020,999)</u>	<u>(3,666,321)</u>
	(594,688)	(570,621)
Actuarial gain (loss) arising during the year	<u>(18,537)</u>	<u>5,082</u>
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	(613,225)	(565,539)
Less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	<u>(613,225)</u>	<u>(565,539)</u>
	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
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18. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont'd)

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

	<u>2006</u>	<u>2005</u>
Current service cost	\$ 133,088	\$ 118,203
Interest cost	190,421	157,309
Expected return on plan assets	<u>(225,050)</u>	<u>(203,865)</u>
	98,459	71,647
Less: increase in amounts limited by paragraph 58 of International Accounting Standard 19	<u>47,686</u>	<u>23,052</u>
	\$ <u>146,145</u>	\$ <u>94,699</u>

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

	<u>2006</u>	<u>2005</u>
Net assets at beginning of the year	\$ 0	\$ 46,787
Net expense recognised in the statement of operations	146,145	94,699
Employer contribution	<u>(146,145)</u>	<u>(141,486)</u>
	\$ <u>0</u>	\$ <u>0</u>

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

	<u>2006</u>	<u>2005</u>
Discount rate	6.00%	6.00%
Expected return on plan assets	6.00%	6.00%
Expected rate of salary increase	7.1% at age 18 to 3% at age 59	7.1% at age 18 to 3% at age 59
Average expected remaining working lives of employees (years)	12.5	14

The actual return on plan assets during the year was **\$185,640** (2005 - \$179,985).