

**BAHAMAS DEVELOPMENT BANK
FINANCIAL STATEMENTS**

DECEMBER 31, 2007

BAHAMAS DEVELOPMENT BANK

<u>Contents</u>	<u>Page</u>
Auditor's Report	1
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Share Capital, Reserve Fund & Deficit	4
Statement of Cash Flows	5
Notes to Financial Statements	6 -18

29 Retirement Road
P. O. Box N-7777, Nassau, Bahamas
Tel: (242) 393-0224
Fax: (242) 393-7570
E-Mail: dayrri@bahamas.net.bs
miketr@bahamas.net.bs

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, 2007 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

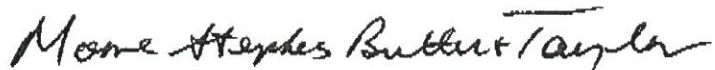
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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, 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



NASSAU, BAHAMAS
May 14, 2008

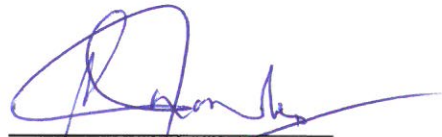
MOORE STEPHENS BUTLER & TAYLOR
Chartered Accountants

BAHAMAS DEVELOPMENT BANK
BALANCE SHEET
AS AT DECEMBER 31, 2007

	NOTES	2007	2006
ASSETS			
Cash		\$ 1,206,505	\$ 47,923
Loans	3	35,957,721	47,544,993
Other assets		137,629	133,884
Accrued interest receivable		113,639	119,544
Fixed assets	4	<u>453,099</u>	<u>471,176</u>
		\$ <u>37,868,593</u>	\$ <u>48,317,520</u>
LIABILITIES			
Accounts payable and accrued expenses		\$ 202,152	\$ 134,702
Accrued interest payable		616,662	513,466
Customer deposits	5	1,321,311	1,847,639
Long-term debt	6	<u>50,016,984</u>	<u>45,704,608</u>
		<u>52,157,109</u>	<u>48,200,415</u>
SHARE CAPITAL, RESERVE FUND AND DEFICIT			
Share capital	7	26,584,917	25,584,917
Reserve fund	8	273,128	273,128
Deficit		<u>(41,146,561)</u>	<u>(25,740,940)</u>
		<u>(14,288,516)</u>	<u>117,105</u>
		\$ <u>37,868,593</u>	\$ <u>48,317,520</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, 2007

	NOTES	2007	2006
Interest Income			
Interest – loans		\$ 3,332,912	\$ 3,491,573
– subsidy		424,601	384,530
– deposits		<u>32,709</u>	<u>7,172</u>
		3,790,222	3,883,275
Interest expense		(2,834,865)	(2,592,665)
Net interest income		<u>955,357</u>	<u>1,290,610</u>
Other Income			
Fees and commissions		230,637	325,047
Net foreign exchange loss		(49,095)	(47,982)
Other income (loss)		<u>2,760</u>	<u>(1,114)</u>
		<u>184,302</u>	<u>275,951</u>
Expenses			
Allowance for loan losses	3	13,292,004	1,951,653
Salaries and staff expenses		2,396,711	2,114,724
General and administrative		890,570	773,894
Depreciation		180,144	206,375
Rent		<u>83,217</u>	<u>80,217</u>
		<u>16,842,646</u>	<u>5,126,863</u>
Operating Loss		(15,702,987)	(3,560,302)
Sinking Fund Income		<u>297,366</u>	<u>228,899</u>
LOSS FOR THE YEAR		\$ (15,405,621)	\$ (3,331,403)

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

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN SHARE CAPITAL, RESERVE FUND AND DEFICIT
YEAR ENDED DECEMBER 31, 2007

	<u>Share Capital</u>	<u>Reserve Fund</u>	<u>Deficit</u>
Balance as at January 1, 2006	\$ 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>	<u>(3,331,403)</u>
Balance as at December 31, 2006	25,584,917	273,128	(25,740,940)
Shares issued	1,000,000	0	0
Loss for the year	<u>0</u>	<u>0</u>	<u>(15,405,621)</u>
Balance as at December 31, 2007	<u>\$ 26,584,917</u>	<u>\$ 273,128</u>	<u>\$(41,146,561)</u>

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

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007

	NOTES	2007	2006
Cash flows from (used by) operating activities:			
Loss		\$ (15,405,621)	\$ (3,331,403)
Adjustments for:			
Depreciation		180,144	206,375
Allowance for loan losses	3	<u>13,292,004</u>	<u>1,951,653</u>
		(1,933,473)	(1,173,375)
Changes in operating assets and liabilities			
Change in accrued interest receivable		(3,745)	(26,164)
Change in other assets		5,905	9,304
Change accounts payable and accrued expenses		67,450	25,437
Change in accrued interest payable		<u>103,196</u>	<u>25,108</u>
Net cash from (used by) operating activities		(1,760,667)	(1,139,690)
Cash flows from (used by) investing activities:			
Increase loans		(1,704,732)	(2,080,184)
Purchase of fixed assets		<u>(162,067)</u>	<u>(140,314)</u>
Net cash used by investing activities		(1,866,799)	(2,220,498)
Cash flows from (used by) financing activities:			
Net (increase) decrease of long-term debt		4,312,376	(150,144)
Decrease customer deposits		(526,328)	(878)
Increase share capital		<u>1,000,000</u>	<u>1,500,000</u>
Net cash from financing activities		<u>4,786,048</u>	<u>1,348,978</u>
INCREASE (DECREASE) CASH		1,158,582	(2,011,210)
CASH AT BEGINNING OF YEAR		<u>47,923</u>	<u>2,059,133</u>
CASH AT END OF YEAR		\$ <u>1,206,505</u>	\$ <u>47,923</u>

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

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

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 50 employees at December 31, 2007 (2006 – 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) Going Concern

The Bank has incurred significant losses and reduction of equity due to the performance of its loan portfolio and loan provisioning. As described in Note 6, the Bank is authorized to raise a further eight (8) million dollars by way of borrowing from the National Insurance Board. Its liquidity and ability to meet its obligations should not be significantly impacted by the loan losses. The Directors are satisfied that the Bank is currently a going concern and that the preparation of these accounts on that basis is appropriate.

- b) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) 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 proceeds are deemed sufficient to repay both principal and interest.

d) 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.

e) 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%

f) 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.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g) 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.

3. LOANS

Loans is comprised as follows:

	<u>2007</u>	<u>2006</u>
Performing	\$ 26,471,973	\$ 30,747,266
Non-performing	29,032,957	23,340,935
Extraordinary advances	734,428	587,061
Employees	<u>897,234</u>	<u>757,625</u>
	57,136,592	55,432,887
Less:		
Allowance for loan losses	(21,178,871)	(7,887,894)
	<u>\$ 35,957,721</u>	<u>\$ 47,544,993</u>

The interest rates applicable to these loans vary between 0.00% and 14.00% (2006 – 0.00% and 14.00%).

Included in Extraordinary advances is \$652,434 made in relation to Non-performing loans.

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

	<u>2007</u>	<u>2006</u>
Balance brought forward	\$ 7,887,894	\$ 8,149,997
Increase in provision	13,292,004	1,951,653
Loans written off	(1,027)	(2,213,756)
Balance carried forward	<u>\$ 21,178,871</u>	<u>\$ 7,887,894</u>

During the year, the Bank made a one time decision to provide in full for non-performing loans net of the estimate of the realizable value of collateral.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

4. 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 1, 2007	1,194,600	273,626	253,917	148,904	819,739	190,553	2,881,339
Additions	49,772	14,104	476	0	95,305	3,115	162,772
Disposals	(21,140)	0	0	0	0	0	(21,140)
December 31, 2007	<u>1,223,232</u>	<u>287,730</u>	<u>254,393</u>	<u>148,904</u>	<u>915,044</u>	<u>193,668</u>	<u>3,022,971</u>
DEPRECIATION							
January 1, 2007	1,005,310	222,245	227,822	87,787	727,556	139,443	2,410,163
Additions	99,810	11,294	8,353	32,643	14,887	13,157	180,144
Disposals	(20,435)	0	0	0	0	0	(20,435)
December 31, 2007	<u>1,084,685</u>	<u>233,539</u>	<u>236,175</u>	<u>120,430</u>	<u>742,443</u>	<u>152,600</u>	<u>2,569,872</u>
NET BOOK VALUE							
December 31, 2007	138,547	54,191	18,218	28,474	172,601	41,068	453,099
December 31, 2006	189,290	51,381	26,095	61,117	92,183	51,110	471,176

5. CUSTOMER DEPOSITS

Deposits are as follows:

	<u>2007</u>	<u>2006</u>
Security deposits held as collateral for loans	\$ 685,472	\$ 722,377
Loan repayments	209,431	484,575
Insurance premiums	199,061	219,308
Legal fees, stamp tax, recording fees, etc.	86,339	119,256
Other	<u>141,008</u>	<u>302,123</u>
	\$ <u>1,321,311</u>	\$ <u>1,847,639</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

6. LONG-TERM DEBT

	<u>2007</u>	<u>2006</u>
Caribbean Development Bank	\$ 7,946,333	\$ 9,532,070
European Development Fund	460,775	443,732
Inter-American Development Bank	2,663,276	3,147,508
The Central Bank of The Bahamas	6,750,000	7,025,000
National Insurance Board	38,000,000	29,000,000
British American Insurance Co., Ltd.	4,000,000	4,000,000
	<u>59,820,384</u>	<u>53,148,310</u>
Less Sinking Fund	<u>(9,803,400)</u>	<u>(7,443,702)</u>
	<u>\$ 50,016,984</u>	<u>\$ 45,704,608</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 US \$126,262. 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 **6.25%** (2006 – 6.00%).

B. European Development Fund

The loan is repayable in Euros (ECU 336,237) in installments calculated at a .01% semi-annual increasing percentage, 2007-1.68%, 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.

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 **5.41%** (2006 – 4.45%). The loan is due to be repaid March 30, 2013.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

6. LONG-TERM DEBT (cont'd)

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 repaid 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 October 28, 2018.

E. National Insurance Board

The Bank has issued sixteen 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	2,000,000	4.50%	2006	2021
15	D	1,000,000	4.50%	2007	2022
16	C	2,000,000	5.50%	2007	2027
17	C	2,000,000	5.50%	2007	2027
18	D	2,000,000	4.50%	2007	2022
19	D	2,000,000	4.50%	2007	2022
		<u>\$ 38,000,000</u>			

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

6. 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>			

Deposits have been set aside with banks 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.

These deposits earn interest at annual rates of **3.50% - 5.50%** (2006 – 3.50% - 4.50%). Interest earned was **\$276,351** (2006-\$218,478)

The Sinking Fund is also comprised of Bahamas Government Registered Stocks, which are being held for the long term and stated at amortized cost, which approximates fair value. The Stocks bear interest at prime, **5.5%, + .25-.28125%** and have maturity dates of 2021 through 2024. Interest earned was **\$21,014** (2006 – \$10,421).

In accordance with the provisions of the Bahamas Development Bank Act, Chapter 357 of the Revised Statute Law of The Bahamas 2000, Section 16, the Bank has been approved to raise \$50 million by way of bond issuance; unissued totalled \$8,000,000.

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

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

6. LONG-TERM DEBT (cont'd)

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

<u>Year</u>	<u>Amount</u>
2008	\$ 2,379,807
2009	2,380,010
2010	2,505,417
2011	2,505,823
2012	2,253,604

7. SHARE CAPITAL

CAPITAL STRUCTURE	<u>2007</u>	<u>2006</u>
Authorized		
10,000,000 shares of \$5.00 each	<u>\$50,000,000</u>	<u>\$50,000,000</u>
Issued and fully paid		
5,316,983(2006 – 5,116,983) shares of \$5 each	<u>\$26,584,917</u>	<u>\$25,584,917</u>

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

8. 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.

9. COMMITMENTS

The Bank was committed to extend credit based on approved but undisbursed loans as at December 31, 2007 amounting to **\$200,242** (2006 - \$266,878).

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.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

9. COMMITMENTS (cont'd)

- 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 Bank signed a new lease effective January 1, 2008 for its new premises in Freeport for a term of 3 years at a monthly rent of \$3,500.

10. 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 **\$424,601** (2006 - \$384,530). Included in Other assets is accrued interest subsidy of **\$69,415** (2006 - \$73,335).

11. 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	\$ 1,206,505	\$ 0	\$ 0	\$ 1,206,505
Loans before provision	3,880,642	1,492,801	19,143,593	32,619,556	57,136,592
Accrued interest	0	113,639	0	0	113,639
Other assets	<u>0</u>	<u>137,629</u>	<u>0</u>	<u>0</u>	<u>137,629</u>
	\$ <u>3,880,642</u>	\$ <u>2,950,574</u>	\$ <u>19,143,593</u>	\$ <u>32,619,556</u>	\$ <u>58,594,365</u>
Liabilities:					
Accrued expenses	\$ 0	\$ 202,151	\$ 0	\$ 0	\$ 202,151
Accrued interest payable	0	616,662	0	0	616,662
Customer deposits	0	1,321,310	0	0	1,321,310
Long-term debt	<u>0</u>	<u>2,379,807</u>	<u>9,644,854</u>	<u>37,992,323</u>	<u>50,016,984</u>
	\$ <u>0</u>	\$ <u>4,519,930</u>	\$ <u>9,644,854</u>	\$ <u>37,992,323</u>	\$ <u>52,157,107</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

12. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

Cash	<u>2007</u>	<u>2006</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>
Loans		
Geographic Region		
Bahamas	<u>100.00%</u>	<u>100.00%</u>
Industry		
Agriculture	3.50%	3.50%
Fishing	13.00%	13.00%
Transportation	16.00%	17.00%
Tourism	18.00%	18.00%
Manufacturing	5.50%	5.00%
Service	42.50%	42.00%
Staff	<u>1.50%</u>	<u>1.50%</u>
	<u>100.00%</u>	<u>100.00%</u>
Long-term debt		
Geographic Region		
Barbados	13.00%	17.90%
Europe	.80%	.80%
North America	4.50%	5.90%
Bahamas	<u>81.70%</u>	<u>75.40%</u>
	<u>100.00%</u>	<u>100.00%</u>
Industry		
Financial Sector	<u>100.00%</u>	<u>100.00%</u>

13. FINANCIAL INSTRUMENTS

Interest rate risk

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

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

Credit risk

The Bank mitigates credit risk on its loan portfolio by requiring borrowers to provide collateral 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.

Fair Values

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

14. RELATED PARTIES

Salaries and other short-term employee benefits paid to key management personnel totalled **\$558,392** (2006-\$531,385). Loans to key management personnel of the Bank totalled **\$193,468** (2006-\$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 three loans due from family members of key management personnel of the Bank, which totalled **\$984,767** (2006-\$1,102,422). These loans have fixed terms of repayment and bear interest at rates at 8.50% and 10.50%. The loans are fully secured. Additionally, one of the loans, \$81,026 was classified as non-performing.

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

15. 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>2007</u>	<u>2006</u>
Present value of funded obligations	\$ 4,151,008	\$ 3,426,311
Fair value of plan assets	<u>(4,386,443)</u>	<u>(4,020,999)</u>
	(235,435)	(594,688)
Actuarial gain (loss) arising during the year	<u>(426,685)</u>	<u>(18,537)</u>
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	(662,120)	(613,225)
Less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	<u>(662,120)</u>	<u>(613,225)</u>
	\$ <u>0</u>	\$ <u>0</u>

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

	<u>2007</u>	<u>2006</u>
Current service cost	\$ 171,461	\$ 133,088
Interest cost	209,165	190,421
Expected return on plan assets	<u>(245,231)</u>	<u>(225,050)</u>
	135,395	98,459
Less: increase in amounts limited by paragraph 58 of International Accounting Standard 19	<u>48,895</u>	<u>47,686</u>
	\$ <u>184,290</u>	\$ <u>146,145</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS (cont'd)
YEAR ENDED DECEMBER 31, 2007

15. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont'd)

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

	<u>2007</u>	<u>2006</u>
Net assets at beginning of the year	\$ 0	\$ 46,787
Net expense recognised in the statement of operations	184,290	94,699
Employer contribution	(184,290)	(141,486)
	\$ <u>0</u>	\$ <u>0</u>

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

	<u>2007</u>	<u>2006</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)	13.6	14.3

The actual return on plan assets during the year was \$233,073 (2006 - \$185,640).