# BAHAMAS DEVELOPMENT BANK
# FINANCIAL STATEMENTS

## DECEMBER 31, 2009

**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, 2009 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, 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion thereon, these financial statements are prepared on the going concern assumption as explained in Notes 2(a) and 6. 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.

Moore Stephens Butler & Taylor

**NASSAU, BAHAMAS**
April 20, 2010

**MOORE STEPHENS BUTLER & TAYLOR**
Chartered Accountants

**BAHAMAS DEVELOPMENT BANK**
**BALANCE SHEET**
**AS AT DECEMBER 31, 2009**

| | NOTES | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | $ 532,731 | $ 1,708,097 |
| Loans | 3 | 29,517,810 | 31,781,089 |
| Accrued interest receivable | | 95,850 | 183,349 |
| Other assets | | 98,483 | 109,342 |
| Fixed assets | 4 | 350,629 | 369,443 |
| | | $ 30,595,503 | $ 34,151,320 |
| **LIABILITIES** | | | |
| Accounts payable and accrued expenses | | $ 108,711 | $ 95,036 |
| Accrued interest payable | | 1,548,059 | 664,598 |
| Customer deposits | 5 | 1,041,529 | 1,427,849 |
| Long-term debt | 6 | 47,745,547 | 50,647,296 |
| | | 50,443,846 | 52,834,779 |
| **SHARE CAPITAL, RESERVE FUND AND DEFICIT** | | | |
| Share capital | 7 | 28,960,256 | 27,459,917 |
| Reserve fund | 8 | 273,128 | 273,128 |
| Deficit | | (49,081,727) | (46,416,504) |
| | | (19,848,343) | (18,683,459) |
| | | $ 30,595,503 | $ 34,151,320 |

**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, 2009**

| | NOTES | 2009 | 2008 |
|---|---|---|---|
| **Interest Income** | | | |
| Interest – loans | | **$ 2,521,189** | $ 3,212,220 |
| – subsidy | | **464,137** | 402,612 |
| – deposits | | **19,186** | 27,425 |
| | | **3,004,512** | 3,642,257 |
| Interest expense | | **( 3,088,859)** | ( 2,992,142) |
| Cost of interest in excess of income | | **( 84,347)** | 650,115 |
| **Other Income** | | | |
| Fees and commissions | | **101,521** | 165,965 |
| Net foreign exchange (loss) gain | | **(13,306)** | 23,481 |
| Other income | | **1,569** | 8,487 |
| | | **89,784** | 197,933 |
| **Expenses** | | | |
| Salaries and staff expenses | | **2,437,559** | 2,548,106 |
| General and administrative | | **560,802** | 747,281 |
| Allowance for loan losses | **3** | **334,521** | 2,959,555 |
| Rent | | **118,450** | 109,518 |
| Depreciation | | **100,580** | 132,678 |
| | | **3,551,912** | 6,497,138 |
| Operating Loss | | **( 3,546,475)** | ( 5,649,090) |
| Sinking Fund Income | | **881,252** | 379,147 |
| **LOSS FOR THE YEAR** | | **$ ( 2,665,223)** | $ ( 5,269,943) |

**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, 2009**

| | Share Capital | Reserve Fund | Deficit |
|---|---|---|---|
| Balance at January 1, 2008 | $ 26,584,917 | $ 273,128 | $(41,146,561) |
| Shares issued | 875,000 | - | - |
| Loss for the year | - | - | ( 5,269,943) |
| Balance at December 31, 2008 | 27,459,917 | 273,128 | (46,416,504) |
| Shares issued | 1,500,339 | - | - |
| Loss for the year | - | - | ( 2,665,223) |
| **Balance at December 31, 2009** | **$ 28,960,256** | **$ 273,128** | **$(49,081,727)** |

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

**BAHAMAS DEVELOPMENT BANK**
**STATEMENT OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2009**

| | NOTES | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from (used by) operating activities:** | | | |
| Loss | | **$ (2,665,223)** | $ (5,269,943) |
| Adjustments for: | | | |
| Depreciation | | **100,580** | 132,678 |
| Allowance for loan losses | **3** | **334,521** | 2,959,555 |
| | | **(2,230,122)** | (2,177,710) |
| Changes in operating assets and liabilities | | | |
| Change in accrued interest receivable | | **87,499** | ( 69,710) |
| Change in other assets | | **10,859** | 28,287 |
| Change accounts payable and accrued expenses | | **13,675** | ( 107,116) |
| Change in accrued interest payable | | **883,461** | 47,936 |
| **Net cash used by operating activities** | | **(1,234,630)** | (2,278,313) |
| **Cash flows from (used by) investing activities:** | | | |
| Decrease loans | | **1,928,758** | 1,217,077 |
| Purchase of fixed assets | | **( 81,766)** | ( 49,022) |
| **Net cash from investing activities** | | **1,846,992** | 1,168,055 |
| **Cash flows from (used by) financing activities:** | | | |
| Net (decrease) increase of long-term debt | | **(2,901,749)** | 630,312 |
| (Decrease) increase customer deposits | | **( 386,319)** | 106,538 |
| Increase share capital | | **1,500,339** | 875,000 |
| **Net cash from (used by) financing activities** | | **(1,787,728)** | 1,611,850 |
| **(DECREASE) INCREASE CASH** | | **(1,175,366)** | 501,592 |
| **CASH AT BEGINNING OF YEAR** | | **1,708,097** | 1,206,505 |
| **CASH AT END OF YEAR** | | **$ 532,731** | $ 1,708,097 |

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

## 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 **44** employees at December 31, 2009 (2008 – 49) and its main place of business is at Cable Beach, West Bay Street, Nassau, Bahamas.

These accounts were approved by the Board of Directors for issue on April 22, 2010.

## 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 funds 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 affect 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 the 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. Provision 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 fixed maturity periods, are measured at amortised cost, using the effective interest method, and are subject to review for impairment.

## 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 are comprised as follows:

| | 2009 | 2008 |
|---|---|---|
| Performing | **$ 20,236,197** | $ 25,280,297 |
| Non-performing | **31,911,902** | 28,885,366 |
| Extraordinary advances | **982,699** | 833,736 |
| Employees | **859,959** | 920,116 |
| | **53,990,757** | 55,919,515 |
| Less: | | |
| Allowance for loan losses | **(24,472,947)** | (24,138,426) |
| | **$ 29,517,810** | $ 31,781,089 |

The interest rates applicable to these loans vary between **0.00%** and **14.00%** (2008 – 0.00% and 14.00%).
Included in Extraordinary advances is **$924,818** (2008 - $770,967) made in relation to Non-performing loans. These advances are primarily to protect the Bank's position relative to those assets inclusive of insurance premiums, fees for legal and appraisal, and costs related to advertising and other foreclosure proceeding.

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

| | 2009 | 2008 |
|---|---|---|
| Balance brought forward | **$ 24,138,426** | $ 21,178,871 |
| Increase in provision | **334,521** | 2,959,555 |
| Loans written off | **-** | - |
| Balance carried forward | **$ 24,472,947** | $ 24,138,426 |

Allowance for loan losses represents **45%** (2008 - 43%) of the total loans and **75%** (2008 - 81%) of the non-performing loans.

## 3. LOANS (cont'd)

During the year, the Bank has made an assessment of the adequacy of the provision in view of the economic outlook, industry occurrences and practices. Consequently and with regard particularly to those loans, which have become impaired, the Bank has written down those loans, irrespective of the collateral value of the loan on the books. Such decision is based, where the effort by the Bank to foreclose or such foreclosure will not be pursued and where the evidence or circumstances of the debtor suggests that there would be no such foreclosure or low probability of recovery.

## 4. FIXED ASSETS

Fixed assets is comprised as follows:

| | Computer Equipment & Software | Furniture, fixtures & fittings | Office machines | Motor vehicles | Leasehold Improvements | Other | Total |
|---|---|---|---|---|---|---|---|
| **COST** | $ | $ | $ | $ | $ | $ | $ |
| January 1, 2009 | 1,227,236 | 291,474 | 259,434 | 150,990 | 915,044 | 197,901 | 3,042,079 |
| Additions | 68,872 | 2,298 | 678 | - | 9,355 | 561 | 81,765 |
| Disposals | - | - | - | ( 22,000) | - | - | - |
| December 31, 2009 | 1,296,108 | 293,771 | 260,112 | 128,990 | 924,399 | 198,462 | 3,123,844 |
| **DEPRECIATION** | | | | | | | |
| January 1, 2009 | 1,141,124 | 244.321 | 243,261 | 113,866 | 764,730 | 165,333 | 2,672,635 |
| Additions | 39,379 | 8,330 | 6,586 | 17,374 | 16,762 | 12,147 | 100,580 |
| Disposals | - | - | - | ( 22,000) | - | - | - |
| December 31, 2009 | 1,180,504 | 252,651 | 249,847 | 109,240 | 781,492 | 177,481 | 2,773,215 |
| **NET BOOK VALUE** | | | | | | | |
| **December 31, 2009** | **115,604** | **41,120** | **10,265** | **19,750** | **142,907** | **20,981** | **350,629** |
| December 31, 2008 | 86,112 | 47,153 | 16,173 | 37,124 | 150,314 | 32,567 | 369,443 |

## 5. CUSTOMER DEPOSITS

Deposits are as follows:

| | 2009 | 2008 |
|---|---|---|
| Security deposits inclusive of interest held as collateral for loans | **$ 515,929** | $ 604,862 |
| Customer current accounts | **142,218** | 379,491 |
| Customer advances toward insurance premiums | **136,580** | 196,261 |
| Customer funds toward loan repayments | **183,047** | 178,559 |
| Customer advances toward legal fees stamp tax, recording fees, etc. | **63,755** | 68,676 |
| | **$ 1,041,529** | $ 1,427,849 |

## 6. LONG-TERM DEBT

| | 2009 | 2008 |
|---|---|---|
| Caribbean Development Bank | **$ 5,189,331** | $ 6,360,597 |
| European Development Fund | **382,297** | 402,508 |
| Inter-American Development Bank | **1,694,812** | 2,179,044 |
| The Central Bank of The Bahamas | **6,150,000** | 6,475,000 |
| National Insurance Board | **46,000,000** | 44,000,000 |
| The Central Bank of The Bahamas | **4,000,000** | 4,000,000 |
| | **63,416,440** | 63,417,149 |
| Less Sinking Fund | **(15,670,894)** | (12,769,853) |
| | **$ 47,745,546** | $ 50,647,296 |

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 $117,243. The loan is due to be repaid by October 01, 2012. The second loan is repayable in quarterly installments of US $270,172. The loan is due to be repaid by April 01, 2013. The interest rate is variable, last half of the year being set at **5.32%** (2008 – 5.92%).

## 6. LONG-TERM DEBT (cont'd)

B. European Development Fund

The loan is repayable in Euros (ECU 265,374) in installments calculated at a .01% semi-annual increasing percentage, 2009-1.73%, 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 **4.93%** (2008 – 5.15%). The loan is due to be repaid March 30, 2013.

D. The Central Bank of The Bahamas

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

(i). A loan of $1,275,000 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.

(ii). A loan of $4,875,000 is repayable in semi-annual installments of $125,000 at an annual interest rate of 2.00%. The loan is due to be repaid by October 28, 2018.

E. The Central Bank of The Bahamas

The Central Bank of The Bahamas holds the following bonds: -

| BOND | SERIES | AMOUNT | RATE | ISSUE DATE | YEAR OF MATURITY |
|---|---|---|---|---|---|
| 10 | C | $2,000,000 | 5.50% | 07/13/2005 | 2025 |
| 11 | C | 1,000,000 | 5.50% | 10/17/2005 | 2025 |
| 12 | C | 1,000,000 | 5.50% | 10/19/2005 | 2025 |
| | | $4,000,000 | | | |

## 6. LONG-TERM DEBT (cont'd)

F. National Insurance Board

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

| BOND | SERIES | AMOUNT | RATE | ISSUE DATE | YEAR OF MATURITY |
|---|---|---|---|---|---|
| 1 | A | $10,000,000 | 5.50% | 11/28/2000 | 2020 |
| 2 | B | 4,000,000 | 4.50% | 06/22/2001 | 2016 |
| 3 | B | 1,000,000 | 4.50% | 06/14/2002 | 2017 |
| 4 | B | 2,000,000 | 4.50% | 07/31/2002 | 2017 |
| 5 | B | 2,000,000 | 4.50% | 08/15/2003 | 2018 |
| 6 | A | 2,000,000 | 5.50% | 12/29/2003 | 2023 |
| 7 | A | 2,000,000 | 5.50% | 03/25/2004 | 2024 |
| 8 | A | 1,000,000 | 5.50% | 09/29/2004 | 2024 |
| 9 | B | 1,000,000 | 4.50% | 06/16/2005 | 2020 |
| 13 | C | 2,000,000 | 5.50% | 05/05/2006 | 2026 |
| 14 | D | 2,000,000 | 4.50% | 08/11/2006 | 2021 |
| 15 | D | 1,000,000 | 4.50% | 01/03/2007 | 2022 |
| 16 | C | 2,000,000 | 5.50% | 02/06/2007 | 2027 |
| 17 | C | 2,000,000 | 5.50% | 04/05/2007 | 2027 |
| 18 | D | 2,000,000 | 4.50% | 08/02/2007 | 2022 |
| 19 | D | 2,000,000 | 4.50% | 11/30/2007 | 2022 |
| 20 | C | 2,000,000 | 5.50% | 04/02/2008 | 2028 |
| 21 | D | 2,000,000 | 4.50% | 08/18/2008 | 2023 |
| 22 | C | 2,000,000 | 5.50% | 11/14/2008 | 2028 |
| 23 | C | 1,000,000 | 5.50% | 03/31/2009 | 2029 |
| 24 | D | 1,000,000 | 4.50% | 03/31/2009 | 2024 |
| | | $46,000,000 | | | |

Deposits have been set aside with banks as a sinking fund to fulfill 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 The Central Bank of The Bahamas.

These deposits earn interest at annual rates of **3.00% - 5.50%** (2008 – 3.50% - 5.50%). Interest received was **$601,289** (2008-$358,106).
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 received was **$20,988** (2008 – $21,014).

## 6. LONG-TERM DEBT (cont'd)

In accordance with the provisions of The Bahamas Development Bank Act, Chapter 357 of the Revised Statue Law of The Bahamas 2000, Section 16, the Bank has been approved to raise $50 million by way of bond issuance; which is fully drawn down. As referred in Note 2(a), the Bank is dependent upon funding by way of authorization or by additional capital injections by The Bahamas Government to continue as a going concern.

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 four years are as follows:

| Year | Amount |
|---|---|
| 2010 | 2,667,412 |
| 2011 | 2,467,797 |
| 2012 | 2,468,085 |
| 2013 | 1,216,940 |

## 7. SHARE CAPITAL

| CAPITAL STRUCTURE | **2009** | 2008 |
|---|---|---|
| Authorized | | |
| 10,000,000 shares of $5.00 each | **$50,000,000** | $50,000,00 |
| Issued and fully paid | | |
| 5,792,051(2008 – 5,491,983) shares of $5.00 each | **$28,960,256** | $27,459,91 |

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 loans, but which have not been disbursed as at December 31, 2009, amounting to **$66,744** (2008 - $691,223).

On March 11, 2009 The Bank contracted to upgrade of its banking software with expected delivery scheduled for May 2010. The contract amount inclusive of software and services is $274,500.

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

a). The Bank's Nassau premises is 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 the lease and continues to pay the same rent.

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. The Bank ceased operations at this location on December 31, 2009 without penalty.

c). The Bank signed a new lease effective January 1, 2009 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 **$464,137** (2008 - $402,612). Included in Other assets is accrued interest subsidy of **$39,116** (2008 - $38,645).

## 11. CONCENTRATION OF LOANS

| | 2009 | % | 2008 | % |
|---|---|---|---|---|
| Under $100,000 | **$ 22,621,278** | **42.68** | $ 24,175,283 | 43.95 |
| $100,001-$250,000 | **11,321,811** | **21.36** | 11,913,448 | 21.09 |
| $250,001 -$500,000 | **8,818,202** | **16.64** | 8,598,210 | 15.41 |
| $500,001 and over | **10,246,767** | **19.93** | 10,398,838 | 19.55 |
| | **53,008,058** | **100.00** | 55,085,779 | 100.00 |
| Extraordinary advances | **982,699** | | 833,736 | |
| Allowance for loan losses | **(24,472,947)** | | (24,138,426) | |
| | **$ 29,517,810** | | $ 31,781,089 | |

## 12. MATURITY OF SIGNIFICANT ASSETS & LIABILITIES

| | Past Due | Up to 1 Year | 1 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash | $ - | $ 532,731 | $ - | $ - | $ 532,731 |
| Loans before provision | 7,829,937 | 2,330,063 | 20,040,021 | 23,790,737 | 53,990,758 |
| Accrued interest | - | 95,850 | - | - | 95,850 |
| Other assets | - | 98,483 | - | - | 98,483 |
| | $7,829,937 | $3,057,127 | $20,040,021 | $23,790,737 | $54,717,822 |
| Liabilities: | | | | | |
| Accrued expenses | $ - | $ 108,711 | $ - | $ - | $ 108,710 |
| Accrued interest payable | - | 1,548,059 | - | - | 1,548,059 |
| Customer deposits | - | 1,041,529 | - | - | 1,041,529 |
| Long-term debt | - | 2,667,412 | 7,022,543 | 38,314,566 | 48,004,521 |
| | $ - | $5,365,711 | $ 7,022,543 | $38,314,566 | $50,702,820 |

## 13. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

| | 2009 | 2008 |
|---|---|---|
| **Cash** | | |
| Geographic Region | | |
| Bahamas | **100.00%** | 100.00% |
| Industry | | |
| Financial Sector | **100.00%** | 100.00% |
| | **100.00%** | 100.00% |
| **Interest bearing deposits** | | |
| Geographic Region | | |
| Bahamas | **100.00%** | 100.00% |
| Industry | | |
| Financial Sector | **100.00%** | 100.00% |
| | **100.00%** | 100.00% |
| **Loans** | | |
| Geographic Region | | |
| Bahamas | **100.00%** | 100.00% |
| Industry | | |
| Agriculture | **3.80%** | **3.40%** |
| Fishing | **12.40%** | **12.62%** |
| Transportation | **15.30%** | **15.73%** |
| Tourism | **19.00%** | **18.75%** |
| Manufacturing | **6.40%** | **5.84%** |
| Service | **41.40%** | **41.99%** |
| Staff | **1.70%** | **1.67%** |
| | **100.00%** | **100.00%** |
| **Long-term debt** | | |
| Geographic Region | | |
| Barbados | **8.20%** | 10.03% |
| Europe | **.60%** | .63% |
| North America | **2.70%** | 3.44% |
| Bahamas | **88.50%** | 85.90% |
| | **100.00%** | 100.00% |
| Industry | | |
| Financial Sector | **100.00%** | 100.00% |

## 14. 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 has placed its cash, interest bearing deposits and investments with high-quality financial institutions including the Central Bank and the Government of The Bahamas.

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. Numerous special loans, such as hurricane relief and small business assistance loans are guaranteed by the Government of The Bahamas.
The loan amount shown on the balance sheet is net of the allowance for loan losses, which has been estimated by the Bank based upon prior experience and current economic conditions. The Bank's credit risk is concentrated in The Bahamas and spread over numerous counter-parties and customers.

### Foreign currency risk

The Bank minimises this risk by conducting its operations and investment activities principally in Bahamian dollars, which is the Bank's functional currency. The Bank has financial liabilities, which are denominated in currencies other than the functional currency, noted in Note 6 (A, B, and C).

### Liquidity risk

The Bank's policy is to ensure that it is able to honour its financial commitments and its mandate as a development bank. To this end, liquidity is monitored daily and the Treasurer of The Bahamas advised if necessary. Note 2 (a).

## 14. FINANCIAL INSTRUMENTS (cont'd)

### Fair Values

The estimated fair values represent values at which financial instruments could be exchanged in a current transaction between willing parties. Wherever there is no available trading market, fair values are estimated using appropriate valuation methods.
The following methods and assumptions have been used in determining the fair value of financial instruments:

a) Cash resources- the fair value of these instruments are assumed to approximate their carrying values due to their short-term nature.

b) Investments- the fair value of investments approximate cost due to the interest rate attached.

c) Loans- the rates of interest in the portfolio reflect market conditions and the inherent risk given the nature of the projects for which the Bank is providing finance. The carrying amounts, net of allowance for loan losses, are assumed to approximate their fair values.

d) Customer deposits- these deposit liabilities and amounts which have been advanced in anticipation of matching expenditure are assumed to equal their fair values.

e) Long-term debt- these liabilities are based on fixed repayments dates and specific terms of interest and are assumed to have fair values, which approximate their carrying values.

## 15. RELATED PARTIES

Salaries and other short-term employee benefits paid to key management personnel totalled **$574,602** (2008-$623,807). Loans to key management personnel of the Bank totaled **$118,340** (2008-$198,640). 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 totaled **$1,004,600** (2008-$1,004,619) and were classified as non-performing. These loans have fixed terms of repayment and bear interest at rates at 8.50% to 10.50%. The loans are fully secured.

## 16. 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:

| | 2009 | 2008 |
|---|---|---|
| Present value of funded obligations | $ 4,590,081 | $ 5,127,184 |
| Fair value of plan assets | (4,839,190) | (4,711,108) |
| | ( 249,109) | 416,076 |
| Actuarial loss arising during the year | ( 257,881) | (1,005,909) |
| Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19 | ( 506,990) | ( 589,833) |
| Less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19 | ( 506,990) | ( 589,833) |
| | $ - | $ - |

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

| | 2009 | 2008 |
|---|---|---|
| Current service cost | $ 267,061 | $ 274,814 |
| Interest cost | 312,979 | 256,402 |
| Expected return on plan assets | (233,258) | (268,012) |
| | 346,782 | 263,204 |
| Adjust for amounts limited by paragraph 58 of International Accounting Standard 19 | (161,396) | ( 72,286) |
| | $ 185,386 | $ 190,918 |

## 16. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont'd)

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

| | **2009** | 2008 |
|---|---|---|
| Net assets at beginning of the year | **$ -** | $ - |
| Net expense recognised in the statement of operations | **185,386** | 190,918 |
| Employer contribution | **(185,386)** | (190,918) |
| | **$ -** | $ - |

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

| | **2009** | 2008 |
|---|---|---|
| Discount rate | **5.75%** | 6.00% |
| Expected return on plan assets | **5.00%** | 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) | **12.3** | 13.3 |

The actual return on plan assets during the year was **$219,987** (2008 - $163,833).

## 17. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to the Bank were adopted in these financial statements:

*i* IFRS 7 *Financial Instruments: Disclosures*. This standard, which was effective January 1, 2007 requires more detailed qualitative and quantitative disclosures about exposure to risks arising from the Bank's financial instruments. As a disclosure standard, the application of this new standard has not had any impact on amounts recognized in the financial statements. The IFRS and disclosures are set out in these financial statements in Note 14. IFRS 7 supersedes IAS 30 *Disclosures in the Financial Statements of Banks and*

## 17. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

*Similar Financial Institutions* and the disclosure requirements previously contained in IAS 32 *Financial Instruments: Presentation.*

*ii* Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. This standard, which was effective from January 1, 2007, requires additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the Bank regards as capital, and compliance with capital requirements. These disclosures are set out in Notes 7 and 8 and with specific references in Notes 2 (a) and 6. The Bank is not subject to the regulatory requirements defined by the Central Bank of The Bahamas.

The following new accounting standards and interpretations which were issued by the IASB or the IFRIC will become effective and the Bank expects to implement as follows:

| Standards | Year Ending |
|---|---|
| IFRS 8 - Operating Segments | October 31, 2010 |
| IAS 1 - Presentation of Financial Statements | October 31, 2010 |
| Interpretations | |
| IFRIC 15 - Agreements for the Construction of Real Estate | October 31, 2010 |

Management does not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application.