

BAHAMAS DEVELOPMENT BANK

FINANCIAL STATEMENTS

31 DECEMBER 2010

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF BAHAMAS DEVELOPMENT BANK

We have audited the accompanying financial statements of Bahamas Development Bank which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive loss, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank for the year ended 31 December 2009 were audited by other auditors whose report dated 20 April 2010, expressed an unqualified opinion on these financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Bahamas Development Bank as at 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 in the financial statements which states that the Bank continue to incur significant losses and reduction of equity. However, the Directors are satisfied that the Bank is currently a going concern and that the preparation of these accounts is appropriate due to the continuing support of the Bahamas Government.

Chartered Accountants

Nassau Bahamas

19 April 2011

BAHAMAS DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2010</u> \$	<u>2009</u> \$
FIXED ASSETS	6	543,302	350,629
LOANS RECEIVABLE	7	18,215,214	19,357,810✓
CURRENT ASSETS			
Cash and due from banks		2,349,035	532,731
Accrued interest receivable		665,641	95,850
Other assets		72,537	98,483
Current portion of loans receivable	7	<u>8,218,583</u>	<u>10,160,000</u> ✓
		<u>11,305,796</u>	<u>10,887,064</u>
CURRENT LIABILITIES			
Customer deposits	8	436,724	1,041,529
Accrued interest payable		1,155,907	1,548,059
Accrued expenses		102,328	108,711
Current portion of long-term loans	9	<u>2,466,037</u>	<u>2,667,412</u>
		<u>4,160,996</u>	<u>5,365,711</u>
NET CURRENT ASSETS		7,144,800	5,521,353
LONG-TERM LOANS	9	42,125,641	45,078,135
DUE TO THE BAHAMAS GOVERNMENT	10	<u>4,617,667</u>	---
		<u>(20,839,992)</u>	<u>(19,848,343)</u>
EQUITY			
Share capital	11	28,960,256	28,960,256
Reserve fund	12	273,128	273,128
Accumulated deficit		<u>(50,073,376)</u>	<u>(49,081,727)</u>
		<u>(20,839,992)</u>	<u>(19,848,343)</u>

The statements were approved by the board of directors and authorised for issue on 19 April 2011, and are signed on its behalf by:


Director


Director

The notes on pages 33 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
INTEREST INCOME		
Interest on loans	2,530,760	2,521,189
Interest on subsidy	451,397	464,137
Interest on deposits	<u>27,121</u>	<u>19,186</u>
Total interest income	3,009,278	3,004,512
Interest expense	<u>(2,959,459)</u>	<u>(3,088,859)</u>
Net interest income	49,819	(84,347)
OTHER INCOME		
Fees and commissions	27,755	40,545
Net foreign exchange gain/(loss)	27,602	(13,306)
Other income	<u>157,810</u>	<u>62,545</u>
	<u>213,167</u>	<u>89,784</u>
OTHER EXPENSES		
(Recovery)/allowance for loan losses	13 (731,041)	334,521
Salaries and staff expenses	2,227,770	2,437,559
General and administrative	432,654	560,802
Depreciation	190,004	100,580
Rent	<u>96,385</u>	<u>118,450</u>
	<u>2,215,772</u>	<u>3,551,912</u>
Operating loss	(1,952,786)	(3,546,475)
Sinking fund income	<u>961,137</u>	<u>881,252</u>
NET LOSS FOR THE YEAR	<u>(991,649)</u>	<u>(2,665,223)</u>
	=====	=====

The notes on pages 33 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Share capital</u> \$	<u>Reserve fund</u> \$	<u>Accumulated deficit</u> \$	<u>Total</u> \$
1 January 2009	27,459,917	273,128	(46,416,504)	(18,683,459)
Shares issued	1,500,339	--	--	1,500,339
Net loss for the year	--	--	(2,665,223)	(2,665,223)
31 December 2009	28,960,256	273,128	(49,081,727)	(19,848,343)
Net loss for the year	--	--	(991,649)	(991,649)
31 December 2010	28,960,256	273,128	(50,073,376)	(20,839,992)
	=====	=====	=====	=====

The notes on pages 33 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2010**

	<u>2010</u> \$	<u>2009</u> \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(991,649)	(2,665,223)
Adjustment for items not involving the movement of cash:		
Net gain on disposal of fixed asset	(6,622)	--
Depreciation and amortisation	<u>190,004</u>	<u>100,580</u>
Operating loss before working capital changes	(808,267)	(2,564,643)
(Increase)/decrease in accrued interest receivable	(569,791)	87,499
Decrease in other assets	25,946	10,859
(Decrease)/increase in accrued interest payable	(392,152)	883,461
(Decrease)/increase in accrued expenses and other liabilities	<u>(6,383)</u>	<u>13,675</u>
Net cash used by operating activities	<u>(1,750,647)</u>	<u>(1,569,149)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from loans receivable	3,084,013	2,263,279
Proceeds from disposal of fixed assets	7,410	--
Purchase of fixed assets	<u>(383,465)</u>	<u>(81,766)</u>
Net cash provided by investing activities	<u>2,707,958</u>	<u>2,181,513</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer deposits	(604,805)	(386,320)
Net repayment of long-term loans	(3,153,869)	(2,901,749)
Increase in due to the Bahamas Government	4,617,667	--
Increase in share capital	<u>--</u>	<u>1,500,339</u>
Net cash provided/(used) by financing activities	<u>858,993</u>	<u>(1,787,730)</u>
Net increase/(decrease) in cash and cash equivalents	1,816,304	(1,175,366)
Cash and cash equivalents at beginning of the year	<u>532,731</u>	<u>1,708,097</u>
Cash and cash equivalents at end of the year	<u>2,349,035</u> =====	<u>532,731</u> =====

The notes on pages 33 to 50 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. INCORPORATION AND ACTIVITIES

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

The principal activities of The Bank are:

- a) to promote industrial, agricultural and commercial development in The Commonwealth of The Bahamas through the financing of, or the investing in, approved enterprises;
- b) to encourage the participation in approved enterprises by citizens of The Commonwealth of The Bahamas and
- c) generally to promote and enhance the economic development of The Commonwealth of The Bahamas.

Its main place of business is Cable Beach, West Bay Street, Nassau, Bahamas.

2. BASIS OF PREPARATION

These financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results can differ from those estimates.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. ACCOUNTING POLICIES

Interest on loans

Interest on loans is accrued and credited to income based on the principal amount outstanding. Interest income is only accrued on performing loans. The Bank considers those loans with arrears amounting to less than three months normal activity as performing.

Accrual of interest on loans classified as non-performing is discontinued and previously recorded but unpaid interest is reversed and charged against current operations. Interest income on non-performing loans is recognised only when received or when the loan is refinanced and projected cash proceeds are deemed sufficient to repay both principal and interest.

Allowance for loan losses

The allowance is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance account. Provisions for loan losses and recoveries on loans previously written off are added to the allowance account.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets at the following rates per annum:

Furniture, fixtures & fittings	10%
Computer equipment & software	20%
Office machines	20%
Motor vehicles	25%
Leasehold improvements	10%
Other	20%

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. ACCOUNTING POLICIES (cont)

Foreign currencies

All amounts in these financial statements are expressed in Bahamian dollars, as most transactions are in Bahamian dollars. Transactions in foreign currencies have been translated into Bahamian dollars at the rates of exchange prevailing on the transaction dates. Balances maintained in such currencies at the year-end date are translated at the rates of exchange prevailing at that date. Gains and losses on translation are recognised in the statement of comprehensive income.

Loans receivable

The loans are classified as loans and receivables originated by the enterprise and not held for trading. These loans, which have a fixed maturity period, are measured at amortised cost, using the effective interest rate method, and are subject to review for impairment.

4. NEW AND AMENDED STANDARDS

The Bank has adopted the following new and amended International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations during the year. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Bank.

IAS 7 Statement of Cash Flows – Improvements to IFRSs (2009)

The amendment states that only an expenditure that results in the recognition of an asset in the statement of financial position can be classified as a cash flow from investing activity.

The Bank has not recognised any effect on the financial statements as a result of adopting the above amendment.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

4. NEW AND AMENDED STANDARDS

At the date of authorisation of the financial statements, the following new and amended IFRS and IFRIC interpretation were in issue, but not yet effective:

IAS 1 Presentation of Financial Statements – Improvements to IFRSs (2010)

Presentation of changes in equity

The amendment clarifies that the analysis of items of Other Comprehensive Income may be shown in either the (primary) statement of changes in equity, or in the notes to the financial statements.

The Bank does not expect any changes on the financial statements upon future adoption of the above amendment.

IFRS 9 Financial Instruments

Issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial Instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.

The Bank is yet to assess IFRS 9's full impact on the presentation of the Financial Statements as a result of implementing the above standard.

IAS 24 (Revised) Related Party Disclosures

The definition of a related party has been simplified and inconsistencies eliminated. Under the previous requirements, if an entity is government controlled or significantly influenced, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard requires such entities to disclose information about individually and collectively significant related party transactions only.

The Bank does not expect any changes on the financial statements upon future adoption of the above amendment.

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

5. INTEREST BEARING DEPOSITS WITH BANK

The deposits with bank have been set aside as a sinking fund to fulfil the requirement under Section 19(b) of The Act. The sinking fund is required for the redemption of the series A, B, C and D bonds issued to The National Insurance Board and The Central Bank of The Bahamas, as disclosed in Note 9.

These deposits earn interest at annual rates of 3.00% to 5.50% (2009: 3.00% to 5.50%).

The sinking fund is also comprised of Bahamas Government Registered Stocks, which are being held for the long term and stated at amortized cost, which approximates fair value. The stocks bear interest at prime and have maturity dates of 2021 through 2024.

6. FIXED ASSETS

	<u>Computer equipment & software</u>	<u>Furniture fixtures & fittings</u>	<u>Office machines</u>	<u>Motor vehicles</u>	<u>Leasehold improvements</u>	<u>Other</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
COST							
1 January 2010	1,296,101	293,774	260,112	128,990	924,402	198,463	3,101,842
Additions	337,072	--	15,793	30,000	600	--	383,465
Disposal	(2,780)	(10,064)	(4,918)	(27,000)	--	--	(44,762)
31 December 2010	<u>1,630,393</u>	<u>283,710</u>	<u>270,987</u>	<u>131,990</u>	<u>925,002</u>	<u>198,463</u>	<u>3,440,545</u>
DEPRECIATION							
1 January 2010	1,180,503	252,651	249,847	109,240	781,490	177,482	2,751,213
Charge for the year	86,429	8,044	7,230	10,917	65,431	11,953	190,004
Disposal	(1,992)	(10,064)	(4,918)	(27,000)	--	--	(43,974)
31 December 2010	<u>1,264,940</u>	<u>250,631</u>	<u>252,159</u>	<u>93,157</u>	<u>846,921</u>	<u>189,435</u>	<u>2,897,243</u>
NET BOOK VALUE							
31 December 2010	365,453	33,079	18,828	38,833	78,081	9,028	543,302
	=====	=====	=====	=====	=====	=====	=====
31 December 2009	115,598	41,123	10,265	19,750	142,912	20,981	350,629
	=====	=====	=====	=====	=====	=====	=====

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

7. LOANS RECEIVABLE

	<u>2010</u>	<u>2009</u>
	\$	\$
Performing	12,508,242	20,236,197
Non-performing	29,541,307	31,911,902
Extraordinary advances	744,789	982,699
Employees	<u>560,868</u>	<u>859,959</u>
	43,355,206	53,990,757
Less: Allowance for loan losses	(16,921,409)	(24,472,947)
	<u>26,433,797</u>	<u>29,517,810</u>

The above outstanding loans earned interest at rates ranging from 0% to 14% per annum.

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

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance brought forward	24,472,947	24,138,426
Increase in provision	100,000	334,521
Loans written off	<u>(7,651,538)</u>	<u>--</u>
Balance carried forward	<u>16,921,409</u>	<u>24,472,947</u>

8. CUSTOMER DEPOSITS

	<u>2010</u>	<u>2009</u>
	\$	\$
Security deposits held as collateral for loans	254,090	515,929
Loan prepayments	185,314	183,047
Insurance premiums	106,666	136,580
Legal fees, stamp tax, recording fees, etc.	62,791	63,755
Other customer deposits/advances - net	<u>(172,137)</u>	<u>142,218</u>
	<u>436,724</u>	<u>1,041,529</u>

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

9. LONG-TERM LOANS

	<u>2010</u>	<u>2009</u>
	\$	\$
Caribbean Development Bank	3,639,669	5,189,331
European Development Fund	322,078	382,297
Inter-American Development Bank	1,210,580	1,694,812
National Insurance Board	46,000,000	46,000,000
The Central Bank of the Bahamas	<u>9,550,000</u>	<u>10,150,000</u>
	60,722,327	63,416,440
Less: Sinking Fund	<u>(16,130,649)</u>	<u>(15,670,894)</u>
	<u>44,591,678</u>	<u>47,745,546</u>
	=====	=====

The main characteristics of the long-term loans are as follows:

Caribbean Development Bank

The Bank has two loans outstanding with Caribbean Development Bank, as follows:

- (i) The first loan of \$937,944 is repayable in quarterly instalments of US\$117,243 at a variable interest rate of 4.50% (2009: 5.32%). This loan is due to be repaid by 1 October 2012.
- (ii) The second loan of \$2,701,725 is repayable in quarterly instalments of \$270,172 at a variable interest rate of 4.50% (2009: 5.32%). This loan is due to be repaid by 1 April 2013.

European Development Fund

The loan is repayable in Euros in semi-annual instalments expressed as a percentage of the outstanding loan balance, at an interest rate of 1.00% (2009: 1.00%). The loan is due to be repaid by 1 February 2020.

Inter American Development Bank

The loan is repayable in semi-annual instalments of US\$242,116 at a variable interest rate of 4.02% (2009: 4.93%). The loan is due to be repaid 30 March 2013.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

9. LONG-TERM LOANS (cont)

The Central Bank of The Bahamas

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

- (i) The first loan is \$1,050,000 which is repayable in semi-annual instalments of \$75,000 at an annual interest rate of 2.00%. This loan is due to be repaid by 21 April 2018.
- (ii) The second loan is \$4,500,000 which is repayable in semi-annual instalments of \$125,000 at an annual interest rate of 2.00%. This loan is due to be repaid by 28 October 2028.

The Central Bank of The Bahamas holds the following bonds:

Bond	Series	Amount	Rate	Issue Date	Year of Maturity
		\$			
10	C	2,000,000	5.50%	13/7/2005	2025
11	C	1,000,000	5.50%	17/10/2005	2025
12	C	<u>1,000,000</u>	5.50%	19/10/2005	2025
		4,000,000			
		=====			

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

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

9. LONG-TERM LOANS (cont)

National Insurance Board

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

Bond	Series	Amount \$	Rate	Issue Date	Year of Maturity
1	A	10,000,000	5.50%	28/11/2000	2020
2	B	4,000,000	4.50%	22/06/2001	2016
3	B	1,000,000	4.50%	14/06/2002	2017
4	B	2,000,000	4.50%	31/07/2002	2017
5	B	2,000,000	4.50%	15/08/2003	2018
6	A	2,000,000	5.50%	29/12/2003	2024
7	A	2,000,000	5.50%	25/03/2004	2024
8	A	1,000,000	5.50%	29/09/2004	2024
9	B	1,000,000	4.50%	16/06/2005	2020
13	C	2,000,000	5.50%	05/05/2006	2026
14	D	2,000,000	4.50%	11/08/2006	2021
15	D	1,000,000	4.50%	03/01/2007	2022
16	C	2,000,000	5.50%	06/02/2007	2027
17	C	2,000,000	5.50%	05/04/2007	2027
18	D	2,000,000	4.50%	02/08/2007	2022
19	D	2,000,000	4.50%	30/11/2007	2022
20	C	2,000,000	5.50%	02/04/2008	2028
21	D	2,000,000	4.50%	18/08/2008	2023
22	C	2,000,000	5.50%	14/11/2008	2028
23	C	1,000,000	5.50%	31/03/2009	2029
24	D	<u>1,000,000</u>	4.50%	31/03/2009	2024

46,000,000

=====

Under Section 18(d) of The Act The Bank is required to establish a sinking fund for the redemption of the bonds. At the year end an amount of \$16,130,649 (2009: \$15,670,894) was held on interest bearing deposits. See Note 5.

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

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

9. LONG-TERM LOANS (cont)

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

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

Years	\$
2011	2,466,037
2012	2,466,406
2013	1,215,249
2014	433,064
2015	433,433

10. DUE TO THE BAHAMAS GOVERNMENT

The principal and interest repayments on the long term debts due during the year amounting to \$5,975,736 are paid by The Bahamas Government on behalf of the Bank. The government has agreed to pay the long term debts of the Bank until further notice.

Furthermore, the government has agreed to apply the government guarantee claims and interest subsidies due to the Bank during the year amounting to \$1,358,069 against the above transfers made on behalf of the Bank.

The net loan payable is interest free and is due on demand.

11. SHARE CAPITAL

	<u>2010</u>	<u>2009</u>
	\$	\$
Authorised		
10,000,000 shares of \$5 each	50,000,000	50,000,000
	=====	=====
Issued and fully paid		
5,792,05 shares of \$5 each	28,960,256	28,960,256
	=====	=====

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

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

12. RESERVE FUND

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

13. (RECOVERY)/ALLOWANCE FOR LOAN LOSSES

During the year, the Bahamas Government authorised \$867,552 claim for the loans in default.

14. COMMITMENTS

At 31 December 2010 the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$565,156 (2009: \$66,744).

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 Bank has not renewed its lease agreement but is continuing to pay the rent in accordance with the expired lease agreement.

The lease on the Bank's Freeport office is for an initial period of three years beginning 1 January 2009 at a monthly rent of \$3,500.

15. 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 \$451,397 (2009: \$464,137). Included in other assets is accrued interest subsidy of \$NIL (2009: \$39,120).

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

16. MATURITY OF SIGNIFICANT ASSETS & LIABILITIES

	<u>Past Due</u>	<u>Up to 1Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Assets:					
Cash and due from banks	--	2,349,035	--	--	2,349,035
Interest bearing deposits with banks	--	459,756	--	--	459,756
Loans receivable	6,686,743	1,531,840	13,397,183	21,739,440	43,355,206
Accrued interest receivable	--	665,641	--	--	665,641
Other assets	--	72,537	--	--	72,537
	6,686,743	5,078,809	13,397,183	21,739,440	46,902,175
	=====	=====	=====	=====	=====
	\$	\$	\$	\$	\$
Liabilities:					
Customer deposits	--	436,724	--	--	436,724
Accrued interest payable	--	1,155,907	--	--	1,155,907
Accrued expenses	--	102,328	--	--	102,328
Long-term loans	--	2,466,037	4,981,585	37,144,056	44,591,678
Due to the Bahamas					
Government	--	--	--	4,617,667	4,617,667
	--	4,160,996	4,981,585	41,761,723	50,904,304
	==	=====	=====	=====	=====

17. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

Cash and due from banks	<u>2010</u>	<u>2009</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====

BAHAMAS DEVELOPMENT BANK

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FOR THE YEAR ENDED 31 DECEMBER 2010

17. CONCENTRATIONS OF ASSETS AND LIABILITIES (cont)

Interest bearing deposits with bank	<u>2010</u>	<u>2009</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====
Loans receivable	<u>2010</u>	<u>2009</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Agriculture	3.96	3.80
Fishing	13.01	12.40
Transportation	10.56	15.30
Tourism	20.46	19.00
Manufacturing	6.60	6.40
Service	44.19	41.40
Staff	<u>1.22</u>	<u>1.70</u>
	100.00	100.00
	=====	=====
Long-term debt	<u>2010</u>	<u>2009</u>
	%	%
<u>Geographic Region</u>		
Barbados	8.20	8.20
Europe	0.60	0.60
North America	2.70	2.70
Bahamas	<u>88.50</u>	<u>88.50</u>
	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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18. FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Bank's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities.

Interest rate risk

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

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

Credit risk

Credit risk is the risk of financial loss arising if a customer or counter-party fails to meet its contractual obligations. The Bank mitigates credit risk on its loan portfolio by requiring borrowers to provide collateral equivalent to the loan balance and limiting the total value of any loan originated to a single individual or entity to 10% of total capital. Collateral held includes land, buildings, equipment, motor vehicles and boats.

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NOTES TO THE FINANCIAL STATEMENTS
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18. FINANCIAL RISK MANAGEMENT (cont)

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligation as they fall due. The Bank's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Bank ensures that it has sufficient liquid assets to settle currently maturing obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Management mitigates this risk by not investing significantly in securities affected by market risk.

19. 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>2010</u> \$	<u>2009</u> \$
Present value of funded obligations	4,307,573	4,590,081
Fair value of plan assets	<u>(4,256,123)</u>	<u>(4,839,190)</u>
	51,450	(249,109)
Actuarial losses arising during the year	(505,421)	(257,881)
Actuarial losses recognised during the year	<u>---</u>	<u>---</u>
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	(453,971)	(506,990)
Less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	<u>(453,971)</u>	<u>(506,990)</u>
	<u>---</u>	<u>---</u>
	=====	=====

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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19. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont)

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

	<u>2010</u> \$	<u>2009</u> \$
Current service cost	257,038	267,061
Interest cost	250,214	312,979
Expected return on plan assets	(222,963)	(233,258)
	284,289	346,782
Losses recognised during the year under paragraph 58 of IAS 19	--	--
Less: increase/(decrease) in amounts limited by paragraph 58 of International Accounting Standard 19	(121,849)	(161,396)
Transitional gain on adopting IAS 19	--	--
	162,440	185,386
	=====	=====

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

	<u>2010</u> \$	<u>2009</u> \$
Net asset at beginning of the year	--	--
Net expense recognised in the statement of operations	162,440	185,386
Employer contributions	(162,440)	(185,386)
Net asset at end of the year	--	--
	==	==

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19. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont)

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

	<u>2010</u>	<u>2009</u>
Discount rate	5.75%	5.75%
Expected return on plan assets	5.00%	5.00%
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)	13.00	12.30

The actual return on plan assets during the year was \$176,806 (2009: \$127,754).

20. RELATED PARTIES

Salaries and other short-term employee benefits paid to key management personnel totalled \$428,587 (2009: \$574,602). Loans to key management personnel of the Bank totalled \$65,197 (2009: \$118,340). 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 \$1,079,827 (2009: \$1,004,600) and were classified as non-performing. These loans have fixed terms of repayment and bear interest at rates at 8.50% to 10.50%. The loans are fully secured.

The Bank is related in terms of common ownership to all the Bahamas Government corporation and agencies. Transactions with such related entities are at arm's length basis.

21. FINANCING OF OPERATIONS

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 9, the Bank is authorised to raise funds by way of borrowing from the National Insurance Board. Its liquidity and ability to meet 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 due to the continuing support of the Bahamas Government.

BAHAMAS DEVELOPMENT BANK
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22. PRESENTATION

During the current year, the Bank changed its presentation of the Statement of Financial Position with separate classifications for current and non-current assets, and current and non-current liabilities, as the Directors are of the opinion this presentation is more reliable and relevant to the user of the financials.

23. SUBSEQUENT EVENT

On 1 February 2011, the Bank has changed its pension plan from a Defined Benefit Plan to Defined Contribution Plan where both the Bank (employer) and the employees will contribute 5% of their equivalent gross salary. Employees have the option to contribute additional sums voluntarily. Furthermore, the pension plan will now be administered by Colina Financial Advisors Limited (CFAL). However, the Bank will continue to administer the funds for the existing retirees.