

BAHAMAS DEVELOPMENT BANK

FINANCIAL STATEMENTS

31 DECEMBER 2014

BAHAMAS DEVELOPMENT BANK

<u>Contents</u>	<u>Page</u>
Report of the Auditors	1-2
Statement of Financial Position	3
Statement of Profit or Loss and Other Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-24

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 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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 2014 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 22 in the financial statements.

Boo

Chartered Accountants
Nassau Bahamas
24 June 2015

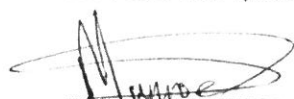
BAHAMAS DEVELOPMENT BANK

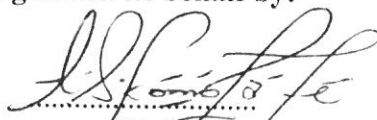
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2014</u> \$	<u>2013</u> \$
FIXED ASSETS	6	249,740	383,338
LOANS RECEIVABLE	7	14,140,249	13,117,413
CURRENT ASSETS			
Cash and due from banks		2,578,546	2,572,217
Accrued interest receivable		1,589,870	1,260,941
Other assets		153,924	117,247
Current portion of loans receivable	7	<u>10,598,520</u>	<u>12,907,664</u>
		<u>14,920,860</u>	<u>16,858,069</u>
CURRENT LIABILITIES			
Customer deposits	8	634,354	659,216
Accrued interest payable		980,143	568,764
Accrued expenses		153,483	125,664
Current portion of long-term loans	9	<u>630,667</u>	<u>434,240</u>
		<u>2,398,647</u>	<u>1,787,884</u>
NET CURRENT ASSETS		12,522,213	15,070,185
LONG-TERM LOANS	9	34,655,500	35,772,796
DUE TO THE BAHAMAS GOVERNMENT	10	<u>17,197,290</u>	<u>15,702,226</u>
		<u>(24,940,588)</u>	<u>(22,904,086)</u>
EQUITY			
Share capital	11	28,960,256	28,960,256
Reserve fund	12	273,128	273,128
Accumulated deficit		<u>(54,173,972)</u>	<u>(52,137,470)</u>
		<u>(24,940,588)</u>	<u>(22,904,086)</u>

The statements were approved by the board of directors and authorised for issue on 24 June 2014, and are signed on its behalf by:


.....
Director


.....
Director

The notes on pages 7 to 24 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		<u>2014</u>	<u>2013</u>
		\$	\$
INTEREST INCOME			
Interest on loans		1,921,443	1,872,549
Interest subsidy		364,197	393,226
Interest on deposits		<u>14,760</u>	<u>23,641</u>
Total interest income		2,300,400	2,289,416
Interest expense		<u>(2,266,312)</u>	<u>(2,276,856)</u>
Net interest income		<u>34,088</u>	<u>12,560</u>
OTHER INCOME			
Fees and commissions		63,835	161,460
Net foreign exchange gain/(loss)		24,028	(12,941)
Recovery of loan losses	13	330,888	191,748
Other income		<u>788</u>	<u>5,885</u>
		<u>419,539</u>	<u>346,152</u>
OTHER EXPENSES			
Salaries and staff costs		1,860,157	2,148,525
Provision for loan losses		499,498	--
General and administrative	14	478,957	458,276
Depreciation		164,724	159,110
Rent		<u>119,134</u>	<u>106,275</u>
		<u>3,122,470</u>	<u>2,872,186</u>
Operating loss		(2,668,843)	(2,513,474)
Sinking fund income		<u>632,341</u>	<u>666,800</u>
NET LOSS FOR THE YEAR		<u><u>(2,036,502)</u></u>	<u><u>(1,846,674)</u></u>

The notes on pages 7 to 24 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	<u>Share capital</u> \$	<u>Reserve fund</u> \$	<u>Accumulated deficit</u> \$	<u>Total</u> \$
1 January 2013	28,960,256	273,128	(50,290,796)	(21,057,412)
Net loss for the year	--	--	<u>(1,846,674)</u>	<u>(1,846,674)</u>
31 December 2013	28,960,256	273,128	(52,137,470)	(22,904,086)
Net loss for the year	--	--	<u>(2,036,502)</u>	<u>(2,036,502)</u>
31 December 2014	<u>28,960,256</u>	<u>273,128</u>	<u>(54,173,972)</u>	<u>(24,940,588)</u>

The notes on pages 7 to 24 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	<u>2014</u> \$	<u>2013</u> \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(2,036,502)	(1,846,674)
Adjustment for items not involving the movement of cash:		
Loss/(gain) on sale of assets	91	(5,300)
Depreciation	164,724	159,110
Operating loss before working capital changes:	(1,871,687)	(1,692,864)
Increase in accrued interest receivable	(328,929)	(223,888)
Increase in other assets	(36,677)	(76,596)
Increase/(decrease) in accrued interest payable	411,379	(5,935)
Increase in accrued expenses and other liabilities	27,819	15,041
Net cash used by operating activities	<u>(1,798,095)</u>	<u>(1,984,242)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease from loans receivable	1,286,308	1,217,247
Proceeds from sale of assets	12,928	10,300
Purchase of fixed assets	<u>(44,145)</u>	<u>(79,600)</u>
Net cash provided by investing activities	<u>1,255,091</u>	<u>1,147,947</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease)/increase in customer deposits	(24,862)	51,329
Net repayment of long-term loans	(920,869)	(1,865,981)
Increase in due to the Bahamas Government	<u>1,495,064</u>	<u>2,949,182</u>
Net cash provided by financing activities	<u>549,333</u>	<u>1,134,530</u>
Net increase in cash and cash equivalents	6,329	298,235
Cash and cash equivalents at beginning of the year	<u>2,572,217</u>	<u>2,273,982</u>
Cash and cash equivalents at end of the year	<u>2,578,546</u>	<u>2,572,217</u>

The notes on pages 7 to 24 form an integral part of these financial statements.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014

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:

Computer equipment & software	20%
Furniture, fixtures & fittings	10%
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 2014

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 profit or loss and other 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. STANDARDS/AMENDMENTS AND INTERPRETATIONS ADOPTED

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

Improvements to IAS 24 – Related Party Disclosures

The amendment is effective for annual periods commencing on or after 1 July 2014 and clarifies that an entity that provides key management personnel services ('management entity') to a reporting entity (or to the parent of the reporting entity), is a related party of the reporting entity. Also, the amendment requires separate disclosure of amounts recognised as an expense for key management personnel services provided by a separate management entity.

Adoption of the above amendment did not have any impact on the Bank's financial position or performance as the Bank does not currently engage key management personnel services provided by a separate management entity.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

4. STANDARDS/AMENDMENTS AND INTERPRETATIONS ADOPTED (cont)

Amendment to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities

The amendment has clarified and expanded the application guidance in relation to the offsetting of financial assets and financial liabilities in respect of:

- The meaning of 'currently has a legally enforceable right of set-off'
- The application of simultaneous realisation and settlement
- The offsetting of collateral amounts
- The unit of account for applying the offsetting requirements.

The amendment is effective for annual periods commencing on or after 1 January 2014. Adoption of the above amendment did not have a significant impact on the Bank's financial statements.

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 31 December 2014. They have not been adopted in preparing the financial statements for the year ended 31 December 2014 and are expected to affect the entity in the period of initial application. In all cases the entity intends to apply these standards from the application date as indicated below.

IFRS 9 (issued November 2009 and amended October 2010)

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

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

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

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

4. STANDARDS/AMENDMENTS AND INTERPRETATIONS ADOPTED (cont)

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

The changes are to be applied prospectively from the date of adoption. The effective date of the amendments is 1 January 2018.

This standard is not expected to have a significant impact on the financial statements since the Bank's financial assets are at amortised cost. In addition, the Bank does not have any financial liabilities designated at fair value through profit or loss.

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 1.50% to 3.50% (2013: 1.25% to 4.75%).

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

BAHAMAS DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. FIXED ASSETS

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BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

7. LOANS RECEIVABLE

	<u>2014</u>	<u>2013</u>
	\$	\$
Performing	10,852,730	11,582,453
Non-performing	25,447,425	25,499,349
Extraordinary advances	1,424,776	1,280,122
Employees	<u>255,624</u>	<u>586,255</u>
	37,980,555	38,948,179
Less: Allowance for loan losses	<u>(13,241,786)</u>	<u>(12,923,102)</u>
	<u>24,738,769</u>	<u>26,025,077</u>
Loans receivable:		
Current portion	10,598,520	12,907,664
Non-current portion	<u>27,382,035</u>	<u>26,040,515</u>
	37,980,555	38,948,179
	<u>(13,241,786)</u>	<u>(12,923,102)</u>
	<u>24,738,769</u>	<u>26,025,077</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>2014</u>	<u>2013</u>
	\$	\$
Balance brought forward	12,923,102	13,627,212
Increase/(decrease) in provision	499,498	(151,401)
Loans written off	(529)	(552,709)
Government guarantee claim	<u>(180,285)</u>	<u>--</u>
Balance carried forward	<u>13,241,786</u>	<u>12,923,102</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

8. CUSTOMER DEPOSITS

	<u>2014</u>	<u>2013</u>
	\$	\$
Security deposits held as collateral for loans	212,788	224,101
Loan prepayments	174,313	172,875
Insurance premiums	68,288	71,333
Legal fees, stamp tax, recording fees, etc.	74,321	63,659
Other customer deposits/advances - net	<u>104,644</u>	<u>127,248</u>
	634,354	659,216
	=====	=====

9. LONG-TERM LOANS

	<u>2014</u>	<u>2013</u>
	\$	\$
National Insurance Board	46,000,000	46,000,000
The Central Bank of the Bahamas	4,000,000	4,000,000
Less: Sinking Fund	<u>(19,036,469)</u>	<u>(18,373,853)</u>
	30,963,531	31,626,147
European Investment Bank	172,636	230,889
The Central Bank of the Bahamas	<u>4,150,000</u>	<u>4,350,000</u>
	35,286,167	36,207,036
	=====	=====
Long-term loans:		
Current portion	630,667	434,240
Non-current portion	<u>34,655,500</u>	<u>35,772,796</u>
	35,286,167	36,207,036
	=====	=====

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

European Investment Bank

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% (2013: 1.00%). The loan is due to be repaid by 1 February 2020.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 \$525,000 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 \$3,625,000 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	4.75%	13/7/2005	2025
11	C	1,000,000	4.75%	17/10/2005	2025
12	C	<u>1,000,000</u>	4.75%	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 2014

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	4.75%	28/11/2000	2020
2	B	4,000,000	3.75%	22/06/2001	2016
3	B	1,000,000	3.75%	14/06/2002	2017
4	B	2,000,000	3.75%	31/07/2002	2017
5	B	2,000,000	3.75%	15/08/2003	2018
6	A	2,000,000	4.75%	29/12/2003	2024
7	A	2,000,000	4.75%	25/03/2004	2024
8	A	1,000,000	4.75%	29/09/2004	2024
9	B	1,000,000	3.75%	16/06/2005	2020
13	C	2,000,000	4.75%	05/05/2006	2026
14	D	2,000,000	3.75%	11/08/2006	2021
15	D	1,000,000	3.75%	03/01/2007	2022
16	C	2,000,000	4.75%	06/02/2007	2027
17	C	2,000,000	4.75%	05/04/2007	2027
18	D	2,000,000	3.75%	02/08/2007	2022
19	D	2,000,000	3.75%	30/11/2007	2022
20	C	2,000,000	4.75%	02/04/2008	2028
21	D	2,000,000	3.75%	18/08/2008	2023
22	C	2,000,000	4.75%	14/11/2008	2028
23	C	1,000,000	4.75%	31/03/2009	2029
24	D	<u>1,000,000</u>	3.75%	31/03/2009	2024
		46,000,000			
		=====			

Under Section 19(b) of The Act The Bank is required to establish a sinking fund for the redemption of the bonds. At the year end an amount of \$19,036,469 (2013: \$18,373,853) 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 2014

9. LONG-TERM LOANS (cont)

The Bahamas Government also guarantees long-term debt due to European Investment Bank.

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

Years	\$
2015	431,001
2016	4,431,001
2017	3,431,335
2018	1,718,331
2019	281,837

10. DUE TO THE BAHAMAS GOVERNMENT

The principal and interest repayments on the long term debts due during the year amounting to \$2,048,273 (2013: \$3,458,818) 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 \$553,209 (2013: \$509,635) 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>2014</u>	<u>2013</u>
	\$	\$
Authorised		
10,000,000 shares of \$5 each	50,000,000	50,000,000
	=====	=====
Issued and fully paid		
5,792,051 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 2014

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 OF LOAN LOSSES

	<u>2014</u>	<u>2013</u>
	\$	\$
Government guarantee claim	180,285	--
Recovery of loan losses	<u>150,603</u>	<u>191,748</u>
	<u>330,888</u>	<u>191,748</u>

14. GENERAL AND ADMINISTRATIVE

	<u>2014</u>	<u>2013</u>
	\$	\$
Computer expenses	85,586	43,518
Utilities	83,956	92,549
Repairs and maintenance	75,026	67,057
Telephone, telex and cable	64,427	69,139
Travel and transportation	45,198	54,446
Professional fees	32,221	38,722
Insurance	27,760	25,985
Advertising	12,219	17,684
Office supplies and printing	8,278	15,096
Entertainment	6,525	11,003
Miscellaneous	<u>37,761</u>	<u>23,077</u>
	<u>478,957</u>	<u>458,276</u>

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

15. COMMITMENTS

As at year-end, the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$999,999 (2013: \$445,644).

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

The Bank's Nassau premises were leased from the Hotel Corporation of the Bahamas for an initial period of five years beginning in 1992 with an option to renew for another five years at an annual rent of \$50,000 per annum. The lease agreement has not been renegotiated however the lessor has allowed payments to continue in accordance with the expired lease agreement.

The lease on the Bank's Freeport office is for an initial period of three years beginning December 2011 at a monthly rent of \$3,500, since renewed December 2014 through 2017.

16. 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 \$364,196 (2013: \$393,226).

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. 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 and due from banks	--	2,578,546	--	--	2,578,546
Interest in deposits with banks	--	412,016	--	--	412,016
Loans receivable	8,719,142	4,093,705	3,440,940	8,484,982	24,738,769
Accrued interest receivable	--	1,177,854	--	--	1,177,854
Other assets	--	153,924	--	--	153,924
	8,719,142	8,416,045	3,440,940	8,484,982	29,061,109
	=====	=====	=====	=====	=====
Liabilities:					
Customer deposits	--	634,354	--	--	634,354
Accrued interest payable	--	938,195	--	--	938,195
Accrued expenses	--	153,483	--	--	153,483
Long-term loans	--	431,001	9,862,503	24,792,663	35,086,167
Due to the Bahamas					
Government	--	--	--	17,439,238	17,439,238
	--	2,157,033	9,862,503	42,231,901	54,251,437
	==	=====	=====	=====	=====

18. 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>2014</u>	<u>2013</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

18. CONCENTRATIONS OF ASSETS AND LIABILITIES (cont)

Interest bearing deposits with bank	<u>2014</u>	<u>2013</u>
	%	%
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====
Loans receivable		
<u>Geographic Region</u>		
Bahamas	100.00	100.00
	=====	=====
<u>Industry</u>		
Agriculture	2.61	2.77
Fishing	11.12	11.40
Transportation	12.50	12.62
Tourism	19.31	21.38
Manufacturing	9.83	10.15
Service	43.24	40.12
Staff	1.39	1.56
	100.00	100.00
	=====	=====
Long-term debt		
<u>Geographic Region</u>		
Barbados	--	--
Europe	0.32	0.01
North America	--	--
Bahamas	99.68	99.99
	100.00	100.00
	=====	=====
<u>Industry</u>		
Financial Sector	100.00	100.00
	=====	=====

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. 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.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. FINANCIAL RISK MANAGEMENT (cont)

Liquidity risk

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

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.

20. DEFINED CONTRIBUTION PENSION PLAN

On 1 February 2011, the Bank changed its pension plan from a Defined Benefit Plan to Defined Contribution Plan where both the Bank (employer) and the employees will contribute 5% of their equivalent gross salary. Employees have the option to contribute additional sums voluntarily.

Furthermore, the pension plan is now administered by Colina Financial Advisors Limited (CFAL). However, the Bank continues to administer the funds for the retirees existing as of 31 December 2014 year end.

21. RELATED PARTIES

Salaries and other short-term employee benefits paid to key management personnel totalled \$613,459 (2013: \$722,187). Loans to key management personnel of the Bank totalled \$255,623 (2013: \$185,120). The loans bear interest at a rate of 4.75% (2013: 4.75%), are secured and have fixed terms of repayment.

At year end there was 1 loan due from family members of key management personnel of the Bank, which totalled \$73,197 (2013: \$73,197) and were classified as non-performing.

BAHAMAS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

21. RELATED PARTIES (cont)

These loans have fixed terms of repayment and bear interest at a rate of 10.50% (2013: 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.

22. FINANCING OF OPERATIONS

The Bank has incurred significant losses and reduction of equity due to the performance of its loan portfolio and loan provisioning. While its liquidity and ability to meet obligations may 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.

23. ASSET UNDER MANAGEMENT

On December 2012, the Bahamas Government arranged with National Insurance Board (NIB) to place \$3,000,000 with the Bank at 3.75% interest. The purpose was to facilitate micro loans to businesses affected by the road improvement project and the fund is to be used for that purpose. The Bank is to act as an executing agency in this transaction attracting an administrative fee of 3% of approved loans upon disbursement. The Bank continues to administer the fund.

24. CONTINGENT LIABILITY

The Bank is a defendant to a litigation case where it received an order from Supreme Court on 2 May 2014 to pay the plaintiff the sum of \$85,400 representing damages for improper exercise of the power of sale. The Bank intends to vigorously defend its position against the claim. Projected total cost associated with the appeal would be in the region of \$45,000 to \$50,000. If the Court of Appeal awards costs against the Bank, an additional amount will have to be paid to opposing Counsel and the same may be in the region of \$60,000.

25. SUBSEQUENT EVENT

The Bahamas Government has previously released for consultation, a draft Bill for an Act for the establishment of a Small and Medium size Enterprises Development Agency (SMEDA). This Bill is still pending approval.