

Audited Financial Statements

BAHAMAS DEVELOPMENT BANK

December 31, 2015

BAHAMAS DEVELOPMENT BANK

Audited Financial Statements

December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BAHAMAS DEVELOPMENT BANK

We have audited the accompanying financial statements of the Bahamas Development Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2015, and the statements of comprehensive operations, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the Bank for the year ended December 31, 2014 were audited by other auditors who expressed an unqualified opinion on those financial statements in their report dated June 24, 2015.

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, and for such internal controls as management determines are 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 controls 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.

To the Board of Directors of
BAHAMAS DEVELOPMENT BANK

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bahamas Development Bank as at December 31, 2015, and 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 25, page 29 in the financial statements. Although Management has taken steps concerning the going concern matters which are discussed in Note 25 to the financial statements, these conditions along with other matters as set forth in Note 25, indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern without the continued financial support of its sole shareholder, the Government of The Commonwealth of The Bahamas.

June 22, 2016

Nassau, The Bahamas

Grant Thornton
CHARTERED ACCOUNTANTS

BAHAMAS DEVELOPMENT BANKStatement of Financial Position
(Expressed in Bahamian dollars)

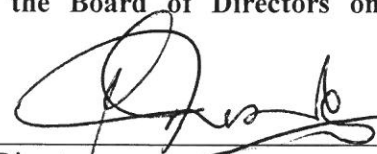
December 31, 2015

	Notes	2015 \$	2014 \$
ASSETS			
CURRENT ASSETS			
Cash	5, 24	2,467,224	2,578,546
Loans receivable, current portion	6, 24	10,191,688	10,598,520
Accrued interest receivable	6, 24, 26	1,400,887	1,157,305
Other assets	24, 26	163,832	586,489
		14,223,631	14,920,860
NON-CURRENT ASSETS			
Loans receivable, less current portion	6, 24	13,213,406	14,140,249
Fixed assets, net	7	185,417	249,740
		13,398,823	14,389,989
TOTAL ASSETS		27,622,454	29,310,849
LIABILITIES AND BAHAMAS GOVERNMENT EQUITY:			
CURRENT LIABILITIES			
Customer deposits	8, 24	908,589	634,354
Accounts payable and accrued expenses	9, 24	170,370	153,483
Long-term loans, current portion	10, 24	426,707	630,667
Accrued interest payable	10, 24	935,834	980,143
		2,441,500	2,398,647
NON-CURRENT LIABILITIES			
Long-term loans, less current portion	10, 24	33,669,111	34,655,500
Due to The Bahamas Government	11, 24	19,682,436	17,197,290
		53,351,547	51,852,790
		55,793,047	54,251,437
BAHAMAS GOVERNMENT EQUITY			
Share capital	12	28,960,256	28,960,256
Reserve fund	13	273,128	273,128
Accumulated deficit		(57,403,977)	(54,173,972)
		(28,170,593)	(24,940,588)
TOTAL LIABILITIES AND BAHAMAS GOVERNMENT EQUITY		27,622,454	29,310,849

COMMITMENT AND CONTINGENT LIABILITIES 17, 22

These financial statements were approved on behalf of the Board of Directors on June 22, 2016 by the following:


 Director


 Director

See accompanying notes. Independent Auditors' Report pages 1 and 2.

BAHAMAS DEVELOPMENT BANKStatement of Comprehensive Operations
(Expressed in Bahamian dollars)

Year ended December 31, 2015

	Notes	2015 \$	2014 \$
INTEREST INCOME			
Interest on loans	6	1,684,013	1,921,443
Interest subsidy	14	333,292	364,197
Interest on deposits		13,539	14,760
		2,030,844	2,300,400
FINANCE COST			
Interest expense	10	(2,255,563)	(2,266,312)
OTHER INCOME			
Fees and commissions		57,200	63,835
Net foreign exchange gain		17,333	24,028
Recovery of loan losses	15	11,797	330,888
Other income		3,091	788
		89,421	419,539
OPERATING (LOSS) INCOME		(135,298)	453,627
OTHER EXPENSES			
Salaries and staff costs		1,864,681	1,860,157
Provision for loan losses	6	1,064,934	499,498
General and administrative	18	562,255	478,957
Depreciation	7	106,893	164,724
Rent		114,348	119,134
		3,713,111	3,122,470
NET OPERATING LOSS FOR THE YEAR		(3,848,409)	(2,668,843)
Sinking fund income	19	618,404	632,341
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(3,230,005)	(2,036,502)

See accompanying notes. Independent Auditors' Report pages 1 and 2.

BAHAMAS DEVELOPMENT BANK

Statement of Changes in Equity (Expressed in Bahamian dollars)

Year ended December 31, 2015

	Notes	Share Capital \$	Reserve Fund \$	Accumulated Deficit \$	Total \$
Balance at December 31, 2013	12, 13	28,960,256	273,128	(52,137,470)	(22,904,086)
Total comprehensive loss for the year		-	-	(2,036,502)	(2,036,502)
Balances at December 31, 2014	12, 13	28,960,256	273,128	(54,173,972)	(24,940,588)
Total comprehensive loss for the year		-	-	(3,230,005)	(3,230,005)
Balances at December 31, 2015	12, 13	28,960,256	273,128	(57,403,977)	(28,170,593)

See accompanying notes. Independent Auditors' Report pages 1 and 2.

BAHAMAS DEVELOPMENT BANK

Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended December 31, 2015

	Notes	2015 \$	2014 \$
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Total comprehensive loss for the year		(3,230,005)	(2,036,502)
Adjustments for non-cash items:			
Loss on sale of fixed assets		-	91
Depreciation	7	106,893	164,724
Provision for loan losses	6	1,064,934	499,498
Other adjustments		(4,827)	-
Changes in operating assets and liabilities:			
Decrease in loans receivable		268,741	786,810
Increase in accrued interest receivable		(243,582)	(328,929)
Decrease (increase) in other assets		422,657	(36,677)
Increase (decrease) in customer deposits		274,235	(24,862)
Increase in accounts payable and accrued expenses		16,887	27,819
(Decrease) increase in accrued interest payable		(44,309)	411,379
Net cash used for operating activities		(1,368,376)	(536,649)
INVESTING ACTIVITIES			
Proceeds from sale of fixed assets		-	12,928
Acquisition of fixed assets	7	(37,743)	(44,145)
Net cash used for investing activities		(37,743)	(31,217)
FINANCING ACTIVITIES			
Repayment of long-term loans		(1,190,349)	(920,869)
Increase in due to The Bahamas Government		2,485,146	1,495,064
Net cash provided by financing activities		1,294,797	574,195
NET (DECREASE) INCREASE IN CASH		(111,322)	6,329
Cash, beginning of year		2,578,546	2,572,217
CASH, END OF YEAR	5	2,467,224	2,578,546

See accompanying notes. Independent Auditors' Report pages 1 and 2.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

1. GENERAL INFORMATION AND NATURE OF OPERATIONS

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:

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

The Bank’s main place of business is located at Cable Beach, West Bay Street, Nassau, The Bahamas.

2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Bank’s financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are expressed in Bahamian dollars, the Bank’s functional currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. CHANGES IN ACCOUNTING POLICIES

New and revised standards that are effective for annual periods beginning on or after January 1, 2015.

The Bank has adopted the following new interpretations, revisions and amendments to IFRS issued by the IASB, which are relevant to and effective for the Bank’s financial statements for the annual period beginning January 1, 2015:

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

3. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 19, Defined Benefit Plans: Employee Contributions

Amendments to IAS 19, *Defined Benefit Plans: Employee Contributions* came into mandatory effect for the first time in 2015.

The initial application of the amendments has no effect on the Bank's financial statements as it does not have a defined benefit plan. Accordingly, the Bank has made no changes to its accounting policies.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Bank's financial statements.

IAS 1, Presentation of Financial Statements (Disclosure Initiative)

The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments consist of the following:

- clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that IAS 1's specified line items in the statement of other comprehensive income and the statement of financial position can be disaggregated;

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

3. CHANGES IN ACCOUNTING POLICIES (continued)

IAS 1, *Presentation of Financial Statements (Disclosure Initiative)* (continued)

- add requirements for how an entity should present subtotals in the statement of other comprehensive income and the statement of financial position;
- Clarify that entities have flexibility as to the order in which they present the notes, but also emphasize that understandability and comparability should be considered by an entity when deciding that order;
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

The amendments are effective for reporting periods beginning on or after January 1, 2016, with early application permitted. Management has yet to assess the impact of the amendments.

IFRS 9, *Financial Instruments* (2014)

The IASB recently released IFRS 9, *Financial Instruments* (2014), representing the completion of its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

Management has yet to assess the impact of IFRS 15 on these financial statements. The new standard is effective for annual reporting periods beginning on or after January 1, 2018.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

3. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IFRS 11, *Joint Arrangements*

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3, *Business Combinations* and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

The Bank has no investments in joint arrangements or interest in joint operations, and does not anticipate any impact on the financial statements. The amendments are effective for reporting period beginning on or after January 1, 2016.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements

The financial statements are presented in accordance with IAS 1, *Presentation of Financial Statements* (Revised 2007). The Bank has elected to present the "Statement of Comprehensive Operations" in one statement.

Management's use of judgments and estimates

The Bank uses accounting estimates and assumptions in the preparation of financial statements. Although these estimates are based on management's best knowledge of current events and transactions, actual results may ultimately differ from those estimates. The effect of any changes in estimates will be recorded in the Bank's financial statements when determinable. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following presents a summary of these significant judgments and estimates:

Judgment

In the process of applying the Bank's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

Operating lease commitments - Bank as lessee

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Bank. Lease contracts, which transfer to the Bank substantially all the significant risks and rewards incidental to ownership of the leased items, are classified as finance leases. Otherwise, they are considered as operating leases.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgment (continued)

Operating lease commitments - Bank as lessee (continued)

The Bank entered into a commercial property lease and determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the property and therefore accounts for the contract as an operating lease.

Estimates

Estimation of allowance for loan losses

In determining the amounts recorded for impairment losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans receivable.

Management also makes estimates of the likely estimated future cash flows from impaired receivables, as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observed on individual significant receivables with similar characteristics, such as credit risk.

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.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimize any differences between loss estimates and actual loss experience.

Estimation of useful lives of fixed assets

The Bank estimates the useful lives of its fixed assets based on the period over which the assets are expected to be available for use. The estimated useful lives of the fixed assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of the fixed assets is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

Cash is comprised of cash at bank and in hand, which are subject to an insignificant risk of change in value.

Financial instruments

The Bank recognizes a financial asset or a financial liability on the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by the regulation or convention in the marketplace are recognized on the settlement date.

Financial assets

Financial assets are divided into the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is subsequently measured and whether any resulting income and expense is recognized in the statement of comprehensive operations or directly in equity.

The Bank recognizes all financial assets using trade date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets are recognized in the statement of comprehensive operations.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in the statement of comprehensive operations. Discounting, however, is omitted where the effect of discounting is immaterial.

As of December 31, 2015, the Bank's cash, accrued interest receivable, loan receivables and other assets fall into this category.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities are recognized when the Bank becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the statement of comprehensive operations.

The Bank's financial liabilities include customer deposits, accrued expenses, accrued interest payable, long term loans and due to the Bahamas Government, which are measured at amortised cost using the effective interest rate. Discounting, however, is omitted where the effect of discounting is immaterial.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset or a part of a group of similar financial assets is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantial all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantial all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive operations.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

All financial assets except for those financial assets at fair value through profit or loss are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Different criteria to determine impairment apply for each category of financial assets, which are described below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and the region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment in value. These fixed assets are depreciated on the straight-line basis over the following estimated useful lives of the respective assets:

Computer equipment and software	5 years	-	20%
Furniture, fixtures and fittings	10 years	-	10%
Office machines	5 years	-	20%
Motor vehicles	4 years	-	25%
Leasehold improvements	10 years	-	10%
Other	5 years	-	20%

Expenses incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In a situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an addition to the cost of fixed assets.

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to operations.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets (continued)

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises unless the asset is carried at a revalued amount, in which case the impairment is charged to the revaluation increment of the said asset.

Impairment of non-financial assets

An assessment is made at each statement of the financial position date to determine whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is computed as the higher of the asset's value in use or its net selling price.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognized for the asset in prior years.

Long-term loans

Long-term loans, are initially recognized at fair value, net of issue costs incurred, and are subsequently recognized at amortized cost. Any difference between net proceeds and the redemption value is recognized in the statement of comprehensive operations over the period of the borrowings using the effective interest method.

Income and expense

Interest income and expense are recognized using the effective interest method. Interest subsidy, received from the Government to subsidize rent, utilities and other operating expenses of the Bank, are recognized as income in the period in which the conditions attached to them have been satisfied. These amounts are presented gross in the statement of comprehensive operations.

All other income and expenses are recognized on the accrual basis of accounting.

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest on loans (continued)

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.

Employee benefits

Employee wages and salaries are recognized on an accrual basis. The Bank's employees are entitled to a gratuity calculated as a percentage of their salary, payable only on successful completion of the respective employment contract. These gratuities are recognized in the statement of comprehensive operations over the period of the employment contract and any forfeited amounts are reversed during the period of forfeiture.

Related party transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. The parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currency transactions

Transactions in currencies other than Bahamian dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of the financial position date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Gains and losses arising on translation are included in the statement of comprehensive operations.

Taxes

On January 1, 2015, the Government of The Bahamas implemented the Value Added Tax ("VAT") regime, with three (3) categories for goods and services, which includes two rates of VAT of 7.5% and 0%, and a third category classified as Exempt. The Bank has registered with the Ministry of Finance and is a VAT registrant with a VAT certificate and Tax Identification Number 100100934.

The Bank is exempt from all other forms of taxation in the Commonwealth of The Bahamas including income, capital gains and withholding taxes. No other taxes are applicable to the Bank.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

5. CASH

Cash as at December 31, 2015 consist of the following:

	2015	2014
	\$	\$
Cash at bank	2,466,424	2,578,232
Cash in hand	800	314
	2,467,224	2,578,546

6. LOANS RECEIVABLE

Loans receivable as at December 31, 2015 is comprised of the following:

	2015	2014
	\$	\$
Performing	8,139,377	10,852,730
Non-performing	27,289,177	25,447,425
Extraordinary advances	1,703,534	1,424,776
Employees	579,726	255,624
	37,711,814	37,980,555
Less: Allowance for loan losses	(14,306,720)	(13,241,786)
	23,405,094	24,738,769

	2015	2014
	\$	\$
Current portion	10,191,688	10,598,520
Non-current portion	13,213,406	14,140,249
	23,405,094	24,738,769

The above outstanding loans earned interest at rates ranging from 0% to 14% per annum. Interest income earned during the year amounted to \$1,684,013 (2014: \$1,921,443), of which \$1,400,887 (2014: \$1,157,305) was outstanding as of December 31, 2015.

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

	2015	2014
	\$	\$
Balance, beginning of year	13,241,786	12,923,102
Provision for loan losses	1,064,934	499,498
Loans written off	-	(529)
Government guarantees claim	-	(180,285)
Balance, end of year	14,306,720	13,241,786

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

7. FIXED ASSETS, net

Fixed assets as at December 31, 2015 is comprised of the following:

	Computer equipment and software \$	Furniture, fixtures and fittings \$	Office machines \$	Motor vehicles \$	Leasehold improvements \$
Cost:					
December 31, 2013	1,726,739	286,872	278,542	166,480	1,042,093
Additions	37,626	1,080	-	-	-
Disposals	(17,753)	-	-	(20,000)	-
December 31, 2014	1,746,612	287,952	278,542	146,480	1,042,093
Additions	18,776	-	9,992	-	8,975
December 31, 2015	1,765,388	287,952	288,534	146,480	1,051,068
Accumulated Depreciation:					
December 31, 2013	1,555,797	269,816	269,160	128,798	910,311
Depreciation	109,102	6,742	3,998	17,425	23,261
Disposals	(4,734)	-	-	(20,000)	-
December 31, 2014	1,660,165	276,558	273,158	126,223	933,572
Depreciation	52,502	6,533	3,748	16,122	22,385
Adjustment	(4,827)	-	-	-	-
December 31, 2015	1,707,840	283,091	276,906	142,345	955,957
Net Book Value					
December 31, 2015	57,548	4,861	11,628	4,135	95,111
December 31, 2014	86,447	11,394	5,384	20,257	108,521

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

8. CUSTOMER DEPOSITS

Customer deposits as of December 31, 2015 consist of the following:

	2015	2014
	\$	\$
Security deposits held as collateral for loans	217,403	212,788
Loan prepayments	225,305	174,313
Insurance premiums	65,675	68,288
Legal fees, stamp tax, recording fees, etc.	61,886	74,321
Other customer deposits / advances	338,320	104,644
	908,589	634,354

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as at December 31, 2015 consist of the following:

	2015	2014
	\$	\$
Accounts payable	26,015	28,270
Accrued expenses	140,443	125,213
Valued added tax payable	3,912	-
	170,370	153,483

The Company's accounts payable and other liabilities are short-term, and the carrying values are considered to be a reasonable approximation of fair value.

Value Added Tax ("VAT")

As a VAT registrant, the Bank is allowed to apply its input tax against its output tax and net the amount of VAT outstanding. As of December 31, 2015, the net amount of VAT due to The Bahamas Government was \$3,912 (2014: Nil).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

10. LONG-TERM LOANS

Long-term loans as of December 31, 2015 consists of the following:

	2015	2014
	\$	\$
National Insurance Board	46,000,000	46,000,000
The Central Bank of The Bahamas	4,000,000	4,000,000
Less: Sinking fund	(19,656,571)	(19,036,469)
	30,343,429	30,963,531
European Investment Bank	127,389	172,636
The Central Bank of The Bahamas	3,625,000	4,150,000
	34,095,818	35,286,167
Current portion	426,707	630,667
Non-current portion	33,669,111	34,655,500
	34,095,818	35,286,167

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

The Central Bank of The Bahamas

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

- As at December 31, 2015, the first loan has a principal balance of \$375,000 (2014: \$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 April 21, 2018.
- As at December 31, 2015, the second loan has a principal balance of \$3,250,000 (2014: \$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 October 28, 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	1,000,000	4.75%	19/10/2005	2025
		4,000,000			

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

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Notes to Financial Statements

December 31, 2015

10. LONG-TERM LOANS (continued)

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	1,000,000	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 \$19,656,571 (2014: \$19,036,469) was held in interest bearing deposits (see Note 19).

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.

European Investment Bank

The loan is repayable in Euros in semi-annual installments expressed as a percentage of the outstanding loan balance, at an interest rate of 1% (2014: 1.00%). The loan is due to be repaid by February 1, 2020.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

10. LONG-TERM LOANS (continued)

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	\$
2016	4,445,257
2017	3,445,257
2018	2,445,257
2019	295,257
2020	11,295,257

Interest expense incurred during the year amounted to \$2,255,563 (2014: \$2,266,312) of which \$935,834 (2014: \$980,143) was outstanding as of December 31, 2015.

11. DUE TO THE BAHAMAS GOVERNMENT

The principal and interest repayments on the long term loans during the year amounting to \$2,818,477 (2014: \$2,048,273) are paid by The Bahamas Government on behalf of the Bank. The government has agreed to pay the long term loans 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 \$333,292 (2014: \$553,209) against the above transfers made on behalf of the Bank.

As at December 31, 2015, the total amount due to The Bahamas Government was \$19,682,436 (2014: \$17,197,290).

The net loan payable is interest free and unsecured.

12. SHARE CAPITAL

The share capital as at December 31, 2015 is comprised of the following:

	2015	2014
	\$	\$
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 Financial Statements

December 31, 2015

13. 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. At December 31, 2015, the total amount of Reserve Fund was \$273,128 (2014: \$273,128).

14. 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%.

The total interest subsidy for the year amounted to \$333,292 (2014: \$364,197).

15. RECOVERY OF LOAN LOSSES

Recovery of loan losses as at December 31, 2015 is comprised of the following:

	2015	2014
	\$	\$
Government guarantee claim	-	180,285
Recovery of loan losses	11,797	150,603
	11,797	330,888

16. DEFINED CONTRIBUTION PENSION PLAN

On February 1, 2011, the Bank changed its pension plan from a Defined Benefit Plan to a 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 December 31, 2015 year end.

Pension expense during the year amounted to \$75,269 (2014: \$70,278).

17. COMMITMENTS

As at year-end, the Bank was committed to extend credit based on approved, but undisbursed loans amounting to \$329,059 (2014: \$999,999).

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

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

17. COMMITMENTS (continued)

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, and have since been renewed for December 2014 through 2017.

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, 2015 are comprised of the following:

	2015	2014
	\$	\$
Computer expenses	103,634	85,586
Repairs and maintenance	86,683	75,026
Utilities	72,261	83,956
Telephone, telex and cable	71,937	64,427
Professional fees	69,610	32,221
VAT	50,942	-
Insurance	27,480	27,760
Advertising	22,787	12,219
Travel and transportation	19,791	45,198
Office supplies and printing	14,691	8,278
Bank Charges	13,284	-
Subscriptions	4,930	-
Miscellaneous	3,768	37,761
Entertainment	457	6,525
	562,255	478,957

19. SINKING FUND

The deposits with bank are held separately at Bank of The Bahamas, totaling \$19,656,571 (2014: \$19,036,469) and have been set aside as a sinking fund to fulfill the requirement under Section 19 of The Act. The sinking fund is required for the partial 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 10.

These deposits earn interest at an annual rate of 1.5% to 3.5% (2014: 1.5% to 3.5%).

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 2024 through 2025.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

20. SINKING FUND (continued)

Income earned on the sinking fund during the year amounted to \$618,404 (2014: \$632,341).

21. RELATED PARTY BALANCES AND TRANSACTIONS

Salaries and other short-term employee benefits paid to key management personnel totaled \$629,639 (2014: \$613,459). Loans to key management personnel of the Bank totaled \$579,726 (2014: \$255,624). The loans bear interest at a rate of 4.75% (2014: 4.75%), are secured and have fixed terms of repayment. Other bank employees also receive the same interest rate on loans.

At year end there was one (1) loan due from family members of key management personnel of the Bank, which totaled \$73,197 (2014: \$73,197) and was classified as non-performing.

This loan has a fixed term of repayment and bear interest at a rate of 10.5% (2014: 10.50%). The loan is fully secured.

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

22. ASSETS UNDER MANAGEMENT

In 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.

23. CONTINGENT LIABILITY

The Bank is a defendant in a litigation case where it received an order from the Supreme Court on May 2, 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. The 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

24. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

	Geographic Region	Industry	2015 %	2014 %
Cash	Bahamas	Financial sector	100.00	100.00
Loans receivable	Bahamas	Agriculture	2.69	2.61
Loans receivable	Bahamas	Fishing	11.34	11.12
Loans receivable	Bahamas	Transportation	12.19	12.50
Loans receivable	Bahamas	Tourism	18.50	19.31
Loans receivable	Bahamas	Manufacturing	10.24	9.83
Loans receivable	Bahamas	Service	43.43	43.24
Loans receivable	Bahamas	Staff	1.61	1.39
			100.00	100.00
Long-term debt	Europe	Financial sector	0.17	0.32
Long-term debt	Bahamas	Financial sector	99.83	99.68
			100.00	100.00

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

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

- Liquidity risk
- Credit risk
- Interest rate 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

December 31, 2015

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Liquidity risk

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

The following tables summarize the maturity profile of the Bank's financial assets and liabilities as at December 31, 2015, on contractual maturities:

	2015				
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	Not due
Financial Assets					
Cash	2,467,224	-	-	-	
Loans receivable	11,554,457	2,952,611	1,528,271	7,369,755	
Accrued interest receivables	-	1,440,887	-	-	
Other assets	-	163,832	-	-	
	14,021,681	4,557,330	1,528,271	7,369,755	
Financial Liabilities					
Customer deposits	-	908,589	-	-	
Accounts payable and accrued expenses	-	170,370	-	-	
Accrued interest payable	-	935,834	-	-	
Long-term loans	-	4,445,257	19,557,133	10,093,428	
Due to Bahamas Government	-	-	-	-	19,212,111
	-	6,460,050	19,557,133	10,093,428	19,212,111
Liquidity gap	14,021,681	(1,902,720)	(18,028,862)	(2,723,673)	(19,212,111)

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Notes to Financial Statements

December 31, 2015

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Liquidity risk (continued)

	2014				
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	No \$
Financial Assets					
Cash	2,578,546	-	-	-	-
Loans receivable	8,719,142	4,093,705	3,440,940	8,484,982	-
Accrued interest receivable	-	1,157,305	-	-	-
Other assets	-	586,489	-	-	-
	11,297,688	5,837,799	3,440,940	8,484,982	-
Financial Liabilities					
Customer deposits	-	654,354	-	-	-
Accounts payable and accrued expenses	-	153,483	-	-	-
Accrued interest payable	-	980,143	-	-	-
Long-term loans	-	431,001	9,862,504	24,792,662	-
Due to Bahamas Government	-	-	-	-	17
	-	2,218,981	9,862,504	24,792,662	17
Liquidity gap	11,297,688	3,618,518	(6,421,564)	(16,307,680)	(17)

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 in its loan portfolio by requiring borrowers to provide a collateral equivalent to the loan. The total value of any loan originated to a single individual or entity to 10% of total capital. Collateral includes buildings, equipment, motor vehicles and boats.

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Notes to Financial Statements

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24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Credit risk (continued)

The Bank's exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date and is summarized as follows:

	2015	2014
	\$	\$
Cash (excluding cash in hand)	2,466,424	2,578,232
Loans receivable	23,405,094	24,738,769
Accrued interest receivable	1,400,887	1,157,305
	27,272,405	28,474,306

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 minimizes 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 various economic sectors.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, which affects 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 optimizing return. Management mitigates this risk by not investing significantly in securities affected by market risk.

25. GOING CONCERN

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 continued support of the Government of The Commonwealth of The Bahamas.

26. RECLASSIFICATION OF PRIOR YEAR BALANCES

An amount of \$437,234 (2014: \$432,565) which was previously disclosed as a part of interest receivable, has been reclassified to other assets during the year.

BAHAMAS DEVELOPMENT BANK

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(Expressed in Bahamian dollars)

December 31, 2015

27. SUBSEQUENT EVENTS

The Bank evaluated the impact of all subsequent events through June 22, 2016 which was the date the financial statements were available to be issued. There were no adjusting and non-adjusting subsequent events that need to be disclosed or reflected in the financial statements.

Independent Auditors' Report pages 1 and 2.