

Audited Financial Statements

BAHAMAS DEVELOPMENT BANK

December 31, 2016

BAHAMAS DEVELOPMENT BANK

Audited Financial Statements

December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
BAHAMAS DEVELOPMENT BANK

Opinion

We have audited the financial statements of Bahamas Development Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive operations, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, 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 27, page 34 in the financial statements. Although Management has taken steps concerning the going concern matters which are discussed in Note 27 to the financial statements, these conditions along with other matters as set forth in Note 27, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

To the Shareholders of
BAHAMAS DEVELOPMENT BANK

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

To the Shareholders of
BAHAMAS DEVELOPMENT BANK

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

September 27, 2017

Nassau, The Bahamas

Grant Thornton
CHARTERED ACCOUNTANTS

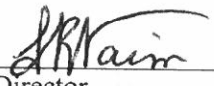
BAHAMAS DEVELOPMENT BANKStatement of Financial Position
(Expressed in Bahamian dollars)

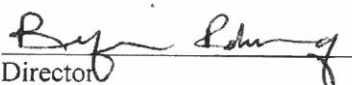
December 31, 2016

	Notes	2016 \$	2015 \$ (Restated)
ASSETS			
CURRENT ASSETS			
Cash	5, 22, 26	3,893,659	2,467,224
Loans receivable, current portion	6, 26	10,853,645	10,191,688
Accrued interest receivable	6, 26, 28	239,524	139,199
Other assets	7, 26	799,299	163,832
		15,786,127	12,961,943
NON-CURRENT ASSETS			
Loans receivable, less current portion	6, 26	10,308,800	13,213,406
Fixed assets, net	8	146,434	185,417
		10,455,234	13,398,823
TOTAL ASSETS		26,241,361	26,360,766
LIABILITIES AND BAHAMAS GOVERNMENT EQUITY:			
CURRENT LIABILITIES			
Customer deposits	9, 22, 26	776,729	908,589
Accounts payable and accrued expenses	10, 22, 26	339,076	170,370
Long-term loans, current portion	11, 22, 26	3,427,227	426,707
Accrued interest payable	11, 22, 26	1,308,557	935,834
		5,851,589	2,441,500
NON-CURRENT LIABILITIES			
Long-term loans, less current portion	11, 22, 26	30,247,507	33,669,111
Due to The Bahamas Government	12, 22, 26	21,452,520	19,682,436
		51,700,027	53,351,547
Total liabilities		57,551,616	55,793,047
BAHAMAS GOVERNMENT EQUITY			
Share capital	13	28,960,256	28,960,256
Reserve fund	14	273,128	273,128
Accumulated deficit		(60,543,639)	(58,665,665)
Total Bahamas Government Equity		(31,310,255)	(29,432,281)
TOTAL LIABILITIES AND BAHAMAS GOVERNMENT EQUITY		26,241,361	26,360,766

COMMITMENTS AND CONTINGENT LIABILITIES 18, 24

These financial statements were approved on behalf of the Board of Directors on September 27, 2017 by the following:


 Director


 Director

See accompanying notes. Independent Auditors' Report pages 1 through 3.

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

Year ended December 31, 2016

	Notes	2016 \$	2015 \$ (restated)
INTEREST INCOME			
Loans	6, 28	1,511,632	1,684,013
Interest subsidy	12, 15, 22	298,082	333,292
Deposits	5	21,977	13,539
		1,831,691	2,030,844
Interest expense	11, 22	(2,200,862)	(2,255,563)
Net interest income		(369,171)	(224,719)
LOAN RECOVERY (IMPAIRMENT EXPENSE)			
Decrease (increase) in provision for loan losses	6	506,741	(1,064,934)
Recovery of loan losses	16	25,992	11,797
		532,733	(1,053,137)
		163,562	(1,277,856)
OTHER INCOME			
Fees and commissions		210,170	57,200
Net foreign exchange gain		2,939	17,333
Other		98	3,091
		213,207	77,624
Total income		376,769	(1,200,232)
OTHER EXPENSES			
Salaries, costs and executive expenses	19, 22	(2,046,134)	(1,864,681)
General and administrative costs	20	(609,614)	(562,255)
Rent		(104,350)	(114,348)
Depreciation	8	(74,894)	(106,893)
		(2,834,992)	(2,648,177)
NET OPERATING LOSS FOR THE YEAR		(2,458,223)	(3,848,409)
Sinking fund income	21, 22	580,249	618,404
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,877,974)	(3,230,005)

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANK

Statement of Changes in Equity
(Expressed in Bahamian dollars)

Year ended December 31, 2016

	Notes	Share Capital \$	Reserve Fund \$	Accumulated Deficit \$	Total \$
Balances at December 31, 2014	13, 14	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, as previously reported	13, 14	28,960,256	273,128	(57,403,977)	(28,170,593)
Prior year adjustment	28	-	-	(1,261,688)	(1,261,688)
Balances at December 31, 2015, as restated		28,960,256	273,128	(58,665,665)	(29,432,281)
Total comprehensive loss for the year		-	-	(1,877,974)	(1,877,974)
Balances at December 31, 2016	13, 14	28,960,256	273,128	(60,543,639)	(31,310,255)

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANK

Statement of Cash Flows

(Expressed in Bahamian dollars)

Year ended December 31, 2016

	Notes	2016 \$	2015 \$ (Restated)
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Total comprehensive loss for the year		(1,877,974)	(3,230,005)
Adjustments for non-cash items:			
Depreciation and amortization	8	74,894	106,893
(Decrease) increase in provision for loan losses	6	(506,741)	1,064,934
Interest income		(1,533,609)	(1,697,552)
Interest subsidy		(298,082)	(333,292)
Interest expense		2,200,862	2,255,563
Other adjustments		-	(4,827)
Changes in operating assets and liabilities:			
Decrease in loans receivable		2,749,390	268,741
(Increase) decrease in other assets		(635,467)	422,657
(Decrease) increase in customer deposits		(131,860)	274,235
(Decrease) increase in accounts payable and accrued expenses		168,706	16,887
Interest received		1,433,284	1,453,970
Interest paid		(1,828,139)	(2,299,872)
Net cash used in operating activities		(184,736)	(1,701,668)
INVESTING ACTIVITY			
Acquisition of fixed assets	8	(35,911)	(37,743)
Net cash used in investing activity		(35,911)	(37,743)
FINANCING ACTIVITIES			
Repayment of long-term loans		(4,105,969)	(570,247)
Decrease (increase) in sinking fund		3,684,885	(620,102)
Increase in due to the Bahamas Government		2,068,166	2,818,438
Net cash provided by financing activities		1,647,082	1,628,089
NET INCREASE (DECREASE) IN CASH		1,426,435	(111,322)
Cash, beginning of the year		2,467,224	2,578,546
CASH, END OF THE YEAR	5	3,893,659	2,467,224

See accompanying notes. Independent Auditors' Report pages 1 through 3.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

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, 2016

The standards and amendments that are effective for the first time in 2016 (for entities with a December 31, 2016 year-end) and could be applicable to the Bank are:

- Annual Improvements to IFRSs’ 2012-2014 cycle;
- Amendments to IAS 1, *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*;
- Amendments to IAS 16 and IAS 41, *Agriculture: Bearer Plants*;
- Amendments to IFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*;

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

3. CHANGES IN ACCOUNTING POLICIES (continued)

New and revised standards that are effective for annual periods beginning on or after January 1, 2016 (continued)

- Amendments to IAS 27, *Equity Method in Separate Financial Statements*;
- Amendments to IFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 27, *Equity Method in Separate Financial Statements*;
- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities: Applying the Consolidation Exception*; and
- IFRS 14, *Regulatory Deferral Accounts*.

These amendments do not have a significant impact on these financial statements and therefore disclosures have not been made.

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.

IFRS 9, *Financial Instruments*

The new standard for financial instruments (IFRS 9) 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.

The Bank's management is in the process of assessing the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

IFRS 15, *Revenue from Contracts with Customers* (continued)

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. The Bank's management is in the process of assessing the impact of IFRS 15 on these financial statements. Under this method, IFRS 15 will only be applied to contracts that are incomplete as at January 1, 2018.

IFRS 16, *Leases*

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective from periods beginning on or after January 1, 2019. The Bank's Management is in the process of assessing the impact of the standard on these financial statements.

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:

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgment (continued)

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.

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates (continued)

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.

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 are 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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, 2016, the Bank's cash, accrued interest receivable, loan receivables and other assets fall into this category.

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, accounts payable and 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

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.

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
(Expressed in Bahamian dollars)

December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 performance based incentive calculated as a percentage of their salary, payable only on successful completion of the respective employment contract. These incentives 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.

BAHAMAS DEVELOPMENT BANK

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5. CASH

Cash as at December 31, 2016 consists of the following:

	2016	2015
	\$	\$
Cash at banks	3,892,859	2,466,424
Cash on hand	800	800
	3,893,659	2,467,224

The Bank earns interest on cash at banks at the prevailing market interest rates. The average interest rate for the year ended December 31, 2016 was 0.75% (2015: 0.75%). Interest income earned and collected on cash at banks during the year amounted to \$21,977 (2015: \$13,539).

BAHAMAS DEVELOPMENT BANK

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6. LOANS RECEIVABLE

Loans receivable as at December 31, 2016 consist of the following:

	2016	2015
	\$	\$
Performing	9,934,954	8,139,377
Non-performing	22,731,184	27,289,177
Extraordinary advances	1,841,582	1,703,534
Employees	454,704	579,726
	34,962,424	37,711,814
Less: Provision for loan losses	(13,799,979)	(14,306,720)
	21,162,445	23,405,094

	2016	2015
	\$	\$
Current portion	10,853,645	10,191,688
Non-current portion	10,308,800	13,213,406
	21,162,445	23,405,094

The above outstanding loans earned interest at rates ranging from 0% to 14% per annum. Interest income on loans earned during the year amounted to \$1,511,632 (2015: \$1,684,013). Interest receivable as at December 31, 2016 amounted to \$239,524 (2015: \$139,199)

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

	2016	2015
	\$	\$
Balance, beginning of the year	14,306,720	13,241,786
(Decrease) increase in provision for loan losses	(506,741)	1,064,934
Balance, end of the year	13,799,979	14,306,720

The aging of loans receivable is as follows:

	2016				Total receivables
	Current	31-60 days	61-90 days	Over 90 days	
	\$	\$	\$	\$	\$
Loans receivable	8,769,436	789,039	434,109	11,169,861	21,162,445

	2015				Total receivables
	Current	31-60 days	61-90 days	Over 90 days	
	\$	\$	\$	\$	\$
Loans receivable	7,369,755	622,610	206,107	15,206,622	23,405,094

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7. OTHER ASSETS

Other assets as at December 31, 2016 consist of the following:

	2016	2015
	\$	\$
Interest receivable - time deposits	515,373	414,757
Offset loans	142,198	(337,863)
Accounts receivable	39,637	23,896
Other	36,495	(2,159)
Prepayments	29,843	31,437
Late fee receivable	26,853	24,864
Security deposits	8,900	8,900
	799,299	163,832

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8. FIXED ASSETS, net

Fixed assets as at December 31, 2016 consist of the following:

	Computer equipment and software \$	Furniture, fixtures and fittings \$	Office machines \$	Motor vehicles \$	Leasehold improvements \$	Other \$	Total \$
Cost:							
December 31, 2014	1,746,612	287,952	278,542	146,480	1,042,093	226,478	3,728,157
Additions	18,776	-	9,992	-	8,975	-	37,743
December 31, 2015	1,765,388	287,952	288,534	146,480	1,051,068	226,478	3,765,900
Additions	13,988	-	-	-	1,454	20,469	35,911
December 31, 2016	1,779,376	287,952	288,534	146,480	1,052,522	246,947	3,801,811
Accumulated Depreciation and Amortization:							
December 31, 2014	1,660,165	276,558	273,158	126,223	933,572	208,741	3,478,417
Depreciation	52,502	6,533	3,748	16,122	22,385	5,603	106,893
Adjustment	(4,827)	-	-	-	-	-	(4,827)
December 31, 2015	1,707,840	283,091	276,906	142,345	955,957	214,344	3,580,483
Depreciation	33,674	4,861	3,221	4,135	23,169	5,834	74,894
December 31, 2016	1,741,514	287,952	280,127	146,480	979,126	220,178	3,655,377
Net Book Value							
December 31, 2016	37,862	-	8,407	-	73,396	26,769	146,434
December 31, 2015	57,548	4,861	11,628	4,135	95,111	12,134	185,417

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9. CUSTOMER DEPOSITS

Customer deposits as of December 31, 2016 consist of the following:

	2016	2015
	\$	\$
Other customer deposits and advances	268,221	338,320
Security deposits held as collateral for loans	143,909	217,403
Loan prepayments	161,923	225,305
Mailboat Subsidy - Ministry of Transport	86,918	-
Legal fees, stamp tax, recording fees, etc.	60,595	61,886
Insurance premiums	55,163	65,675
	776,729	908,589

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as at December 31, 2016 consist of the following:

	2016	2015
	\$	\$
Pension plan benefit obligation	226,912	3,465
Accrued expenses	87,347	140,443
Valued added tax payable	22,559	3,912
Other accounts payable	2,258	22,550
	339,076	170,370

The Bank'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 to arrive at a net VAT outstanding. As of December 31, 2016, the net VAT due was \$22,559 (2015: \$3,912).

BAHAMAS DEVELOPMENT BANK

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11. LONG-TERM LOANS

Long-term loans as of December 31, 2016 consist of the following:

	Note	2016 \$	2015 \$
National Insurance Board		42,000,000	46,000,000
The Central Bank of The Bahamas		4,000,000	4,000,000
Less: Sinking fund	21	(15,971,686)	(19,656,571)
		30,028,314	30,343,429
European Investment Bank		96,420	127,389
The Central Bank of The Bahamas		3,550,000	3,625,000
		33,674,734	34,095,818
Current portion		3,427,227	426,707
Non-current portion		30,247,507	33,669,111
		33,674,734	34,095,818

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

The Central Bank of The Bahamas

The Bank issued the following bonds to The Central Bank of The Bahamas:

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.

The Bank has two loans outstanding with The Central Bank of The Bahamas totaling \$3,550,000 as follows:

Loan	Principal Amount \$	Rate	Due date	Installment Payments \$
Loan 1	300,000	2.00%	April 21, 2018	75,000
Loan 2	3,250,000	2.00%	October 28, 2018	125,000

These loans are repayable in semi-annual installments.

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11. LONG-TERM LOANS (continued)

National Insurance Board

The Bank has twenty (20) bonds outstanding with 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	1,000,000	3.75%	14/06/2002	2017
3	B	2,000,000	3.75%	31/07/2002	2017
4	B	2,000,000	3.75%	15/08/2003	2018
5	A	2,000,000	4.75%	29/12/2003	2024
6	A	2,000,000	4.75%	25/03/2004	2024
7	A	1,000,000	4.75%	29/09/2004	2024
8	B	1,000,000	3.75%	16/06/2005	2020
9	C	2,000,000	4.75%	05/05/2006	2026
10	D	2,000,000	3.75%	11/08/2006	2021
11	D	1,000,000	3.75%	03/01/2007	2022
12	C	2,000,000	4.75%	06/02/2007	2027
13	C	2,000,000	4.75%	05/04/2007	2027
14	D	2,000,000	3.75%	02/08/2007	2022
15	D	2,000,000	3.75%	30/11/2007	2022
16	C	2,000,000	4.75%	02/04/2008	2028
17	D	2,000,000	3.75%	18/08/2008	2023
18	C	2,000,000	4.75%	14/11/2008	2028
19	C	1,000,000	4.75%	31/03/2009	2029
20	D	1,000,000	3.75%	31/03/2009	2024
		42,000,000			

Under Section 19(b) of the Act, The Bank is required to establish a sinking fund for the redemption of the bonds. At year end, the total held in escrow was \$15,971,686 (2015: \$19,656,571) (see Note 21).

By way of a Cabinet Resolution dated June 29, 2005, the Bank was approved to raise \$50 million by way of bond issuance; which has been fully drawn.

European Investment Bank

As at December 31, 2016, the loan had a principal balance of \$96,420, which is repayable in Euros in semi-annual installments expressed as a percentage of the outstanding loan balance, at an interest rate of 1% (2015: 1.00%). The loan is due to be repaid by February 1, 2020.

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11. LONG-TERM LOANS (continued)

The 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	\$
2017	3,427,227
2018	2,427,518
2019	277,663
2020	11,264,012
2021	2,250,000

Interest expense incurred during the year amounted to \$2,200,862 (2015: \$2,255,563) of which \$1,308,557 (2015: \$935,834) was outstanding as of December 31, 2016.

12. DUE TO THE BAHAMAS GOVERNMENT

The total amount due to the Bahamas Government as at December 31, 2016 was \$21,452,520 (2015: \$19,682,436).

Principal and interest repayments on the long term loans during the year amounting to \$1,897,702 (2015: \$2,818,477) were paid by the 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 \$298,082 (2015: \$333,292) against the above transfers made on behalf of the Bank.

Additionally, the Government has agreed for the Bank to apply administrative fees to facilitate the Government's Mailboat subsidies on behalf of the Ministry of Transport and Aviation. The fee of 2.5% applied during the year amounted to \$109,425 (2015: Nil).

The Government paid the Bank administration fees of 5% for administering funds disbursed for parties affected by the New Providence Roadworks Improvement Project and Micro Loans program, which was derived from the same source.

Due to The Bahamas Government is interest free and unsecured.

BAHAMAS DEVELOPMENT BANK

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13. SHARE CAPITAL

The share capital as at December 31, 2016 is comprised of the following:

	2016	2015
	\$	\$
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 Government.

14. RESERVE FUND

Under Section 20 of the Act, each year the Bank is required to set aside 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, 2016, the total amount of Reserve Fund was \$273,128 (2015: \$273,128).

15. INTEREST SUBSIDY

During 2001, the Government mandated that the lending rate for the Bank be between 1.00% and 2.50% above prime depending on risk factors. Following that requirement, the Government agreed 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 \$298,082 (2015: \$333,292).

16. RECOVERY OF LOAN LOSSES

Recovery of loan losses as at December 31, 2016 is comprised of the following:

	2016	2015
	\$	\$
Recovery of loan losses	25,992	11,797

BAHAMAS DEVELOPMENT BANK

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17. 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, 2016 year end.

Pension contribution during the year amounted to \$279,536 (2015: \$75,269), which is included in salaries, staff cost and executive expenses in the statement of comprehensive operations (see note 19).

18. COMMITMENTS

As at year-end, the Bank was committed to extend credit based on approved, but undisbursed loans amounting to \$720,092 (2015: \$329,059).

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

19. SALARIES, STAFF COSTS AND EXECUTIVE EXPENSES

Salaries, staff costs and executive expenses for the year ended December 31, 2016 are comprised of the following:

	2016	2015
	\$	\$
Salaries	1,364,661	1,388,567
NIB, Pension and Insurance	489,904	284,998
Board expenses	99,588	100,385
Executive allowances	54,202	48,367
Staff benefits and other	37,779	42,364
	2,046,134	1,864,681

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements
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20. GENERAL AND ADMINISTRATIVE COSTS

General and administrative expenses for the year ended December 31, 2016 are comprised of the following:

	2016	2015
	\$	\$
Professional fees	221,818	69,610
Repairs and maintenance	104,909	86,641
Telephone, telex and cable	86,171	71,937
Computer expenses	58,242	80,908
Utilities	57,211	72,261
Security expense	23,174	22,769
Travel and transportation	19,152	19,791
Insurance	18,155	27,480
Bank charges	10,415	13,283
Office supplies and printing	6,410	14,691
Subscriptions	3,253	4,930
Entertainment	704	457
Miscellaneous	-	54,710
Advertising	-	22,787
	609,614	562,255

21. SINKING FUND

The Sinking fund is comprised of fixed deposits with Bank of The Bahamas totaling \$15,608,186 (2015: \$19,293,071) and Bahamas Government Registered Stock totaling \$363,500 (2015: \$363,500). In accordance with Section 19 of the Act the bank established the Sinking fund 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 11. These deposits earn interest at an annual rate of 1.5% to 3.5% (2015: 1.5% to 3.5%). The Bahamas Government Registered Stocks 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.

Income earned on the sinking fund during the year amounted to \$580,249 (2015: \$618,404).

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22. RELATED PARTY BALANCES AND TRANSACTIONS

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

The Bank's balances and transactions with related parties consist of the following:

	2016	2015
	\$	\$
Balances:		
Cash	3,265,084	2,029,426
Customer deposits	86,918	-
Long-term loans	33,578,314	33,968,429
Accounts payable and accrued expenses	22,559	3,912
Interest payable	1,308,156	935,304
Due to Bahamas Government	21,452,520	19,682,436
Transactions:		
Interest subsidy	298,082	333,292
Sinking fund income	580,249	618,404
Interest expense	2,196,977	2,249,962

Salaries and other short-term employee benefits paid to key management personnel totaled \$731,985 (2015: \$629,639). Loans to key management personnel of the Bank totaled \$208,892 (2015: \$194,326). The loans bear interest at a rate of 4.75% (2015: 4.75%), are secured and have fixed terms of repayment. Other bank employees receive loans on the same terms.

At year end, there was one (1) loan due from family members of key management personnel of the Bank, which totaled \$73,197 (2015: \$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% (2015: 10.5%). The loan is fully secured.

23. 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 New Providence Roadworks Improvement Project. 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.

During the year, the Administration fees were renegotiated and are now 5%. The funds being administered were no longer used for the New Providence Roadworks Improvement Project, and were being used to facilitate micro loans.

As of August 2016, the Bank administered payments to Mailboat owners based on instructions from The Ministry of Transport and Aviation, at an administration fee of 2.5%.

BAHAMAS DEVELOPMENT BANK

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24. CONTINGENT LIABILITY

The Bank was 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 defended its position against the claim, however the Court of Appeal awarded the case to the plaintiff. A total cost of \$150,000, which was previously provided for, was paid out by the Bank during the year. There were no other contingencies provided for during the year.

25. 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	2016 \$	2015 %
Cash	Bahamas	Financial sector	100.00	100.00
Loans receivable	Bahamas	Service	45.89	43.43
Loans receivable	Bahamas	Tourism	18.05	18.50
Loans receivable	Bahamas	Fishing	11.90	11.34
Loans receivable	Bahamas	Manufacturing	10.63	10.24
Loans receivable	Bahamas	Transportation	9.18	12.19
Loans receivable	Bahamas	Agriculture	2.98	2.69
Loans receivable	Bahamas	Staff	1.37	1.61
			100.00	100.00
Long-term debt	Bahamas	Financial sector	99.83	99.83
Long-term debt	Europe	Financial sector	0.17	0.17
			100.00	100.00

26. 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.

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26. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

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 to meet its liabilities when due, under both normal and stressed conditions. The Bank ensures that it has sufficient liquid assets to settle obligations when they mature.

The following tables summarize the maturity profile of the Bank's financial assets and liabilities as at December 31, 2016 based on contractual maturities:

	2016					Total
	On Demand	Less than one year	One to five years	Over five years	No specific maturity	
	\$	\$	\$	\$	\$	\$
Financial Assets						
Cash	3,893,659	-	-	-	-	3,893,659
Loans receivable	-	10,853,645	4,453,659	5,855,141	-	21,162,445
Accrued interest receivable	-	239,524	-	-	-	239,524
Other assets	-	799,299	-	-	-	799,299
	3,893,659	11,892,468	4,453,659	5,855,141	-	26,094,927
Financial Liabilities						
Customer deposits	-	776,729	-	-	-	776,729
Accounts payable and accrued expenses	-	339,076	-	-	-	339,076
Accrued interest payable	-	1,308,557	-	-	-	1,308,557
Long-term loans	-	3,427,227	16,219,193	14,028,314	-	33,674,734
Due to the Bahamas Government	-	-	-	-	21,452,520	21,452,520
	-	5,851,589	16,219,193	14,028,314	21,452,520	57,551,616
Liquidity gap	3,893,659	6,040,879	(11,765,534)	(8,173,173)	(21,452,520)	(31,456,689)

BAHAMAS DEVELOPMENT BANK

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26. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Liquidity risk (continued)

	2015 (restated)					Total \$
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	No specific maturity \$	
Financial Assets						
Cash	2,467,224	-	-	-	-	2,467,224
Loans receivable	-	10,191,688	5,843,651	7,369,755	-	23,405,094
Accrued interest receivable	-	139,199	-	-	-	139,199
Other assets	-	163,832	-	-	-	163,832
	2,467,224	10,494,719	5,843,651	7,369,755	-	26,175,349
Financial Liabilities						
Customer deposits	-	908,589	-	-	-	908,589
Accounts payable and accrued expenses	-	170,370	-	-	-	170,370
Accrued interest payable	-	935,834	-	-	-	935,834
Long-term loans	-	4,445,257	19,557,133	10,093,428	-	34,095,818
Due to Bahamas Government	-	-	-	-	19,682,436	19,682,436
	-	6,460,050	19,557,133	10,093,428	19,682,436	55,793,047
Liquidity gap	2,467,224	4,034,669	(13,713,782)	(2,723,673)	(19,682,436)	(29,617,698)

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's credit risk is primarily attributable to its cash and deposits with other banks and financial institutions and credit exposures to customers, including outstanding loan receivables and committed transactions. The Bank places cash and deposits with reputable local banks and financial institutions. All local contracted banks and financial institutions are regulated and monitored by the Central Bank of The Bahamas and account for 100% of cash deposits at year-end.

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26. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Credit risk (continued)

The Bank mitigates credit risk in its loan portfolio by requiring borrowers to provide a 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.

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:

	2016	2015
	\$	\$
		(restated)
Cash (excluding cash in hand)	3,892,859	2,466,424
Loans receivable	21,162,445	23,405,094
Accrued interest receivable	239,524	139,199
	25,294,828	26,010,717

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.

Interest rate risk is the potential adverse impact on earnings caused by movements in interest rates. The Bank's interest bearing assets and liabilities expose it to cash flow interest rate risk. Interest margins may increase or decrease as the result of such changes and may reduce or increase losses in the event that unexpected movements arise.

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.

BAHAMAS DEVELOPMENT BANK

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26. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Interest rate risk (continued)

The table below summarizes the Bank's exposure to interest rate risk. It includes the Bank's interest bearing financial assets and liabilities at carrying amounts categorized by maturity dates:

	2016				Total \$
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	
Financial Assets					
Cash	3,893,659	-	-	-	3,893,659
Loans receivable	-	10,853,645	4,453,659	5,855,141	21,162,445
	3,893,659	10,853,645	4,453,659	5,855,141	25,056,104
Financial Liabilities					
Long-term loans	-	3,427,227	16,219,193	14,028,314	33,674,734
Interest sensitivity gap	3,893,659	7,426,418	(11,765,534)	(8,173,173)	(8,618,630)
	2015				Total \$
	On Demand \$	Less than one year \$	One to five years \$	Over five years \$	
Financial Assets					
Cash	2,467,224	-	-	-	2,467,224
Loans receivable	-	10,191,688	5,843,651	7,369,755	23,405,094
	2,467,224	10,191,688	5,843,651	7,369,755	25,872,318
Financial Liabilities					
Long-term loans	-	4,445,257	19,557,133	10,093,428	34,095,818
Interest sensitivity gap	2,467,224	5,746,431	(13,713,482)	(2,722,673)	(8,222,500)

The sensitivity analysis has been performed based on the exposure to interest rates of financial assets and liabilities at the statement of financial position date. A 50 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables remained constant, the Bank's equity position for the year ended December 31, 2016 would increase/decrease by \$43,093 (2015: \$41,113). This is mainly attributable to the Bank's exposure to interest rates in its fixed rate liabilities.

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26. RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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.

Reputational risk

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources which negatively impact the image or public profile of the Bank. The Bank manages this risk by only engaging in transactions with reputable entities, and adhering to a robust know-your-customer ("KYC") regime for current and prospective clients.

Compliance risk

Compliance risk arises in situations where the laws or rules governing certain activities of the Bank are not complied with. The Bank mitigates this risk by continuously educating its staff in this area and by employing its own Compliance Department to ensure that the laws and regulations that affect the client's business are adhered to.

27. 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.

28. PRIOR PERIOD ADJUSTMENT

In the prior year, the Bank recognized revenue for interest on some non-performing loans, however as per the Bank's policy, interest is only recognized on performing loans. As such, in accordance with International Accounting Standards 8 ("IAS 8"), the prior year financial statements were restated to accurately reflect the accrued interest receivable on performing loans, and retained earnings was adjusted to reflect the correct accumulated deficit.

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28. PRIOR PERIOD ADJUSTMENT (continued)

The adjustment resulted in the restatement of the following line items:

	As previously reported \$	Prior period adjustment \$	As restated \$
Accumulated deficit	57,403,977	1,261,688	58,665,665
Accrued interest receivable	1,400,887	(1,261,688)	139,199

29. SUBSEQUENT EVENTS

On April 13, 2017, the Bahamas Government and the Caribbean Development Bank signed a Grant Agreement to assist The Bahamas Government and the Bank in the financing of a Diagnostic Review and Strategic Plan.

On July 26, 2017 and August 2, 2017, The Bank repaid two of the NIB Series B bonds, which matured during the year, in the amounts of \$1m and \$2m respectively.

The Bank evaluated the impact of all subsequent events through September 27, 2017 which was the date the financial statements were available to be issued. There were no other adjusting and non-adjusting subsequent events that need to be disclosed or reflected in the financial statements.

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