

Audited Financial Statements

BAHAMAS DEVELOPMENT BANK

31 December 2021

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Audited Financial Statements

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C O N T E N T S

	Page
Independent Auditors' Report	1-4
Statement of Financial Position	5
Statement of Comprehensive Operations	6
Statement of Changes in Capital Deficiency	7
Statement of Cash Flows	8
Notes to Financial Statements	9-48

INDEPENDENT AUDITORS' REPORT

Paje House
#17 Marlborough Street
P.O. Box N-8285
Nassau, The Bahamas

To the Board of Directors of
BAHAMAS DEVELOPMENT BANK

T: +1 (242) 322-7516
F: +1 (242) 322-7517

Opinion

info@bakertilly.bs
www.bakertilly.bs

We have audited the financial statement of Bahamas Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2021, the statement of comprehensive operations, the statement of changes in capital deficiency, and the 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 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that the Bank incurred a total comprehensive loss of \$2,146,756 for the year ended 31 December 2021 and, as of that date, the Bank's liabilities exceeded its assets by \$15,775,905. The Bank also showed an accumulated deficit of \$70,830,418 as at 31 December 2021. These factors, along with other matters as set forth in Note 2, 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 the Sole Shareholder, the Government of the Commonwealth of The Bahamas.

In addition, we draw attention to Note 22 in the financial statements, which indicates that the latest actuarial valuation obtained by Bank was as at 31 December 2017. In accordance with IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, if an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation should be used as a base and the date of the valuation disclosed. As such, the actual valuation obtained by the Bank as at 31 December 2017, was used in these financial statements.

To the Board of Directors of
BAHAMAS DEVELOPMENT BANK

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for expected credit losses - \$1,662,575	
The risk	Our response
The existence and valuation of the Bank's loan receivables, comprising various loan types, is the key driver of the Bank's total assets and performance. As disclosed in Note 7 in the financial statements, the Bank's gross loan receivables including accrued interest amounted to \$20,161,336, and the related allowance for expected credit losses amounted to \$4,493,262 as at 31 December 2021. Provision for expected credit losses during the year amounted to \$1,662,575. The ownership, valuation, presentation and disclosure of loan receivables are considered to be a key audit area due to the material financial impact of this asset class on the Bank's financial statements. We focused on these areas as a result of the complexity and estimation uncertainty of the Bank's judgment and assumptions, which significantly impacted the results of the ECL model.	As part of our audit procedures, we: • tested the completeness and accuracy of the input data used in the impairment model calculations; • involved our internal experts to assess and review the following: » methodology applied by the Bank in calculating the impairment provision to assess its consistency with the requirements of IFRS 9; » the "Expected Credit Loss ("ECL")" impairment model prepared by management, which included testing the appropriateness and reasonableness of key assumptions and judgments used. • for balances determined to be individually impaired, we tested a sample to assess the reasonableness of management's estimated provisions; and • checked the appropriateness of the disclosures made in relation to the impairment of loan receivables included in these financial statements.

Assets under administration and Principal versus Agent Relationship	
The risk	Our response
The Bank enters into different types of contracts with different partner organizations and recognizes revenue from agency services transactions, as disclosed in Note 25 in the financial statements. IFRS 15, <i>Revenue from Contracts with Customers</i>, requires Management to apply judgment, regarding the nature, amount, and timing of revenue recognition, when assessing the Bank's contracts with the various organizations and when assessing whether the Bank acts as a principal or an agent in these transactions. The assessment of whether the Bank acts as a principal or an agent affects whether revenue is presented on a gross or net basis. The assessment regarding the timing of revenue recognition determines whether revenue is recognized in the appropriate period.	Our procedures included gaining an understanding of the revenue recognition process, performing a walkthrough of the different revenue types, and evaluating the design of controls in this area. We assessed the revenue recognition policy based on IFRS 15, in particular where management applied judgment, including the principal versus agent assessment, and examined whether revenue is recognized in accordance with the Bank's revenue recognition policy. We also inspected a sample of revenue transactions to assess the accrual-based recognition made by the Bank. In addition to substantive audit procedures, we performed database analytical procedures based on the Bank's underlying journal entries.

To the Board of Directors of
BAHAMAS DEVELOPMENT BANK

Other information

Management is responsible for the other information. The other information comprises the Bahamas Development Bank Annual Report 2021 (but does not include the Bank's financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the Bank's financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the Bank's financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Bahamas Development Bank Annual Report 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other matter

The Bank's financial statements for the year ended 31 December 2020 were audited by another firm of auditors whose report, dated 22 June 2022, expressed an unmodified opinion with an emphasis of matter paragraph on those statements.

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.

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.

To the Board of Directors of
BAHAMAS DEVELOPMENT BANK

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

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.
- 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 achieve 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.



CHARTERED ACCOUNTANTS

14 October 2022

Nassau, The Bahamas

BAHAMAS DEVELOPMENT BANK

Statement of Financial Position
(Expressed in Bahamian dollars)

31 December 2021

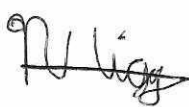
	Notes	2021 \$	2020 \$
ASSETS			
Cash and cash equivalents	5, 27, 29	2,460,100	3,701,834
Investments, at amortized cost	6, 27, 29	6,970,654	10,407,022
Loans receivable, net	7, 27	15,668,074	15,212,786
Due from the Bahamas Government	14, 24, 27	1,960,908	709,471
Interest receivable, net	6, 27, 29	503,143	511,297
Prepayments and other assets	8, 27, 29	280,684	353,738
Right-of-use asset	23	140,966	77,029
Fixed assets, net	9	3,427,160	2,629,603
TOTAL ASSETS		31,411,689	33,602,780
LIABILITIES AND CAPITAL DEFICIENCY			
LIABILITIES			
Customer deposits	10, 25, 27	1,633,852	1,385,171
Accounts payable and accrued expenses	11, 24, 27, 29	1,463,961	693,403
Bonds payable	12, 27	4,000,000	4,000,000
Loans payable	13, 27	39,031,896	40,167,484
Interest payable	10, 12, 13, 27	720,866	712,543
Lease liability	23, 27	144,678	80,187
Defined benefit pension plan obligation	22, 27, 29	192,341	193,141
Total liabilities		47,187,594	47,231,929
CAPITAL DEFICIENCY			
Share capital	15	28,960,255	28,960,255
Contributed surplus		25,821,130	25,821,130
Reserve fund	16	273,128	273,128
Accumulated deficit	2	(70,830,418)	(68,683,662)
Total capital deficiency		(15,775,905)	(13,629,149)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		31,411,689	33,602,780

COMMITMENTS AND CONTINGENCIES

23

These financial statements were approved on behalf of the Bank on 14 October 2022 by the following:


Director


Director

See accompanying notes. Independent Auditors' Report pages 1 through 4.

BAHAMAS DEVELOPMENT BANK

Statement of Comprehensive Operations
(Expressed in Bahamian dollars)

Year ended 31 December 2021

	Notes	2021 \$	2020 \$
INTEREST INCOME			
Loans	7	629,706	1,252,450
Investments	6	352,276	624,726
Interest subsidy	14, 24	280,386	281,834
Deposits	5	2,784	5,588
		1,265,152	2,164,598
Interest expense	10, 12, 13	(1,691,303)	(1,731,974)
NET INTEREST (LOSS) INCOME		(426,151)	432,624
LOAN RECOVERY	7	248,631	260,689
OTHER INCOME	17	357,272	375,574
TOTAL INCOME, net of interest expense		179,752	1,068,887
NON-INTEREST EXPENSES			
Staff costs	19, 21, 24	2,655,344	2,376,321
Provision for expected credit losses	7, 29	1,662,575	406,157
General and administrative costs	20, 29	1,173,210	1,060,189
Depreciation and amortization	9	286,016	145,098
Amortization - right-of-use asset	23	38,207	38,516
		5,815,352	4,026,281
NET LOSS BEFORE GOVERNMENT SUBSIDY		(5,635,600)	(2,957,394)
GOVERNMENT SUBSIDY	18, 24	3,488,844	1,759,411
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(2,146,756)	(1,197,983)

See accompanying notes. Independent Auditors' Report pages 1 through 4.

BAHAMAS DEVELOPMENT BANK

Statement of Changes in Capital Deficiency
(Expressed in Bahamian dollars)

Year ended 31 December 2021

	Notes	Share Capital \$	Contributed Surplus \$	Reserve Fund \$	Accumulated Deficit \$	Total \$
Balance at 1 January 2020		28,960,255	25,821,130	273,128	(67,485,679)	(12,431,166)
Total comprehensive loss for the year		-	-	-	(1,197,983)	(1,197,983)
Balance at 31 December 2020		28,960,255	25,821,130	273,128	(68,683,662)	(13,629,149)
Total comprehensive loss for the year		-	-	-	(2,146,756)	(2,146,756)
Balance at 31 December 2021	15, 16	28,960,255	25,821,130	273,128	(70,830,418)	(15,775,905)

See accompanying notes. Independent Auditors' Report pages 1 through 4.

BAHAMAS DEVELOPMENT BANK

Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended 31 December 2021

	Notes	2021 \$	2020 \$
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Total comprehensive loss for the year		(2,146,756)	(1,197,983)
Adjustments for non-cash items:			
Interest income - loans	7	(629,706)	(1,252,450)
Interest income - investments	6	(352,276)	(624,726)
Interest income - subsidy	14	(280,386)	(281,834)
Interest income - deposits	5	(2,784)	(5,588)
Interest expense - lease liability	23	4,347	4,528
Interest expense - bonds payable	12	170,000	1,389,483
Interest expense - loans payable	13	1,521,006	341,845
Interest expense - customer deposits	10	297	646
Provision for expected credit losses	7	1,662,575	406,157
Depreciation and amortization	9	286,016	145,098
Amortization - right-of-use asset	23	38,207	38,516
Changes in operating assets and liabilities:			
(Increase) decrease in loans receivable, gross		(2,269,363)	1,327,222
Decrease in prepayments and other assets		75,838	226,592
Increase (decrease) in customer deposits		248,492	(1,656,470)
Increase in accounts payable and accrued expenses		769,758	150,843
Cash used in operations		(904,735)	(988,121)
Interest received		1,326,962	2,106,970
Interest paid on bonds payable		(539,639)	(927,066)
Interest paid on loans payable	13	(1,143,044)	(471,278)
Interest paid on customer deposits		(108)	(5,174)
Net cash used in operating activities		(1,260,564)	(284,669)
INVESTING ACTIVITIES			
Acquisitions of fixed assets	9	(1,083,573)	(850,669)
Purchases of investments at amortized cost	6	(50,000)	-
Proceeds from maturity of investments at amortized cost	6	3,581,428	1,500,000
Net cash provided by investing activities		2,447,855	649,331
FINANCING ACTIVITIES			
Repayments of loans during the year	13	(1,135,588)	(371,553)
Lease payments during the year	23	(42,000)	(42,000)
Increase in due from the Bahamas Government		(1,251,437)	(718,149)
Net cash used in financing activities		(2,429,025)	(1,131,702)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,241,734)	(767,040)
Cash and cash equivalents, beginning of the year		3,701,834	4,468,874
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5, 27	2,460,100	3,701,834

See accompanying notes. Independent Auditors' Report pages 1 through 4.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

1. GENERAL INFORMATION AND NATURE OF OPERATIONS

The Bahamas Development Bank (“the Bank”) was organized in accordance with 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 the 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 officially commenced its operations on 30 March 1978. The Bank’s registered head office is located at Robinson Road & Key West Street, Nassau, The Bahamas. The Bank also has one (1) branch located in Freeport, Grand Bahama Island.

2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND GOING CONCERN ASSUMPTION

The Bank’s financial statements are prepared 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. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Going concern assumption and impact of Novel Coronavirus 2019 (“COVID-19”) pandemic

These financial statements are prepared on a going concern basis, as the Bank’s directors and management are satisfied that the Bank has the ability to continue in business for the foreseeable future with the continued assistance of the Government of The Bahamas. In making this assessment, a range of information relating to present and future conditions has been considered, including projections of profitability, cash flows, and capital requirements. These considerations include the impact that the global COVID-19 pandemic has had, and continue to have, on the Bank’s operations.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND GOING CONCERN ASSUMPTION (continued)

Going concern assumption and impact of Novel Coronavirus 2019 ("COVID-19") pandemic (continued)

In March 2020, the World Health Organization declared a global pandemic due to COVID-19. This pandemic affected the Bank's operations during the last quarter of the prior year and continues to impact the Bank in the current year. The restrictions imposed by the Government on certain businesses, national events, and activities, the periods of community lockdown and curfew, the significant increase in unemployment, and the historic decline in tourism severely reduced the economic activities of the Bank, the Bank's customers, the industry and the country, as a whole. These sectors required the Bank to continuously adjust to the diverse challenges posed by the impact of this pandemic.

The on-going impact on the Bank's operations and financial statements during the year are as follows:

Financial Statement area	Description of Impact
Bank's operations and organizational changes	The Bank continues to seek funding from other financial institutions such as Green Climate Fund ("GCF"), Caribbean Development Bank ("CDB"), Inter-American Development Bank ("IDB") etc. The Bank also continues to depend on funding from The Government who appointed a new board of directors, which commenced in February 2022.
Cash and deposits with banks including fixed deposits and related income.	The Bank withdrew a portion of investments to meet the working capital requirements. Customer's deposits are constant and there were a few loan payout and liquidation of assets resulting in sale of properties. Additionally, the Government committed an amount of \$4 million for the Bank for the 2021/2022 fiscal period. As of the audit report date, the Bank has not received the Government's committed funds.
Loans receivable	The Bank continues to approve and disburse new loans. The Bank adjusted the allowance for expected credit loss as amount due to the COVID-19 pandemic, and has since resumed the collection efforts.
Staff costs	Staff salaries and other benefits increased due to hiring of additional staff and key management personnel.
Other expenses	The Bank's technology capital expense increased as most of the staff worked from home during the past 12 months. In addition, the Bank incurred a significant amount of expenses to ensure that its staff are in safe and healthy environment on a consistent basis. (security, sanitizing, cleaning and testing etc.).

These factors negatively impacted the Bank's results of operations and increase the provision for loan impairment and expected credit loss expenses in both years 2021 and 2020. As a result, the Bank incurred a total comprehensive loss of \$2,146,756 for the year ended 31 December 2021 (2020: \$1,197,983) and, as of that date, the Bank's liabilities exceeded its assets by \$15,775,905 (2020: \$13,629,149) and had an accumulated deficit of \$70,830,418 as at 31 December 2021 (2020: \$68,683,662).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND GOING CONCERN ASSUMPTION (continued)

Going concern assumption and impact of Novel Coronavirus 2019 (“COVID-19”) pandemic (continued)

However, the directors and management are satisfied that the Bank is currently a going concern and that the preparation of these accounts on that basis is appropriate since the Bank continues to receive financing from the government of The Bahamas. The Bank will continue to rely on the Government’s support in the foreseeable future.

3. NEW OR REVISED STANDARDS OR INTERPRETATIONS

New and revised standards that are effective for accrual periods beginning on or after 1 January 2021:

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 1 January 2021:

- COVID-19 related rent concessions beyond 30 June 2021 (Amendments to IFRS 16) and;
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, International Accounting Standards (“IAS”) 39, IFRS 7, IFRS 4 and IFRS 16).

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, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have 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 17, *Insurance Contracts*;
- Amendments to IFRS 17, *Insurance Contracts* (Amendments to IFRS 17 and IFRS 4);
- References to the Conceptual Framework;
- Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1); and
- Deferred Tax related to Assets and Liabilities from a Single Transaction.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

3. NEW OR REVISED STANDARDS OR INTERPRETATIONS (continued)

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

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

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 estimates and judgments

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 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 estimates and judgments:

Estimates

Estimation of provision for expected credit losses on loans receivable

The allowance for expected credit losses represent management's estimate of an asset's expected credit losses (ECL). The measurement of the ECL allowance for financial assets is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses).

ECL is defined as the weighted expected probable value of the discounted credit loss (principal and interest) determined by evaluating a range of possible outcomes and future economic conditions. It represents the present value of the difference between the contractual cash flows and the expected cash flows (including principal and interest).

The process for determining the allowance involves significant quantitative and qualitative assessments. Particularly, a number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Assessing the risk rating and impaired status of loans;
- Estimating cash flows and realizable collateral values;

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of estimates and judgments (continued)

Estimates (continued)

Estimation of provision for expected credit losses on loans receivable (continued)

- Developing default and loss rates based on historical data;
- Estimating the impact of this historical data by changes in policies, processes, and credit strategies;
- Assessing the current credit quality based on credit quality trends; and
- Determining the current position in the economic cycle.

The level of estimation uncertainty and judgement for the calculation of ECL has increased as a result of the economic effects of the COVID-19 pandemic. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 27.

Provision for expected credit losses incurred during the year amounted to \$1,662,575 (2020: \$406,157). The carrying values of the Bank's loans receivables, net of allowance for expected credit losses as at 31 December 2021 amounted to \$15,668,074 (2020: \$15,212,786).

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 of timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Net carrying values of fixed assets amounted to \$3,427,160 as at 31 December 2021 (2020: \$2,629,603).

Fair value of financial instruments

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses three-level hierarchy as disclosed in the notes to the financial statements.

Recognition and measurement of provisions and contingencies

Management uses key assumptions about the likelihood and magnitude of an outflow of resources to determine adequate provisions or disclosures in the Bank's financial statements.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of judgments and estimates (continued)

Judgments

Taxes

On 1 January 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 the third category classified as Exempt. On 1 July 2018, the VAT rate was increased from 7.5% to 12%. The Bank has registered with the Ministry of Finance and is a VAT registrant and is obligated to comply with the Act and Associated Regulations.

Income that is subject to tax is recognized gross of the taxes and the corresponding withholding tax is recognized as an expense in the statement of comprehensive operations. No other taxes are applicable to the Bank.

Operating lease commitments - Bank as a lessee

For any new contracts entered into on or after 1 January 2020, the Bank considers whether a contract is, or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; or
- The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in the statement of comprehensive operations on a straight-line basis over the lease term. The Bank has entered into an operating lease for its Freeport, Grand Bahama branch for a term of three (3) years and has accounted a right-of-use asset and lease liability during the lease term (see Note 23).

Principal versus agent considerations

The Bank enters into a memorandum of understanding ("MOU") and/or agency services agreements with different government agencies ("the Program Sponsors") - e.g., the Ministry of Finance ("MOF"), Small Business Development Center ("SBDC"), and Ministry of Labor and National Insurance. Under these MOUs and agency services agreements, the Bank determined that it does not control the services before they are transferred to the program beneficiaries.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of estimates and judgments (continued)

Judgments (continued)

Principal versus agent considerations (continued)

These programs are loans and subsidies to specific parties as outlined in their respective programs. In prior years, these transactions are not recorded in the Bank's financial statements except for the Executing Agency Services - Mailboat Service Contract Payments program. The Bank represented that these transactions - e.g., receipts and disbursements of funds are not recorded in the Bank's financial statements as the Bank is only acting as administrator or an agent of the Program Sponsors.

The following factors indicate that the Bank does not control the services before they are transferred to customers:

- The Bank does not carry the credit risk for these loans and has not evaluated and recorded impairment on these loans in the Bank's financial statements.
- The Bank earns an administration fee for administering these programs; however, the Bank has no discretion in establishing the price for the specified service.

Therefore, the Bank determined that it is an agent in these contracts. The details of the different programs are disclosed in Note 25 to these financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at banks, together with term deposits, which are short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Investments at amortized cost

These investments include deposits or reserve required by the terms of any agreement entered by the Bank. Restrictions may include legally restricted deposits held as compensating balances against short-term and/or long-term borrowing arrangements, contracts entered into with others, or company statements of intention with regard to particular deposits.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expired.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments (continued)

Classification and initial measurement of financial assets

Except for those receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, *Revenue from Contracts with Customers*, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

In the periods presented, the Bank had no financial assets categorized as FVTPL and FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- contractual cash flow characteristics of the financial asset

All income and expenses relating to financial assets that are recognized in the statement of comprehensive operations are presented within net interest loss and provision for expected credit losses.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

As at 31 December 2021, the Bank's cash and cash equivalents, investments, at amortized cost, loans receivable, due from the Bahamas Government, interest receivable net, and other assets fall into this category.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of loans receivable

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses - the "expected credit loss ("ECL") model". This replaces IAS 39's "incurred loss model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1");
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2"); and
- "Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date. "12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Impairment of other assets

The Bank makes use of a simplified approach in accounting for other assets and records the loss allowance as lifetime expected credit losses. Assessment of expected credit losses is made for accounts especially identified to be doubtful of collection.

The level of the allowance is evaluated by management on the basis of factors that affect the collectability of the accounts such as the length of relationship with the debtor, credit status of debtor based on third party reports, and historical experience and over a 12-month period.

Derecognition of financial liabilities

A financial liability is derecognized 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 on 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

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and subsequent measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Bank's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of comprehensive operations are included within interest expense.

The Bank's financial liabilities include customer deposits, accounts payable and accrued expenses, interest payable, lease liability, bonds payable, and loans payable, which are measured at amortized cost using the effective interest rate method. Discounting, however, is omitted where the effect of discounting is immaterial.

Fixed assets

Fixed assets are initially recognized at cost less depreciation in the statement of financial position. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidized assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Subsequent expenditure relating to an item of fixed asset is capitalized to the initial cost of the item when the expenditure increases the economic benefits over the life of the item or where that expenditure was necessarily incurred to enable the future economic benefits to be obtained and the expenditure would have been included in the initial cost of the item had the expenditure been incurred at the time of acquisition.

All other subsequent expenditures are expensed in the period in which they are incurred. Depreciation is computed on a straight-line basis using the following estimated useful lives:

Building and building improvements	-	30 years
Furniture, fixtures & improvements	-	10 years
Motor vehicles	-	5 years
Computer software and equipment	-	5 years
Office machines & equipment	-	5 years

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

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 assets' 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.

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 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.

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.

A reversal of impairment loss is credited to the statement of comprehensive operations.

Right-of-use of asset and leases

Bank as a lessee

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank as a lessee (continued)

Measurement and recognition of leases as a lessee (continued)

Subsequent to initial measurement, the liability will be reduced for payments made. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

On the statement of financial position, right-of-use assets and lease liability are presented as separate line items (see Note 23).

Customer deposits

Customer deposits are recognized when the Bank has a legal or constructive obligation as a result of past events, and it is probable that a payment will be required to settle the obligation.

Loans payable

Loans payable are long-term loans and 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 borrowing using the effective interest method.

Bonds payable

Bonds payable 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 borrowing using the effective interest method.

Income and expenses

Income arises mainly from the fees earned in providing administration and corporate services. Typically, fees are billed once they are earned and therefore there is no contractual obligation or pre-payment of fees beyond this time frame.

To determine whether to recognize revenue, the Bank follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Bank often enters into transactions involving a range of the Bank's services such as interest income, fees and commissions income.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income and expenses (continued)

In all cases, the total transaction price for services rendered is allocated amongst the various services performed and based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. Income is recognized either at a point in time or over time, when (or as) the Bank satisfies performance obligations by transferring the promised goods or services to its customers.

Interest income and expense are recognized using the effective interest method. Interest subsidy is 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.

Revenue and expenses

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.

Other income and expense

Other income and expense are recognized on an accrual basis.

Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Bank and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined contribution pension plan

The Bank pays fixed contributions into an independent entity in relation to a pension plan for its qualified employees. The Bank has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognized as an expense in the statement of comprehensive operations in the period that relevant employee services are received.

Defined benefit plan

The Bank continues to administer the Defined Benefit Pension Plan for existing retirees. The members will be paid monthly pension and lump sum benefits in accordance with the rules of the Defined Benefit Retirement Plan.

The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out on a regular basis. Remeasurements are recognized in other comprehensive income when they occur. Past service cost is recognized immediately in the period of a plan amendment or curtailment.

The asset or liability amount recognized in the statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less, the fair value of plan assets.

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 profit or loss.

Events after the reporting period

Events after the reporting period that provide additional information about the Bank's position at the reporting date (adjusting event) are reflected in the financial statements. Post-reporting date events that are not adjusting events, if any, are disclosed when material to the Bank's financial statements.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2021 is comprised of the following:

	2021	2020
	\$	\$
Cash at banks	1,897,141	3,142,694
Term deposit	560,659	556,840
Cash on hand	2,300	2,300
	2,460,100	3,701,834

The Bank earns interest on the term deposit at prevailing market interest rates. The average rate during the year ended 31 December 2021 was 0.10% (2020: 0.75%). Cash at banks do not earn interest. During the year, interest income earned and received on the term deposit amounted to \$2,784 (2020: \$5,588).

6. INVESTMENTS, AT AMORTISED COST

Investments, at amortized cost as at 31 December 2021 is comprised of the following:

	2021	2020
	\$	\$
Fixed deposits	1,995,454	5,431,822
Bahamas Government Registered Stocks	4,975,200	4,975,200
	6,970,654	10,407,022

The restricted and unrestricted portions of the investments as at 31 December 2021 are broken down as follows:

	2021	2020
	\$	\$
Unrestricted fund	5,650,654	9,137,022
Restricted sinking fund	1,270,000	1,270,000
Restricted fixed deposit - corporate credit card collateral	50,000	-
	6,970,654	10,407,022

Movements in investments, at amortized cost during the year are as follows:

	2021	2020
	\$	\$
Balance, beginning of the year	10,407,022	11,767,742
Purchases of investments at amortized cost	50,000	-
Proceeds from maturity of investments at amortized cost	(3,581,428)	(1,500,000)
Interest income reinvested during the year	95,060	139,280
	6,970,654	10,407,022

In accordance with Section 19 of the Bahamas Development Bank Act, the Bank established a sinking fund for the partial redemption of the Series C bonds issued to the Central Bank of The Bahamas.

The fixed-term deposits with a maturity of six (6) months to one (1) year earn interest at an annual rate of 0.10% to 1.75% (2020: 1% to 2%). The Bahamas Government Registered Stocks ("BGRS") are held for long-term return and are stated at the amortized cost, which is approximately equal to its fair value. The BGRS bear interest at annual rates of 4.5% to 5.03% and have maturity dates of 2024 through 2039.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

6. INVESTMENTS, AT AMORTISED COST (continued)

In 2020, the Trustees of the Bank's sinking fund resolved that the full balance of the Bank's sinking fund be released and a new sinking fund in accordance with the Act be established, in the amount of \$1,270,000, for the satisfaction of the Central Bank of the Bahamas bonds totaling \$4,000,000 that were scheduled to mature in 2025. The sinking fund is sufficient to meet the payment obligations for the next 12 months. The sinking fund should be invested in accordance with the established guidelines.

In 2021, the Bank established and maintained a \$50,000 fixed-term deposit with Bank of The Bahamas, as security to the Bank's corporate credit card issued during the year. The corporate credit card has a limit of \$50,000, subject to an annual interest rate of 18%.

During the year, the Bank withdrew a total of \$3,581,428 (2020: \$1,500,000) from the fixed deposits which was used for operational purposes. As at 31 December 2021 and 2020, the Bank has met the requirements of the sinking fund.

During the year, interest earned from investments, at amortized cost, by the Bank amounted to \$352,276 (2020: \$624,726), of which \$503,143 was receivable as at 31 December 2021 (2020: \$511,297) and was included in interest receivable, net in the statement of financial position.

7. LOANS RECEIVABLE, net

Loans receivable, net (including accrued interest) as at 31 December 2021 is comprised of the following:

	2021	2020
	\$	\$
Performing	10,069,612	7,669,642
Non-performing	8,289,245	6,238,715
Extraordinary advances	1,085,388	899,696
Employees	332,122	304,245
COVID-19 affected loans	-	2,394,706
	19,776,367	17,507,004
Accrued interest	384,969	536,469
	20,161,336	18,043,473
Less: Allowance for expected credit losses	(4,493,262)	(2,830,687)
	15,668,074	15,212,786

Movements in loans receivable during the year are as follows:

	2021	2020
	\$	\$
Balance, beginning of the year	17,507,004	18,834,226
Add: loans disbursed	3,694,292	1,252,405
Less: loan repayments	(1,424,929)	(2,425,958)
Less: loans written off	-	(153,669)
	19,776,367	17,507,004
Add: accrued interest	384,969	536,469
	20,161,336	18,043,473
Less: allowance for expected credit losses	(4,493,262)	(2,830,687)
Balance, end of the year	15,668,074	15,212,786

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

7. LOANS RECEIVABLE, net (continued)

The outstanding loans earned interest at rates ranging from 0% to 8.50% per annum (2020: 0% to 8.50% per annum). During the year, the Bank earned interest on loans amounting to \$629,706 (2020: \$1,252,450), of which \$384,969 was receivable as at 31 December 2021 (2020: \$536,469).

During the year, loan recovery amounted to \$248,631 (2020: \$260,689).

Movements in allowance for expected credit losses during the year were as follows:

	2021 \$	2020 \$
At 1 January	2,830,687	2,578,199
Provision for expected credit losses during the year	1,662,575	406,157
Write-offs during the year	-	(153,669)
At 31 December	4,493,262	2,830,687

The following is an aged analysis of all loans receivable as of the date of the statement of financial position:

31 December 2021	Number of accounts	Loans \$	Collateral held \$	Portion of loans not covered by collateral \$	Loan loss provision \$	Provision rate %
General provision						
Current loans	71	6,525,908	6,151,440	374,468	280,725	75
1 to 30 days	10	2,054,438	1,551,728	502,710	97,896	19
31 to 60 days	7	1,262,877	1,148,564	114,313	112,656	99
61 to 90 days	3	419,478	241,282	178,196	62,610	35
Specific provision						
91 to 365 days	21	2,445,966	2,755,650	-	811,447	-
Over 365 days	46	5,982,312	7,380,301	-	1,790,898	-
Extraordinary advances linked to inactive loans		1,085,388	128,491	956,897	957,113	100
		19,776,367	19,357,456	2,126,584	4,113,345	-
Allowance for expected credit losses on interest		-	-	-	379,917	-
		19,776,367	19,357,456	2,126,584	4,493,262	-

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

7. LOANS RECEIVABLE, net (continued)

31 December 2020	Number of accounts	Loans \$	Collateral held \$	Portion of loans not covered by collateral \$	Loan loss provision \$	Provision rate %
General provision						
Current loans	88	8,881,962	4,993,595	3,888,367	444,098	11
1 to 30 days	8	624,612	407,328	217,284	31,230	14
31 to 60 days	8	895,525	637,018	258,507	89,552	35
61 to 90 days	2	112,909	92,209	20,700	16,936	82
Specific provision						
91 to 365 days	23	1,655,125	1,286,352	368,773	368,773	100
Over 365 days	102	4,740,509	3,914,671	825,838	825,838	100
Extraordinary advances linked to inactive loans		596,362	-	596,362	596,363	100
		17,507,004	11,331,173	6,175,831	2,372,790	-
Allowance for expected credit losses on interest		-	-	-	457,897	-
		17,507,004	11,331,173	6,175,831	2,830,687	-

8. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets, as at 31 December 2021 is comprised of the following:

	2021 \$	2020 \$
VAT receivable	294,560	286,332
Offset loans	166,216	166,216
Prepayments	58,923	42,122
Accounts receivable	28,600	106,806
Others	18,340	29,694
Security deposits	8,605	8,900
	575,244	640,070
Less: Allowance for expected credit losses	(294,560)	(286,332)
	280,684	353,738

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

9. FIXED ASSETS, net

Fixed assets as at 31 December 2021 is comprised of the following:

	Land \$	Building and building Improvements \$	Computer Software and Equipment \$	Furniture, Fixtures and Improvements \$	Office Machines and Equipment	Motor Vehicles \$	Total \$
Cost:							
Balances 1 January 2020	480,000	964,069	2,143,516	1,459,772	544,116	24,996	5,616,469
Additions	-	493,798	108,385	225,870	-	22,616	850,669
Balances 31 December 2020	480,000	1,457,867	2,251,901	1,685,642	544,116	47,612	6,467,138
Additions	-	884,425	154,150	25,808	19,190	-	1,083,573
Balances 31 December 2021	480,000	2,342,292	2,406,051	1,711,450	563,306	47,612	7,550,711
 Balances 1 January 2020	-	2,567	1,824,985	1,333,903	527,650	3,332	3,692,437
Depreciation and amortization	-	32,343	64,546	33,676	7,620	6,913	145,098
Balances 31 December 2020	-	34,910	1,889,531	1,367,579	535,270	10,245	3,837,535
Depreciation and amortization	-	60,660	81,556	126,136	8,193	9,471	286,016
Balances 31 December 2021	-	95,570	1,971,087	1,493,715	543,463	19,716	4,123,551
 Net carrying values:							
31 December 2021	480,000	2,246,722	434,964	217,735	19,843	27,896	3,427,160
31 December 2020	480,000	1,422,957	362,370	318,063	8,846	37,367	2,629,603

10. CUSTOMER DEPOSITS

Customer deposits as at 31 December 2021 is comprised of the following:

	2021 \$	2020 \$
Mailboat subsidy - Ministry of Transport (see Note 25)	1,068,598	762,200
Other customer deposits and advances	354,794	441,648
Security deposits held as collateral for loans	200,852	152,403
Agriculture Program - Grand Bahama	8,723	28,723
Insurance premiums	885	197
	1,633,852	1,385,171

During the year, interest expense incurred by the Bank on the customer deposits amounted to \$297 (2020: \$646), of which \$275 was payable as at 31 December 2021 (2020: \$86).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as at 31 December 2021 are comprised of the following:

	2021 \$	2020 \$
Accounts payable	1,012,200	381,304
Accrued expenses	451,761	312,099
	1,463,961	693,403

12. BONDS PAYABLE

As at 31 December 2021, the Bank had the following Bahamas Government guaranteed bonds issued to The Central Bank of The Bahamas as follows:

Bond No.	Series	Issue Date	Year of Maturity	Rate %	2021 \$	2020 \$
10	C	13 July 2005	2025	4.25	2,000,000	2,000,000
11	C	17 October 2005	2025	4.25	1,000,000	1,000,000
12	C	19 October 2005	2025	4.25	1,000,000	1,000,000
					4,000,000	4,000,000

During the year, interest expense incurred by the Bank on the bonds amounted to \$170,000 (2020: \$1,389,483), of which \$92,778 (2020: \$462,417) was payable as at 31 December 2021.

The classification of the bonds payable as at 31 December 2021 is as follows:

	2021 \$	2020 \$
Current portion	-	-
Non-current portion	4,000,000	4,000,000
	4,000,000	4,000,000

13. LOANS PAYABLE

Loans payable as at 31 December 2021 is comprised of the following:

	2021 \$	2020 \$
National Insurance Board	37,156,896	38,167,484
The Central Bank of The Bahamas	1,875,000	2,000,000
	39,031,896	40,167,484

Movements in loans payable during the year were as follows:

	2020 \$	Additions \$	Payments \$	2021 \$
National Insurance Board	38,167,484	-	(1,010,588)	37,156,896
The Central Bank of The Bahamas	2,000,000	-	(125,000)	1,875,000
Total principal	40,167,484	-	(1,135,588)	39,031,896
Accrued interest	250,126	1,521,006	(1,143,044)	628,088

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

13. LOANS PAYABLE (continued)

During the year, interest expense incurred by the Bank on the loans amounted to \$1,521,006 (2020: \$341,845), of which \$628,088 (2020: \$250,126) was payable as at 31 December 2021.

The loans payable maturity is as follows:

	2021	2020
	\$	\$
Due within one year	2,127,578	1,604,187
Due within two (2) to five (5) years	7,229,629	6,987,333
Due after five (5) years	29,674,689	31,575,964
	39,031,896	40,167,484

The Central Bank of The Bahamas

As at 31 December 2021, the Bank had an outstanding loan of \$1,875,000 (2020: \$2,000,000) with the Central Bank of The Bahamas. The loan bears interest at 2.00% per annum. The loan is repayable in semi-annual instalments of \$125,000 and is due to be fully repaid by 28 October 2028. During the year, the Bank paid an amount of \$125,000 (2020: \$250,000) on the loan.

National Insurance Board

Loan - Office Building

As at 31 December 2021, the Bank had an outstanding loan of \$1,084,343 (2020: \$1,167,484) with the National Insurance Board which was used for the purchase of the office building. The loan bears interest at 4.50% per annum, is repayable in quarterly installments and is due to be fully repaid on 15 September 2029. During the year, the Bank paid an amount of \$83,141 (2020: \$106,602) on its principal.

Bonds converted to Loans

The Government of The Bahamas approved the conversion of the \$37,000,000 bonds with the National Insurance Board to a 20-year loan during the year ended 31 December 2020. As at 31 December 2021, the outstanding loan balance was \$36,072,553 (2020: \$37,000,000). The loan bears interest at a rate of 3.94% per annum, repayable in quarterly installments and is due to be fully repaid in 2040.

14. DUE FROM THE BAHAMAS GOVERNMENT

Due from the Bahamas Government as at 31 December 2021 is comprised of the following:

	2021	2020
	\$	\$
Balance, beginning of the year	709,471	(8,678)
Government subsidy receivable (see Note 18)	670,574	-
Interest subsidy	280,386	281,834
Administration fee - mailboat operators (see Note 25)	210,885	183,475
Salaries paid	89,592	88,407
Government guarantee claims	-	164,433
Balance, end of the year	1,960,908	709,471

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

14. DUE FROM THE BAHAMAS GOVERNMENT (continued)

The principal and interest payments on bonds and loans payable during the year amounting to \$2,832,709 (2020: \$1,759,411) are subsidized by the Bahamas Government. The Government has agreed to pay the long-term debts of the Bank until further notice.

During 2001, the Government mandated that the lending rate for the Bank should range between 1.00% and 2.50% above the prime rate depending on risk factors. Following that requirement, the Government agreed to subsidize the difference between the Bank's lending rate and the Bank's normal spread of 5.00%.

Furthermore, the Government agreed to guarantee claims and interest subsidy. During the year, interest subsidy income and the Government guarantee claims amounted to \$280,386 and Nil respectively (2020: \$281,834, and \$164,433 respectively).

Additionally, the Government agreed for the Bank to apply administrative fees to facilitate the Government's Mailboat subsidy on behalf of the Ministry of Transport and Aviation. The fee of 2.50% applied during the year amounted to \$210,885 (2020: \$183,475).

As at 31 December 2021, the Bank had a receivable of government subsidy amounting to \$670,574, which was collected in Q1 of 2022.

Due from (to) the Bahamas Government is interest - free and unsecured.

15. SHARE CAPITAL

Share capital as at 31 December 2021 is comprised of the following:

	2021	2020
	\$	\$
Authorized		
10,000,000 shares of \$5 each	50,000,000	50,000,000
Issued and fully paid		
5,792,051 shares of \$5 each	28,960,255	28,960,255

16. 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. As at 31 December 2021, the total amount of Reserve Fund was \$273,128 (2020: \$273,128).

17. OTHER INCOME

Other income as at 31 December 2021 consists of the following:

	2021	2020
	\$	\$
Fees and commissions	349,311	371,097
Other	7,961	4,266
Net foreign exchange	-	211
	357,272	375,574

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

18. GOVERNMENT SUBSIDY

The Government agreed to pay the capital and interest expense on the Bank's loans and bonds payable. In 2021, the Bank earned \$3,488,844 (2020: \$1,759,411), of which \$670,574 was outstanding as at 31 December 2021 (2020: Nil).

19. STAFF COSTS

Staff costs as at 31 December 2021 consist of the following:

	2021	2020
	\$	\$
Salaries	1,979,551	1,784,490
NIB, pension, and insurance (see Note 21)	397,651	387,490
Staff benefits and other	184,672	105,038
Director's expenses	93,470	99,303
	2,655,344	2,376,321

20. GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs as at 31 December 2021 consist of the following:

	2021	2020
	\$	\$
Miscellaneous	269,236	58,320
Telephone, telex and cable	138,755	67,775
Repairs and maintenance	102,405	83,379
Professional fees	91,285	172,162
Security expense	80,511	23,662
Computer expenses	78,558	69,754
Subscriptions and entertainment	66,560	33,262
Travel and transportation	59,938	26,813
Advertising	53,135	73,142
Other expenses	46,840	4,528
Utilities	42,415	34,098
Bank charges	35,651	14,987
Executive allowances	28,800	32,120
Insurance	25,770	16,266
Rent	24,040	50,563
Office supplies and printing	21,083	13,026
Provision for VAT receivable	8,228	286,332
	1,173,210	1,060,189

General and administrative costs include rent expenses amounting to \$24,040 (2020: \$50,563), which consists of storage charges of \$10,040, and payments to the Hotel Corporation of the Bahamas amounting to \$14,000 during the year. The Bank has applied the exemption on IFRS16 for this transaction due to the relative short term nature of the said lease.

Other expenses include the estimation of interest costs on defined benefit pension plan obligation (See Note 22), and leases during the year amounting to \$42,493, and \$4,347 respectively (2020: Nil, and \$4,528 respectively).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

21. DEFINED CONTRIBUTION PENSION PLAN

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

Employees have the option to contribute additional sums voluntarily. Employees who were already retired at the time of change were kept under the Defined Benefit Plan. (see Note 22).

As at 31 December 2021 and 2020, all funds were administered by Colina Financial Advisors Limited.

Pension contributions during the year amounted to \$70,995 (2020: \$88,537), which is included in NIB, pension and insurance expenses, as disclosed in Note 19.

22. DEFINED BENEFIT PENSION PLAN OBLIGATIONS

An independent actuarial valuation of the Bank's defined benefit pension plan was performed for the year ended 31 December 2017. Based on management's valuation, there is no significant change on the pension plan benefit obligation during the year. The movements in the non-contributory defined benefit obligation are as follows:

	2021	2020
	\$	\$
Present value of obligation, beginning of the year	593,141	659,758
Interest cost (see Note 20)	42,493	-
Benefits paid out of the operating fund	(88,268)	(66,617)
Returns on plan asset received by the operating fund	44,975	-
Present value of obligation, end of the year	592,341	593,141

	2021	2020
	\$	\$
Fair value of plan assets, beginning of the year	400,000	400,000
Expected return on plan assets	-	-
Benefits paid	-	-
Actuarial loss on plan assets	-	-
Fair value of plan assets, end of the year	400,000	400,000

The amount recognized as a liability in the statement of financial position in respect of the Bank's defined pension plan is as follows:

	2021	2020
	\$	\$
Present value of funded obligations	592,341	593,141
Fair value of plan assets	(400,000)	(400,000)
	192,341	193,141

Movements in the net liability recorded in the statement of financial position are as follows:

	2021	2020
	\$	\$
Net liability, beginning of the year	193,141	259,758
Benefits paid out of operating fund	(88,268)	(66,617)
Interest cost	42,493	-
Returns on plan asset received by the operating fund	44,975	-
Net liability, end of the year	192,341	193,141

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

22. DEFINED BENEFIT PENSION PLAN OBLIGATIONS (continued)

Principal actuarial assumption used in determining present value of obligation was at 5.2% in 2021 and 2020 respectively.

23. COMMITMENTS AND CONTINGENCIES

Commitments

As at 31 December 2021, the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$2,453,545 (2020: \$1,982,955).

Litigation and Provisions for asserted claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. As a result of the litigation risk inherent in its operations, the Bank is involved in various litigation proceedings in the ordinary course of its business. The Bank has internal and external legal counsel, and formal controls and policies for managing legal claims. With the benefit of professional legal advice, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing and/or discloses amounts in accordance with its accounting policies.

As at year end, the Bank had several ongoing legal claims. Various legal proceedings are pending that challenge certain actions of the Bank. Most of these proceedings are loan related and are reactions to steps taken by the Bank to collect delinquent loans and enforce its rights against collateral for securing such loans.

In 2021, the Bank had a case brought against it by a former employee. The claimant is seeking judgment for varying amounts before the Industrial Tribunal. Management is of the opinion that the chances of these claims being determined in favor of the plaintiffs are remote and therefore no provision has been made in these financial statements for any loss in connection therewith.

Management is of the view, after taking appropriate legal advice, that the outcome of these legal claims will not give rise to any significant losses as at 31 December 2021 and 2020, respectively.

Lease commitments

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 was terminated during the year when the Bank moved to its new office in Robinson Road & Key West Street.

The lease on the Bank's Freeport office from Jurosbi Investments Ltd was for an initial period of three (3) years beginning December 2011, at a monthly rental amount of \$3,500, and has since been renewed for an additional three (3) years from 1 December 2018 through 30 November 2021. The Bank also has an option to renew the lease term for an additional one (1) year.

On 11 August 2021, the contract was renewed for a period from 1 November 2021 to 30 September 2024, renewable for one (1) year.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

23. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

Right-of-use asset as at 31 December 2021 is comprised of the following:

	2021	2020
	\$	\$
Right-of-use asset (Cost)		
At 1 January	154,061	154,061
Additions during the year	102,144	-
At 31 December	256,205	154,061
Accumulated amortization		
At 1 January	77,032	38,516
Amortization during the year	38,207	38,516
At 31 December	115,239	77,032
Carrying value at 31 December	140,966	77,029

Movements in lease liability during the year is as follows:

	2021	2020
	\$	\$
Lease liability		
At 1 January	80,187	117,659
Additions during the year	102,144	-
Interest charge during the year (see Note 20)	4,347	4,528
Lease payments during the year	(42,000)	(42,000)
At 31 December	144,678	80,187

The maturity analysis of lease liability is as follows:

	2021	2020
	\$	\$
Due within one (1) year	36,230	39,193
Due within two (2) to five (5) years	108,448	40,994
	144,678	80,187

24. RELATED PARTY BALANCES AND TRANSACTIONS

The Bank's related parties are comprised of the following:

- i) Government ministries, corporations and departments that exercise significant influence with the Bank;
- ii) Entities in which the Government has a significant ownership interest; and
- iii) Key management personnel.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

24. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Balances and transactions that the Bank has with such related parties are disclosed in the statement of financial position and accompanying notes. The amounts and terms of these transactions are discussed and agreed upon by the parties.

	Name of the related party	Relationship	Nature of the balance / transaction	2021 \$	2020 \$
Due from the Bahamas Government	Ministry of Finance	Government ministry	Receivable from the Government	1,960,908	709,471
Accounts payable and accrued expenses	Ministry of Finance	Government ministry	VAT payable	15,616	8,228
Government subsidy	Ministry of Finance	Government ministry	Loans and bonds payments	3,488,844	1,759,411

As at 31 December 2021, due from the Bahamas Government account balance included, receivable of government subvention, interest subsidy income, admin fee income with respect to Mailboat subsidy payments, and receivable of reimbursement of staff salaries amounting to \$670,574, \$280,386, \$210,885, and \$89,592, respectively (2020: Nil, \$281,834, \$183,475, and \$88,407 respectively).

The Board of Directors of the Bank are also classified as related parties. The total Board of Directors' stipends and other benefits incurred by the Bank during the year ended 31 December 2021, amounted to \$93,470 (2020: \$99,303), which was paid during the year. This amount is included in Directors' expenses under staff cost in the statement of comprehensive operations. No loans were disbursed to the Board of Directors or their close family members during the year ended 31 December 2021 and 2020.

Salaries and other employee benefits paid to key management personnel during the year totaled \$604,214 (2020: \$353,566). Loans to key management personnel of the Bank during the year totaled \$126,427 (2020: \$93,068). The loans bear interest at an annual rate of 4.25% (2020: 4.25%), are secured, and have fixed terms of repayment. Other bank employees receive loans on the same terms.

25. ASSETS UNDER ADMINISTRATION

Micro Loan Program Design and Implementation

In 2016, the Ministry of Finance ("MOF") and the Bank agreed to enter a partnership agreement to provide some assistance to Micro, Small, and Medium Enterprises ("MSME") via the MOF's Micro Loan Program ("MOF-MLP"). Once the facility is approved by the MOF-MLP Committee, the Bank becomes responsible for administering the loan program. The Bank, through its loan management system, will keep a file on all MOF-MLP borrowers for tracking purposes and will be responsible for the collection of payments and following up with delinquent clients.

As of 31 December 2021, total loans under this program that are off-balance sheet amounted to \$3,335,270 (2020: \$3,353,507). As of 31 December 2021, the cash balance that the Bank held in reference to the MOF - MLP was \$228,955 (2020: \$227,581).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

25. ASSETS UNDER ADMINISTRATION (continued)

Micro Loan Program Design and Implementation (continued)

This cash account was registered in the Bank's name and is not recorded in the Bank's records, as it is treated as an off-balance sheet account. During the year ended 31 December 2021 and 2020, no administration fees were earned and received with respect of this arrangement.

Movements in the MOF-MLP loans during the year were as follows:

	2021	2020
	\$	\$
At January 1	3,353,507	3,395,327
Loan payments received	(18,237)	(41,820)
At December 31	3,335,270	3,353,507

Sustainable Development (Agriculture Fund) Micro Loan Program ("SDAF-MLP") Design and Implementation

On 8 February 2017, an Executing Agency Services Agreement was executed between the Bank and MOF. MOF facilitated the release of residual Agricultural Credit Guarantee Fund ("ACGE"), funding from Central Bank to the Bank for on-lending in the agriculture sector. The funds will be treated as "Assets under Administration" for MOF.

The Bank designed a micro loan program for the Sustainable Development Agriculture and Fisheries Joint Committee which was established to resuscitate and catapult agriculture and agri-business to significance in the Bahamas economy. Applicants seeking consideration under the Sustainable Development (Agriculture Fund) Micro Loan Program ("SDAF-MLP") will be required to submit all documents directly to the BAMSI or a BDB Designate. Once the facility is approved, the Bank will be responsible for administering the loan program. The Bank, through its loan management system, will keep a file on all SDAF-MLP borrowers for tracking purposes and will be responsible for collection of payments and following-up with delinquent clients.

As at 31 December 2021, total agricultural loans under this program that are off-balance sheet amounted to \$127,489 (2020: \$131,735). As at 31 December 2021, the off-balance sheet cash that the Bank held in reference to the SDAF-MLP was \$481,532 (2020: \$480,100). During the year ended 31 December 2021 and 2020, no administration fees were earned and received with respect of this arrangement.

Movements in the SDAF-MLP loans during the year were as follows:

	2021	2020
	\$	\$
At 1 January	131,735	139,668
Loan payments received	(4,246)	(7,933)
At 31 December	127,489	131,735

Small Business Development Center Micro-Loan Program ("SBDC-MLP")

In 2019, a Memorandum of Understanding ("MOU") was entered between the Bank and the Small Business Development Center ("SBDC") for the purpose of provision of a framework for the Bank to act as executing agency for SBDC's Micro-Loan Program.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

25. ASSETS UNDER ADMINISTRATION (continued)

Small Business Development Center Micro-Loan Program ("SBDC-MLP") (continued)

The Bank is being engaged as SBDC's agent to manage the disbursement, loan supervision, and collection protocols established by SBDC in relation to the SBDC-MLP.

As of 31 December 2021, the total loans under this program that are off-balance sheet amounted to \$342,997 (2020: \$279,293). As of 31 December 2021, the off-balance sheet cash that the Bank held in reference to the MLP was \$96,509 (2020: \$10,278).

During the year, the Bank earned and received administration fees amounting to \$36,000 (2020: \$36,000) in respect of this arrangement.

Movements in the SBDC-MLP loans during the year were as follows:

	2021 \$	2020 \$
At 1 January	279,293	240,678
Loans disbursed	86,517	63,668
Loan payments received	(22,813)	(25,053)
At 31 December	342,997	279,293

MSME Business Continuity Loan Programme Agreement

On 25 March 2020, a Micro, Small, and Medium Enterprise ("MSME") Business Continuity Loan Programme Agreement was entered into between the Bank and Small Business Development Centre ("SBDC"), a non-profit company incorporated under the laws of the Commonwealth of The Bahamas. The programme aimed to provide short-term loan support to Bahamian small businesses impacted by the COVID-19 pandemic, for a total allocation of \$20,000,000. Eligibility would include confirming that the business has been in existence for over one (1) year, a commitment to retain most of the existing staff complement, and a plan to utilize the proceeds of the loan to ensure business continuity.

As at 31 December 2021, total loans under this programme that are off-balance sheet amounted to \$3,117,527 (2020: \$3,482,105). As of 31 December 2021, the off-balance sheet cash that the Bank held in reference to the MSME programme was \$474,498 (2020: \$652,960). During the year, the Bank earned and received administration fees amounting to \$76,650 (2020: \$72,800) in respect of this arrangement.

Movements in the MSME loans during the year were as follows:

	2021 \$	2020 \$
At January 1	3,482,105	-
Loans disbursed	-	3,507,886
Loan payments received	(364,578)	(25,781)
At December 31	3,117,527	3,482,105

Hurricane Dorian - Disaster Recovery Loan Programme

As of 31 December 2021, total disaster recovery loans that are off-balance sheet amounted to \$17,112 (2020: \$17,308). As of 31 December 2021, the off-balance sheet cash that the Bank held in reference to the disaster recovery loan program was \$1,500,000 (2020: \$1,500,000). During the year ended 31 December 2021 and 2020, no administration fees were earned and received.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

25. ASSETS UNDER ADMINISTRATION (continued)

MSME Business Continuity Loan Programme Agreement (continued)

Hurricane Dorian - Disaster Recovery Loan Programme (continued)

Movements in the Hurricane Dorian – Disaster Recovery Loan Programme during the year were as follows:

	2021	2020
	\$	\$
At January 1	17,308	-
Loans disbursed	-	17,574
Loan payments received	(196)	(266)
At December 31	17,112	17,308

Executing Agency Services – Mailboat Service Contract Payments

In August 2016, the Bank entered an Executing Agency Services Agreement with the Ministry of Finance (“MOF”) for Mailboat Service Contract Payments. Under this agreement, the Treasury Department transferred one-twelfth (1/12) of the total Government subsidy of the 2016/2017 fiscal year budget allocation of \$8,754,000 for all mail boat operators to the Bank on a monthly basis.

Under this arrangement, the Ministry of Transport notifies the Bank weekly, of all operators eligible for the payment. To be eligible for the payment, the operator must provide a Tax Compliance Certificate (“TCC”) in addition to the Ministry of Transport’s voyage information and reporting requirements. Upon receiving the required documents along with the funds, the Bank disburses payments directly to the Mailboat operator.

The Bank through its loan management system, keeps a file on all mail boat operators for the purpose of tracking payments. A history of all payments i.e. statement of account will be available to all operators at the Bank’s charge for that service. An administration fee of 2.5% of disbursements for the above mentioned Executing Agency services is to be charged as an offset against “Due from Government account” monthly.

As at 31 December 2021, the cash that the Bank held in reference to these Mail boat contract payments was \$1,068,598 (2020: \$762,200) and presented as part of the Bank’s customer deposits in the statement of financial position. During the year, the Bank earned and received administration fees amounting to \$210,885 (2020: \$183,475) in respect of this arrangement (see Note 14).

Movements in the Mailboat Service Contracts Payments during the year were as follows.

	2021	2020
	\$	\$
Due to Mail boat operators, beginning of the year	762,200	1,855,345
Funds received for the distribution	8,729,461	6,246,262
Funds disbursed	(8,423,063)	(7,339,407)
Due to Mail boat operators, the end of the year	1,068,598	762,200

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

26. CONCENTRATIONS OF FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2021, the Bank has the following concentrations of financial assets and liabilities according to geographic region and industry sector:

	Geographic region	Industry	2021 %	2020 %
Cash and cash equivalents	Bahamas	Financial Sector	100.00	100.00
Loans receivable	Bahamas	Service	63.84	65.86
	Bahamas	Transportation	14.62	10.25
	Bahamas	Tourism	11.10	11.64
	Bahamas	Manufacturing	7.34	8.13
	Bahamas	Staff	1.68	1.83
	Bahamas	Fishing	1.05	1.79
	Bahamas	Agriculture	0.37	0.50
			100.00	100.00
Loans and bonds payable	Bahamas	Financial Sector	100.00	100.00

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's operating and investing activities expose it to a variety of financial risks in the normal course of business including; market risk, interest rate risk, credit risk, liquidity risk, reputational risk and compliance risk. The Bank's financial performance is affected by its capacity to understand and effectively manage these risks.

The Bank's challenge is not only to measure and monitor these risks, but also to manage them as profit opportunities.

Market risk

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

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 is the potential adverse risk on earnings caused by movements in interest rates during the period. The Bank's interest-bearing assets and liabilities expose it to cash flow interest rate risk. Interest margins may increase or decrease as a 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 economic sectors disclosed in Note 28.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate risk in Bahamas government registered stocks ("BGRS") and bonds payable

The Bank carries some fixed-income securities, namely BGRS and bonds payable, however, the coupon rate of these investments is subject to prime interest rate plus an add on-rate. The below table demonstrates the sensitivity to a reasonably possible change in these financial instruments, with all other variables held constant in the Bank's statement of comprehensive operations for the year ended 31 December 2021.

Sensitivity of the financial asset and the financial liability subject to prime interest rate plus an add-on rate

	Portfolio size	Increase/ decrease In basis points	Sensitivity of Profit or loss
	\$		\$
31 December 2021			
Fixed income securities measured at amortized cost - BGRS	363,500	+50 / (50)	(1,818) / 1,818
Bonds payable	4,000,000	+50 / (50)	(20,000) / 20,000
Interest sensitivity gap			(18,182) / 18,182
31 December 2020			
Fixed income securities measured at amortized cost - BGRS	363,500	+50 / (50)	(1,818) / 1,818
Bonds payable	4,000,000	+50 / (50)	(20,000) / 20,000
Interest sensitivity gap			(18,182) / 18,182

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Interest rate risk gap analysis

The table below summarizes the Bank's possible exposure to interest rate risk. The table shows the Bank's interest and non- interest bearing financial assets and liabilities carrying amounts respectively.

Interest rate sensitivity gap analysis as at 31 December 2021:

	2021		
	Interest bearing assets \$	Non-interest bearing assets \$	Carrying value \$
Financial assets			
Cash and cash equivalents	560,659	1,899,441	2,460,100
Investments, at amortized cost	6,970,654	-	6,970,654
Loans receivable, gross	20,161,336	-	20,161,336
Due from the Bahamas Government	-	1,960,908	1,960,908
Interest receivable	503,143	-	503,143
Other assets	-	516,321	516,321
	28,195,792	4,376,670	32,572,462
Financial liabilities			
Customer deposits	1,633,852	-	1,633,852
Accounts payable and accrued expenses	-	1,463,961	1,463,961
Bonds payable	4,000,000	-	4,000,000
Loans payable	39,031,896	-	39,031,896
Lease liability	144,678	-	144,678
Interest payable	720,866	-	720,866
	45,531,292	1,463,961	46,995,253
Total interest rate risk gap	(17,335,500)	2,912,709	(14,422,791)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Interest rate risk gap analysis (continued)

	2020		
	Interest Bearing Assets \$	Non-interest bearing assets \$	Carrying value \$
Financial assets			
Cash and cash equivalents	556,840	3,144,994	3,701,834
Investments, at amortized cost	10,407,022	-	10,407,022
Loans receivable, gross	18,043,473	-	18,043,473
Due from the Bahamas Government	-	709,471	709,471
Interest receivable	511,297	-	511,297
Other assets	-	597,948	597,948
	29,518,632	4,452,413	33,971,045
Financial liabilities			
Customer deposits	1,385,171	-	1,385,171
Accounts payable and accrued expenses	-	693,403	693,403
Bonds payable	4,000,000	-	4,000,000
Loans payable	40,167,484	-	40,167,484
Lease liability	80,187	-	80,187
Interest payable	712,543	-	712,543
	46,345,385	693,403	47,038,788
Total interest rate risk gap	(16,826,753)	3,759,010	(13,067,743)

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. 50 (2020: 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 net income and consequently equity position for the year ended 31 December 2021 would have decreased by \$86,678 (2020: \$84,134). This is mainly attributable to the Bank's exposure to interest rates in its fixed rate liabilities.

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 at banks and fixed term deposits at year-end.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk is the greatest risk facing the Bank and management therefore carefully manages its exposure to credit risk. Provisions are provided for expected credit losses as of the statement of financial position date (see Note 7). Significant changes in the economies or sectors that represent a concentration in the Bank's portfolio could result in losses that are different from those provided for as of the statement of financial position date.

The Bank mitigates credit risk on its loan portfolio by requiring borrowers to provide collateral equivalent to the loan balance and limiting the total value of any loan originated to a single individual or entity to 10% of total capital. Collateral held includes land, buildings and chattel.

Expected Credit Loss Measurement ("ECL")

ECL is measured on either a 12-month (12M) or lifetime basis, depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of probability of default (PD), exposure at default (EAD), and loss given default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Expected Credit Loss Measurement ("ECL") (continued)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. They are also determined based on the factors which impact the recoveries made post default, which vary by product type.

Maximum Exposure to Credit Risk

For financial assets recognized on the statement of financial position, the exposure to credit risk equals their carrying amount. For standby letters of credit, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the standby letters of credit are called upon. For mortgage commitments and revolving credit lines that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. The maximum exposure to loan commitments as at 31 December 2021 is disclosed in Note 23.

The following table contains an analysis of the credit risk exposure of financial assets for which an ECL allowance is recognized. The gross carrying amount of the financial assets represents the Bank's maximum exposure to the credit risk of these assets.

	Stage 1 \$	Stage 2 \$	Stage 3 \$	2021 \$	2020 \$
Cash and cash equivalents (excluding the cash on hand)	2,457,800	-	-	2,457,800	3,699,534
Loans receivable, including accrued interest, gross	8,772,613	1,277,498	10,111,225	20,161,336	18,043,473
Investments, at amortized cost	148,881	6,821,773	-	6,970,654	10,407,022
Due from the Bahamas					
Government	-	-	1,960,908	1,960,908	709,471
Interest receivable	503,143	-	-	503,143	511,297
Other assets	516,321	-	-	516,321	597,948
	12,398,759	8,099,271	12,072,133	32,570,162	33,968,745

The following table shows the breakdown of the impairment allowance by portfolio at 31 December 2021:

	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2021 \$	2020 \$
Loans receivable including accrued interest:					
<i>Gross carrying amount</i>					
Consumer loans	3,985,754	885,610	6,969,316	11,840,680	9,539,222
Commercial loans	4,092,821	368,835	2,056,521	6,518,177	6,763,841
Staff loans	309,069	23,053	-	332,122	304,245
Extra ordinary advances	-	-	1,085,388	1,085,388	899,696
Accrued interest	384,969	-	-	384,969	536,469
Loss allowance	(818,693)	(190,176)	(3,484,393)	(4,493,262)	(2,830,687)
	7,953,920	1,087,322	6,626,832	15,668,074	15,212,786

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum Exposure to Credit Risk (continued)

	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2021 \$	2020 \$
Investment securities at amortized cost:					
Gross carrying amount	148,881	6,821,773	-	6,970,654	10,407,022
Loss allowance	-	-	-	-	-
Carrying amount	148,881	6,821,773	-	6,970,654	10,407,022
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2021 \$	2020 \$
Due from the Bahamas Government:					
Gross carrying amount	-	-	1,960,908	1,960,908	709,471
Loss allowance	-	-	-	-	-
Carrying amount	-	-	1,960,908	1,960,908	709,471
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2021 \$	2020 \$
Interest receivable, net:					
Gross carrying amount	503,143	-	-	503,143	511,297
Loss allowance	-	-	-	-	-
Carrying amount	503,143	-	-	503,143	511,297
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2021 \$	2020 \$
Other assets:					
Gross carrying amount	221,761	-	294,560	516,321	597,948
Loss allowance	-	-	(294,560)	(294,560)	(286,332)
Carrying amount	221,761	-	-	221,761	311,616

Liquidity risk

The Bank seeks to manage its liquidity to be able to finance all of its operating and capital expenditures. Liquidity management is the responsibility of the Board of Directors, which ensures the Bank maintains a level of liquid assets that could be sold immediately to meet cash requirements for normal operating purposes.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The following tables summarize the maturity profile of the Bank's financial assets and liabilities at 31 December 2021 based on contractual maturities:

	2021					Total
	On Demand	Less than 1 year	1 to 5 Years	More than 5 years	No specific maturity	
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	1,899,441	560,659	-	-	-	2,460,100
Investments, at amortized cost	-	1,995,454	363,500	4,611,700	-	6,970,654
Loans receivable, gross	-	5,231,343	4,276,713	10,653,280	-	20,161,336
Due from the Bahamas Government	-	-	-	-	1,960,908	1,960,908
Interest receivable	-	503,143	-	-	-	503,143
Other assets	-	516,321	-	-	-	516,321
	1,899,441	8,806,920	4,640,213	15,264,980	1,960,908	32,572,462
Financial liabilities						
Customer deposits	-	1,633,852	-	-	-	1,633,852
Accounts payable and accrued expenses	-	1,463,961	-	-	-	1,463,961
Bonds payable	-	-	4,000,000	-	-	4,000,000
Loans payable	-	2,127,578	7,229,629	29,674,689	-	39,031,896
Interest payable	-	720,866	-	-	-	720,866
Lease liability	-	36,230	108,448	-	-	144,678
	-	5,982,487	11,338,077	29,674,689	-	46,995,253
Liquidity gap	1,899,441	2,824,433	(6,697,864)	(14,409,709)	1,960,908	(14,422,791)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The following tables summarize the maturity profile of the Bank's financial assets and liabilities at 31 December 2020 based on contractual maturities:

	2020					Total
	On Demand	Less than 1 year	1 to 5 Years	More than 5 years	No specific maturity	
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	3,144,994	556,840	-	-	-	3,701,834
Investments at amortized cost	-	5,431,822	363,500	4,611,700	-	10,407,022
Loans receivable	-	3,989,815	2,375,590	8,847,381	-	15,212,786
Due from the Bahamas Government	-	-	-	-	709,471	709,471
Interest receivable	-	511,297	-	-	-	511,297
Other assets	-	597,948	-	-	-	597,948
	3,144,994	11,087,722	2,739,090	13,459,081	709,471	31,140,358
Financial liabilities						
Customer deposits	-	1,385,171	-	-	-	1,385,171
Accounts payable and accrued expenses	-	693,403	-	-	-	693,403
Bonds payable	-	-	4,000,000	-	-	4,000,000
Loans payable	-	1,604,187	8,888,607	29,674,690	-	40,167,484
Interest payable	-	712,543	-	-	-	712,543
Lease liability	-	39,193	40,994	-	-	80,187
	-	4,434,497	12,929,601	29,674,690	-	47,038,788
Liquidity gap	3,144,994	6,653,225	(10,190,511)	(16,215,609)	709,471	(15,898,430)

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 Bank's business are adhered to.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2021

28. FINANCING OF OPERATIONS AND CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Bank has incurred significant operating losses in recent years and such losses are projected for the future. The Bank is dependent on funding from the Government and it is anticipated that such funding, via the Government's subsidy, will continue to be made available at a level sufficient to allow the Bank to adequately maintain its operations.

The Bank is not subject to externally imposed capital requirements.

29. RECLASSIFICATION OF PRIOR YEAR PERIOD PRESENTATION

Certain prior period amounts have been reclassified for consistency with the current period presentation (See statement of financial position). These reclassifications had no effect on the reported results of operations of the Bank.

	2020 (After reclassification) \$	2020 (Before reclassification) \$	Net effect \$
Cash and cash equivalents	3,701,834	3,144,995	556,839
Investments at amortized cost	10,407,022	10,963,861	(556,839)
Interest receivable, net	511,297	-	511,297
Prepayments and other assets	353,738	580,330	(226,592)
Accounts payable and accrued expenses	(693,403)	(601,839)	(91,564)
Defined benefit pension obligations	(193,141)	-	(193,141)
Provision for expected credit losses	406,157	692,489	(286,332)
General and administrative costs	1,060,189	773,857	286,332
	15,553,693	15,553,693	-

30. EVENTS AFTER THE REPORTING DATE

The Bank evaluated the impact of all post-reporting date events through 14 October 2022, which is the date the financial statements are available to be issued.

Effective 1 January 2022, the VAT Bill and Regulations was amended, changing the rate from 12% to 10%.

In September 2021, the Board of Directors was dissolved as a result of the Government change and a new Board was appointed by the Government in February 2022.

In March 2022 and July 2022, the Bank appointed key management personnel such as the Human Resources Manager and Deputy Managing Director, respectively.

On 4 July 2022, a new Managing Director was appointed, who oversees the daily operations of the Bank and reports directly to the Bank's Board of Directors.

At the date of authorization of these financial statements, there has been no other evidence of significant impact on the Bank's financial position, and there are no other going concern eventualities necessitating disclosure except as disclosed in Note 2 to the financial statements.

Independent Auditors' Report pages 1 through 4.