

Audited Financial Statements

BAHAMAS DEVELOPMENT BANK

31 December 2022

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Audited Financial Statements

31 December 2022

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INDEPENDENT AUDITORS' REPORT

To the Sole Shareholder and the Board of Directors of
BAHAMAS DEVELOPMENT BANK

Opinion

We have audited the financial statements of Bahamas Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2022, and the statements of comprehensive operations, changes in capital deficiency, and 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 2022, 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 \$1,832,517 for the year ended 31 December 2022 and as of that date, the Bank's liabilities exceeded its assets by \$16,629,300. The Bank also had an accumulated deficit of \$72,324,552 as at 31 December 2022. These conditions, 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 its Sole Shareholder, the Government of the Commonwealth of The Bahamas.

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.

To the Sole Shareholder and the Board of Directors of
BAHAMAS DEVELOPMENT BANK

Key Audit Matters (continued)

Provision for expected credit losses - \$292,901	
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 \$21,011,447 and the related allowance for expected credit losses amounted to \$4,786,163 as at 31 December 2022. Provision for expected credit losses during the year amounted to \$292,901. 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.

Key Audit Matters (continued)

Remeasurement of net defined benefit obligation - \$338,383	
The risk	Our response
An independent actuarial valuation of the Bank's defined benefit pension plan obligation was performed for the year ended 31 December 2022. The actuary used the significant actuarial assumptions for the determination of the defined benefit obligation as at 31 December 2022. The significant assumptions are the discount rate and the mortality rates. The mortality rates were based on the 1994 Group Annuity Mortality Table of the probability of death within 1 year. The present value of the defined benefit pension obligation was measured using the projected unit credit method. As disclosed in Note 22 in the financial statements, the Bank's net defined benefit pension plan obligation amounted to \$473,224, which is the net of plan assets of \$400,000, and the Remeasurement of net defined benefit liability, and net interest expense amounted \$338,383, and \$12,768 respectively. The valuation, presentation, and disclosure of net defined pension plan obligation are considered to be a key audit area due to the material financial impact of this liability 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 actuarial valuation model.	As part of audit procedures, we: • evaluated whether the actuary has the necessary competence, capabilities, and objectivity of the auditor's expert works; • obtained an understanding of the field of the expertise of the actuary; • evaluated the use of the significant actuarial assumptions, and the relevance and reasonableness of those assumptions and methods in the circumstances; • performed an independent calculation of the net interest expense, and referred to IAS 19, to ensure the calculation is in accordance with the standard; • checked the appropriateness of the disclosures made in relation to the remeasurement of defined benefit pension plan obligations included in these financial statements.

Other information

Management is responsible for the other information. The other information comprises the Bahamas Development Bank Annual Report 2022 (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 as such, we did 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 2022, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

To the Sole Shareholder and the Board of Directors of
BAHAMAS DEVELOPMENT BANK

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 IFRS, 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.

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.

To the Sole Shareholder and the Board of Directors of
BAHAMAS DEVELOPMENT BANK

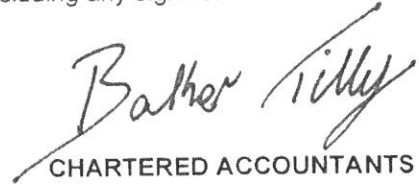
Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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.

21 September 2023

Nassau, The Bahamas


CHARTERED ACCOUNTANTS

BAHAMAS DEVELOPMENT BANK

Statement of Financial Position
(Expressed in Bahamian dollars)

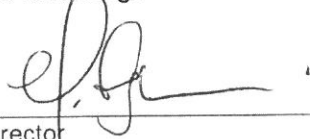
31 December 2022

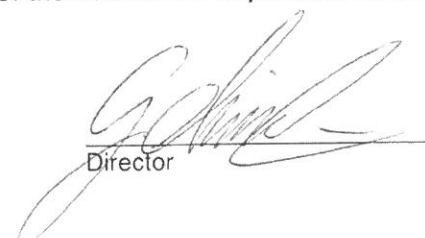
	Notes	2022 \$	2021 \$
ASSETS			
Cash and cash equivalents	5, 27	3,281,983	2,460,100
Investments, at amortized cost	6, 27	3,025,575	6,970,654
Loans receivable, net	7, 27	16,225,284	15,668,074
Due from the Bahamas Government	14, 24, 27	2,742,702	1,960,908
Interest receivable, net	6, 27	65,027	503,143
Prepayments and other assets	8, 27	360,540	280,684
Right-of-use asset	23	103,376	140,966
Fixed assets, net	9	3,247,839	3,427,160
TOTAL ASSETS		29,052,326	31,411,689
LIABILITIES AND CAPITAL DEFICIENCY			
LIABILITIES			
Customer deposits	10, 25, 27	1,154,168	1,633,852
Accounts payable and accrued expenses	11, 24, 27	1,863,627	1,463,961
Lease liability	23, 27	108,448	144,678
Bonds payable	12, 27	4,000,000	4,000,000
Loans payable	13, 27	37,386,820	39,031,896
Interest payable	10, 12, 13, 27	695,339	720,866
Defined benefit pension plan obligation	22, 27	473,224	192,341
Total liabilities		45,681,626	47,187,594
CAPITAL DEFICIENCY			
Share capital	15	28,960,255	28,960,255
Contributed surplus	15, 24	26,800,252	25,821,130
Reserve fund	16	273,128	273,128
Other components of equity	22	(338,383)	-
Accumulated deficit	2	(72,324,552)	(70,830,418)
Total capital deficiency		(16,629,300)	(15,775,905)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		29,052,326	31,411,689

COMMITMENTS AND CONTINGENCIES

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These financial statements were approved on behalf of the Bank on 21 September 2023 by the following:


Director


Director

See accompanying notes. Independent Auditors' Report pages 1 through 5.

BAHAMAS DEVELOPMENT BANK

Statement of Comprehensive Operations
(Expressed in Bahamian dollars)

Year ended 31 December 2022

	Notes	2022 \$	2021 \$
INTEREST INCOME			
Loans	7	853,390	629,706
Investments	6	226,474	352,276
Interest subsidy	14, 24	304,382	280,386
Deposits	5	2,322	2,784
Total interest income		1,386,568	1,265,152
Interest expense	10, 12, 13	(1,631,052)	(1,691,303)
NET INTEREST LOSS		(244,484)	(426,151)
LOAN RECOVERY	7	90,667	248,631
OTHER INCOME	17, 24	670,365	357,272
TOTAL INCOME, net of interest expense		516,548	179,752
NON-INTEREST EXPENSES			
Staff costs	19, 21, 24	3,179,469	2,655,344
General and administrative costs	20	1,226,309	1,173,210
Write-off of interest receivable	6	396,326	-
Provision for expected credit losses	7	292,901	1,662,575
Depreciation and amortization of fixed assets	9	235,475	286,016
Amortization of right-of-use asset	23	37,590	38,207
Loss on sale of investments in Bahamas government registered stocks	6	169,003	-
Total non-interest expenses		5,537,073	5,815,352
NET LOSS BEFORE GOVERNMENT SUBSIDY		(5,020,525)	(5,635,600)
GOVERNMENT SUBSIDY	18, 24	3,526,391	3,488,844
NET LOSS FOR THE YEAR		(1,494,134)	(2,146,756)
OTHER COMPREHENSIVE LOSS			
Remeasurement of net defined benefit obligation	22	(338,383)	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,832,517)	(2,146,756)

See accompanying notes. Independent Auditors' Report pages 1 through 5.

BAHAMAS DEVELOPMENT BANK

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

Year ended 31 December 2022

	Notes	Share Capital	Contributed Surplus	Reserve Fund	Other components of equity	Accumulated Deficit	Total
		\$	\$	\$	\$	\$	\$
Balance at 1 January 2021		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		28,960,255	25,821,130	273,128	-	(70,830,418)	(15,775,905)
Additional capital contribution during the year	15	-	979,122	-	-	-	979,122
Net loss for the year		-	-	-	-	(1,494,134)	(1,494,134)
Other comprehensive loss		-	-	-	-	-	-
Remeasurement of net defined benefit obligation	22	-	-	-	(338,383)	-	(338,383)
Balance at 31 December 2022	15, 16	28,960,255	26,800,252	273,128	(338,383)	(72,324,552)	(16,629,300)

See accompanying notes. Independent Auditors' Report pages 1 through 5.

BAHAMAS DEVELOPMENT BANK

Statement of Cash Flows
(Expressed in Bahamian dollars)

Year ended 31 December 2022

	Notes	2022 \$	2021 \$
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Total comprehensive loss for the year		(1,494,134)	(2,146,756)
Adjustments for non-cash items:			
Interest income - loans	7	(853,390)	(629,706)
Interest income - investments	6	(226,474)	(352,276)
Interest income - subsidy	14	(304,382)	(280,386)
Interest income - deposits	5	(2,322)	(2,784)
Interest expense - lease liability	23	5,770	4,347
Interest expense - bonds payable	12	170,000	170,000
Interest expense - loans payable	13	1,461,016	1,521,006
Interest expense - customer deposits	10	36	297
Net interest on defined benefit pension plan obligation	22	12,768	42,493
Provision for expected credit losses	7	292,901	1,662,575
Depreciation and amortization of fixed asset	9	235,475	286,016
Amortization of right-of-use asset	23	37,590	38,207
Loss on sale of investments in Bahamas government registered stocks	6	169,003	-
Write off of interest receivable	6	396,326	-
Changes in operating assets and liabilities:			
Increase in loans receivable, gross		(781,894)	(2,269,363)
(Increase) decrease in prepayments and other assets		(77,534)	75,838
(Decrease) increase in customer deposits		(479,684)	248,492
Increase in accounts payable and accrued expenses		399,666	770,558
Increase in defined benefit pension plan obligation		18,000	44,975
Cash used in operations		(1,021,263)	(816,467)
Interest received from loans		785,173	781,206
Interest received from investments		267,894	265,370
Interest paid on bonds payable		(170,000)	(539,639)
Interest paid on loans payable	13	(1,486,543)	(1,143,044)
Interest paid on customer deposits		(36)	(108)
Benefits paid to the pensioners	22	(88,268)	(88,268)
Net cash used in operating activities		(1,713,043)	(1,540,950)
INVESTING ACTIVITIES			
Proceeds from maturity of fixed deposits	6	1,945,451	3,581,428
Proceeds from redemptions of investment in BGRS	6	1,830,995	-
Purchases of investments at amortized cost	6	-	(50,000)
Acquisitions of fixed assets	9	(56,154)	(1,083,573)
Net cash provided by investing activities		3,720,292	2,447,855
FINANCING ACTIVITIES			
Repayments of loans during the year	13	(1,645,076)	(1,135,588)
Lease payments during the year	23	(42,000)	(42,000)
Increase in due from the Bahamas Government		(477,412)	(971,051)
Additional capital contribution received during the year		979,122	-
Net cash used in financing activities		(1,185,366)	(2,148,639)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		821,883	(1,241,734)
Cash and cash equivalents, beginning of the year		2,460,100	3,701,834
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5, 27	3,281,983	2,460,100

See accompanying notes. Independent Auditors' Report pages 1 through 5.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

1. GENERAL INFORMATION AND NATURE OF OPERATIONS

Bahamas Development Bank ("the Bank") was incorporated in accordance with the Bahamas Development Bank Act 1974 ("the Act") to carry on banking business in The Bahamas. The Bank 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 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 is the Government's primary provider for promoting industrial, agriculture, and commercial development, facilitating participation in approved enterprises while stimulating and enhancing the economic development 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. As at 31 December 2022, the Bank had one (1) branch (2021: one (1)) 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 ("B\$"), 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 and global economic crisis

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 2022

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 and global economic crisis (continued)

In March 2020, the World Health Organization declared a pandemic with regard to the global outbreak of COVID-19, which resulted in Governments around the world issuing directives, and establishing quarantine measures in their respective jurisdictions, to help manage and control the spread of the virus. As a result, global markets experienced significant declines in value resulting from uncertainty caused by the pandemic.

Despite the economic impact of the coronavirus pandemic, the global inflation rate fell to 3.23% in the pandemic's first year, before rising to 4.7% in 2021. This increase came as the impact of supply chain delays began to take more of an effect on consumer prices before the Russia-Ukraine war exacerbated this further. A series of compounding issues such as rising energy and food prices, fiscal instability in the wake of the pandemic, and consumer insecurity have created a new global recession, and global inflation in 2022 is estimated to have reached 8.75%. This is the highest annual increase in inflation since 1996. As a result of global inflation, the central banks around the world including the US Federal Reserve and the Bank of England, have raised interest rates during the year.

These changes impact the livelihood of the people, including the customers, suppliers, and employees of the Bank.

The ongoing 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 the 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 which 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 the funds from its matured fixed deposits, redeemed several of its investments, and redeemed some of the Bahamas Government Registered Stocks at a discounted price to meet the working capital requirements. Customer deposits are constant and some of the loans receivable accounts were settled in full. The Bank liquidated some of the collateral to get such loans to be settled. In September 2023, the Government's Cabinet, via ICO 37 (23) Conclusion 1, welcomed and supported the following for the recapitalization of the Bank, as follows: • The borrowing for both \$20 million from the European Investment Bank ("the EIB") and \$30 million from the African Export-Import Bank ("the AFREXIM") for the purpose of recapitalizing the Bank, with the expectation that the Bank will repay

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

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 and global economic crisis (continued)

Financial Statement area	Description of Impact
Cash and deposits with banks including fixed deposits and related income. (continued)	• The recommendation for the Government of The Bahamas to take on both loan facilities directly; and • Approval for the Ministry of Finance facilitating both loans with the purpose of recapitalizing the Bank.
Loans receivable	The Bank continues to approve and disburse new loans. The Bank adjusted the allowance for expected credit loss as an amount due to the COVID-19 pandemic and has since resumed the collection efforts.
Staff costs	Staff salaries and other benefits increased due to the 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 a 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 increased the provision for loan impairment and expected credit loss expenses in both years 2022 and 2021. As a result, the Bank incurred a total comprehensive loss of \$1,832,517 for the year ended 31 December 2022 (2021: \$2,146,756) and, as of that date, the Bank's liabilities exceeded its assets by \$16,629,300 (2021: \$15,775,905) and had an accumulated deficit of \$72,324,552 as at 31 December 2022 (2021: \$70,830,418).

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 annual periods beginning on or after 1 January 2022:

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 2022:

- Reference to the Conceptual Framework (Amendments to IFRS 3);
- COVID-19 Rent Related Concessions (Amendments to IFRS 16);

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

3. NEW OR REVISED STANDARDS OR INTERPRETATIONS (continued)

New and revised standards that are effective for annual periods beginning on or after 1 January 2022: (continued)

- Property, Plant, and Equipment: Proceeds Before Intended Use (Amendments to IAS 16);
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements (2018-2020 Cycle):
 - Subsidiary as a First-time Adopter (Amendments to IFRS 1);
 - Fees in the "10 percent" Test for Derecognition of Liabilities (Amendments to IFRS 9);
 - Lease Incentives (Amendments to IFRS 16);
 - Taxation in Fair Value Measurements (Amendments to IAS 41).

These amendments do not have a significant impact on the Bank's 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);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12);
- Disclosure of Accounting Policies (Amendments to IAS 1); and
- Definition of Accounting Estimates (Amendments to IAS 8).

These amendments are not expected to have a significant impact on the Bank's 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of estimates and judgments

Certain amounts included in or affecting the financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. A "critical accounting estimate" is one that is both important to the presentation of the Bank's financial position and the statement of comprehensive operations and requires management's most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain.

The information presented below provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

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 loan impairment represents 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 the 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;
- 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of judgments and estimates (continued)

Estimates (continued)

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

The level of estimation uncertainty and judgment for the calculation of ECL has increased as a result of the economic effects of the COVID-19 pandemic. An 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 \$292,901 (2021: \$1,662,575). The carrying values of the Bank's loans receivables, net of allowance for expected credit losses as at 31 December 2022 amounted to \$16,225,284 (2021: \$15,668,074).

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, the 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 the 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 \$3,247,839 as at 31 December 2022 (2021: \$3,427,160).

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 a 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 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of estimates and judgments (continued)

Judgments

Taxation

Under the current system of taxation in The Bahamas, the Bank is not liable to pay income taxes, capital gains, and withholding taxes. However, the Bank is liable to pay Value Added Tax ("VAT") related to revenues, if vatable, and is generally payable to the tax authorities on an accrual basis. On 1 January 2015, the VAT Bill and Regulations became effective in the Commonwealth of The Bahamas. Effective 1 July 2018, the VAT Bill and Regulations were amended, changing the standard rate of VAT from 7.5% to 12%. On 1 January 2022, the standard rate of VAT again changed from 12% to 10%. Input VAT incurred on local purchases is offset against the output VAT, subject to certain restrictions, against VAT-related revenues, or can be reclaimed in cash from the tax authorities under certain circumstances.

Income that is subject to tax is recognized as 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 2021, 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 (3) 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 the 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 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 for a Right-of-use asset and lease liability during the lease term (see Note 23).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of estimates and judgments (continued)

Judgments (continued)

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.

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 represents 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 reserves 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, canceled, or expired.

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Subsequent measurement of financial assets (continued)

Financial assets at amortized cost (continued)

As at 31 December 2022, 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.

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, and 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 the relationship with the debtor, credit status of debtor based on third party reports, and historical experience and over a 12-month period.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and subsequent measurement of financial liabilities

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, lease liability, bonds payable, loans payable and interest payable which are measured at amortized cost using the effective interest rate method. Discounting, however, is omitted where the effect of discounting is immaterial.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled, 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.

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 has 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

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets (continued)

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.

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 in which it arises unless the asset is carried at a revalued amount, in which case the impairment is charged to the revaluation increment of the said asset.

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 asset and leases

Bank as a lessee

Measurement and recognition of leases as a lessee

At the 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 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Right-of-use asset and leases (continued)

Bank as a lessee (continued)

Measurement and recognition of leases as a lessee (continued)

Subsequent to the 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 model:

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 a performance obligation(s) are satisfied.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income and expenses (continued)

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

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 as gross in the statement of comprehensive operations.

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 (3) months of 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 expenses are recognized on an accrual basis.

Government subsidy

The Government of the Commonwealth of The Bahamas, on their mandate, decided to grant some amount of funds to meet the principal and interest repayments of the loans, and bonds of the Bank, and the funds were granted in four (4) tranches during the year. The Bank recorded the subsidy as a separate line item in the statement of comprehensive operations, and 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. The 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 in legal disputes or onerous contracts.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions, contingent liabilities, and contingent assets (continued)

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.

Defined contribution pension plan

The Bank pays fixed contributions to 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 pension 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 at the end of the reporting period less, the fair value of plan assets.

The Bank estimates the defined benefit pension plan obligation frequently with the assistance of independent actuaries. This is based on discounting factors and mortality. The discount factor is determined close to the end of the reporting period by reference to yields on recently issued long-term Bahamas Government Registered Stocks that are denominated in the BSD in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.

Net interest expense on the net defined benefit liability is included in General and administrative costs. Losses resulting from remeasurements of the net defined benefit liability are included in other comprehensive loss and are not reclassified to the statement of comprehensive operations in subsequent periods.

Related party transactions

Transactions between related parties are based on terms similar to those offered to non-related parties.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related party transactions (continued)

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 from 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.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2022 are comprised of the following:

	2022	2021
	\$	\$
Cash at banks	2,718,459	1,897,141
Term deposit	561,224	560,659
Cash on hand	2,300	2,300
	3,281,983	2,460,100

The Bank earns interest on the term deposit at prevailing market interest rates. The average rate during the year ended 31 December 2022 was 0.30% (2021: 0.10%). Cash at banks does not earn interest. During the year, interest income earned and received on the term deposit amounted to \$2,322 (2021: \$2,784).

6. INVESTMENTS, AT AMORTISED COST

Investments, at amortized cost as at 31 December 2022 comprised of the following:

	2022	2021
	\$	\$
Fixed deposits	50,375	1,995,454
Bahamas Government Registered Stocks ("BGRS")	2,975,200	4,975,200
	3,025,575	6,970,654

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

6. INVESTMENTS, AT AMORTISED COST (continued)

The restricted and unrestricted portions of the investments as at 31 December 2022 are broken down as follows:

	2022	2021
	\$	\$
Unrestricted funds	1,705,575	5,650,654
Restricted sinking fund	1,270,000	1,270,000
Restricted fixed deposit - corporate credit card collateral	50,000	50,000
	3,025,575	6,970,654

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

	2022	2021
	\$	\$
Balance, beginning of the year	6,970,654	10,407,022
Proceeds from maturity of investments at amortized cost	(1,945,451)	(3,581,428)
Redemptions of investments in BGRS	(1,830,995)	-
Loss on sale of investments in BGRS	(169,003)	-
Interest income reinvested during the year	370	95,060
Purchases of investments at amortized cost	-	50,000
	3,025,575	6,970,654

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 0.30% (2021: 0.10% to 1.75%). 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 bears interest at annual rates of 4.5% to 5.0% and has maturity dates of 2024 through 2039.

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 be established in accordance with the Act, 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 twelve (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 for 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% (2021: 18%).

In 2022, the Bank withdrew a total of \$1,945,451 (2021: \$3,581,428) from the fixed deposits which were used for operational purposes. In addition, the Bank redeemed several of its investments in BGRS amounting to \$2,000,000, with proceeds from the disposal of these government stocks amounting to \$1,830,995, and a loss of \$169,003. As at 31 December 2022 and 2021, the Bank has met the requirements of the sinking fund.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

6. INVESTMENTS, AT AMORTISED COST (continued)

During the year, interest earned from investments, at amortized cost, by the Bank amounted to \$226,474 (2021: \$352,276), of which \$65,027 was receivable as at 31 December 2022 (2021: \$503,143) and was included in interest receivable, net in the statement of financial position. During the year, a portion of interest receivable was written-off and charged to operations in the amount of \$396,326 (2021: Nil).

7. LOANS RECEIVABLE, net

Loans receivable, net (including accrued interest) as at 31 December 2022 is comprised of the following:

	2022 \$	2021 \$
Performing	9,577,530	10,069,612
Non-performing	9,558,004	8,289,245
Extraordinary advances	1,155,473	1,085,388
Employees	267,254	332,122
	20,558,261	19,776,367
Add: accrued interest	453,186	384,969
	21,011,447	20,161,336
Less: allowance for expected credit losses	(4,786,163)	(4,493,262)
	16,225,284	15,668,074

Movements in loans receivable during the year are as follows:

	2022 \$	2021 \$
Balance, beginning of the year	19,776,367	17,507,004
Add: loans disbursed	2,804,720	3,694,292
Less: loan repayments	(2,022,826)	(1,424,929)
	20,558,261	19,776,367
Add: accrued interest	453,186	384,969
	21,011,447	20,161,336
Less: allowance for expected credit losses	(4,786,163)	(4,493,262)
Balance, end of the year	16,225,284	15,668,074

The outstanding loans earned interest at rates ranging from 0% to 8.50% per annum (2021: 0% to 8.50% per annum). During the year, the Bank earned interest on loans amounting to \$853,390 (2021: \$629,706), of which \$453,186 was receivable as at 31 December 2022 (2021: \$384,969).

During the year, loan recovery amounted to \$90,667 (2021: \$248,631).

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

	2022 \$	2021 \$
Balance, beginning of the year	4,493,262	2,830,687
Provision for expected credit losses	292,901	1,662,575
Balance, end of the year	4,786,163	4,493,262

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

7. LOANS RECEIVABLE, net (continued)

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

31 December 2022	Number of accounts	Loans	Collateral held	Portion of loans not covered by collateral	Loan loss provision	Provision rate
		\$	\$	\$	\$	%
General provision						
Current loans	66	7,191,472	10,538,298	-	359,334	5
1 to 30 days	8	648,285	1,338,308	-	32,420	5
31 to 60 days	10	1,098,581	1,492,176	-	109,887	10
61 to 90 days	8	906,446	910,984	-	135,971	15
Specific provision						
91 to 365 days	11	2,775,128	4,097,545	-	739,730	100
Over 365 days	129	6,782,876	16,104,312	-	2,350,102	100
Extraordinary advances linked to inactive loans		1,155,473	128,491	1,026,982	832,126	100
		20,558,261	34,610,114	1,026,982	4,559,570	
Allowance for expected credit losses on interest		-	-	-	226,593	
		20,558,261	34,610,114	1,026,982	4,786,163	
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	5
1 to 30 days	10	2,054,438	1,551,728	502,710	97,896	5
31 to 60 days	7	1,262,877	1,148,564	114,313	112,656	10
61 to 90 days	3	419,478	241,282	178,196	62,610	15
Specific provision						
91 to 365 days	21	2,445,966	2,755,650	-	811,447	100
Over 365 days	46	5,982,312	7,380,301	-	1,790,898	100
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 2022

8. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets, as at 31 December 2022 is comprised of the following:

	2022	2021
	\$	\$
VAT receivable	294,560	294,560
Offset loans	166,216	166,216
Prepayments	80,829	58,923
Accounts receivable	96,680	28,600
Others	8,210	18,340
Security deposits	8,605	8,605
	655,100	575,244
Less: allowance for expected credit losses	(294,560)	(294,560)
	360,540	280,684

9. FIXED ASSETS, net

Fixed assets as at 31 December 2022 is comprised of the following:

	Land	Building and Improvements	Computer Software and Equipment	Furniture, Fixtures and Improvements	Office Machines and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost:							
Balances 1 January 2021	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
Additions	-	14,681	36,183	-	5,290	-	56,154
Transfers	-	(59,065)	39,832	19,233	-	-	-
Balances 31 December 2022	480,000	2,297,908	2,482,066	1,730,683	568,596	47,612	7,606,865
Accumulated depreciation and amortization:							
Balances 1 January 2021	-	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
Depreciation and amortization	-	77,332	113,828	27,132	7,661	9,522	235,475
Transfers	-	(2,248)	1,508	740	-	-	-
Balances 31 December 2022	-	170,654	2,086,423	1,521,587	551,124	29,238	4,359,026
Net carrying values:							
31 December 2022	480,000	2,127,254	395,643	209,096	17,472	18,374	3,247,839
31 December 2021	480,000	2,246,722	434,964	217,735	19,843	27,896	3,427,160

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31 December 2022

10. CUSTOMER DEPOSITS

Customer deposits as at 31 December 2022 are comprised of the following:

	2022	2021
	\$	\$
Mailboat subsidy - Ministry of Transport (see Note 25)	522,200	1,068,598
Other customer deposits and advances	439,924	354,794
Security deposits held as collateral for loans	173,800	200,852
Insurance premiums	9,521	885
Agriculture Program - Grand Bahama	8,723	8,723
	1,154,168	1,633,852

During the year, interest expense incurred by the Bank on customer deposits amounted to \$36 (2021: \$297), of which Nil was payable as at 31 December 2022 (2021: \$275).

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as at 31 December 2022 are comprised of the following:

	2022	2021
	\$	\$
Accounts payable	1,319,223	998,972
Accrued expenses	524,799	451,761
Defined contribution pension plan obligation	19,605	13,228
	1,863,627	1,463,961

12. BONDS PAYABLE

As at 31 December 2022, 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 %	2022	2021
					\$	\$
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 (2021: \$170,000), of which \$92,778 was payable as at 31 December 2022 (2021: \$92,778).

The bonds payable as at 31 December 2022 is classified as non-current.

13. LOANS PAYABLE

Loans payable as at 31 December 2022 are comprised of the following:

	2022	2021
	\$	\$
National Insurance Board	35,761,820	37,156,896
The Central Bank of The Bahamas	1,625,000	1,875,000
	37,386,820	39,031,896

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Notes to Financial Statements

31 December 2022

13. LOANS PAYABLE (continued)

Movements in loans payable during the year were as follows:

	2021	Additions	Payments	2022
	\$	\$	\$	\$
National Insurance Board	37,156,896	-	(1,395,076)	35,761,820
The Central Bank of The Bahamas	1,875,000	-	(250,000)	1,625,000
Total principal	39,031,896	-	(1,645,076)	37,386,820
Accrued interest	628,088	1,461,016	(1,486,543)	602,561

During the year, interest expense incurred by the Bank on the loans amounted to \$1,461,016 (2021: \$1,521,006), of which \$602,561 was payable as at 31 December 2022 (2021: \$628,088).

The loans payable maturity are as follows:

	2022	2021
	\$	\$
Due within one year	2,198,494	2,127,578
Due within two (2) to five (5) years	7,481,744	7,229,629
Due after five (5) years	27,706,582	29,674,689
	37,386,820	39,031,896

The Central Bank of The Bahamas

As at 31 December 2022, the Bank had an outstanding loan of \$1,625,000 (2021: \$1,875,000) with the Central Bank of The Bahamas. The loan bears interest at 2.00% per annum, is repayable in semi-annual installments of \$125,000 and is due to be fully repaid by 28 October 2028. During the year, the Bank paid an amount of \$250,000 (2021: \$125,000) on the loan.

National Insurance Board

Loan - Office Building

As at 31 December 2022, the Bank had an outstanding loan of \$969,057 (2021: \$1,084,343) 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 by 15 September 2029. During the year, the Bank paid an amount of \$115,286 (2021: \$83,141) on its principal balance.

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 2021. As at 31 December 2022, the outstanding loan balance was \$34,792,763 (2021: \$36,072,553). The loan bears interest at a rate of 3.94% per annum, is repayable in quarterly installments and is due to be fully repaid in 2040. During the year, the Bank paid an amount of \$1,279,790 (2021: \$927,447) on its principal balance.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

14. DUE FROM THE BAHAMAS GOVERNMENT

Due from the Bahamas Government as at 31 December 2022 is comprised of the following:

	2022	2021
	\$	\$
Balance, beginning of the year	1,960,908	709,471
Government subsidy receivable (see Note 18)	224,772	670,574
Interest subsidy	304,382	280,386
Administration fee - mailboat operators (see Note 25)	221,673	210,885
Salaries paid	30,967	89,592
Balance, end of the year	2,742,702	1,960,908

The principal and interest payments on bonds and loans payable during the year amounting to \$895,345 (2021: \$2,832,709) are subsidized by the Bahamas Government. The Government has agreed to pay the long-term debts of the Bank until further notice.

In 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 pay interest subsidies and salaries of some of the executive staff of the Bank. During the year, interest subsidy income and salaries paid amounted to \$304,382 and \$30,967 respectively (2021: \$280,386, and \$89,592 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 \$221,673 (2021: \$210,885).

As at 31 December 2022, the Bank had a receivable of government subsidy amounting to \$224,772 (2021: \$670,574).

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

15. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Share capital as at 31 December 2022 is comprised of the following:

	2022	2021
	\$	\$
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

During the year, the Bank received additional capital amounting to \$979,122 (2021: Nil) from the Ministry of Finance for the operational activities. This amount represents contributed surplus which amounted to \$26,800,252 as at 31 December 2022 (2021: \$25,821,116) and is separate from the government subsidy that the Bank receives.

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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 2022, the total amount of Reserve Fund was \$273,128 (2021: \$273,128).

17. OTHER INCOME

Other income as at 31 December 2022 consists of the following:

	2022	2021
	\$	\$
Fees and commissions	649,053	349,311
Other	21,312	7,961
	670,365	357,272

18. GOVERNMENT SUBSIDY

The Government agreed to pay the capital and interest expense on the Bank's loans and bonds payable. In 2022, the Bank earned \$3,526,391 (2021: \$3,488,844), of which \$224,772 was outstanding as at 31 December 2022 (2021: \$670,574).

19. STAFF COSTS

Staff costs as at 31 December 2022 consist of the following:

	2022	2021
	\$	\$
Salaries	2,374,008	1,979,551
NIB, pension, and insurance (see Note 21)	491,625	397,651
Directors' expenses	189,914	93,470
Staff benefits and other	123,922	184,672
	3,179,469	2,655,344

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Notes to Financial Statements

31 December 2022

20. GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs as at 31 December 2022 consist of the following:

	2022	2021
	\$	\$
Miscellaneous	463,486	269,236
Telephone, telex and cable	147,441	138,755
Professional fees	85,842	91,285
Repairs and maintenance	85,209	102,405
Security expense	77,593	80,511
Computer expenses	61,489	78,558
Travel and transportation	56,750	59,938
Subscriptions and entertainment	51,319	66,560
Executive allowances	43,453	28,800
Utilities	41,771	42,415
Advertising	30,159	53,135
Insurance	27,204	25,770
Other expenses	18,536	46,840
Bank charges	17,383	35,651
Office supplies and printing	11,052	21,083
Rent	7,622	24,040
Provision for VAT receivable	-	8,228
	1,226,309	1,173,210

General and administrative costs include rent expenses amounting to \$7,622 (2021: \$24,040), which consists of storage charges of \$3,510 (2021: \$10,040, and payments to the Hotel Corporation of the Bahamas amounting to \$4,112 (2021: \$14,000) during the year. The Bank has applied the exemption on IFRS16 for this transaction due to the relatively short-term nature of the said lease.

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 2022 and 2021, all funds were administered by Colina Financial Advisors Limited.

Pension contributions during the year amounted to \$99,443 (2021: \$70,995), which is included in NIB, pension, and insurance expenses, as disclosed in Note 19.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

22. DEFINED BENEFIT PENSION PLAN OBLIGATIONS

The Bank has set up a funded pension scheme for its retired employees. As at 31 December 2022 and 2021, the number of retired employees included nine (9) pensionaries.

The plan assets are managed by the Pension fund that is separated from the Bank. The board of trustees of the Pension fund acts in the best interest of the fund and it is responsible for setting the investment policies of the fund.

An independent actuarial valuation of the Bank's defined benefit pension plan was performed for the year ended 31 December 2022. Based on the actuarial valuation, the movements in the defined benefit pension plan obligation and fair value of the plan assets are as follows:

	2022	2021
	\$	\$
Defined benefit obligation		
Defined benefit obligation, 1 January	592,341	593,141
Interest expense	12,768	42,493
Remeasurement of net defined benefit obligation	338,383	-
Benefits paid out of the operating fund	(88,268)	(88,268)
Returns on plan asset received by the operating fund	18,000	44,975
Defined benefit obligation, 31 December	873,224	592,341

	2022	2021
	\$	\$
Fair value of plan assets		
Fair value of plan assets, 1 January	400,000	400,000
Expected return on plan assets	20,800	20,800
Benefits paid	-	-
Actuarial loss on plan assets	(20,800)	(20,800)
Fair value of plan assets, 31 December	400,000	400,000

The liability recognized for the Bank's defined benefit obligation is represented net of plan assets in accordance with IFRS's and it consists of the following amounts:

	2022	2021
	\$	\$
Defined benefit obligation	873,224	592,341
Fair value of plan assets	(400,000)	(400,000)
	473,224	192,341

As at 31 December 2022, the plan assets consist of investment in BGRS totaling \$400,000 (2021: \$400,000). This amount is included in Investments, at amortized cost in the statement of financial position.

BAHAMAS DEVELOPMENT BANK

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31 December 2022

22. DEFINED BENEFIT PENSION PLAN OBLIGATIONS (continued)

Estimates and assumptions

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the mortality rates. The mortality rates were based on the 1994 Group Annuity Mortality Table of the probability of death within 1 year. The assumptions used for the valuation of the defined benefit obligation are as follows:

- Discount rates as at 31 December 2022, and 2021 at 5.2%, the rate on the Bahamas Government Registered Stocks with 7 to 10 years maturities issued close to the date of valuation.
- Mortality rates, 1994 Group Annuity Mortality Table was used. The below table shows the probability of death within 1 year.

Age	Male	Female
20	0.05%	0.03%
30	0.08%	0.04%
40	0.11%	0.07%
50	0.26%	0.14%
60	0.80%	0.44%
70	2.37%	1.37%
80	6.20%	3.94%

These assumptions were developed by management with the assistance of an independent actuary. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The present value of the defined benefit pension obligation was measured using the projected unit credit method.

The amounts recognized in other comprehensive loss related to the actuarial losses from changes in actuarial assumptions. This amount is classified in the statement of changes in capital deficiency under other components of equity.

During the year, interest expense on defined benefit pension plan obligation amounted to \$12,768 (2021: \$42,493). The interest expense was calculated on the beginning balance of the net defined benefit pension obligation at each financial year. This amount is included in the statement of comprehensive operations under the other expense.

23. COMMITMENTS AND CONTINGENCIES

Commitments

As at 31 December 2022, the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$1,685,551 (2021: \$2,453,545).

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Notes to Financial Statements

31 December 2022

23. COMMITMENTS AND CONTINGENCIES (continued)

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 that the claims may have on its financial standing and/or discloses amounts in accordance with its accounting policies.

The GMP Holdings dba MV Lady Emerald ("the Plaintiff") filed suit against the Bank, claiming that the bank sold the MV Lady Emerald vessel for \$870,000 when it should have been sold for \$1,200,000. The Bank has filed a defense and counterclaim seeking payment of the sums due and outstanding under the lending agreement. According to the Bank's lawyers, the Plaintiff's remaining claims and counterclaims for payments due and owing to them under the mortgages should be dismissed. Since the Plaintiff is involved in litigation, estimating a probable contingent liability or asset was problematic.

In addition, 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.

Lease commitments

The Bank's Nassau premises were leased from the Hotel Corporation of the Bahamas for an initial period of five (5) years beginning in 1992, with an option to renew for another five (5) 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.

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31 December 2022

23. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

Right-of-use asset as at 31 December 2022 is comprised of the following:

	2022	2021
	\$	\$
Right-of-use asset		
At 1 January	256,205	154,061
Additions during the year	-	102,144
At 31 December	256,205	256,205
Accumulated amortization		
At 1 January	115,239	77,032
Amortization during the year	37,590	38,207
At 31 December	152,829	115,239
Net carrying value at 31 December	103,376	140,966

Movements in lease liability during the year is as follows:

	2022	2021
	\$	\$
Lease liability		
At 1 January	144,678	80,187
Additions during the year	-	102,144
Interest charge during the year	5,770	4,347
Lease payments during the year	(42,000)	(42,000)
At 31 December	108,448	144,678

The maturity analysis of lease liability is as follows:

	2022	2021
	\$	\$
Due within one (1) year	37,895	36,230
Due within two (2) to five (5) years	70,553	108,448
	108,448	144,678

Interest expense on lease liability is classified in the statement of comprehensive operations under the other expenses.

24. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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Notes to Financial Statements

31 December 2022

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.

As at and during the year ended 31 December 2022, the Bank's related party balances and transactions are as follows:

	Name of the related party	Relationship	Nature of the balance / transaction	2022 \$	2021 \$
Balances:					
Loans receivable, net	Key management personnel	Key management personnel	Loans to key management personnel	98,340	126,427
Due from the Bahamas Government	Ministry of Finance	Government ministry	Receivable from the Government	2,742,702	1,960,908
Accounts payable and accrued expenses	Ministry of Finance	Government ministry	VAT payable	12,109	15,616
Contributed Surplus	Ministry of Finance	Government ministry	Capital contribution	26,800,251	25,821,130
Transactions:					
Government subsidy	Ministry of Finance	Government ministry	Government grants	3,526,391	3,488,844
Interest subsidy	Ministry of Finance	Government ministry	Subsidy income	304,382	280,386
Other income	Ministry of Finance	Government ministry	Fee income	221,673	210,885
Staff costs	Directors	Directors	Directors' stipends and other expenses	189,914	93,470
Staff costs	Key management personnel	Key management personnel	Key management personnel compensation	627,518	604,214

As at 31 December 2022, due from the Bahamas Government account balance included government subvention, interest subsidy income, administration fee income with respect to Mailboat subsidy payments, and reimbursement of staff salaries of some of the executive staff of the Bank.

The Board of Directors and key management personnel of the Bank are also classified as related parties. The Bank's transactions with its Board of Directors and key management personnel include salaries and stipends expenses, which are recorded as part of 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 2022 and 2021. The loans granted to key management personnel bear interest at an annual rate of 4.25% (2021: 4.25%), are secured, and have fixed terms of repayment. Other bank employees receive loans on the same terms.

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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 at 31 December 2022, total loans under this program that are off-balance sheet amounted to \$3,321,548 (2021: \$3,335,270). As of 31 December 2022, the cash balance that the Bank held in reference to the MOF-MLP was \$6,262 (2021: \$228,955).

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 2022 and 2021, no administration fees were earned and received with respect of this arrangement.

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

	2022	2021
	\$	\$
At January 1	3,335,270	3,353,507
Loan payments received	(13,722)	(18,237)
At December 31	3,321,548	3,335,270

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 the 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 2022, total agricultural loans under this program, that are off-balance sheet, amounted to \$114,369 (2021: \$127,489). As at 31 December 2022, the off-balance sheet cash that the Bank held in reference to the SDAF-MLP was \$488,975 (2021: \$481,532). During the year ended 31 December 2022 and 2021, no administration fees were earned and received with respect of this arrangement.

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Notes to Financial Statements

31 December 2022

25. ASSETS UNDER ADMINISTRATION (continued)

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

	2022	2021
	\$	\$
At 1 January	127,489	131,735
Loan payments received	(13,120)	(4,246)
At 31 December	114,369	127,489

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 an executing agency for SBDC's Micro-Loan Program.

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 2022, the total loans under this program that are off-balance sheet amounted to \$304,922 (2021: \$342,997). As of 31 December 2022, the off-balance sheet cash that the Bank held in reference to the MLP was \$1,467,254 (2021: \$96,509).

During the year, the Bank earned and received administration fees amounting to \$54,000 (2021: \$36,000) in respect of this arrangement.

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

	2022	2021
	\$	\$
At 1 January	342,997	279,293
Loans disbursed	-	86,517
Loan payments received	(38,075)	(22,813)
At 31 December	304,922	342,997

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 aims 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 includes 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 2022, total loans under this programme that are off-balance sheet amounted to \$2,709,720 (2021: \$3,117,527). As of 31 December 2022, the off-balance sheet cash that the Bank held in reference to the MSME programme was \$107,373 (2021: \$474,498). During the year, the Bank earned and received administration fees amounting to \$77,400 (2021: \$76,650) in respect of this arrangement.

BAHAMAS DEVELOPMENT BANK

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31 December 2022

25. ASSETS UNDER ADMINISTRATION (continued)

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

	2022 \$	2021 \$
At January 1	3,117,527	3,482,105
Loans disbursed	19,097	-
Loan payments received	(426,904)	(364,578)
At December 31	2,709,720	3,117,527

Hurricane Dorian - Disaster Recovery Loan Programme

As of 31 December 2022, total disaster recovery loans that are off-balance sheet amounted to \$17,112 (2021: \$17,112). As of 31 December 2022, the off-balance sheet cash that the Bank held in reference to the disaster recovery loan program was \$1,500,000 (2021: \$1,500,000). During the year ended 31 December 2022 and 2021, no administration fees were earned and received.

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

	2022 \$	2021 \$
At January 1	17,112	17,308
Loan payments received	-	(196)
At December 31	17,112	17,112

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 the "Due from the Bahamas Government" account monthly.

As at 31 December 2022, the cash that the Bank held in reference to these Mail boat contract payments was \$522,200 (2021: \$1,068,598) 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 \$221,673 (2021: \$210,885) in respect of this arrangement (see Note 14).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

25. ASSETS UNDER ADMINISTRATION (continued)

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

	2022	2021
	\$	\$
Due to Mail boat operators, beginning of the year	1,068,598	762,200
Funds received for the distribution	8,320,522	8,729,461
Funds disbursed	(8,866,920)	(8,423,063)
Due to Mail boat operators, the end of the year	522,200	1,068,598

26. CONCENTRATIONS OF FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2022, the Bank has the following concentrations of financial assets and liabilities according to geographic region and industry sector:

	Geographic region	Industry	2022 %	2021 %
Cash and cash equivalents	Bahamas	Financial Sector	100.00	100.00
Loans receivable	Bahamas	Service	45.54	63.84
	Bahamas	Transportation	20.78	14.62
	Bahamas	Tourism	18.70	11.10
	Bahamas	Manufacturing	9.54	7.34
	Bahamas	Fishing	3.22	1.05
	Bahamas	Staff	1.51	1.68
	Bahamas	Agriculture	0.71	0.37
			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 parameter, 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk (continued)

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 as disclosed in Note 26.

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 2022.

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

	Portfolio size	Increase / decrease In basis points	Sensitivity of Profit or loss
	\$		\$
31 December 2022			
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 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

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Notes to Financial Statements

31 December 2022

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 2022:

	2022		
	Interest bearing assets \$	Non-interest Bearing Assets \$	Carrying value \$
Financial assets			
Cash and cash equivalents	561,224	2,720,759	3,281,983
Investments, at amortized cost	3,025,575	-	3,025,575
Loans receivable, gross	21,011,447	-	21,011,447
Due from the Bahamas Government	-	2,742,702	2,742,702
Interest receivable, gross	65,027	-	65,027
Other assets	-	574,271	574,271
	24,663,273	6,037,732	30,701,005
Financial liabilities			
Customer deposits	1,154,168	-	1,154,168
Accounts payable and accrued expenses	-	1,863,627	1,863,627
Lease liability	108,448	-	108,448
Bonds payable	4,000,000	-	4,000,000
Loans payable	37,386,820	-	37,386,820
Interest payable	695,339	-	695,339
Defined benefit pension plan obligation	473,224	-	473,224
	43,817,999	1,863,627	45,681,626
Total interest rate risk gap	(19,154,726)	4,174,105	(14,980,621)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Interest rate risk (continued)****Interest rate risk gap analysis (continued)**

	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
Lease liability	144,678	-	144,678
Bonds payable	4,000,000	-	4,000,000
Loans payable	39,031,896	-	39,031,896
Interest payable	720,866	-	720,866
Defined benefit pension plan obligation	192,341	-	192,341
	45,723,633	1,463,961	47,187,594
Total interest rate risk gap	(17,527,841)	2,912,709	(14,615,132)

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 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 loss and consequently capital deficiency position for the year ended 31 December 2022 would have increased by \$95,774 (2021: \$87,639). 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 counterparty 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 2022

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 exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been 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 2022

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 that 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 2022 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	2022	2021
	\$	\$	\$	\$	\$
Cash and cash equivalents (excluding the cash on hand)	3,279,683	-	-	3,279,683	2,457,800
Loans receivable, including accrued interest, gross	8,818,844	4,225,810	7,966,793	21,011,447	20,161,336
Investments, at amortized cost	50,375	2,975,200	-	3,025,575	6,970,654
Due from the Bahamas					
Government	-	-	2,742,702	2,742,702	1,960,908
Interest receivable, gross	65,027	-	-	65,027	503,143
Other assets	574,271	-	-	574,271	516,321
	12,788,200	7,201,010	10,709,495	30,698,705	32,570,162

The following table shows the breakdown of the impairment allowance by portfolio at 31 December 2022:

	Stage 1	Stage 2	Stage 3	2022	2021
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	\$	\$
	\$	\$	\$	\$	\$
Loans receivable					
including accrued					
interest:					
<i>Gross carrying amount</i>					
Consumer loans	7,999,309	4,196,413	6,208,087	18,403,809	11,840,680
Commercial loans	-	-	731,724	731,724	6,518,177
Staff loans	237,858	29,397	-	267,255	332,122
Extra ordinary advances	128,491	-	1,026,982	1,155,473	1,085,388
Accrued interest	453,186	-	-	453,186	384,969
Loss allowance	(618,347)	(245,858)	(3,921,958)	(4,786,163)	(4,493,262)
	8,200,497	3,979,952	4,044,835	16,225,284	15,668,074

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

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 \$	2022 \$	2021 \$
Investment securities at amortized cost:					
Gross carrying amount	50,375	2,975,200	-	3,025,575	6,970,654
Loss allowance	-	-	-	-	-
Carrying amount	50,375	2,975,200	-	3,025,575	6,970,654
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2022 \$	2021 \$
Due from the Bahamas Government:					
Gross carrying amount	-	-	2,742,702	2,742,702	1,960,908
Loss allowance	-	-	-	-	-
Carrying amount	-	-	2,742,702	2,742,702	1,960,908
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2022 \$	2021 \$
Interest receivable, net:					
Gross carrying amount	65,027	-	-	65,027	503,143
Loss allowance	-	-	-	-	-
Carrying amount	65,027	-	-	65,027	503,143
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	2022 \$	2021 \$
Other assets:					
Gross carrying amount	279,711	-	294,560	574,271	516,321
Loss allowance	-	-	(294,560)	(294,560)	(294,560)
Carrying amount	279,711	-	-	279,711	221,761

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 can be sold immediately to meet cash requirements for normal operating purposes.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

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 2022 based on contractual maturities:

	On Demand \$	Less than 1 year \$	2022			Total
			1 to 5 Years \$	More than 5 years \$	No specific maturity \$	
Financial assets						
Cash and cash equivalents	2,720,759	561,224	-	-	-	3,281,983
Investments, at amortized cost	-	50,375	363,500	2,611,700	-	3,025,575
Loans receivable, gross	-	637,704	4,476,851	15,443,706	-	20,558,261
Due from the Bahamas Government	-	-	-	-	2,742,702	2,742,702
Interest receivable, gross	-	65,027	-	-	-	65,027
Other assets	-	574,271	-	-	-	574,271
	2,720,759	1,888,601	4,840,351	18,055,406	2,742,702	30,247,819
Financial liabilities						
Customer deposits	-	1,154,168	-	-	-	1,154,168
Accounts payable and accrued expenses	-	1,863,627	-	-	-	1,863,627
Bonds payable	-	-	4,000,000	-	-	4,000,000
Loans payable	-	2,198,494	7,481,744	27,706,582	-	37,386,820
Interest payable	-	695,339	-	-	-	695,339
Lease liability	-	37,895	70,553	-	-	108,448
	-	5,949,523	11,552,297	27,706,582	-	45,208,402
Liquidity gap	2,720,759	(4,060,922)	(6,711,946)	(9,651,176)	2,742,702	(14,960,583)

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Notes to Financial Statements

31 December 2022

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					
	On Demand \$	Less than 1 year \$	1 to 5 years \$	More than 5 years \$	No specific maturity \$	Total \$
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, gross	-	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)

Reputational risk

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources that 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

31 December 2022

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

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. EVENTS AFTER THE REPORTING DATE

The Bank evaluated the impact of all post-reporting date events through 21 September 2023, which is the date the financial statements are available to be issued.

In 2021, the Bank had a case brought against it by a former employee. The claimant was seeking judgment for varying amounts before the Industrial Tribunal. On 31 July 2023, the decision was made by the Industrial Tribunal in favor of the claimant, and the Bank was ordered to pay an amount of \$15,521 to the former employee.

On 17 August 2023, the Board of Directors approved the changing of the financial year end of the Bank to 30 June of each year from 31 December, with effect from the beginning of 2023, as required by the Public Finance Management Act 2021. The Board also approved to open an additional bank account at the Bank of the Bahamas specifically for SBDC funds.

In September 2023, the Government's Cabinet, via ICO 37 (23) Conclusion 1, welcomed and supported the following for the recapitalization of the Bank, as follows:

- The borrowing for both \$20 million from the European Investment Bank ("the EIB") and \$30 million from the African Export-Import Bank ("the AFREXIM") for the purpose of recapitalizing the Bank, with the expectation that the Bank will repay the EIB Facility;
- The recommendation for the Government of The Bahamas to take on both loan facilities directly; and
- Approval for the Ministry of Finance facilitating both loans with the purpose of recapitalizing the Bank.

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 5.