

Audited Financial Statements

BAHAMAS DEVELOPMENT BANK

30 June 2023

BAHAMAS DEVELOPMENT BANK

Audited Financial Statements

30 June 2023

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INDEPENDENT AUDITORS' REPORT

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

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Opinion

We have audited the financial statements of Bahamas Development Bank ("the Bank"), which comprise the statement of financial position as at 30 June 2023, and the statements of comprehensive income, changes in capital deficiency, and cash flows for the period from 1 January 2023 to 30 June 2023, 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 30 June 2023, and its financial performance and its cash flows for the period 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Bank's liabilities exceeded its assets by \$14,128,256, and had an accumulated deficit of \$71,323,508 as at 30 June 2023. These conditions 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. Our opinion is not modified concerning this matter.

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.

Key Audit Matters (continued)

Reversal of allowance for expected credit losses - \$639,770	
The risk	Our response
<p>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.</p> <p>As disclosed in Note 7 in the financial statements, the Bank's gross loan receivables including accrued interest amounted to \$20,797,229 and the related allowance for expected credit losses amounted to \$3,917,776 as at 30 June 2023. The reversal of allowance for expected credit losses for the period from 1 January 2023 to 30 June 2023 amounted to \$639,770.</p> <p>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.</p> <p>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.</p>	<p>As part of our audit procedures, we:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> » 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
<p>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.</p> <p>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.</p>	<p>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.</p>

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

Other Information

Management is responsible for the other information. The other information comprises the Bahamas Development Bank Annual Report 2023 (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 2023, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Matter

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.

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.

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

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

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

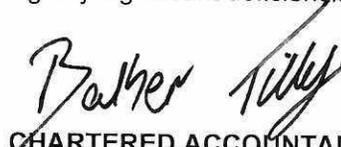
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

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

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

8 July 2024

Nassau, The Bahamas


CHARTERED ACCOUNTANTS

BAHAMAS DEVELOPMENT BANK

Statement of Financial Position
(Expressed in Bahamian dollars)

30 June 2023

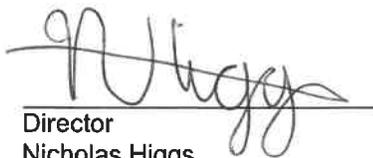
	Notes	30 June 2023 \$	31 December 2022 \$
ASSETS			
Cash and cash equivalents	5, 27	3,493,136	3,281,983
Investments, at amortized cost	6, 27	3,025,740	3,025,575
Loans receivable, net	7, 24, 27	16,879,453	16,225,284
Due from the Bahamas Government	14, 24, 27	2,978,982	2,742,702
Interest receivable on investments at amortized cost, net	6, 27	63,691	65,027
Prepayments and other assets, net	8, 27	356,428	360,540
Right-of-use asset	23	84,580	103,376
Fixed assets, net	9	3,130,162	3,247,839
TOTAL ASSETS		30,012,172	29,052,326
LIABILITIES AND CAPITAL DEFICIENCY			
LIABILITIES			
Customer deposits	10, 25, 27	1,050,711	1,154,168
Accounts payable and accrued expenses	11, 24, 27	1,325,045	1,863,627
Bonds payable	12, 27	4,000,000	4,000,000
Loans payable	13, 27	36,543,253	37,386,820
Interest payable	12, 13, 27	681,308	695,339
Lease liability	23, 27	89,714	108,448
Defined benefit pension plan obligation	22, 27	450,397	473,224
Total liabilities		44,140,428	45,681,626
CAPITAL DEFICIENCY			
Share capital	15	28,960,255	28,960,255
Contributed surplus	15, 24	28,300,252	26,800,252
Reserve fund	16	273,128	273,128
Other components of equity	22	(338,383)	(338,383)
Accumulated deficit	2	(71,323,508)	(72,324,552)
Total capital deficiency		(14,128,256)	(16,629,300)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		30,012,172	29,052,326

COMMITMENTS AND CONTINGENCIES

23

These financial statements were approved on behalf of the Bank on 8 July 2024 by the following:


Director
Gavin Christie


Director
Nicholas Higgs

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

BAHAMAS DEVELOPMENT BANK

Statement of Comprehensive Income
(Expressed in Bahamian dollars)

For the period from 1 January 2023 to 30 June 2023

	Notes	30 June 2023 \$	31 December 2022 \$
		(6 months)	(12 months)
INTEREST INCOME			
Loans	7	461,926	853,390
Investments	6	71,905	226,474
Interest subsidy	14, 24	151,014	304,382
Deposits	5	1,018	2,322
Total interest income		685,863	1,386,568
Interest expense	10, 12, 13	(791,709)	(1,631,052)
NET INTEREST LOSS		(105,846)	(244,484)
LOAN RECOVERY	7	715,724	90,667
OTHER INCOME	17, 24	185,895	670,365
TOTAL INCOME, net of interest expense		795,773	516,548
NON-INTEREST EXPENSES			
Staff costs	19, 21, 24	1,344,801	3,179,469
General and administrative costs	20	430,609	1,226,309
Write-off of loans receivable	7	169,756	-
Depreciation and amortization of fixed assets	9	118,111	235,475
Amortization of right-of-use asset	23	18,796	37,590
(Reversal of allowance for) provision for expected credit losses	7	(639,770)	292,901
Write-off of interest receivable on loans	6	-	396,326
Loss on sale of investments in Bahamas government registered stocks	6	-	169,003
Total non-interest expenses		1,442,303	5,537,073
NET LOSS BEFORE GOVERNMENT SUBSIDY		(646,530)	(5,020,525)
GOVERNMENT SUBSIDY	14, 18, 24	1,647,574	3,526,391
NET INCOME (LOSS) FOR THE PERIOD / YEAR		1,001,044	(1,494,134)
OTHER COMPREHENSIVE LOSS			
Remeasurement of net defined benefit obligation	22	-	(338,383)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD / YEAR		1,001,044	(1,832,517)

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

BAHAMAS DEVELOPMENT BANK

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

For the period from 1 January 2023 to 30 June 2023

	Notes	Share Capital	Contributed Surplus	Reserve Fund	Other components of equity	Accumulated Deficit	Total
		\$	\$	\$	\$	\$	\$
Balances at 1 January 2022		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)
Balances at 31 December 2022		28,960,255	26,800,252	273,128	(338,383)	(72,324,552)	(16,629,300)
Additional capital contribution during the period	15	-	1,500,000	-	-	-	1,500,000
Net income for the period		-	-	-	-	1,001,044	1,001,044
Balances at 30 June 2023	15, 16	28,960,255	28,300,252	273,128	(338,383)	(71,323,508)	(14,128,256)

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

BAHAMAS DEVELOPMENT BANK

Statement of Cash Flows
(Expressed in Bahamian dollars)

For the period from 1 January 2023 to 30 June 2023

	Notes	30 June 31 2023 \$	December 2022 \$
		(6 months)	(12 months)
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Total comprehensive income (loss) for the period / year		1,001,044	(1,494,134)
Adjustments for non-cash items:			
Interest income - loans	7	(461,926)	(853,390)
Interest income - investments	6	(71,905)	(226,474)
Interest income - subsidy	14, 24	(151,014)	(304,382)
Interest income - deposits	5	(1,018)	(2,322)
Other income - mail boat subsidy	14	(86,999)	(221,673)
Government subsidy	14, 18, 24	(1,647,574)	(3,526,391)
Interest expense - lease liability	23	2,266	5,770
Interest expense - bonds payable	12	84,301	170,000
Interest expense - loans payable	13	707,408	1,461,016
Net interest on defined benefit pension plan obligation	22	12,304	12,768
(Reversal of allowance for) provision for expected credit losses	7	(639,770)	292,901
Depreciation and amortization of fixed assets	9	118,111	235,475
Amortization of right-of-use asset	23	18,796	37,590
Write-off of loans receivable	7	169,756	-
Loss on sale of investments in Bahamas government registered stocks	6	-	169,003
Write-off of interest receivable on loans	6	-	396,326
Interest expense - customer deposits	10	-	36
Changes in operating assets and liabilities:			
Increase in loans receivable, gross		(115,485)	(781,894)
Increase in due from the Bahamas government		-	(30,967)
Decrease (increase) in prepayments and other assets		5,130	(77,534)
Decrease in customer deposits		(103,457)	(479,684)
(Decrease) increase in accounts payable and accrued expenses		(538,582)	399,666
Increase in defined benefit pension plan obligation		9,000	18,000
Cash used in operations		(1,689,614)	(4,800,294)
Interest received from loans		393,256	785,173
Interest received from investments		73,076	267,894
Interest paid on bonds payable		(85,699)	(170,000)
Interest paid on loans payable	13	(720,041)	(1,486,543)
Benefits paid to the pensioners	22	(44,131)	(88,268)
Interest paid on customer deposits		-	(36)
Net cash used in operating activities		(2,073,153)	(5,492,074)
INVESTING ACTIVITIES			
Acquisitions of fixed assets		(434)	(56,154)
Proceeds from maturity of fixed deposits	6	-	1,945,451
Proceeds from redemptions of investments, at amortized cost	6	-	1,830,995
Net cash (used in) provided by investing activities		(434)	3,720,292
FINANCING ACTIVITIES			
Repayments of loans during the period / year	13	(843,567)	(1,645,076)
Lease payments during the period / year	23	(21,000)	(42,000)
Government subsidy received during the period / year	14	1,649,307	3,301,619
Additional capital contribution received during the period / year	15	1,500,000	979,122
Net cash provided by financing activities		2,284,740	2,593,665
NET INCREASE IN CASH AND CASH EQUIVALENTS		211,153	821,883
Cash and cash equivalents, beginning of the period / year		3,281,983	2,460,100
CASH AND CASH EQUIVALENTS, END OF THE PERIOD / YEAR	5, 27	3,493,136	3,281,983

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

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. The Bank has one (1) additional branch located in Freeport, Grand Bahama Island.

On 17 August 2023, the Board of Directors approved the changing of the financial year end of the Bank from 31 December to 30 June of each year, with effect from the beginning of 2023, as required by the Public Finance Management Act, 2021. The Bank’s current financial statements presented are for the period from 1 January to 30 June 2023, while the comparative financial statements were as at and for the year ended 31 December 2022. As a result, the amounts presented in the financial statements are not entirely comparable.

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

The Bank’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), and are expressed in Bahamian dollars (“\$”), the Bank’s functional currency. All amounts have been rounded to the nearest Bahamian dollar, except when otherwise indicated.

Going concern assumption

For the period from 1 January to 30 June 2023, even though the Bank managed to earn a total comprehensive income of \$1,001,044, (total comprehensive loss for the year ended 31 December 2022: \$1,832,517) as of 30 June 2023, the Bank’s liabilities still exceeded its assets by \$14,128,256 (31 December 2022: \$16,629,300), and the Bank still had an accumulated deficit of \$71,323,508 as at 30 June 2023 (31 December 2022: \$72,324,552).

These financial statements are prepared on a going concern basis, as the Bank’s directors and management are satisfied that the Bank can continue in business for the foreseeable future, with the continued assistance of the Government of The Bahamas, through operational funding and debt repayments, which are budgeted in the Government’s fiscal year budget for 2024 - 2025.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

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

Going concern assumption (continued)

In addition, the Bank anticipates significant funding from the African Export-Import Bank (“AFREXIM”) for recapitalizing the Bank 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 2023

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 2023:

- IFRS 17, *Insurance Contracts*;
- Amendments to IFRS 17, *Insurance Contracts* (Amendments to IFRS 17 and IFRS 4);
- 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 IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12).

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.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Non-current Liabilities with Covenants (Amendments to IAS 1); and
- Lack of Exchangeability (Amendments to IAS 21).

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overall considerations

The financial statements have been prepared using the significant accounting policies and measurement bases summarized below.

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 Income" in one statement.

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 about values or conditions that cannot be known with certainty at the time the financial statements are prepared. A "critical accounting estimate" is both important to the presentation of the Bank's financial position and the statement of comprehensive income, and requires management's most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of inherently uncertain matters.

The information presented below provides an overview of the areas that involve a higher degree of judgment 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 judgments 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, several 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;

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's use of estimates and judgments (continued)

Estimates (continued)

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

- 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.

Reversal of allowance for expected credit losses during the period from 1 January 2023 to 30 June 2023 amounted to \$639,770 (year ended 31 December 2022: Provision for expected credit losses - \$292,901). The carrying values of the Bank's loans receivables, net of allowance for expected credit losses of \$3,917,776 as at 30 June 2023 (31 December 2022: \$4,786,163) amounted to \$16,879,453 (31 December 2022: \$16,225,284).

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 \$3,130,162 as at 30 June 2023 (31 December 2022: \$3,247,839).

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.

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, which is payable to the tax authorities on an accrual basis.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Operating lease commitments - Bank as a lessee

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 while in exchange for consideration”. To apply this definition, the Bank assesses whether the contract meets three (3) key evaluations which are:

- 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 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 use. The Bank assesses whether it has the right to direct “how and for what purpose” the asset is used throughout 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 concerning these are recognized as an expense in the statement of comprehensive income 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).

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principal versus agent considerations (continued)

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 on 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 concerning particular deposits.

Financial instruments

Recognition and derecognition

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

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and initial measurement of financial assets (continued)

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 income are presented within net interest loss and provision for expected credit losses.

Subsequent measurement of financial assets

Financial assets at amortized cost

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

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

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

As at 30 June 2023, the Bank's cash and cash equivalents, investments, at amortized cost, loans receivable, including accrued interest net, due from the Bahamas Government, interest receivable on investments at amortized cost, net, and other assets, net 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". 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of loans receivable (continued)

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 based on factors that affect the collectability of the accounts such as the length of the relationship with the debtor, the credit status of the debtor based on third-party reports, and historical experience over 12 months.

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 income 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income.

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, and improvements	-	10 years
Motor vehicles	-	5 years
Computer software and equipment	-	5 years
Office machines and equipment	-	5 years

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

Impairment of non-financial assets

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the statement of comprehensive income 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 income.

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.

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 a payment will probably 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 income throughout the borrowing using the effective interest method.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income throughout 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.

The Bank often enters into transactions involving a range of the Bank's services such as interest income, fees, and commission 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 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 it have been satisfied. These amounts are presented as gross in the statement of comprehensive income.

Interest income on loans

Interest income 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 in the statement of comprehensive income.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 two (2) tranches during the period. The Bank recorded the subsidy as a separate line item in the statement of comprehensive income, 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.

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 several 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 income in the period that relevant employee services are received.

Defined benefit pension plan

The Bank continues to administer the Defined Benefit Pension Plan for its few number of 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 regularly. 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined benefit pension plan (continued)

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 losses and are not reclassified to the statement of comprehensive income in subsequent periods.

Related party transactions

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

Foreign currency transactions

Transactions in currencies other than Bahamian dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of the financial position date, assets and liabilities 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 30 June 2023 are comprised of the following:

	30 June 2023	31 December 2022
	\$	\$
Cash at banks	2,929,896	2,718,459
Term deposit	561,489	561,224
Cash on hand	1,751	2,300
	<u>3,493,136</u>	<u>3,281,983</u>

Cash at banks does not earn interest.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

5. CASH AND CASH EQUIVALENTS (continued)

The Bank earns interest on the term deposit at prevailing market interest rates. The average rate during the period ended 30 June 2023 was 0.10% (31 December 2022: 0.10%). During the period from 1 January 2023 to 30 June 2023, interest income earned and received on the term deposit amounted to \$1,018 (year ended 31 December 2022: \$2,322).

6. INVESTMENTS, AT AMORTISED COST

Investments, at amortized cost as at 30 June 2023 consist of the following:

	30 June 2023	31 December 2022
	\$	\$
Fixed deposits	50,540	50,375
Bahamas Government Registered Stocks ("BGRS")	2,975,200	2,975,200
	3,025,740	3,025,575

The restricted and unrestricted portions of the investments, at amortized cost, as at 30 June 2023 are broken down as follows:

	30 June 2023	31 December 2022
	\$	\$
Unrestricted funds	1,705,214	1,705,575
Restricted sinking fund	1,270,000	1,270,000
Restricted fixed deposit - corporate credit card collateral	50,526	50,000
	3,025,740	3,025,575

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

	30 June 2023	31 December 2022
	\$	\$
Balance, beginning of the period / year	3,025,575	6,970,654
Interest on fixed deposit reinvested during the period / year	165	370
Proceeds from maturity of investments, at amortized cost	-	(1,945,451)
Redemptions of investments in BGRS	-	(1,830,995)
Loss on sale of investments in BGRS	-	(169,003)
Balance, end of period / year	3,025,740	3,025,575

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.

In 2020, the Trustees of the Bank's sinking fund resolved that the full balance of the Bank's sinking fund be released. A new sinking fund was established in accordance with the Act, amounting to \$1,270,000, for the satisfaction of the Central Bank of the Bahamas bonds totaling \$4,000,000, which 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

6. INVESTMENTS, AT AMORTISED COST (continued)

In 2021, the Bank established and maintained a \$50,000 fixed-term deposit with the 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% (31 December 2022: 18%).

During the period from 1 January 2023 to 30 June 2023, the Bank had neither withdrawals of fixed deposits nor redemptions of BGRS (year ended 31 December 2022: \$1,945,451, and \$1,830,995, respectively), and no loss on sale of BGRS (year ended 31 December 2022: \$169,003). As at 30 June 2023 and 2022, the Bank has met the requirements of the sinking fund.

The fixed-term deposits had a maturity of one (1) year and earned interest at an annual rate of 0.30% (31 December 2022: 0.30%). BGRS are held for long-term return and are stated at the amortized cost, 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.

During the period from 1 January 2023 to 30 June 2023, interest earned from investments, at amortized cost, by the Bank amounted to \$71,905 (year ended 31 December 2022: \$226,474), of which \$63,691 was receivable as at 30 June 2023 (31 December 2022: \$65,027), and was included in interest receivable on investments at amortized cost, net, in the statement of financial position. During the period from 1 January 2023 to 30 June 2023, no interest receivable was written off (year ended 31 December 2022: \$396,326), which was charge to the statement of comprehensive income.

7. LOANS RECEIVABLE, net

Loans receivable, net (including accrued interest) as at 30 June 2023 consist of the following:

	30 June 2023	31 December 2022
	\$	\$
Performing	9,933,817	9,577,530
Non-performing	8,972,081	9,558,004
Extraordinary advances	1,217,011	1,155,473
Employees	152,464	267,254
	20,275,373	20,558,261
Add: accrued interest	521,856	453,186
	20,797,229	21,011,447
Less: allowance for expected credit losses	(3,917,776)	(4,786,163)
	16,879,453	16,225,284

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

7. LOANS RECEIVABLE, net (continued)

Movements in loans receivable during the period were as follows:

	30 June 2023	31 December 2022
	\$	\$
Balance, beginning of the period / year	20,558,261	19,776,367
Add: loans disbursed	1,078,746	2,804,720
Less: loan repayments	(963,261)	(2,022,826)
Less: write-off of loans receivable	(398,373)	-
	20,275,373	20,558,261
Add: accrued interest	521,856	453,186
	20,797,229	21,011,447
Less: allowance for expected credit losses	(3,917,776)	(4,786,163)
Balance, end of the period / year	16,879,453	16,225,284

The outstanding loans earned interest at rates ranging from 0% to 8.50% per annum (31 December 2022: 0% to 8.50% per annum). During the period from 1 January 2023 to 30 June 2023, the Bank earned interest on loans amounting to \$461,926 (year ended 31 December 2022: \$853,390), of which \$521,856 was receivable as at 30 June 2023 (31 December 2022: \$453,186), and was included as a part of the total loans receivable in the statement of financial position. In addition, the Bank had a write-off of loans receivable amounting to \$169,756 (31 December 2022: Nil)

During the period from 1 January 2023 to 30 June 2023, loan recovery amounted to \$715,724 (year ended 31 December 2022: \$90,667), which represents the funds received by the Bank from the loans that were already written off in the previous financial years.

Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, the Bank always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

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

	30 June 2023	31 December 2022
	\$	\$
Balance at the beginning of the period / year	4,786,163	4,493,262
(Reversal of allowance) provision for expected credit losses during the period / year	(639,770)	292,901
Write-offs during the period / year	(228,617)	-
Balance at the end of the period / year	(3,917,776)	4,786,163

Total write-offs during the period from 1 January 2023 to 30 June 2023 totaled \$398,373 (year ended 31 December 2022: Nil), which included \$169,756 (2022: Nil) as direct write-off of loans receivable and was presented in the Bank's statement of comprehensive income.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

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:

30 June 2023	Number of accounts	Loans	Collateral held	Portion of loans not covered by collateral	Allowance for expected credit losses	Allowance rate
		\$	\$	\$	\$	%
General provision						
Current loans	57	7,685,968	10,411,845	-	233,894	5
1 to 30 days	14	623,537	1,337,166	-	61,566	5
31 to 60 days	9	994,564	1,440,806	-	292,830	10
61 to 90 days	6	782,213	756,909	25,304	108,637	15
Specific provision						
91 to 365 days	12	2,242,197	3,585,500	-	566,827	25
Over 365 days	125	6,729,883	15,787,616	-	1,779,013	26
Extraordinary advances linked to inactive loans		1,217,011	128,491	1,088,520	614,081	50
		20,275,373	33,448,333	1,113,824	3,656,848	
Allowance for expected credit losses on interest		-	-	-	260,928	
		20,275,373	33,448,333	1,113,824	3,917,776	
31 December 2022						
	Number of accounts	Loans	Collateral held	Portion of loans not covered by collateral	Allowance for expected credit losses	Allowance 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	27
Over 365 days	129	6,782,876	16,104,312	-	2,350,102	35
Extraordinary advances linked to inactive loans		1,155,473	128,491	1,026,982	832,126	72
		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	

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

8. PREPAYMENTS AND OTHER ASSETS, net

Prepayments and other assets, net as at 30 June 2023 is comprised the following:

	30 June 2023	31 December 2022
	\$	\$
Prepayments		
Prepaid expenses	46,475	80,829
Other assets		
VAT receivable	307,049	294,560
Offset loans	166,216	166,216
Accounts receivable	91,308	96,680
Others	31,335	8,210
Security deposits	8,605	8,605
Total other assets	604,513	574,271
Less: Allowance for expected credit losses	(294,560)	(294,560)
Total prepayments and other assets, net	356,428	360,540

VAT receivable pertains to the excess of input VAT over output VAT of the Bank. The carrying amount after the expected credit losses as at 30 June 2023 amounted to \$12,489 (31 December 2022: Nil)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

9. FIXED ASSETS, net

Fixed assets as at 30 June 2023 is comprised of the following:

	Land	Building and building Improvements	Computer Software and Equipment	Furniture, Fixtures and Improvements	Office Machines and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost:							
Balances at 1 January 2022	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 at 31 December 2022	480,000	2,297,908	2,482,066	1,730,683	568,596	47,612	7,606,865
Additions	-	-	434	-	-	-	434
Write-offs	-	-	(1,803,932)	(1,455,953)	(537,222)	-	(3,797,107)
Balances at 30 June 2023	480,000	2,297,908	678,568	274,730	31,374	47,612	3,810,192
Accumulated depreciation and amortization:							
Balances at 1 January 2022	-	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 at 31 December 2022	-	170,654	2,086,423	1,521,587	551,124	29,238	4,359,026
Depreciation and amortization	-	38,299	54,776	17,998	2,296	4,742	118,111
Write-offs	-	-	(1,803,932)	(1,455,953)	(537,222)	-	(3,797,107)
Balances at 30 June 2023	-	208,953	337,267	83,632	16,198	33,980	680,030
Net carrying values:							
30 June 2023	480,000	2,088,955	341,301	191,098	15,176	13,632	3,130,162
31 December 2022	480,000	2,127,254	395,643	209,096	17,472	18,374	3,247,839

Write-offs pertain to the write-off of fully depreciated fixed assets from the Bank's fixed asset registers as at 30 June 2023. These items were either obsolete or no longer existing.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

10. CUSTOMER DEPOSITS

Customer deposits as at 30 June 2023 consist of the following:

	30 June 2023	31 December 2022
	\$	\$
Mailboat subsidy - Ministry of Transport (see Note 25)	522,200	522,200
Other customer deposits and advances	320,371	439,924
Security deposits held as collateral for loans	183,800	173,800
Insurance premiums	8,723	9,521
Agriculture Program - Grand Bahama	15,617	8,723
	1,050,711	1,154,168

During the period from 1 January 2023 to 30 June 2023, there was no interest expense incurred by the Bank on customer deposits (year ended 31 December 2022: \$36 incurred and paid).

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as at 30 June 2023 are comprised of the following:

	30 June 2023	31 December 2022
	\$	\$
Accounts payable	1,034,331	1,319,223
Accrued expenses	285,197	524,799
Defined contribution pension plan obligation	5,517	19,605
	1,325,045	1,863,627

Accounts payable include those payable by the Bank to the assets under administration with the Small Business Development Center ("SBDC"), Roadwork, Agriculture, and Micro-loan programs, which amounted to \$813,786 as of 30 June 2023 (31 December 2022: \$1,118,576).

12. BONDS PAYABLE

As at 30 June 2023, the Bank had the following Bahamas Government guaranteed bonds issued to The Central Bank of The Bahamas:

Bond No.	Series	Issue Date	Year of Maturity	Rate	30 June 2023	31 December 2022
				%	\$	\$
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 period from 1 January 2023 to 30 June 2023, interest expense incurred by the Bank on the bonds amounted to \$84,301 (year ended 31 December 2022: \$170,000), of which \$91,380 was payable as at 30 June 2023 (31 December 2022: \$92,778).

The bonds payable as at 30 June 2023 are classified as non-current.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

13. LOANS PAYABLE

Loans payable as at 30 June 2023 consist of the following:

	30 June 2023	31 December 2022
	\$	\$
National Insurance Board	35,043,253	35,761,820
The Central Bank of The Bahamas	1,500,000	1,625,000
	36,543,253	37,386,820

Movements in loans payable during the period were as follows:

	2022	Additions	Payments	2023
	\$	\$	\$	\$
National Insurance Board	35,761,820	-	(718,567)	35,043,253
The Central Bank of The Bahamas	1,625,000	-	(125,000)	1,500,000
Total principal	37,386,820	-	(843,567)	36,543,253
Accrued interest	602,561	707,408	(720,041)	589,928

During the period from 1 January 2023 to 30 June 2023, interest expense incurred by the Bank on the loans payable amounted to \$707,408 (year ended 2022: \$1,461,016), of which \$589,928 was payable as at 30 June 2023 (31 December 2022: \$602,561).

The loans payable maturity are as follows:

	30 June 2023	31 December 2022
	\$	\$
Due within one (1) year	2,235,022	2,198,494
Due within one (1) to five (5) years	7,611,608	7,481,744
Due after five (5) years	26,696,623	27,706,582
	36,543,253	37,386,820

National Insurance Board

Loan - Office Building

As at 30 June 2023, the Bank had an outstanding loan of \$909,450 (year ended 2022: \$969,057) 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 period from 1 January 2023 to 30 June 2023, the Bank paid an amount of 59,608 (year ended 31 December 2022: \$115,286) 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 2020. As at 30 June 2023, the outstanding loan balance was \$34,133,803 (31 December 2022: \$34,792,763). 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 period from 1 January 2023 to 30 June 2023, the Bank paid an amount of \$658,959 (year ended 31 December 2022: \$1,279,790) on its principal balance.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

13. LOANS PAYABLE (continued)

The Central Bank of The Bahamas

As at 30 June 2023, the Bank had an outstanding loan of \$1,500,000 (31 December 2022: \$1,625,000) 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 period from 1 January 2023 to 30 June 2023, the Bank paid an amount of \$125,000 (year ended 31 December 2022: \$250,000) on the loan.

14. DUE FROM THE BAHAMAS GOVERNMENT

Movements in due from the Bahamas Government during the period ended 30 June 2023 was as follows:

	30 June 2023 \$	31 December 2022 \$
Balance, beginning of the period / year	2,742,702	1,960,908
Government subsidy earned during the period / year (see Note 18)	1,647,574	3,526,391
Government subsidy received during the period / year	(1,649,307)	(3,301,619)
Interest subsidy for the period / year	151,014	304,382
Administration fee for the period / year - mailboat operators (see Note 25)	86,999	221,673
Salaries paid for the period / year	-	30,967
Balance, end of the period / year	2,978,982	2,742,702

The principal and interest payments on bonds and loans payable during the period amounting to \$1,649,307 (year ended 31 December 2022: \$3,301,619) 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. Interest subsidy income incurred and paid by the Bank for the period from 1 January 2023 to 30 June 2023 amounted to \$151,014 (year ended 31 December 2022: \$304,382), and no salaries were accrued and paid for the period from 1 January 2023 to 30 June 2023 (year ended 31 December 2022: \$30,967).

Additionally, the Government agreed for the Bank to be paid administrative fees to facilitate the Government's Mailboat subsidy on behalf of the Ministry of Transport and Aviation. The fee of 2.50% was applied during the period from 1 January 2023 to 30 June 2023 and amounted to \$86,999 (31 December 2022: \$221,673).

As at 30 June 2023, the Bank had a receivable of government subsidy amounting to \$893,612 (31 December 2022: \$895,345) (see Note 18).

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

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

15. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Share capital as at 30 June 2023 are comprised of the following:

	30 June 2023	31 December 2022
	\$	\$
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 period from 1 January 2023 to 30 June 2023, the Bank received additional capital amounting to \$1,500,000 (year ended 31 December 2022: \$979,122), from the Ministry of Finance for the operational activities. This amount represents contributed surplus which amounted to \$28,300,252 as at 30 June 2023 (31 December 2022: \$26,800,252), and is separate from the government subsidy that the Bank receives.

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 30 June 2023, the total amount of the Reserve Fund was \$273,128 (31 December 2022: \$273,128). The Bank has not allocated any portion of its net profits during the period from 1 January 2023 to 30 June 2023.

17. OTHER INCOME

Other income during the period from 1 January 2023 to 30 June 2023 consists of the following:

	30 June 2023	31 December 2022
	\$	\$
Fees and commissions	185,825	649,053
Other	70	21,312
	185,895	670,365

18. GOVERNMENT SUBSIDY

The Government agreed to pay the capital and interest expense on the Bank's loans and bonds payable. During the period from 1 January 2023 to 30 June 2023, the Bank earned \$1,647,574 (year ended 31 December 2022: \$3,526,391), of which \$893,612 was receivable as at 30 June 2023 (31 December 2022: \$895,345), as disclosed in Note 14.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

19. STAFF COSTS

Staff costs during the period from 1 January 2023 to 30 June 2023 consist of the following:

	30 June 2023	31 December 2022
	\$	\$
Salaries	885,411	2,374,008
NIB, pension, and insurance (see Note 21)	265,420	491,625
Directors' expenses	111,824	189,914
Staff benefits and other	82,146	123,922
	1,344,801	3,179,469

20. GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs during the period from 1 January 2023 to 30 June 2023 consist of the following:

	30 June 2023	31 December 2022
	\$	\$
Professional fees	69,833	85,842
Telephone, telex, and cable	58,587	147,441
Computer expenses	53,545	61,489
Miscellaneous	50,296	463,486
Repairs and maintenance	42,593	85,209
Security expense	36,038	77,593
Subscriptions and entertainment	29,461	51,319
Utilities	19,654	41,771
Executive allowances	18,120	43,453
Other expenses	14,569	18,536
Insurance	13,933	27,204
Office supplies and printing	7,953	11,052
Travel and transportation	6,777	56,750
Advertising	4,377	30,159
Bank charges	2,848	17,383
Rent	2,025	7,622
	430,609	1,226,309

General and administrative costs included rent expenses during the period from 1 January 2023 to 30 June 2023 amounting to \$2,025 (year ended 31 December 2022: \$7,622), which consists of storage charges of \$2,025 (31 December 2022: \$3,510), and payments to the Hotel Corporation of the Bahamas are Nil (31 December 2022: \$4,112). The Bank has applied the exemption on IFRS16 for this transaction, due to the relatively short-term nature and value 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).

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

21. DEFINED CONTRIBUTION PENSION PLAN (continued)

As at 30 June 2023 and 31 December 2022, all funds were administered by Colina Financial Advisors Limited.

Pension contributions during the period from 1 January 2023 to 30 June 2023 amounted to \$46,267 (year ended 31 December 2022: \$99,443), which is included in NIB, pension, and insurance expenses, as disclosed in Note 19.

22. DEFINED BENEFIT PENSION PLAN OBLIGATIONS

The Bank has set up a funded pension scheme for its retired employees. As at 30 June 2023 and 31 December 2022, 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 management's valuation, there is no significant change in the defined benefit pension plan obligation in 2023. The movements in the defined benefit pension plan obligation and fair value of the plan assets are as follows:

	30 June 2023	31 December 2022
	\$	\$
Defined benefit pension plan obligation		
Balance at the beginning of the period / year	873,224	592,341
Interest expense	12,304	12,768
Benefits paid to pensioners from the operating fund	(44,131)	(88,268)
Returns on plan asset received by the operating fund	9,000	18,000
Remeasurement of net defined benefit obligation	-	338,383
Balance at the end of the period / year	850,397	873,224

	30 June 2023	31 December 2022
	\$	\$
Fair value of plan assets		
Balance at the beginning of the period / year	400,000	400,000
Expected return on plan assets	-	20,800
Actuarial loss on plan assets	-	(20,800)
Balance at the end of the period / year	400,000	400,000

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

	30 June 2023	31 December 2022
	\$	\$
Defined benefit obligation	850,397	873,224
Fair value of plan assets	(400,000)	(400,000)
	450,397	473,224

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

22. DEFINED BENEFIT PENSION PLAN OBLIGATIONS (continued)

As at 30 June 2023, the plan assets consist of investment in BGRS totaling \$400,000 (31 December 2022: \$400,000). This amount is included in Investments, at amortized cost in the statement of financial position.

The following information was used by an independent actuary who performed an actuarial valuation for the year ended 31 December 2022.

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 losses 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 amounted to Nil during the period from 1 January 2023 to 30 June 2023 (year ended 31 December 2022: \$338,383).

During the period from 1 January 2023 to 30 June 2023, interest expense on defined benefit pension plan obligation amounted to \$12,304 (year ended 31 December 2022: \$12,768). 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 income under the general and administrative costs as other expenses.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

23. COMMITMENTS AND CONTINGENCIES

Commitments

As at 30 June 2023, the Bank was committed to extend credit based on approved but undisbursed loans amounting to \$1,103,095 (31 December 2022: \$1,685,551).

Litigation and Provisions for asserted claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has an established protocol for dealing with such legal claims. 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.

All legal cases against the Bank have been discussed during the monthly board meetings, and the legal department of the Bank keeps the correspondences of all of them. Accordingly, set out below are the unresolved legal claims against the Bank as at 30 June 2023 for which, adjustments to the Bank's financial statements have not been made due to the uncertainty of its outcome.

GMP Holdings dba.MV Lady Emerald ("the Plaintiff"), has filed the action 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. However, as of 30 June 2023, the Plaintiff has withdrawn its application for summary judgment. The Bank's counterclaim was quantified as \$610,897 as at the audit report date, with pretrial on 12 and 13 May 2025.

Also, Windfield Outten T/A Tiffany Marble Products (Bahamas) ("the Plaintiff") filed an injunction in 2011 to stop the Bank from exercising its power of sale for the property located at Lot Number 14, in Block Number 14, within the Winton Heights Subdivision (Case: CLE/gen/01608). In March 2023, BK Ingraham & Co ("the consultant of the Plaintiff") sent a settlement offer to the Bank on behalf of the Plaintiff amounting to \$40,000. The Bank withdrew the bid, and the matter is still pending as at 30 June 2023.

Further, L'L Flak Enterprises Limited and Lelah Cunningham ("the Plaintiffs") have stated that they proposed a business enterprise to The Bahamas Agriculture and Industrial Corporation ("BAIC"), and/or the Bank and wanted to obtain a loan from the Bank. The Plaintiffs claim that the Bank had an agency relationship with BAIC and BAIC was referred to as the sister organization of the Bank. The Plaintiffs claim that a loan application was made to the Bank through BAIC and BAIC communicated to the Plaintiffs that their loan was approved. The Plaintiffs also claim that acting on reliance of the alleged approval, the Plaintiffs had expended more than \$210,963 on various items related to the pursuit of the proposed business enterprise, paid insurance premiums for life insurance coverage for its Directors, and entered into various contracts to construct the building. The Plaintiffs are also claiming breach of contract and fraud. The value of the claim is \$210,963, plus damages for fraud or damages for breach of contract, interest, and all costs associated with bringing the action (Case: 00977). The matter is still pending as at 30 June 2023.

In addition, as at 30 June 2023, the Bank had several other ongoing legal claims. Various legal proceedings are pending that challenge certain actions of the Bank.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

23. COMMITMENTS AND CONTINGENCIES

Litigation and Provisions for asserted claims (continued)

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 has a lease for its Freeport office with Jurobsi Investment Ltd. 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 the period from 1 November 2021 to 30 September 2024, renewable for one (1) year.

Right-of-use asset as at 30 June 2023 consist of the following:

	30 June 2023 \$	31 December 2022 \$
Right-of-use asset		
Balance at the beginning of the period / year	256,205	256,205
Additions during the period / year	-	-
Balance at the end of the period / year	256,205	256,205
Accumulated amortization		
Balance at the beginning of the period / year	152,829	115,239
Amortization during the period / year	18,796	37,590
Balance at the end of the period / year	171,625	152,829
Net carrying value as at end of period / year	84,580	103,376

Movements in lease liability during the period is as follows:

	30 June 2023 \$	31 December 2022 \$
Lease liability		
Balance at the beginning of the period / year	108,448	144,678
Interest charge during the period / year	2,266	5,770
Lease payments during the period / year	(21,000)	(42,000)
Balance at the end of the period / year	89,714	108,448

The maturity analysis of lease liability is as follows:

	30 June 2023 \$	31 December 2022 \$
Due within one (1) year	38,756	37,895
Due within two (2) to five (5) years	50,958	70,553
	89,714	108,448

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

23. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

Interest expense on lease liability is classified in the statement of comprehensive income under the general and administrative costs as other expenses.

24. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

24. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

As at and during the year ended 30 June 2023, the Bank's related party balances and transactions are as follows:

	Related party	Relationship	Nature of the balance/transaction	30 June 2023 \$	31 December 2022 \$
Balances:					
Cash and cash equivalents	Bank of the Bahamas	Affiliate	Cash at bank	2,542,131	2,353,574
Cash and cash equivalents	Central Bank of the Bahamas	Affiliate	Cash at bank	884	884
Cash and cash equivalents	Bank of the Bahamas	Affiliate	Term deposit	561,489	561,224
Investments, at amortized cost	Bank of the Bahamas	Affiliate	Fixed deposits	50,540	50,375
Investments, at amortized cost	Central Bank of the Bahamas	Affiliate	Bahamas Government Registered Stocks	2,975,200	2,975,200
Loans receivable, net	Key management personnel	Key management personnel	Loans to key management personnel	152,464	98,340
Due from the Bahamas Government	Ministry of Finance	Government ministry	Receivable from the Government	2,978,982	2,742,702
Accounts payable and accrued expenses	Ministry of Finance	Government ministry	VAT payable	61,453	12,109
Contributed Surplus	Ministry of Finance	Government ministry	Capital contribution	28,300,252	26,800,252
Transactions:					
Government subsidy	Ministry of Finance	Government ministry	Government grants	1,647,574	3,526,391
Interest subsidy	Ministry of Finance	Government ministry	Subsidy income	151,014	304,382
Other income	Ministry of Finance	Government ministry	Fee income	167,223	221,673
Staff costs	Directors	Directors	Directors' stipends and other expenses	105,299	189,914
Staff costs	Key management personnel	Key management personnel	Key management personnel compensation	317,709	627,518

As at 30 June 2023, due from the Bahamas Government account balance included government subvention, interest subsidy income, administration fee income 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 stipend expenses, which are recorded as part of staff costs in the statement of comprehensive income.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

24. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

No loans were disbursed to the Board of Directors or their close family members during the period from 1 January 2023 to 30 June 2023, and for the year ended 31 December 2022, respectively. The loans granted to key management personnel bear interest at an annual rate of 4.25% (2022: 4.25%), are unsecured, and have fixed terms of repayment. Other bank employees receive loans on the same terms.

25. ASSETS UNDER ADMINISTRATION

Micro Loan Program Design and Implementation

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

As at 30 June 2023, total loans under this program that are off-balance sheet, amounted to \$3,319,750 (31 December 2022: \$3,321,548). As of 30 June 2023, the cash balance that the Bank held on behalf of the MOF-MLP amounted to \$7,538 (31 December 2022: \$6,262).

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 30 June 2023 and 31 December 2022, no administration fees were earned and received for this arrangement.

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

	30 June 2023	31 December 2022
	\$	\$
Balance at the beginning of the period / year	3,321,548	3,335,270
Loan payments received	(1,798)	(13,722)
Balance at the end of the period / year	3,319,750	3,321,548

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 microloan 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.

BAHAMAS DEVELOPMENT BANK

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30 June 2023

25. ASSETS UNDER ADMINISTRATION (continued)

Sustainable Development (Agriculture Fund) Micro Loan Program (“SDAF-MLP”) Design and Implementation (continued)

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 the collection of payments and following up with delinquent clients.

As at 30 June 2023, total agricultural loans under this program, that are off-balance sheet, amounted to \$111,343 (31 December 2022: \$114,369). As at 30 June 2023, the off-balance sheet cash that the Bank held on behalf of the SDAF-MLP amounted to \$490,990 (31 December 2022: \$488,975). During the years ended 30 June 2023 and 31 December 2022, no administration fees were earned and received for this arrangement.

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

	30 June 2023	31 December 2022
	\$	\$
Balance at the beginning of the period / year	114,369	127,489
Loan payments received	(3,026)	(13,120)
Balance at the end of the period / year	111,343	114,369

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 provision of a framework for the Bank to act as an executing agency for SBDC’s Micro-Loan Program.

The Bank was 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 30 June 2023, total loans under this program that are off-balance sheet amounted to \$287,482 (31 December 2022: \$304,922). As of 30 June 2023, the off-balance sheet cash that the Bank held on behalf of the MLP amounted to \$1,510,655 (31 December 2022: \$1,467,254). During the year, the Bank earned and received administration fees amounting to \$25,200 (2022: \$54,000), with respect of this arrangement.

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

	30 June 2023	31 December 2022
	\$	\$
Balance at the beginning of the period / year	304,922	342,997
Loan payments received	(17,440)	(38,075)
Balance at the end of the period / year	287,482	304,922

BAHAMAS DEVELOPMENT BANK

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30 June 2023

25. ASSETS UNDER ADMINISTRATION (continued)

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 30 June 2023, total loans under this programme that are off-balance sheet amounted to \$2,470,976 (31 December 2022: \$2,709,720). As of 30 June 2023, the off-balance sheet cash that the Bank held on behalf of the MSME programme was Nil (31 December 2022: \$107,373). During the year, the Bank earned and received administration fees amounting to \$36,900 (31 December 2022: \$77,400), with respect of this arrangement.

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

	30 June 2023	31 December 2022
	\$	\$
Balance at the beginning of the period / year	2,709,720	3,117,527
Loans disbursed	13,190	19,097
Loan payments received	(251,934)	(426,904)
Balance at the end of the period / year	2,470,976	2,709,720

Hurricane Dorian - Disaster Recovery Loan Programme

As of 30 June 2023, total disaster recovery loans that are off-balance sheet amounted to \$16,948 (2022: \$17,112). As of 30 June 2023, the off-balance sheet cash that the Bank held in reference to the disaster recovery loan program was \$1,500,000 (31 December 2022: \$1,500,000). During the period ended 30 June 2023 and the year ended 31 December 2022, no administration fees were earned and received.

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

	30 June 2023	31 December 2022
	\$	\$
Balance at the beginning of the period / year	17,112	17,112
Loan payments received	(164)	-
Balance at the end of the period / year	16,948	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 every month.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

25. ASSETS UNDER ADMINISTRATION (continued)

Executing Agency Services - Mailboat Service Contract Payments (continued)

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 to track 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 30 June 2023, the cash that the Bank held on behalf of the Mail boat contract payments amounted \$522,000 (31 December 2022: \$522,200), and was presented as part of the Bank's customer deposits in the statement of financial position. During the period from 1 January 2023 to 30 June 2023, the Bank earned and received administration fees amounting to \$86,999 (year ended 31 December 2022: \$221,673), with respect of this arrangement (see Note 14).

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

	30 June 2023	31 December 2022
	\$	\$
Due to Mail boat operators, end of the period / year	522,200	522,220
Funds received for the distribution	3,644,942	8,320,522
Funds disbursed	(3,644,942)	(8,866,920)
Due to Mail boat operators, end of the period / year	522,200	522,200

26. CONCENTRATIONS OF FINANCIAL ASSETS AND LIABILITIES

As at 30 June 2023, the Bank has the following concentrations of financial assets and liabilities according to geographic region and industry sector:

	Geographic region	Industry	30 June 2023	31 December 2022
			%	%
Cash and cash equivalents	Bahamas	Financial Sector	100.00	100.00
Loans receivable	Bahamas	Service	42.20	45.54
	Bahamas	Transportation	23.63	20.78
	Bahamas	Tourism	18.40	18.70
	Bahamas	Manufacturing	9.33	9.54
	Bahamas	Fishing	1.53	3.22
	Bahamas	Staff	4.23	1.51
	Bahamas	Agriculture	0.68	0.71
			100.00	100.00
Loans and bonds payable	Bahamas	Financial Sector	100.00	100.00

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

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 which includes, interest rate risk, credit risk, liquidity risk, reputational risk, and compliance risk. The Bank's financial performance is affected by its capacity to understand and effectively manage these risks.

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return.

Management mitigates this risk by not investing significantly in securities affected by market risk. Market risk is comprised of the following:

Interest rate risk

The Bank provides financial and technical assistance to Bahamian entrepreneurs in the areas of agriculture, fishing, marine and land transportation, tourism, manufacturing, service enterprises, and other commercial operations. Interest rate is the potential adverse risk on earnings caused by movements in interest rates during the period.

The Bank's interest-bearing assets and liabilities expose it to cash flow interest rate risk. Interest margins may increase or decrease as a result of such changes, and may reduce or increase losses if 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 income for the period from 1 January 2023 to 30 June 2023.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk (continued)

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

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

	Portfolio size \$	Increase/ decrease in basis points	Sensitivity of profit or loss \$
30 June 2023			
Fixed income securities measured at amortized cost			
- BGRS	362,700	+50 / (50)	(1,814) / 1,814
Bonds payable	4,000,000	+50 / (50)	(20,000) / 20,000
Interest sensitivity gap			(18,186) / 18,186
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

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (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 amounts respectively.

Interest rate sensitivity gap analysis as at 30 June 2023 was as follows:

	30 June 2023		
	Interest Bearing Assets	Non-interest Bearing Assets	Carrying value
	\$	\$	\$
Financial assets			
Cash and cash equivalents	561,489	2,931,647	3,493,136
Investments, at amortized cost	3,025,740	-	3,025,740
Loans receivable including accrued interest, gross	20,797,229	-	20,797,229
Due from the Bahamas Government	-	2,978,982	2,978,982
Interest receivable on investments at amortized cost, gross	-	63,691	63,691
Other assets, gross	-	604,513	604,513
	24,384,458	6,578,833	30,963,291
Financial liabilities			
Customer deposits	-	1,050,711	1,050,711
Accounts payable and accrued expenses	-	1,325,045	1,325,045
Bonds payable	4,000,000	-	4,000,000
Loans payable	36,543,253	-	36,543,253
Interest payable	-	681,308	681,308
Lease liability	89,714	-	89,714
Defined benefit pension plan obligation	450,397	-	450,397
	41,083,364	3,057,064	44,140,428
Total interest rate risk gap	(16,698,906)	3,521,769	(13,177,137)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate risk gap analysis (continued)

	31 December 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 including accrued interest, gross	21,011,447	-	21,011,447
Due from the Bahamas Government	-	2,742,702	2,742,702
Interest receivable on investments at amortized cost, gross	-	65,027	65,027
Other assets, gross	-	574,271	574,271
	24,598,246	6,102,759	30,701,005
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	37,386,820	-	37,386,820
Interest payable	-	695,339	695,339
Lease liability	108,448	-	108,448
Defined benefit pension plan obligation	473,224	-	473,224
	41,968,492	3,713,134	45,681,626
Total interest rate risk gap	(17,370,246)	2,389,625	(14,980,621)

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 period ended 30 June 2023 would have increased by \$91,836 (year ended 31 December 2022: \$95,774). 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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. 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 the 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 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 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.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Expected Credit Loss Measurement (“ECL”) (continued)

The maturity profile is based on historically 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. 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 30 June 2023 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 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	30 June 2023 \$	31 December 2022 \$
Cash and cash equivalents (excluding cash on hand)	3,491,385	-	-	3,491,385	3,279,683
Loans receivable, including accrued interest, gross	9,840,589	849,345	10,107,295	20,797,229	21,011,447
Investments, at amortized cost	50,540	2,975,200	-	3,025,740	3,025,575
Due from the Bahamas Government	-	-	2,978,982	2,978,982	2,742,702
Interest receivable on investments at amortized cost, gross	63,691	-	-	63,691	65,027
Other assets, gross	604,513	-	-	604,513	574,271
	14,050,718	3,824,545	13,086,277	30,961,540	30,698,705

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum Exposure to Credit Risk (continued)

The following table shows the breakdown of the impairment allowance by portfolio at 30 June 2023:

	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	30 June 2023 \$	31 December 2022 \$
Loans receivable, including accrued interest:					
<i>Gross carrying amount</i>					
Consumer loans	9,166,269	849,345	8,159,862	18,175,476	18,403,809
Commercial loans	-	-	730,422	730,422	731,724
Staff loans	152,464	-	-	152,464	267,255
Extra ordinary advances	-	-	1,217,011	1,217,011	1,155,473
Accrued interest	521,856	-	-	521,856	453,186
Loss allowance	(556,388)	(401,467)	(2,959,921)	(3,917,776)	(4,786,163)
Net carrying amount	9,284,201	447,878	7,147,374	16,879,453	16,225,284
Investment securities at amortized cost:					
Gross carrying amount	50,540	2,975,200	-	3,025,740	3,025,575
Loss allowance	-	-	-	-	-
Carrying amount	50,540	2,975,200	-	3,025,740	3,025,575
Due from the Bahamas Government:					
Gross carrying amount	-	-	-	2,978,982	2,742,702
Loss allowance	-	-	-	-	-
Carrying amount	-	-	-	2,978,982	2,742,702
Interest receivable on investments at amortized cost, net:					
Gross carrying amount	-	-	-	63,691	65,027
Loss allowance	-	-	-	-	-
Carrying amount	-	-	-	63,691	65,027

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

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 \$	30 June 2023 \$	31 December 2022 \$
Other assets:					
Gross carrying amount	297,464	-	307,049	604,513	574,271
Loss allowance	-	-	(294,560)	(294,560)	(294,560)
Carrying amount	297,464	-	12,489	309,953	279,711

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

30 June 2023

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 30 June 2023 based on contractual maturities:

	30 June 2023					Total \$
	On Demand \$	Less than 1 year \$	1 to 5 Years \$	More than 5 years \$	No specific maturity \$	
Financial assets						
Cash and cash equivalents (excluding cash on hand)	2,929,896	561,489	-	-	-	3,491,385
Investments, at amortized cost	-	51,340	362,700	2,611,700	-	3,025,740
Loans receivable including accrued interest, gross	-	1,948,883	3,515,005	15,333,341	-	20,797,229
Due from the Bahamas Government	-	-	-	-	2,978,982	2,978,982
Interest receivable on investments at amortized cost, gross	-	63,691	-	-	-	63,691
Other assets, gross	-	604,513	-	-	-	604,513
	2,929,896	3,229,916	3,877,705	17,945,041	2,978,982	30,961,540
Financial liabilities						
Customer deposits	-	1,050,711	-	-	-	1,050,711
Accounts payable and accrued expenses	-	1,325,045	-	-	-	1,325,045
Bonds payable	-	-	4,000,000	-	-	4,000,000
Loans payable	-	2,235,022	7,611,608	26,696,623	-	36,543,253
Interest payable	-	681,308	-	-	-	681,308
Lease liability	-	38,756	50,958	-	-	89,714
	-	5,330,842	11,662,566	26,696,623	-	43,690,031
Liquidity gap	2,929,896	(2,100,926)	(7,784,861)	(8,751,582)	2,978,982	(12,728,491)

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

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:

	31 December 2022					Total \$
	On Demand \$	Less than 1 year \$	1 to 5 Years \$	More than 5 years \$	No specific maturity \$	
Financial assets						
Cash and cash equivalents (excluding cash on hand)	2,718,459	561,224	-	-	-	3,279,683
Investments, at amortized cost	-	50,375	363,500	2,611,700	-	3,025,575
Loans receivable including accrued interest, gross	-	1,090,890	4,476,851	15,443,706	-	21,011,447
Due from the Bahamas Government	-	-	-	-	2,742,702	2,742,702
Interest receivable on investments at amortized cost, gross	-	65,027	-	-	-	65,027
Other assets, gross	-	574,271	-	-	-	574,271
	2,718,459	2,341,787	4,840,351	18,055,406	2,742,702	30,698,705
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	2,718,459	(3,607,736)	(6,711,946)	(9,651,176)	2,742,702	(14,509,697)

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

30 June 2023

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 8 July 2024, 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.

Effective 1 July 2023, the Government of The Commonwealth of The Bahamas repealed the Business Licence Act, 2010, and its related amendments and regulations with the Business Licence Act, 2023, and the Business Licence Regulations, 2023 ("the BL Act and Regulations"). Accordingly, all businesses, with turnover of \$5 million or over, as defined by the BL Act and Regulations, are required to submit audited financial statements, statement of turnover and related business licence return for the calendar year ended 31 December. The Bank, a government business enterprise, and classified as a business, is liable to pay a business license fee in accordance with the BL Act and Regulations.

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

In August 2023, the Bank received \$388,321 from Ministry of Economic Affairs, Digital Transformation Unit ("DTU"), based on the Memorandum of Understanding between the DTU, the Bank and the SBDC, dated 12 August 2022, to support the successful implementation of Digi-Innovative Projects initiative of the Government. These funds were then disbursed to successful grant applicants in which the Bank evaluate and monitor the usage of funds based on its intended use. In March 2024, the Bank received an additional amount of \$143,142, related to the said program.

BAHAMAS DEVELOPMENT BANK

Notes to Financial Statements

30 June 2023

29. EVENTS AFTER THE REPORTING DATE (continued)

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 of both \$20 million from the European Investment Bank ("EIB") and \$30 million from the African Export-Import Bank ("AFREXIM") to recapitalize 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 to recapitalize the Bank.

On 27 June 2023, the Bank entered into two (2) years Partnership Agreement with C15 Studios Ltd. ("C15"), a cash flow solutions company headquartered in Trinidad and Tobago, focused on the Caribbean Creative Industry. The Bank is authorized to act as a Finder on behalf of C15, to identify and introduce equity investment or debt candidates to C15, entities owned, managed, and/or advised by the C15 or a portfolio company, who may then choose to invest in or provide financing to one or more of the Target Companies. The Bank will be paid 0.75% of the net fee income earned, or to be earned for either bridge or term loan financing, and equity financing on case by case basis.

On 19 February 2024, the Bank entered into an agreement with DCL Island Development, LTD ("DCL"), a company registered in The Bahamas. Under the agreement, the Bank agreed to deliver an Insurance Strategy Recommendation Report to DCL that provides an acceptable risk management scheme for DCL vendors.

On 22 February 2024, the Bank entered into a contract with the Food and Agriculture ("FAO"), wherein the Bank will design, implement and monitor at least one gender equitable financing instrument, to support women led business for a cost of US\$168,150. The contract was originally valid until 1 July 2024, but was extended to 2 September 2024.

On 27 March 2024, the Bank entered into another agreement with DCL, for Business Development Services and the Pineapple Production Strategy. The Bank will execute a comprehensive plan to develop local businesses in Eleuthera to meet current and future demand for experiences for Disney cruise line customers, and develop a production system to provide sufficient local pineapples for cruise consumption. The agreement is valid for one (1) year with total fees of \$530,245.

On 23 May 2024, the Bank renewed its lease agreement for its Freeport office for a term beginning on 1 July 2024 to 30 June 2027, with a monthly rental of \$4,000, renewable for an additional year.

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.

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