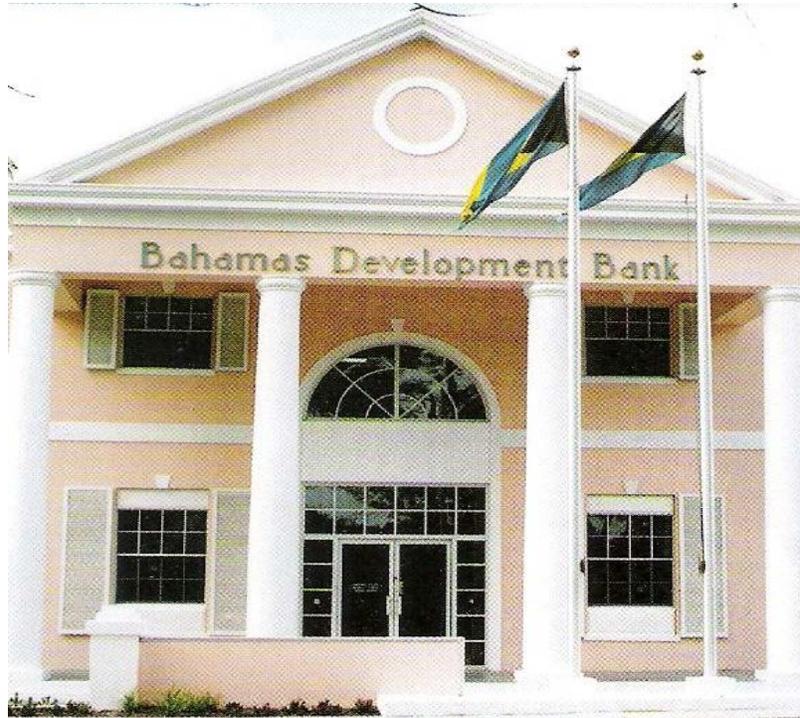


BAHAMAS DEVELOPMENT BANK

ANNUAL REPORT 2011



THE CHANGING FACE OF BDB.....Try Us Again!

(Inside Cover)

The Bahamas Development Bank should be regarded as an organ of national development. The Board is resolute in its view that the BDB has not yet reached the end of its useful life. As with other institutions – the police, national defense, public healthcare – the BDB exists because it serves a national need that the private sector cannot or is reluctant to fill. For the foreseeable future, there is no credible, sustainable alternative to the BDB as a source of funding for business projects for new and existing Bahamian entrepreneurs. In the Board's view, it is in the country's national interest to maintain a redefined BDB.

MISSION STATEMENT

To finance economically viable small and medium enterprises in a sustainable manner and to foster economic expansion and diversification throughout The Bahamas.

OUR OBJECTIVES

To make a significant and balanced contribution to diversifying our national economy

To be well managed financially

To be staffed with skilled and motivated employees

To deliver the highest level of customer service

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BAHAMAS DEVELOPMENT BANK

BOARD OF DIRECTORS

Darron Cash, Chairman

Anton Sealy, Deputy Chairman

Anthony Woodside, Managing Director

Harold Watson, Director

J. Lisa Bostwick, Director

Perry Cancino, Director

Jessup Johnson, Director

Philcher Grant-Farquharson, Director

Lindsay Williamson, Director

Jamaal Moss, Director



BAHAMAS DEVELOPMENT BANK

MANAGEMENT TEAMS

Executive Management Team

Anthony Woodside, Managing Director

Justin Sturup, Deputy Managing Director

Garnell Pelecanos, Financial Controller

Steine Campbell, Senior Credit Manager

Jacqueline Beneby, Human Resource Manager

Anita Ramsey, Corporate Secretary

Operations and Technical Management Team

John Archer, Manager, Delinquency Control & Collections

Dale McHardy, Manager, Special Projects

Alonzo Hinsey, Information Technology Manager

Bank's Profile:

The Bahamas Development Bank, a wholly owned government institution, was established in 1974 by an Act of Parliament. It became operational on July 21, 1978. Its office was located in Rawson Square on Bay Street, across from the historic House of Parliament prior to its current location in Cable Beach.

Our principal functions are to:

- Promote industrial, agricultural and commercial development
- Facilitate participation in approved economic enterprises
- Stimulate and enhance the economic development of the Bahamas
- Finance economically viable projects that:
 - A. Create employment
 - B. Utilize Bahamian materials and resources
 - C. Reduce imports and increase exports
 - D. Introduce new technology
 - E. Promote prosperity for all Bahamians

The Bank provides funding for the following sectors:

- Agriculture
- Fisheries
- Manufacturing
- Services
- Tourism
- Transportation

The Bank provides funding inclusive of the following projects/activities:

- Purchase of moveable fixed assets; for example machinery and equipment (new and used)
- Expansion and/or rehabilitation of existing enterprises
- Construction of commercial structures (expansion or modification)
- Permanent working capital as part of the project under consideration

Message from the Managing Director.....

Although the Bahamas Development Bank has experienced many challenges throughout its history, the Bank has begun its trek towards sustainability. Through the efforts of the management and staff and with the Government’s support BDB has shown year over year improvement in recent fiscal periods. This is no small feat considering the many impediments to success that development banks have faced historically and presently in the face of a world wide economic contraction.

Through collaboration with the Bahamas Government, BDB will continue to provide the capital and support needed for small and medium sized enterprises to develop and flourish in our country. BDB will focus on development banking in its truest sense with financing and giving technical support to projects that will expand the economy. We look forward to continuing our service.

Anthony Woodside

The Macro and Micro Environment

International Economic Context

For the greater part of 2010 the global economy was in turmoil, stemming from the initial crisis, internationally, in the sub-prime mortgage market. The economies of the Bahamas' major trading partners, the USA and United Kingdom, experienced notable contraction, notwithstanding attempts at stimulating economic activities through a series of bailout packages. Employment levels and consumer confidence dropped sharply.

However, according to the International Monetary Fund (IMF), there was some rebound in the global economy towards the latter part of the year and financial conditions were improving markedly. Given the lag effect, conditions remained generally difficult for many economies with the exception of China, India and Brazil, which continued to experience growth, albeit at a reduced rate. Regional economies, which have become increasingly dependent on tourism-related services, were seriously impacted, with many of them experiencing declines in Gross Domestic Product (GDP).

Domestic Economic Development

Indications are that the domestic economy eased onto a path for growth during 2010, supported by a modest improvement in tourism output, as prospects for recovery began to look more favourable in tourism's main source markets. However, construction activity remained mild, owing to subdued foreign tourism-related investment and domestic private sector projects. In this context, consumer demand conditions were relatively weak, being further hindered by the continuing high unemployment levels. On the price index side, reported inflation was low, despite the modest firming in international oil prices. The contraction in economic activity was influenced by declines in the main productive sectors of tourism, construction and agriculture. These factors impacted the financial results of the Bank.

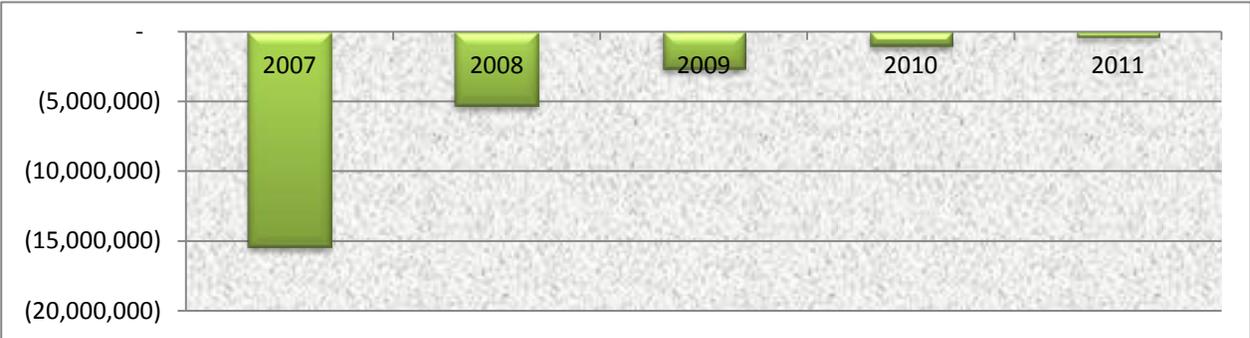
The pertinent issues of corporate governance and regulation have caused the Bank to adopt as its theme, “**Forging Ahead with Resilience**” – representing the strategy required to propel and sustain the institution. It is important that all stakeholders adopt this view given the contraction in economic activity arising from the decline in the major production sectors of the economy, and the resulting increase in the level of unemployment. The tightening in the economy reinforced the need for the survival of the Bahamas Development Bank (BDB), an institution that has previously provided sterling support to the economy for more than thirty two years.

Management’s Overview & Discussion

Financial

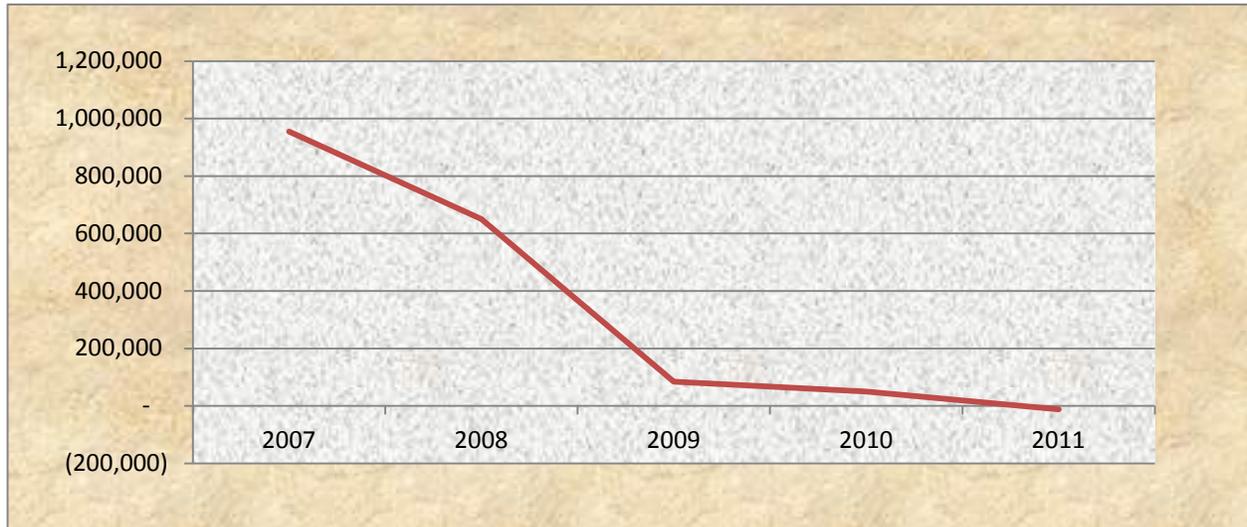
The overall financial performance of the Bahamas Development Bank has been one of further improvement. Although the Bank experienced a loss for the year 2011, the loss is significantly less than the previous year, reflecting a trend in the right direction due mainly to the Bank’s strides in various aspects of its financial management.

Net Income

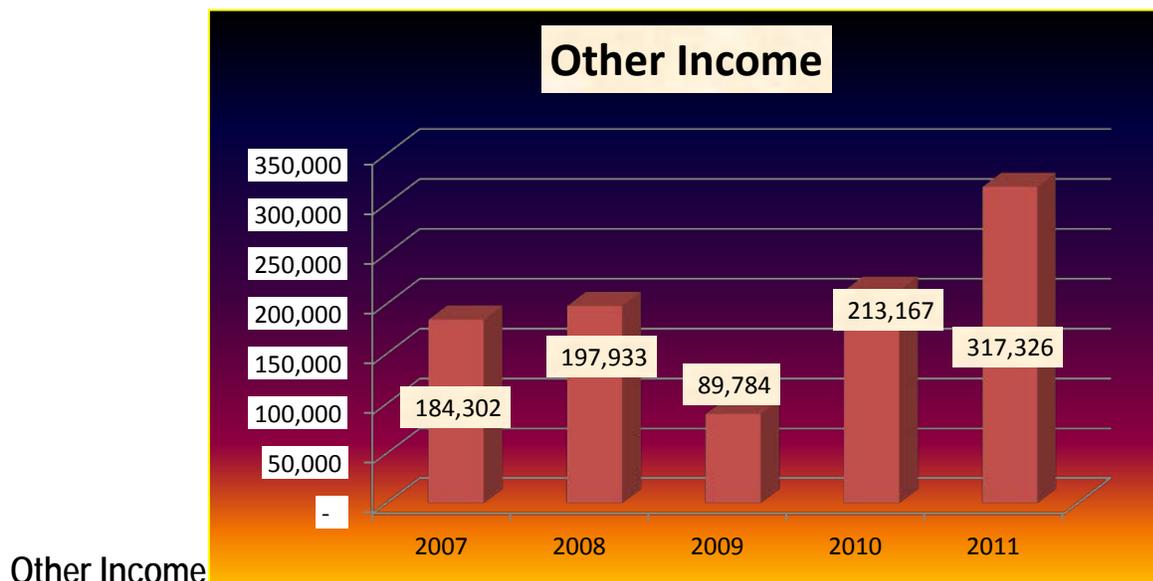


The loss for the year was approximately \$0.3 million, compared to \$1.0 million in 2010 and \$2.67 million in 2009, an improvement of \$0.7 and \$1.67 million respectfully. There were several major contributing factors to this achievement; chiefly the submission of government guarantee claims that amounted to \$0.84 million recovery of loan losses. Other significant contributing factors were the write down of loan loss provision in the amount of \$0.6, and an increase in fees and commissions as well as management’s commitment to reducing expenses evidenced by the continued decreases in total other expenses.

Net Interest Expense



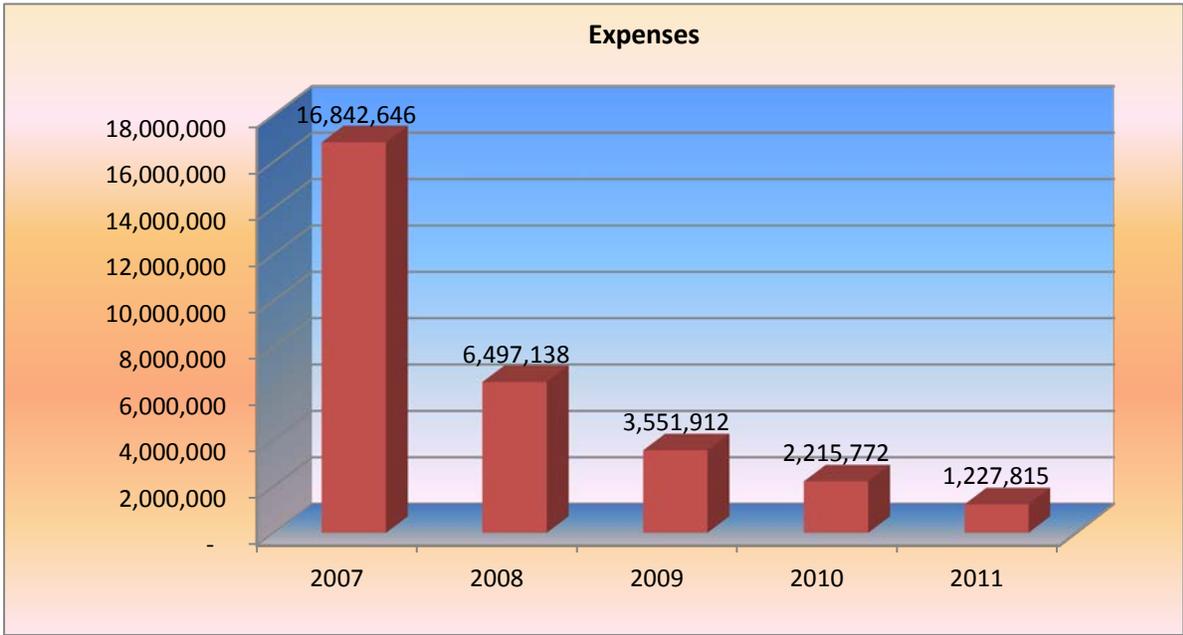
The Net Interest Expense (NIE) was \$0.01 million this year. Although Net Interest Income has been decreasing over the past several years, we have seen a bigger decrease in 2011 and a further weakening of the loan portfolio. BDB was not able to maintain a steady level of loan interest income with a drop of \$0.5 million from \$2.5 million in 2010 and 2009. This level represents a 18% decline from 2010. Although we did enjoy a reduction in interest rate and by extension interest expense for the servicing of long term debt we also suffered a decrease in interest income on loans due mainly to difficulties experienced in collections in a depressed economy.



Other Income

Other Income increased by \$0.10 million to \$0.32 million in 2011. This was mainly attributable to an increase in loan recoveries and the introduction of revised schedule of fees for client services.

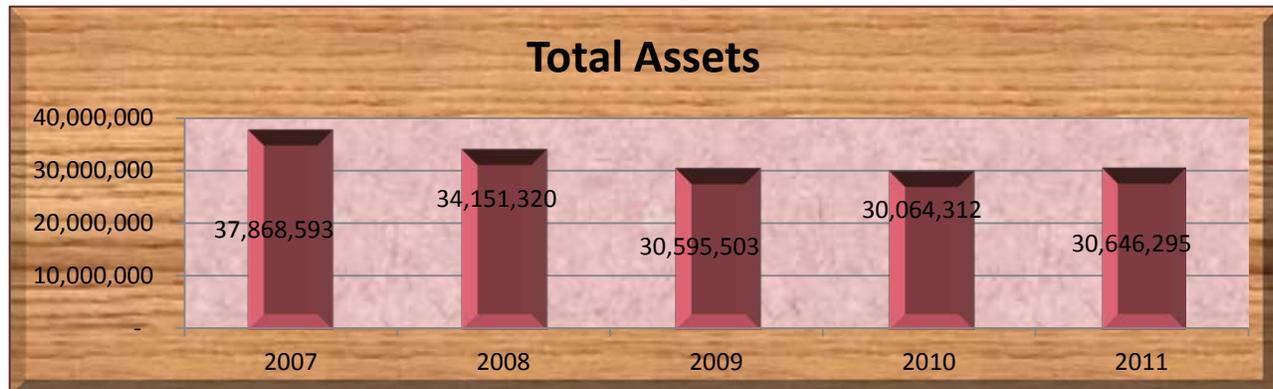
Operational and Administrative Expenses



At \$1.2 million, total expenses decreased by \$0.99 million or approximately 45% - a trend that has continued from 2008. The decrease in expenses is attributed to two major expense classes:

- **Recovery of loan losses** - The Bank has again this year, been able to enjoy a recovery of loan losses. The recovery of \$1.53 million is explained in detail in the Bank Operations section on page 13 of this report.
- **Salaries and staff expenses** have declined by \$0.25 million to \$1.98 a trend that has also continued from 2009. Management has continued to employ efforts to contain staff costs while strategically making strides in developing its staff

compliment. Further details can be found in the Human Resources section on page 15 of this report.



Total Assets have remained relatively stable at \$30.60 million compared to \$30.06 million in 2010, although there have been significant increases and decreases in particular asset classes:

- Fixed Assets decreased marginally as there were no major fixed asset purchases.
- Cash at Bank has increased slightly from \$2.34 million to \$2.68 million; due mainly to the Bahamas Government's direct payment of the Bank's long term debt, BDB has been able to maintain a steady cash flow.
- Accrued interest receivable also increased slightly as timed deposits naturally increase over time as interest earned is retained.
- The current portion of the loans receivable has increased by \$0.38 million as the portfolio continues to age with very few new loans being added. The Allowance for loan losses has decreased by \$0.67 million with the continued use of the established provisioning policy. All factors combined account for a negligible change in loans receivable of \$0.12 million.

Total Liabilities have increased slightly from \$50.90 million to \$51.83 million, although there have been significant changes in particular liability classes:

- Customer deposits have increased from \$0.44 to \$0.95. This amount represents deposits only and is not netted against advances for other expenditure as in the previous year.
- Accrued interest payable also decreased by \$0.60 million to \$0.60 million due to timely payments of interest. Liabilities also include a new classification namely, "Due to the Bahamas Government" which includes all payments made on behalf

of BDB less any claims (government guarantee, interest subsidy) approved for payment to BDB.

- The Current portion of long-term loans remains unchanged from the previous year. This amount will remain the same until 2013 as seen in the latter section of Note.



In the absence of additional capital injection from the Bahamas Government, shareholder's equity remains unchanged from the previous year.

Bank Operations

The year ended December 31st, 2010 was very challenging. The country experienced high unemployment, pervasive uncertainty and apprehension about the economy and reduced aggregate demand. Additionally, industry-wide tightening of credit contributed to increased hardship and payment difficulties for our clients, many of whom were unable to service their indebtedness to us due to lower sales volumes, increased costs, or outright business closure.

Despite the challenging economic conditions, the Bank made progress on a number of non-performing accounts in 2010. At December 31st, approximately \$3.0 million in accounts were eligible for restructuring under the Bank's policy. However management decided not to process those restructures at the time, given the economic conditions and level of uncertainty. Expectations are that as the economy returns to positive growth in 2011 the risks associated with those accounts will decline sufficiently to permit their restructuring.

Efforts to liquidate non- performing assets were moderately successful. In 2010 the Bank sold assets valued at \$0.94 million. Regrettably, the Bank experienced inordinate delays from Government agencies when attempting to liquidate leasehold assets. In 2010, BDB was unable to conclude sales of mortgaged leaseholds valued at approximately **\$0.8 million** because of its inability to obtain leasehold extensions and transfers in a timely manner.

At present, assets listed for sale exceed \$8.0 million. Management is taking steps to maximize exposure of these properties for sale and to create policies that will remove traditional barriers to having them sold. These initiatives include employing the web more effectively, publishing a newspaper supplement advertising properties for sale, providing financing to qualified bidders under specific circumstances, and facilitating possible payout agreements.

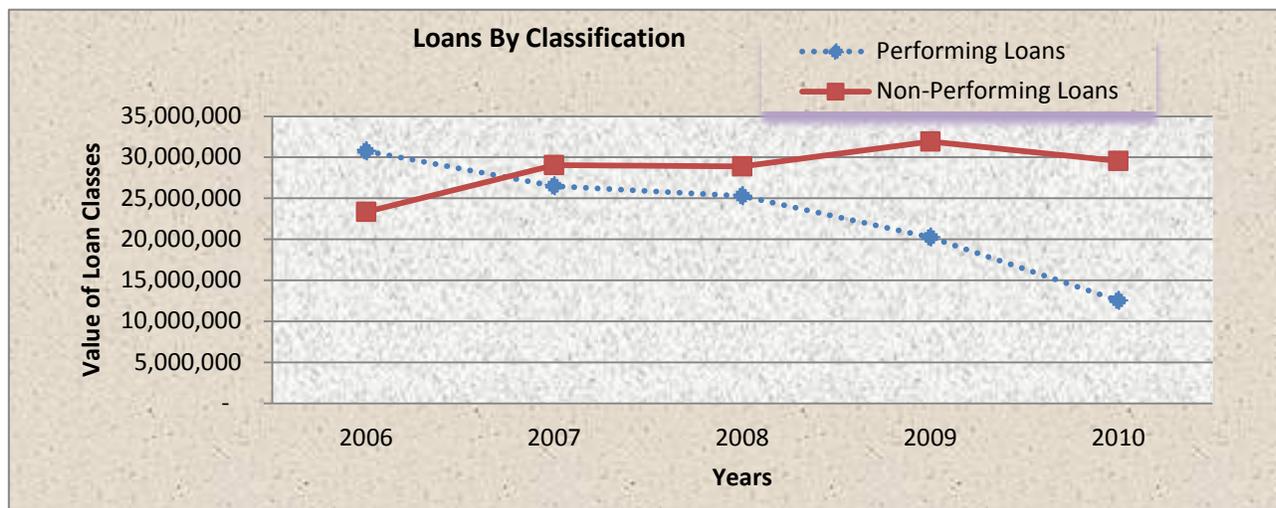
Table 1 - Summary of Portfolio Activity

Portfolio Opening Balance		\$52,148,099
Add New Loans		<u>647,846</u>
		52,795,945
Less: Loan Write-Offs Against Provision	7,651,583	
Loan Pay downs / Payouts/Liquidations	<u>3,094,813</u>	
Less Portfolio decreases		10,746,396
Portfolio Closing Balance		<u><u>\$42,049,549</u></u>

Table 1 summarizes BDB's portfolio activity for the year. Overall, the loan portfolio decreased by 19%, due primarily to loan write-offs, which accounted for 71% of Portfolio decreases during the year (please refer to Table 1). The remaining 29% consisted of loan pay downs, payouts and liquidations.

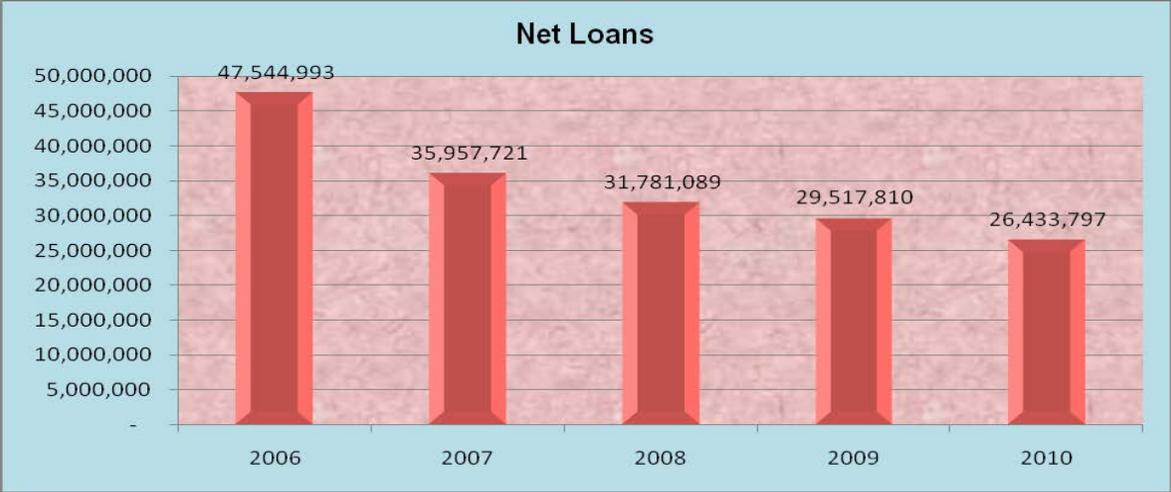
Going forward, more emphasis will be placed on increasing performing assets. Initially, this will be accomplished through an aggressive, but prudent, programme of loan restructuring and loan refinancing. Simultaneously, management will implement programmes to increase and expedite loan approvals and disbursements.

Performing / Non-Performing Accounts

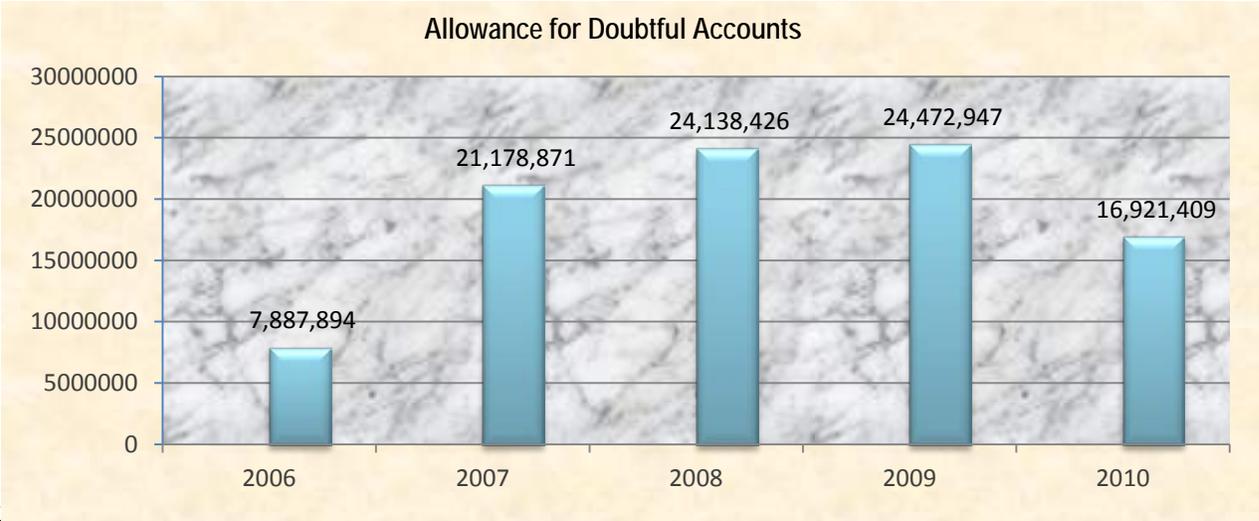


The level of non-performing loans (although slightly reduced from last year) outpaced performing loans in the portfolio; resulting in a nine percentage point increase in the rate of non-performing loans. Contributing to this was a slippage of approximately \$5.3 million in value, particularly among accounts in the commercial fishing and hotel sectors in the family islands.

At \$26.43 million net loans were down by \$3.09 million or 12% from the previous year.



The Allowance for doubtful accounts declined from \$24.47 million to \$16.92 million primarily because of the Bank’s decision to write-off accounts with the lowest probability of collection. Consequently, the provision for doubtful debts dropped from 82% of the loan portfolio to 64% the total loan portfolio.



Settlement of Government Loan Guarantees

In 2010 the Government approved settlement of twenty four claims, totaling \$0.87 under its Small Business Loan Guarantee Programme.

The Guarantee of Loans (Small Businesses) Regulations, 1998 provides additional security to approved lenders who wish to make loans to borrowers for the commencement or expansion of a small business. If the borrower defaults on the loan, the approved lender can claim from the Government for the lower of the outstanding loan amount or the maximum amount guaranteed. The claims submission process is a complex one, details of which are outlined in section 18 of Chapter 345 of the Guarantee of Loans (Small Businesses) Regulations, 1998.

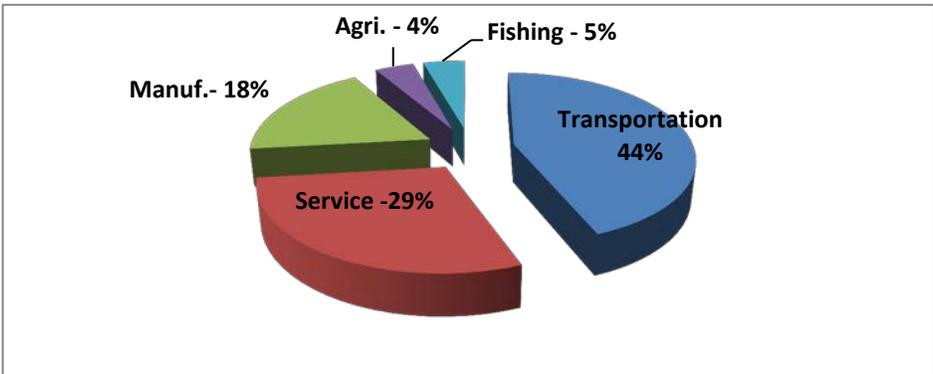
The positive impact on the 2010 financial statements is notable and the Government's cooperation in the settlement of the claims is commendable. It is anticipated that another \$1.0 million claims on existing guarantee policies will be processed in 2011. With the use of the guarantee programme the BDB is now able to consider viable projects that do not fully meet its collateral requirements.

DEPARTMENTAL REVIEWS

CREDIT DEPARTMENT

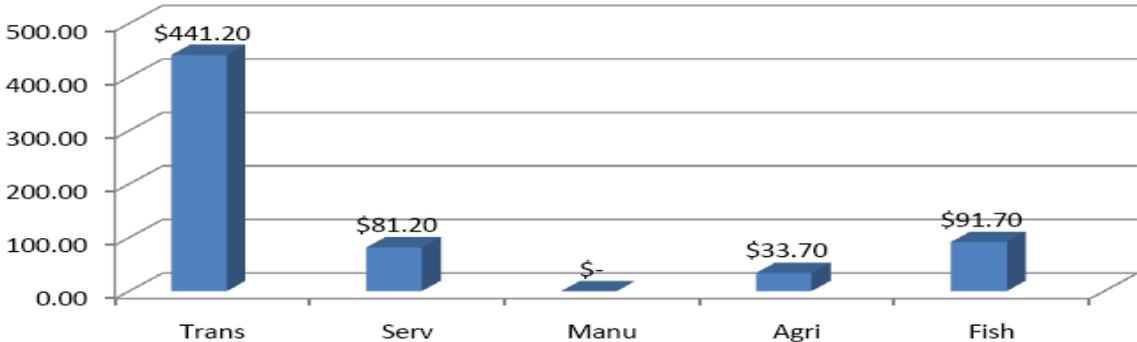
In January 2010, the Bank’s cash balance stood at \$0.53. During the year, twenty-five loans were approved totaling approximately \$1.2 million. This represents a slight improvement over the previous fiscal year. During 2009, eighteen loans with an aggregate value of \$0.69 million were approved.

LOAN APPROVALS BY SECTOR – 2010



Of the amount approved, actual amounts disbursed in 2010 totaled \$0.65 million compared with \$0.55 million disbursed in 2009.

LOAN DISBURSEMENTS BY SECTOR – 2010 (in thousands)



In 2011, the Bank proposes to focus its credit efforts on productive sector loans with moderate risks and employment generation potential (projects that create two or more

sustainable jobs). A stated goal of this effort is to book a minimum of \$2.0 million in new loans during the year. As a means of achieving this goal, the Bank will host several closed, non-publicized workshops with target groups and work with potential borrowers to establish businesses in diverse industries. Additionally, we will seek to assist our high-rated, existing customers with the recapitalization of their operations as needed.

HUMAN RESOURCES DEPARTMENT

Consistent with the general direction being taken world –wide, the Human Resources, Training and Administration department focused much of its attention to the further reduction in salaries and staff expenses. This was done in conjunction with the reengineering of processes geared at enhancing and rewarding performance, improving customer service and promoting the existence and strength of the Bank. 2011 was a year that brought about tangible, measurable change amongst the staff and the organization as a whole.

The use of the attrition method for cost savings on salaries remained the focus as well as turning to other methods that would have reduced cost during the peak of the economic downturn. The aging population of the bank led to one retirement during the year of 2011 and will continue to do so over the next two years. Additionally, resignations also led to opportunities for further savings despite increase in The National Insurance Contribution ceiling.

~~Additionally, in~~ In February of 2011, the Board of Directors through the Human Resources department shifted some of their focus to a change in the management of the pension plan. The plan was converted from a Define Benefit, being managed by a small committee appointed by employees to a Define Contribution Plan. The Define Contribution Plan, which is being managed by Colina Financial Advisors (CFAL) Limited, gave employees the option to have a greater stake in the investment of their pension funds and gave them an opportunity to make additional voluntary payments. This change in the pension benefit changed the contribution of the Bank from 11.8% to

5%, which is now matched at a rate of 5% by the employees. This gave rise to annual savings in excess of _____.

It is envisaged that during 2012, emphasis will continue to be placed on training and developing the employees of the Bank to position them to be regional leaders in the area of development banking. With the completion of a comprehensive training needs assessment exercise, training programs in Superior Customer Service, Legal Document Preparation, Credit and Collection techniques and training geared at strengthen business acumen will be delivered to the employees. The introduction of a Management Development Program is also proposed for selective employees as a part of the Bank's succession plan.

Through its employees, the Bahamas Development Bank has over the past three years, demonstrated its perseverance in the market and only through the adaptation of new methodologies and the movement towards a paradigm shift with how our products and services are delivered, will we fulfill our true mandate. We are committed to realistically, changing the face of the Bahamas Development Bank, employee by employee.

INFORMATION TECHNOLOGY

During the past year, the Bahamas Development Bank has made strides in making information more accessible to its end-users. Following the mandate of our Strategic Plan, we have implemented the ability for our staff to access customer information anytime-anywhere. Our Customer Service Representatives (CSR) are now able to access their customer accounts while on site visits in New Providence and the Family Islands. In addition, with the full implementation of Clareti Banking System, our CSR's now have the information that is needed at their finger-tips. This now allows them to be more effective and efficient in the loan cycle process and with delinquency control measures.

GRAND BAHAMA BRANCH

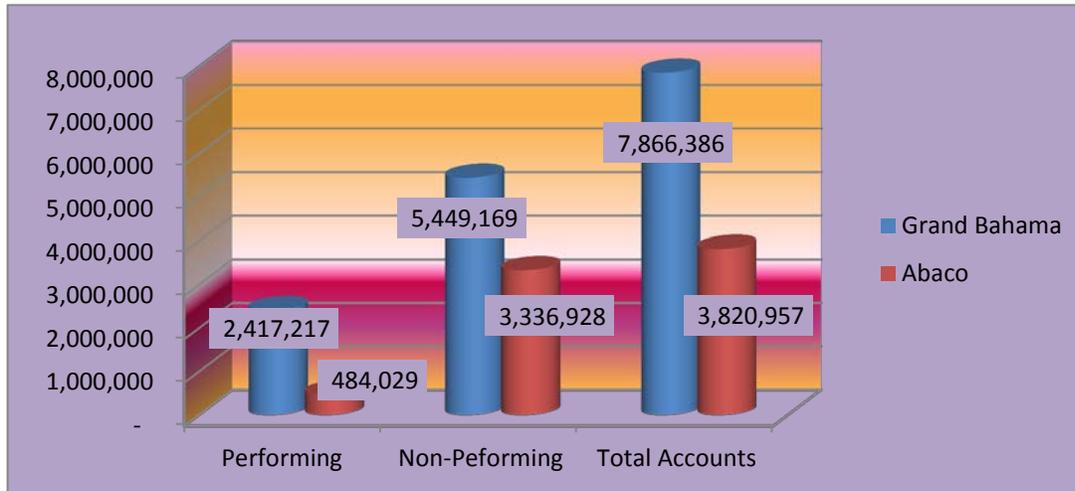
Freeport's Economy

The general synopsis of Grand Bahama's economy reflects a predominantly dim state which in part is a tremor from one of the worst ever global financial crises. The poor state of the island's economy was further highlighted by 15.4% unemployment rate which is expected to increase by an additional 5.8% in the first quarter of 2012.

Portfolio Performance

The Freeport Branch portfolio is made up of Grand Bahama and Abaco accounts. A comparison of the Branch portfolio for the periods 2010 and 2011 reveals a total portfolio growth of ----- representing ---- loans. New loans were mainly in the _____ sector. We are making a concerted effort to change this however. In an effort to reduce the country's foreign import cost and bring diversification to Grand Bahama Island, it is the objective of the Branch in keeping with the overall objective of BDB, to put more emphasis and focus on projects in the manufacturing and agricultural sectors. Currently the island imports approximately \$0.00 worth of pure agricultural products. It is believed that with the implementation of new hydroponic and aquaponic projects, the island will be able to reduce imports by at least --% by the end of year 2013.

A summary of the Grand Bahama Branch's portfolio and its classification is shown below:



As the diagram above reflects, Abaco accounts are performing poorly. The Branch has been faced with challenges as it relates to collection, repossession, and proper monitoring of projects due to geographical disparities. These issues have recently been address with the implementation of the Bank's revised Standard Operating Procedures (SOPs) coupled with regularly scheduled visits, representation by a local law firm, and unremitting communication with government officials on the island who have agreed to assist the Bank where necessary.

Moving Forward

The Branch having recognized its problem areas, is now taking several essential steps to correct its delinquency status while simultaneously increasing its portfolio with innovative, industrious, viable projects. To get first hand, diverse views of just what sectors will facilitate such projects, the Branch has began it's know your neighbor program. This program takes all staff out into the community to speak with and discuss one-on-one the needs of the island as seen by the employed, unemployed, private, government or self employed individuals. This information will be used in the Bank's decision making progress.

LOOKING AHEAD

Similar to strides made in specific areas in 2011, in 2012, the Bank will continue its efforts to significantly reduce risk exposure, through the application of proven techniques, while improving portfolio performance. We will endeavor to be focused on supporting each sector (particularly those with potential for export or import replacement) through methodical marketing efforts and operational assistance among the various departments. We will continue to expand on the improvements already made to our service delivery while further operational reform will be implemented to enhance our clients' experiences. We will fervently and relentlessly pursue and sustain improved customer service.

The Changing Face of BDB is the genesis for a modernized, improved and sustainable development banking institution in the Bahamas. The management and staff of the Bank will continue to be dedicated to the necessary changes that the institution has and will continue to make to position itself as a lender of first choice. This will be done in

tandem with significantly improving BDB's financial performance by strengthening operational weaknesses, finding and pursuing new revenue streams and developing a performance based and customer service oriented culture within the organization.