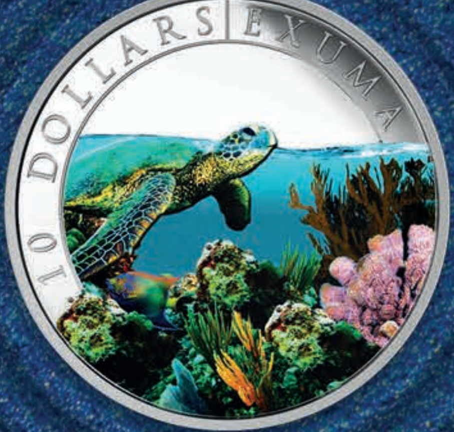
THE CENTRAL BANK OF THE BAHAMAS



2017
ANNUAL REPORT
& Statement of Accounts

For the year ended 31 December, 2017

MISSION

To foster an environment of monetary stability conducive to economic development, and to ensure a stable and sound financial system through the highest standards of integrity and leadership.

VISION

To promote a leading financial services industry within the framework of dynamic monetary policy developments, modernized payment systems, sound management strategies and capacity building.

VALUES

Our commitment to fulfilling our Mission is embodied in our Core Values of:

- Objectivity
- Confidentiality
- Integrity
- Excellence
- Teamwork
- Empowerment
- Initiative

April 25, 2018

Dear Deputy Prime Minister:

In accordance with Section 32(1) of the Central Bank of The Bahamas Act, 2000, I have the honour of forwarding to you, on behalf of the Board of Directors, the Annual Report of the Bank for the year 2017. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

John A. Rolle
Governor

The Hon. K. Peter Turnquest
Deputy Prime Minister & Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

ABOUT THE BANK

Under the Central Bank of The Bahamas Act, 2000 (the Act), the Bank is mandated to promote and maintain monetary stability and balance of payments conditions, conducive to the orderly development of the economy; in collaboration with other financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and to advise the Minister of Finance on any matter of a financial or monetary nature referred by [the Minister] to the Bank for its advice.

MONETARY POLICY

In its monetary role, a central objective of the Bank is to ensure adequate support for the fixed parity of the Bahamian dollar against the United States' currency. To attain this objective, the Bank has to maintain adequate foreign reserves against the stock of its demand liabilities, and ensure that the demand for foreign exchange, stimulated principally by domestic credit expansion, does not exceed the pace at which the economy earns foreign exchange from real sector activities. In alignment to this goal, the Bank has statutory responsibility for the prudent management of the country's foreign currency reserves.

The Bank's administration of exchange controls is also closely linked to the fixed exchange rate policy objective. Capital controls, which have undergone gradual relaxation in recent years, restrain the movement of capital by residents; however, there are no restrictions on current payments.

PUBLIC DEBT & SINKING FUND MANAGEMENT

The Bank provides front and back office services to the Government and its agencies, in activities involving debt issuance and administration, and the management of several sinking fund arrangements.

PAYMENTS

The Bank's involvement in the payments system is also integral to its overall mandate to promote the stability of, and confidence in the financial system. In carrying out its oversight function, the Bank seeks to ensure, *inter alia*, that the payments infrastructure functions smoothly, efficiently and fairly in the interest of all participants and users; that it minimizes and controls risks; and that the level of product innovation and development is adequate for the needs of the economy.

CURRENCY

The Bank meets the currency needs of the public, by arranging for the procurement, storage and issuance of Bahamian banknotes and coins, as well as maintaining the quality of currency in circulation. Banknotes deemed as unfit are withdrawn from circulation and replaced.

FINANCIAL STABILITY

Prudential oversight of regulated entities, is a critical part of the infrastructure to maintain high standards of service, conduct and management in the banking sector. A combination of off-site examinations, on-site inspections, and market intelligence, informs the risk-based assessments that are used to monitor the soundness of licensees. Stress testing is undertaken to gauge resilience to key economic and financial shocks.

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FOREWORD

The year 2017 could be characterized as one of quiet optimism, as the results from the expanded tourism infrastructure in New Providence started to take hold. Still challenges remained, amid the weather-related loss of hotel capacity in Grand Bahama, and temporary disruptions to travel itineraries during the hurricane season.

Overall, the performance of the domestic economy was mildly positive in 2017, supported mainly by foreign investment-led construction activity, and continued rebuilding following the passage of Hurricane Matthew in 2016. Monetary and credit trends were dominated by the receipt of proceeds from the Government's $750 million external bond issue in November. This contributed to robust growth in both external reserves and bank liquidity. Credit to the private sector remained subdued, as consumers continued to deleverage, while banks sustained their efforts to address the high, although declining, levels of non-performing loans (NPLs) in their portfolios, through a combination of asset sales, debt consolidation programmes and loan write-offs.

The fiscal deficit widened in FY2016/17, due to hurricane and election-year related expenditures; however, it decreased over the first six months of FY2017/18. This was mainly attributed to the reduction in capital expenditure.

With external borrowings leading to an improvement in the foreign reserve indicators and given the positive impetus to the economy from the increase in high-end hotel capacity, the Central Bank's Monetary Policy Committee (MPC) maintained its accommodative stance, allowing the adjustment impact of the end-2016 interest rate easing to take hold. The MPC therefore focused on reviewing and recommending further exchange control liberalisation measures. Placed within the context of maintaining the fixed exchange rate regime, the series of initiatives included proposals to expand the delegation limits of the commercial banks for certain current account transactions, as well as the creation of facilities to allow local businesses to secure foreign currency financing for their operations. The Committee also proposed reforms to a number of existing capital account facilities, including the Investment Currency Market (ICM) and foreign currency accounts. These full set of amendments to the capital account regime took effect in early 2018.

Progress was also made on the Bank's enhanced anti-money laundering (AML)/counter financing of terrorism (CFT) supervision initiatives, to address gaps identified in the Caribbean Financial Action Task Force's (CFATF) Mutual Evaluation Report for The Bahamas. As a key element of the reforms, the Central Bank established an Analytics Unit (AU) within the Bank Supervision Department, to focus on AML/CFT data analytics, and established frameworks for continuous oversight of AML/CFT systems within supervised financial institutions (SFIs). In the area of risk assessment, the Bank also refined its risk-based supervisory framework, to target specific high-risk firms though a process called "evergreening".

During the year, critical enhancements were also made to the Bank's Information Technology (IT) infrastructure, to mitigate against the emerging cyber-security risks, while considerable progress was made in the Bank's efforts to improve the administration of the public sector debt market, which will eventually include the establishment of a Centralised Securities Depository (CSD) for Government debt. On the legislative front, the release of the Payment Instruments (Oversight) Regulations, 2017, and corresponding General Information and Application Guidelines for Providers of Electronic Retail Payments Instruments and Electronic Money Products, cleared the way for the licensing of various entities offering mobile and other electronic payment solutions.

The Bank's strategic objective could not have been realized without the continued hard work and dedication of our staff. I therefore wish to thank my colleagues for their cooperation and support, and look forward to their ongoing commitment in the future.

John A. Rolle
Governor

DIRECTORS AND SENIOR OFFICIALS

At December 31, 2017

DIRECTORS

Pictured from left: Mr. Thomas Dean, Mr. L. Edgar Moxey, Mr. John A. Rolle, Chairman, Mr. Robert Adams and Mr. Derek Rolle, Deputy Governor.

SENIOR OFFICIALS

Pictured standing from left: Mr. Errol L. Bodie, Manager, Information Technology; Ms. Deborah Ferguson, Manager, Human Resources; Mr. Keith T. Jones, Manager, Accounts; Mr. Alwyn Jordan, Manager, Research; Mr. Ian B. Fernander, Manager, Administration; Mr. Charles Littrell, Inspector, Banking Supervision; Ms. Karen Rolle, Manager, Banking Supervision; Mr. John Ferguson, Chief Security Officer. Seated from left: Mrs. Cleopatra Davis, Manager, Internal Audit; Mr. Derek Rolle, Deputy Governor; Mr. John A. Rolle, Governor; Ms. Rochelle A. Deleveaux, Legal Counsel & Board Secretary. Inset: Mrs. Tamieka V. Watson, Manager, Exchange Control.

2017 AT A GLANCE

- The domestic economy registered further growth of an estimated 1.3%[1] in 2017, following a slight 0.2% gain in the prior year, supported by steady gains in the construction sector, which benefitted from several varied-scale foreign investment-led projects and post-hurricane rebuilding activity.

- Average consumer prices rose by 1.5% during the year, a turnaround from a 0.4% decrease recorded in 2016, reflecting in part an increase in global fuel costs.

- Employment conditions improved, as the jobless rate narrowed to 10.1% in November 2017, from 11.6% in the prior year.

- The fiscal deficit to GDP ratio increased to an estimated 5.8% in FY2016/2017, from 2.8% in FY2015/2016, as capital outlays buoyed the growth in total expenditure, outstripping the gain in aggregate revenue.

- At end-December, the Direct Charge to GDP ratio stood at an estimated 61.7%, an increase of 5.6 percentage points over 2016. In addition, the National Debt to GDP ratio rose by 5.2 percentage points to 67.8%.

- External reserves grew by $513.4 million to $1,417.4 million at end-December 2017, with the import cover ratio firming to 23.0 weeks of "current year's" imports, versus 16.5 weeks in 2016.

- In April, the Central Bank implemented further exchange control liberalisation measures, to allow certain types of businesses to obtain foreign currency financing.

- The Bank began to strengthen its AML/CFT framework, by progressing towards continuous oversight of AML/CFT systems in supervised financial institutions (SFIs) and the creation of an AML/CFT Analytics Unit in the Bank Supervision Department.

1 IMF forecast.

STRATEGIC FOCUS FOR 2018

IMPROVE THE MONETARY POLICY FRAMEWORK

- Sustain the development of the macro-economic forecasting framework, to include scenario analysis.
- Improve analysis in Financial Stability report to focus on emerging risks.
- Complete the implementation of the Balance of Payments BPM6 framework and develop International Investment Position (IIP) Accounts.
- Further expand the range of economic indicators collected, to improve the comprehensiveness of economic reports and enhance policy analysis.
- Support efforts to strengthen co-ordination of fiscal and monetary policy, with the introduction of a Fiscal Policy Advisory report.

STRENGTHEN THE SUPERVISORY AND REGULATORY FRAMEWORK

- Continue with the implementation of the Basel II & III risk-based frameworks and fully integrate evergreening reviews into the supervisory regime.
- Sustained effort to create a credit bureau and fully implement the appropriate supervisory regime.
- Further enhance the AML/CFT supervisory regime.
- Introduce regulatory and other necessary reforms, in order to mitigate risks from challenges related to access to international correspondent banking relationships (CBRs).
- Implement an effective licensing and supervisory regime for non-bank retail payment providers.

ENHANCE OPERATIONAL EFFICIENCY AND GOVERNANCE

- Progress with plans to secure new premises for the Bank's main operations and a suitable location for the currency operations centre.
- Fully implement the public debt management framework, by completing the dematerialisation of Government securities and creating a central securities depository.
- Accelerate the modernisation of payments operations, by initiating plans for the digitisation of the domestic currency, while also leveraging new technologies, to *inter alia*, improve the security of electronic transactions.
- Continue to develop the staff performance management and compensation system, in order to ensure adequate capacity building and succession planning.
- Strengthen the Business Continuity Plan (BCP), through training exercises; and complete arrangements for secondary facilities for business continuity.
- Continue the modernisation of the IT environment

IMPLEMENT AN EFFECTIVE EXTERNAL RELATIONS AND COMMUNICATIONS FRAMEWORK

- Develop a new website to provide more comprehensive information to the public and to simplify the process of navigating through the site.
- Continue to roll-out the financial literacy campaign, by conducting a series of outreach and educational programmes.
- Sustain efforts to promote financial inclusion, by, *inter alia*, reducing the regulatory burden to obtain bank accounts and leveraging appropriate financial technology (FinTech).

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

The Bank's corporate governance framework, as outlined in the Central Bank of The Bahamas Act, 2000 (the Act), prescribes, *inter alia*, the roles and responsibilities of the Board of Directors, the Governor and the Deputy Governor.

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for policy and oversight of the Bank's management and operations, including strategic planning, financial and accounting practices and procedures, risk management and succession planning.

Appointed by the Governor General, on the advice of the Minister of Finance, the Board is comprised of the Governor (Chair) and four independent directors. There is statutory provision for the appointment of two Deputy Governors, who may attend Board meetings. The Deputy Governor is only eligible to vote in cases where the Governor is absent and the Deputy Governor acts as Chairman.

As required under the Act, each Director must sign a declaration of secrecy in relation to the affairs of the Bank, and is indemnified by the Bank against personal, civil or criminal liability, in respect of their actions done in good faith while carrying out their statutory duties.

During 2017, the Bank welcomed new Directors Mr. Robert Adams and Mr. Thomas Dean, whose appointments took effect from 1st July, 2017. Mr. L. Edgar Moxey was also reappointed to the Board with effect from 1st July 2017. During the year, the Bank also bade farewell to former Directors Archdeacon James Palacious, Mr. Donald Demeritte and Mr. Mario Gray, whose tenures came to an end on 30th June, 2017. The Bank is grateful to each former Director for their valuable contributions to the deliberations of the Board.

With effect from 1st September, 2017, Mr. Derek Rolle, a twenty-eight year veteran of the Bank and former

Manager of the Banking Department, was appointed as Deputy Governor. Mr. Rolle succeeded Mr. Michael Lightbourne, whose tenure as Deputy Governor ended on 30th June, 2017. The Bank congratulates Mr. Rolle on his appointment and wishes to express its gratitude to Mr. Lightbourne for his ten years of service in this role.

For meetings, three Directors form a quorum, and in 2017, the Board met on ten occasions. In addition to matters of internal operation and governance, the Board's agenda included discussions on domestic and international economic and financial conditions, their implications for the external reserves, the Bank's five-year Strategic Plan, withdrawal of correspondent banking relationships (CBRs), measures to enhance the supervisory oversight of the AML/CFT regime, and the status of proposed legislative amendments impacting the Bank's operations. Deliberations were facilitated by various management briefs and reports.

ACCOUNTABILITY & TRANSPARENCY

The Bank is mandated by statute and best business practices, to ensure a high degree of transparency, which facilitates accountability. In compliance with these responsibilities, the Bank furnished the Minister of Finance with a report of its activities for 2017, which was subsequently laid before Parliament. Monthly balance sheet information was also provided to the Minister and published in the Government's Official Gazette.

During the year, the Governor met almost monthly with the Minister of Finance, and provided the Minister with special periodic communications, both written and verbal, on industry related matters, as they emerged. These meetings help to facilitate and maintain coordination between monetary and fiscal policy, and also provide an opportunity to keep the Government informed of the Bank's performance in meeting its statutory obligations.

Information on domestic economic and financial developments was published in the Bank's Monthly Economic and Financial Development (MEFD) reports, Quarterly Economic Reviews (QER) and Quarterly Statistical Digests (QSD). These publications, along with other announcements, notices and press releases, were made available to the public on the Bank's website[1].

During the year, the Governor and other senior officers of the Bank also gave official speeches on various topics, including: domestic economic conditions and prospects, developments in the regulatory and supervisory space, exchange control liberalisation, and updates on the Bank's strategic projects.

[1] www.centralbankbahamas.com

RISK MANAGEMENT

The assessment, control and minimization of risks, are pivotal to the Bank's governance processes, and in this regard, the Internal Audit and Information Security units play key roles in these operations.

Internal Audit

Internal Audit (IA) supports both the Audit Committee of the Board of Directors and Management, evaluating the adequacy and effectiveness of the Bank's system of internal controls, risk management and governance processes. The operations of IA are guided by a Board-approved Internal Audit Charter and risk-driven Audit Plan, with a focus on assisting the Bank in the achievement of its strategic goals. To maintain independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

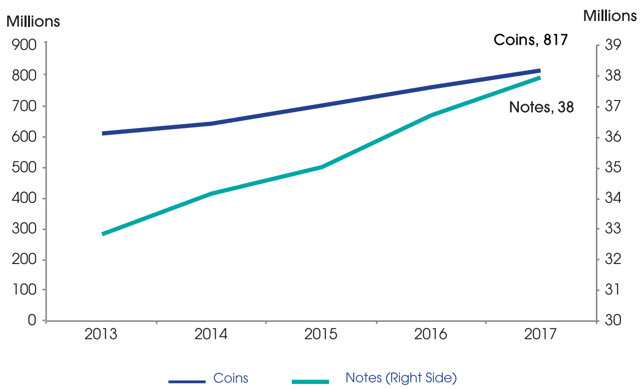
As part of its 2017 work programme, the IA Unit completed and issued eight internal audit reports, which focused on strengthening several of the Bank's critical processes. The Unit examined the Bank's financial operations, payment systems, purchasing & procurement procedures, contract management and project management processes, with the core focus on enhancing existing controls and improving operational efficiency. The effectiveness with which Departments discharge their core duties was also evaluated, including, but not limited to, the risk-based supervision process and examinations, exchange control administration, research & statistics, human resources, surveillance and physical access. The IA Unit also supported various working committees of the Bank, aimed at fostering a stronger internal control and compliance environment.

Information Security

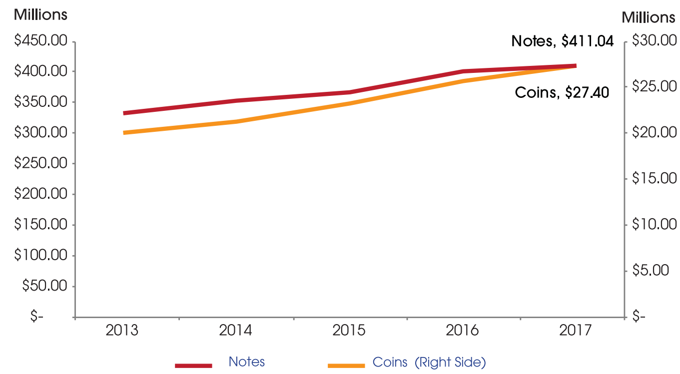
During the year, the Information Security (IS) Unit continued to focus on developing frameworks for the security and governance of the Bank's information management systems. In 2017, considerable improvement was made to the Bank's vulnerability management process, with the upgrade and implementation of software, to holistically monitor the Bank's information assets. In addition, the Bank made significant progress with the implementation of its Security Information Events Management (SIEM) systems, which enhanced its real-time analysis of security alerts and security incident management.

During 2017, the Bank also strengthened its security posture with the continued development of the information security strategic plan. This comprehensive policy review and process development plan, maps business objectives to security, management support, security

Quantity of Notes and Coins in Circulation



Value of Notes and Coins in Circulation



goals, and responsibilities. The established strategic plan helps to adequately protect the confidentiality, integrity, and availability of information, through policy development and process maturity, using international standards like the ISO 27001/2 and NIST 800-53 Cybersecurity frameworks.

In line with industry best practices, the Bank continues to perform annual security assessments to prioritise corrective responses to security risks and control gaps. The 2017 assessment included a network penetration test and a gap assessment of internal policies and systems.

In the area of information security awareness, the Bank hosted its fourth annual Information Security Awareness Month and Fair in June. The Fair featured both local and international exhibitors and speakers. Further, the Bank instituted the digital security awareness platform to enhance awareness training, through e-learning and phishing campaigns. The main goal of the exercise was to create a culture of conscious security practices among staff.

Table 1: Bank Note Security Tiers

DENOMINATION	PUBLIC CONSUMPTION
$1/2	Novelty
$3	
$1	Low Value
$5	
$10	Transactional
$20	
$50	Value Storage
$100	

Source: Central Bank of The Bahamas

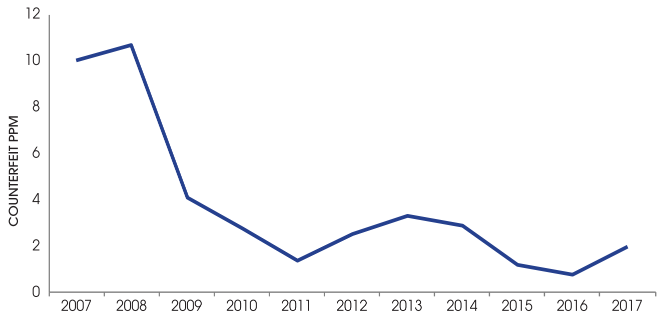
BANKING OPERATIONS

Currency Operations

The Bank is the sole issuer of banknotes and coins for The Bahamas, maintaining five active circulation coin denominations, ranging from 1¢ to 25¢ and eight active circulation banknote denominations, ranging from $½ to $100 (See: Table 1). The banknote family was enhanced in 2017, with the launch of the CRISP Evolution (CE) $1 banknote, the second in the CRISP Evolution family of notes and the first in Bahamian history to be printed using a substrate other than cotton—namely the Giesecke & Devrient's (G+D) durability enhancing substrate Hybrid™. The material was selected for its resistance to soiling, which is expected to reduce the long-run costs associated with frequent banknote replacement. The note itself bears on the front, a portrait of Sir Lynden O. Pindling, the first Prime Minister of the Commonwealth of The Bahamas. The back of the note carries a vignette of the Royal Bahamas Police Force Marching Band, which symbolically provided entertainment at the historic unveiling ceremony of this note on 27th September, 2017, at the Sir Lynden O. Pindling International Airport.

Updated versions of the $½ and $3 banknotes, last redesigned in 2001 and 1984, respectively, have been scheduled for release in mid-2018 and 2019, under the CRISP Evolution family. The CE$20 is earmarked for launch in September 2018, followed by annual releases of the remaining denominations in the month of September, until 2021–when the new family will be completed. A contract to produce the 15¢ piece, the final one in the family of circulation coins to be modernized, was awarded to the Royal Mint, England, and is scheduled for release in the third quarter of 2018. This coin will feature an updated image of the hibiscus flower on its front, with the Coat of Arms of the Commonwealth of The Bahamas on the obverse.

Counterfeit Parts per Million (PPM) Notes in Circulation 2007 - 2017



The $1 note and 1¢ coin represented the largest volume of banknotes and coins in circulation, respectively, with demand increasing annually. The 25¢ coin and $100 note account for the largest concentrated value of coins and banknotes in circulation, respectively, with demand showing modest increases over the years. The graphs outline the movement in the volume and value of Bahamas notes and coins over the last five years.

The Bank remained vigilant against circulation of counterfeit Bahamian dollar currency, and strengthened its overall anti-counterfeit initiatives to incorporate a more targeted focus on counterfeit detection training for law enforcement, bankers, merchants, and the public. In early 2017, the Bank detected a slight uptick in counterfeits of the CE$10 banknote, which was launched in 2016. However, these were of noticeably poor quality, posing no real threat to overall banknote integrity. Forgeries of the Series 2000 $100 note were noticed in late 2017, prompting the Bank to initiate its standard anti-counterfeit protocols.

For each newly designed banknote, the Bank improves the overall aesthetics of the note, and integrates some of the latest technological advancements available in the market. This initiative helps to make counterfeiting attempts more challenging, while presenting notes that are attractive, easily identifiable and secure.

During the year, the Bank continued its public awareness and education initiatives, by facilitating counterfeit detection workshops in Nassau in March and in Grand Bahama in November. There was also a commitment to facilitate special targeted sessions for designated groups in the first few months of 2018. To provide additional technological support in distinguishing genuine banknotes from their counterfeit counterparts, the Bank is currently developing a banknote mobile app, which will be released in the first half of 2018. The app should help users to identify genuine banknotes and will complement the targeted counterfeit training initiatives and banknote virtual tour applications, that have already been deployed by the Bank.

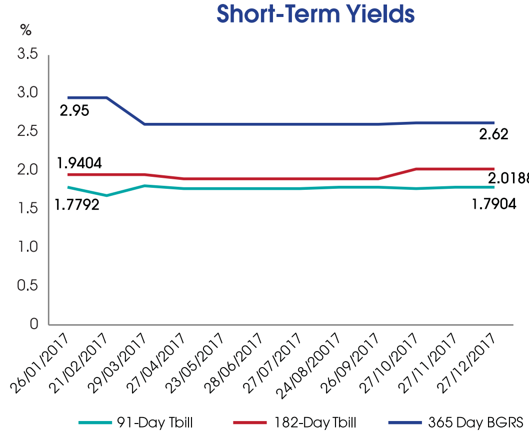
Efforts to expand the numismatic programme were sustained in 2017, with the release of the Exuma and Bimini $10 Silver Proof Coins—the third and fourth coins in the Islands of The Bahamas five coin series; these coins were produced in fine silver and each has a limited worldwide mintage of 500 pieces. Inagua, which is the final coin in the series, was produced with similar specifications and mintage quantities, and is scheduled for release during the first quarter of 2018.

In late 2017, the Royal Mint, England, was engaged to produce a $250 gold proof coin, with a limited worldwide mintage of 100 pieces. Slated to be the first gold coin minted in over a decade, it will be produced in 99.99% fine gold, bearing a modern image of a blue marlin on its front. The Royal Mint also produced two $10 silver proof coins to commemorate the silver and bronze medal achievements of Mrs. Shaunae Miller-Uibo and the Bahamas' Men's 4x100 metre relay team, respectively, at the Rio De Janeiro Games in 2016. These coins, which have a limited mintage of 1,000 pieces, form a part of the Bank's numismatic strategy to commemorate the achievements of Bahamian athletes at world recognized athletic events, and are scheduled for release in 2018.

Public Debt Administration (Domestic)

The Bank continues to serve as Registrar and Transfer Agent for the majority of Government and public corporations' securities. During 2017, there was minimal activity related to agency securities, with the exception of a $3.0 million maturity of the Bahamas Development Bank bonds, reducing the outstanding balance of these bonds to $43.0 million. The remaining agencies with constant bond liabilities included: the Bridge Authority ($29.0 million), Clifton Heritage Authority ($24.0 million), and the Education Loan Authority ($67.0 million).

Short-Term Yields



BOX 1: MONETARY POLICY IN 2017

The Bank's Monetary Policy Committee (MPC), is chaired by the Governor and comprises several Heads of Departments and other technicians. The main objective of the Committee is to advise and assist the Governor in the formulation of policy interventions to promote monetary and financial stability, while maintaining the fixed exchange rate regime. The monthly surveillance analysis of the MPC is summarized in reports, which are published within five days of each meeting.

During 2017, the MPC met monthly to deliberate on developments in the international and domestic environment. The Committee's discussions were framed by several key domestic economic and financial trends, a number of which have been continuing themes over the past decade. Specifically:

- Construction activity, driven by several varied-scale foreign investment projects, including Baha Mar.
- The impact of hurricanes Irma and Harvey on the US and the region, which caused disruptions to travel itineraries and airport closures, thus constraining tourism sector output.
- The phased introduction of new hotel capacity in New Providence, which contributed to the decline in the unemployment rate.
- Further liberalization of the exchange control regime, to allow for greater flexibility by the banks in approving current account transactions and the removal of capital controls on certain outward private sector investments, as well as external financing for specific types of companies.
- Trends in commercial banks' credit quality, including the continuing reduction in non-performing assets, due to: restructuring, asset sales and more aggressive collection policies, and the undercurrent of improving economic conditions.
- Trends in external reserves, which during 2017, included a large influence from the Government's $750 million external bond issue and modest support from net private sector inflows.

In assessing the external risks to the domestic economy, the Committee identified several important themes. In terms of the upside, there was sustained growth in the United States' economy, with positive long-term implications for domestic tourism output. However, members also noted that policy uncertainty and geopolitical tensions could adversely impact market confidence, with negative repercussions for the global growth outlook. Another downside risk was the potential for a rapid increase in the pace of monetary policy normalization (or interest rate increases) in the United States, to adversely impact vulnerable economies. The MPC also took into consideration developments in the global oil market, as the high level of output—especially from the US shale gas producers—curtailed the growth in crude oil prices.

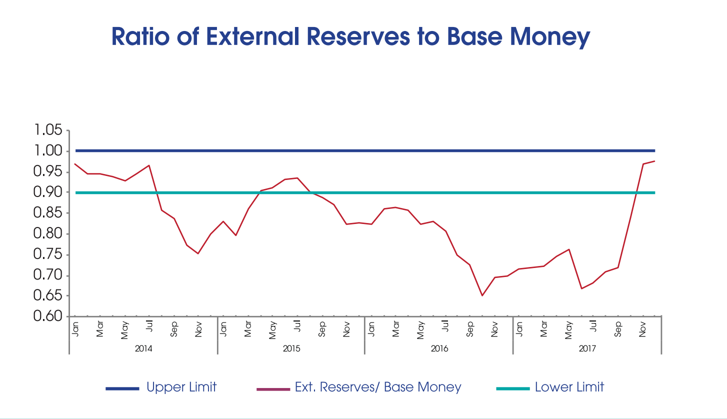
During the year, the Committee sustained its strict monitoring of its key external reserve adequacy indicators, relative to base money and imports. On a seasonal basis, the ratio of reserves to base money rose over the first five months of the year; although it remained below the 90% to 100% target range. By the end of May, the indicator had risen to 76.3% and averaged 73.3% over the five-month period. The coverage then trended down, registering its lowest rate of 66.9% in June. However, following the Government's $750.0 million external bond issue in November, the ratio advanced to 97.8% at end-2017—exceeding the 70.0% closing estimate in the prior year.

In terms of the more broadly tracked external reserve coverage in weeks of annual current year's merchandise imports indicator, the ratio narrowed from 16.5 weeks at end-2016, to 16.0 weeks in the first quarter and fell further to 15.7 weeks in the subsequent three-month period. However, it firmed slightly to 17.0 weeks in the third quarter, before Government external borrowing led to a strengthening in the indicator to 23.0 weeks of imports at the end of the year.

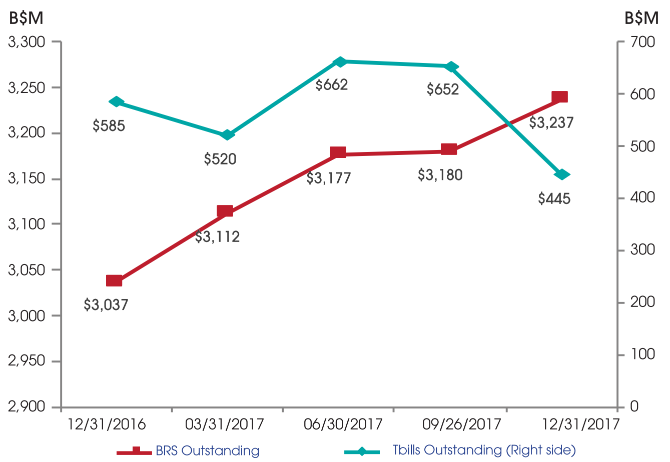
The MPC also maintained its focus on bank soundness and stability indicators. In particular, members noted that bank liquidity remained at high levels, underpinned by Government's external borrowings and commercial banks' lending restraint, while banks' average capital levels remained well in excess of the regulatory target and trigger ratios of 17.0% and 14.0%, respectively. The improvement in credit quality over the year was driven by the large decrease in non-performing loans (NPLs), following the sale of one entity's delinquent mortgages to the Government entity Resolve Corporation, along with banks' on-going loan restructuring and enhanced collection efforts.

The Committee's deliberations also resulted in new proposals for a further series of exchange control liberalization measures, targeting a range of current account transactions and specific capital controls on external private sector funding and investments by domestic firms abroad (See: Box 2). The Bank however, noted the significant instability risk from ill-timed liberalisation measures, given the potential for capital flight that could be sustained from the high commercial bank liquidity overhang, and insufficiently entrenched path for fiscal consolidation.

Given the mild domestic economic activity, subdued credit demand, high liquidity and robust levels of external reserves, the MPC determined that the Bank would leave its accommodative policy stance unchanged throughout the year.



Bahamas Registered Stock and Treasury Bills Outstanding



Both the primary and secondary markets for Bahamas Registered Stock (BRS) were active, with BRS maturities amounting to $257.0 million. Given the financing of these and other Government funding needs, the Bank facilitated eight Initial Public Offerings (IPOs), totalling $457.0 million and two Treasury bill (T-bill) swaps into bonds totalling $150.0 million. At year-end, the outstanding BRS amounted to $3.2 billion. The Bank also facilitated three secondary market offerings, totalling $38.5 million from its own portfolio, and expects to conduct further offerings in 2018 and beyond.

The Treasury bill market was also active, with short-term Government liabilities beginning the year at $585.0 million and closing at $445.0 million. This change reflects an additional $234.0 million in new bill taps, $224.0 million in rollovers and the reduction of $150.0 million via swaps into BRS. The yield for 91-day T-bills closed at 1.7904%, up 44 basis points over the same period last year.

In an effort to assist with enhancing the existing debt management framework, the Bank, in consultation with the Government, invited the Commonwealth Secretariat to review the Government's domestic debt management regime. Results of that review targeted several key areas for reform, which the Bank has moved to address, in coordination with the Ministry of Finance. A critical foreseen reform, is the passage of a Public Debt Management Act, to provide the legislative framework for efficient public debt management. The Act would also promote efficiencies related to dematerialization, debt management strategies and the oversight of public enterprises' debt operations. As an important component of the enhanced public debt management regime, in accordance with international best practices, the Bank is on course to implement a Centralized Securities Depository (CSD) to assist with managing Government securities' operations, and promote improved monitoring, oversight and transparency. The Bank has already made significant progress towards the development of its CSD and expects that it will be ready for deployment during the fourth quarter of 2018.

The Bank also made noteworthy progress towards the modernization and improvement of its T-bill auction process. These enhancements, which are scheduled for deployment in 2018, are expected to improve the overall efficiency of this process and promote more timely reporting, consistent with international best practices.

FOREIGN RESERVES MANAGEMENT

External reserves increased by 56.8%, to close the year at $1.4 billion, due mostly to net proceeds from the Government's foreign borrowing; although the private sector's net inflow contribution was also positive, relative to net foreign currency purchases from commercial banks. The liquidity tranche comprised a fair proportion of the overall portfolio, accounting for 48.7% of the external balances. In this regard, the Bank was able to benefit from improvements in overnight rates on high-value deposits, due in part to amendments to its investment strategies and the firming interest rate environment for US dollar deposits.

The Investment Committee (IC) continued to maintain responsibility for the long and short-term investment strategies of the Bank, in accordance with the statutory provisions for the reserves allocation and the Bank's Investment Policy and Guidelines. The Committee meets weekly to discuss and determine the most suitable investment options, that maintain an appropriate liquidity balance, to cover any unexpected outflows and provide the best risk/return profile for targeted investments in US Government debt and other approved asset classes.

DORMANT ACCOUNTS ADMINISTRATION

The Bank continues to operate as administrator and custodian of the Dormant Deposits in Bahamas based banks and trust companies, as part of its mandate under Section 20 of The Banks and Trust Companies Regulation Act (BTCRA), 2000. During the review year, the Bank sustained its efforts to complete the modernization framework, proposing draft legislation to the Government to amend the existing BTCRA. The reforms would extend custodial protection to new asset classes (including securities and precious metals), and transfer unclaimed assets exceeding a certain amount, to the Government after a period of ten years in the Dormant Accounts Fund. The Bank is also exploring technology upgrades and administrative reforms to facilitate easier queries of the dormant accounts' register by the public. At end-2017,

BOX 2: RECENT EXCHANGE CONTROL LIBERALIZATION MEASURES

During the year, the Central Bank continued its relaxation of exchange control measures, in line with its objective to promote economic dynamism through sustainable financial flows, while safeguarding the fixed exchange rate regime. Policy changes always involve prior consultation with the Government, through the Minister of Finance.

Measures Effective 1st April 2017

In April 2017, the Bank implemented further liberalisation measures, which affected mainly capital account transactions. These granted Bahamian business and resident designated entities access to foreign currency financing, in most instances of up to $5.0 million per entity, every 5 years[1], subject to the following conditions:

- In the case of financing from a domestic commercial bank, no further conditions.
- In the case of a sector or activity reserved exclusively for Bahamians, financing from non-residents through secured debt or through equity participation, must not exceed 40% of the exposed equity[2].
- In the case of any unsecured financing from non-resident sources, no other conditions.

Funding from the private sector credit window of multilateral agencies (such as the World Bank and the Inter-American Development Bank), is not subject to a prior limit.

Importantly, these enterprises must be in specified sectors deemed as having a favourable impact on net foreign exchange earnings or medium to long-term national development goals. The sectors include:

- Agriculture & fisheries
- Manufacturing, transport (land, air and sea)
- Tourism (hotels & restaurants)
- Construction & real estate for residential tourism
- Energy & energy conservation
- Education
- Health
- Telecommunications & ICT
- Infrastructure

Measures Effective 1st February 2018

During the latter half of 2017, the Bank engaged in discussions with both the Government and the private sector, to explore further avenues for the liberalization of current and capital account transactions. As a result of the deliberations, a series of measures were introduced which covered current and capital account transactions, to take effect on 1st February 2018. A summary of the measures is as follows:

Current Account Transactions

- For either trade-related payments or current account transactions, the delegated approval limits have been increased for the bulk of foreign exchange sales made directly by commercial banks and money transmission businesses (MTBs).
- Limits on travel-related expenses were increased from $10,000 to $15,000 per individual, per travel, while the limit for commercial imports of goods and services was expanded from $0.5 million to $1.0 million per transaction. However, for larger import payments, businesses still have to apply to the Central Bank for approval.
- Approval limits for sundry payments for services were increased from $25,000 per transaction to the actual amount on bill, and for merchandise trade, approvals against invoices and documented obligations were raised across the board to $1.0 million from $0.5 million.
- The caps on credit limits and external payments on Bahamian dollar corporate credit cards issued to companies designated as residents for exchange control purposes were removed.

Capital Account Transactions

- The premiums on foreign currency purchases and sales through the Investment Currency Market (ICM) were reduced to 5.0% and 2.5%, respectively, from 12.5% and 10.0%.
- Licensed businesses operating inside The Bahamas no longer require permission from the Central Bank to establish and maintain operating foreign currency deposit accounts of up to $100,000 at domestic commercial banks to facilitate payments for trade. However, only revenues earned in foreign currency may be retained on the account; and approval is still required to maintain higher deposit balances.
- Bahamians may fund residential purchases abroad of up to $0.5 million at the official exchange rate instead of having to pay with investment currency.
- Upon application to the Central Bank, residents may be allowed to either retain foreign currency denominated deposits or investment assets currently held outside The Bahamas, or to repatriate the facilities to The Bahamas and maintain such in foreign currency. No penalties will be imposed on regularized accounts. The owners of regularised facilities will be allowed to use the resources to finance domestic transactions, without restrictions, but prohibitions will exist against either funding or augmenting these facilities, with proceeds converted from Bahamian dollars.
- Temporary residents who have resided and worked in The Bahamas for at least three years, will be allowed to finance owner-occupied property of up to $1.0 million.

These measures are expected to foster the development of a more dynamic and less restrictive exchange control regime, while maintaining safeguards to ensure the stability of the fixed exchange rate.

1 Applications for loans in excess of $5.0 million need to be made to the Central Bank.

2 If the equity exposure exceeds this threshold, then the National Economic Council's (NEC) approval would first be necessary.

a total of 41,508 facilities had been transferred to the Bank's custody, accounting for an estimated $80.9 million in unclaimed funds. The corresponding year-on-year balances for these facilities are outlined in Table 2, and would have been affected by claims on account balances, dormant submissions and movements in the relative exchange rates.

Table 2: Dormant Account Balances

Currency	Account Balances 2016	Account Balances 2017	No. of Accounts 2017	% of Total Balances (2017)
	($'000)			
Australian $	72.5	78.5	2	0.1
Bahamian $	16,684.0	17,885.0	33,764	22.1
Canadian $	5,742.6	6,237.5	429	7.7
Swiss Franc	1,428.3	1,503.6	17	1.9
Euro	913.9	1,385.9	37	1.7
UK (Sterling)	570.9	625.3	111	0.8
Hong Kong $	912.9	905.9	1	1.1
US$	50,251.8	52,303.3	7,147	64.6
TOTALS	**76,576.9**	**80,924.9**	**41,508**	**100**

Source: Central Bank of The Bahamas

EXCHANGE CONTROL ARRANGEMENTS

During 2017, the Exchange Control Department (ECD) continued to carry out its legislative mandate of monitoring public demand for foreign exchange, while servicing their approval needs and ensuring the prudent management of external reserves. Throughout the year, the Department received approximately 24,000 correspondences for processing, compared to 20,000 in the prior period.

In keeping with its commitment to the gradual liberalization of exchange controls, the Central Bank, in its role as Controller of the Exchange and after consultation with the Government, effected several adjustments to the exchange control administration regime, which took effect on April 1, 2017 (See: Box 2).

Overall, the measures are expected to result in improved efficiencies for permanent residents, as well as temporary residents (i.e., work visa holders and contract workers), as they conduct their personal business transactions, or seek to invest in The Bahamas' international financial sector and abroad.

At the close of 2017, the Government agreed to the further relaxation of various exchange controls on capital and current account transactions. These included, increased delegation of foreign currency sales authority to commercial banks and money transmission businesses (MTBs) for payments for imports, travel and services. The measures also relax some capital flow restrictions on investment outflows, access to foreign currency accounts for business operations; and seek to regularise, without penalties, assets held outside The Bahamas by residents, who should have obtained prior exchange control authorisation. The measures took effect on February 1, 2018, and were informed by consultations, which the Central Bank undertook with both the Government and private sector stakeholders. An important theme of these engagements, was the Government's thrust to increase the "ease of doing business" in The Bahamas.

Special facilities, such as the Bahamas Depository Receipt (BDR) programme, continued to have modest participation. In 2017, three licensed broker dealers participated in the programme, utilizing $16.4 million of the $35.0 million annual allocation. Residents continued to make outward capital investments through the ICM at the premium bid and offer rates of 12.5% and 10.0%, respectively. Sales activity for 2017 in the ICM amounted to $10.9 million.

In terms of exchange control approvals, spending on oil imports continued to dominate current account payments, at $1.20 billion, followed by service sector outlays ($1.04 billion), non-oil imports ($786.6 million), debt service payments ($642.0 million), insurance outflows ($442.0 million), dividend payments ($355.5 million) and money transfers ($86.0 million).

During the year, the Central Bank also conducted a series of training sessions to assist commercial banks in ensuring customer compliance with the requirements of the increased delegation of authority. Such interactions are important, as delegated responsibility continues to shift to authorised dealers.

As part of its on-going initiatives to streamline processes, increase efficiencies and reduce response timelines, the Exchange Control Department liaised with the Ministry of Finance, to explore how certain application procedures for foreign investments could be simplified, and to consider how stamp tax compliance processes could be less constraining. As of February 2018, the Bank no longer intervened in tax compliance matters, potentially affecting real estate investments.

Authorized Dealers and Authorized Agents remained important stakeholders in the administration of exchange controls and at the end of 2017, the number of the Authorized Dealers and Agents each stood at 8.

PAYMENT & SETTLEMENT SYSTEMS

Oversight

The goal of the Bank, through its Payments Unit, is to strengthen the oversight of the domestic payments and settlement systems, while ensuring the efficiency, reliability and security of the country's payments infrastructure. The system includes the two local clearing houses the Bahamas Automated Clearing House (BACH), which is owned by the clearing banks and processes small value transactions of less than $150,000, and the Central Bank-owned Bahamas Inter-Bank Settlement System (BISS), which facilitates real time settlement of large value payments greater than $150,000. In line with this goal, quarterly meetings were held with members of the BACH, to consider collateral and settlement issues of commercial banks, internal audits and other significant developments that emerged. Meetings were also held with key stakeholders of BISS, focused on issues such as operational efficiencies and the on-going development of the BISS.

As to progress with modernisation, during the year the Bank released the Payment Instruments (Oversight) Regulations, 2017, and corresponding General Information and Application Guidelines for Providers of Electronic Retail Payments Instruments and Electronic Money Products, aimed at providing the general basis for the development of a retail payments regime and electronic payments in particular. The Bank's goal with this initiative is to promote less dependence on the use of cash within the domestic economy, and to accelerate financial inclusion initiatives that provide wider population access to regulated payment services. Non-deposit taking institutions and non-MTBs are expected to take advantage of licensing opportunities, under the Regulations, to provide an expanded range of domestic payments services.

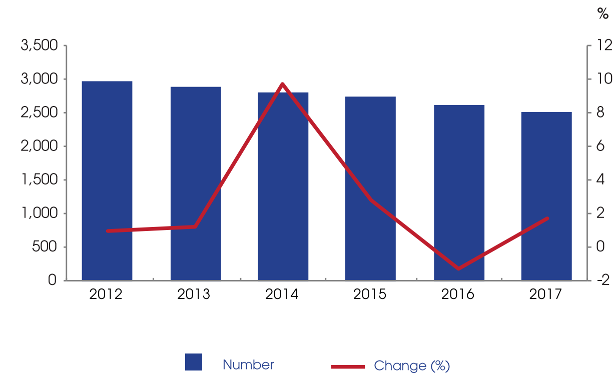
Market Developments Real Time Gross Settlement (RTGS)

The volume of RTGS transactions registered sustained, although moderate gains in 2017. The seven participating clearing banks processed, in addition to direct interbank transactions, X9 (cheques) and NACHA (direct credits) payments, over the BISS-RTGS, in seven daily settlement windows, commencing at 8:15 a.m. and ending at 4:45 p.m. During the year, the total volume of transactions processed by the RTGS rose by 7.8% to 92.2 million, from 85.5 million in 2016. Similarly, the associated value of these transactions grew by 15.1% to $29.3 billion, in contrast to $25.5 billion in the previous year.

Cheques

Technological advances and electronic payment methods continue to drive the general decline in the use of cheques, with the exception of large value payments. The number of processed instruments declined by 3.4% to 2.5 million during 2017, following a 2.3% reduction in the prior year. In contrast, the associated value of these payments increased by 1.8% to $7.2 billion, a reversal from a 1.3% decline last year.

Cheques Cleared



NACHA Payments

The BACH processes payments in accordance with the globally accepted National Automated Clearing House Association (NACHA) format. In 2017, the volume of these transactions expanded by 10.1% to 2.6 million, with simultaneous growth in the value by 42.1% to $2,806.6 million.

Retail Payment Services

Although statistics on retail payments are not readily available, anecdotal evidence suggests that the payments landscape in The Bahamas continues to expand, driven by the growing use of technology. Underpinning this expansion, is the upswing in the volume of electronic payments (e-payments).

Automated Teller Machines (ATMs)

These machines are installed throughout the country. The locations vary from inside commercial bank branches, to areas of high customer transit, such as supermarkets and gas stations. Some machines—specifically those placed in high tourist traffic areas—are configured to dispense both Bahamian and US currency. In 2017, the number of ATMs in operation fell by 10.0% to 362, from a revised 402 in 2016. Further, the volume of transactions decreased by 3.9% to 10.2 million, compared to 10.6 million in 2016. By contrast, the value of transactions rose by 5.0% to approximately $2.1 billion, from $2.0 billion in the previous year.

Debit Cards

Debit cards continued to be issued locally by all commercial banks. International branding, such as Visa and MasterCard, which allow for both domestic and foreign transactions, have substantively replaced non-branded cards. Pursuant to this development, in 2017 the number of debit card transactions—often direct substitutes for ATM and credit card usage—firmed by 24.6% to 11.4 million, while the corresponding value grew by 18.0% to $1.6 billion.

Credit Cards

Credit cards issued by the local commercial banks, are generally associated with international payment companies, such as Visa and MasterCard. Most personal cards carry limits which range from $500-$5,000, $5,000-$10,000 and over $10,000. For select high net worth individuals, there is scope for negotiating specific limits.

A breakdown of credit card data for 2017, revealed continued growth in the number of cards either issued or renewed by banks, which rose by 15.3% to 259,850, following a gain of 18.2% in the previous year. The trend also reflects the accelerated transition to more secure pin and chip enable cards, which are expected to replace non-chip enabled cards before the end of 2018. Notwithstanding this transition, unpaid credit card balances decreased marginally by 0.5% to $254.9 million, a turnaround from a 2.8% expansion in 2016. Among these cards, growth in balances was largely attributed to those with limits under $5,000, which expanded by 18.4% to 224,309 cards; however, the corresponding value of credit outstanding decreased by 3.5% to $107.7 million. In addition, the number of cards possessing a limit of $5,000-$10,000 and the associated unpaid balances, declined by 2.1% to 22,184 and by 1.6% to $69.3 million, respectively. For cards with caps over $10,000, the number of instruments in circulation firmed by 1.1% to 13,357, while the corresponding value grew by 5.0% to $77.9 million.

Internet Banking

Commercial banks continue to offer expanding Internet banking services to their customers, with fees attached in some cases, affording users the ability to, *inter alia*, check their account balances, make transfers between personal and third party bank accounts, pay utility bills and purchase foreign currency. The Central Bank's 2017 payments survey revealed that the number of total users, inclusive of residential, business, public sector and other users, firmed by 11.1% to 84,212 accounts, compared to 75,819 accounts in 2016.

ECONOMIC ANALYSIS, STATISTICS & RESEARCH

Through its regular economic publications, research studies and surveys, the Research Department fulfils its mandate of providing the public with comprehensive, accurate and timely economic and financial information. In line with this objective, during the year the Department authored recurring publication of the Monthly Economic and Financial Development (MEFD) report for the MPC, the Quarterly Economic Review (QER), the Quarterly Statistical Digest (QSD) and the Annual Report. In addition, the Financial Stability Report (FSR) for 2016 was published in August 2017, providing a comprehensive analysis of developments within the domestic financial sector for the year, and an assessment of risks to domestic financial stability from both internal and external factors. During the year, the Department also published its expanded quarterly presentations made to the MPC. These presentations, which are prepared in conjunction with the end-of-quarter MPC report, provide extended analysis of the various sectors within the economy, and highlight important long-term trends in key economic performance indicators. In terms of surveys, the report entitled, "*The Gross Economic Contribution of the Financial Sector to the Economy,*" was prepared by the Department and published in the March edition of the QER, while the information compiled for the quarterly Bank Lending Conditions Survey, was disseminated to the public via the quarterly MPC presentations.

Research projects undertaken by staff focused on several important economic themes, and were presented at the Department's internal forums and external conferences. These studies included: an assessment of the credit rating downgrade by S&P and its implications for the country; an investigation of the optimal leading economic indicators for The Bahamas; an overview of policy options for achieving debt sustainability domestically, and a review of global trends in electronic payments. Members of staff also presented aspects of their research at the regional annual Monetary Studies Conference, which was held in Belize in November. The two papers shared were entitled, "*An Analysis of the Leading Determinants of Bank Profitability for Bahamian Commercial Banks,*" and, "*The Impact of De-risking on Caribbean Economies and Long-Term Options for the Region.*"

Staff from the Department also participated in discussions with teams from the IMF and other international agencies, as part of their regular series of annual meetings. In addition, as a key aspect of its mandate, the Department disseminated economic data to various regional and international institutions.

During the year, the Department actively continued with initiatives to improve the quality and scope of the data collected and to ensure that data remained compliant with international compilation standards. In this regard, the IMF's Caribbean Regional Technical Assistance Centre (CARTAC), facilitated a Balance of Payments (BOP) technical assistance mission, from May 29-June 9, to assist the Department's compilers in upgrading the BOP compilation methodology to the latest format (BPM6). Research staff also participated in a local CARTAC workshop in June 2017, on developing appropriate macro-prudential and systemic risk indicators for assessing financial stability. Further, in November, the Department, in conjunction with the Centre for Latin American Monetary Studies (CEMLA), hosted a regional workshop entitled, *"Macro-prudential and Monetary Policies for Small Open Economies."*

The Bank's Library also forms an integral part of the Department's operations. During the year, the Library made progress with the Central Bank's website re-development project. In addition, the Library, as Administrator of the Internet, participated in the establishment of the Bank's Learning Management System (LMS), an application which will be used to facilitate online training sessions within the Bank.

With regard to public education, the Department continued to play a key role in the Bank's school outreach programme, by facilitating a number of presentations to high school and college students, on the role and functions of the Central Bank. A number of requests from members of the public to provide presentations on various economic matters, were also fielded during the review period and staff from the Department collaborated on the speeches and presentations made by senior members of the Bank's staff.

PRUDENTIAL SUPERVISION & REGULATION

Supervisory Developments

In line with its strategic objectives, in 2017 the Bank realigned its functional units and processes within the Bank Supervision Department. This restructuring is intended to improve supervisory effectiveness and operational efficiency, and reduce supervisory response and intervention timelines. A somewhat simple but effective change undertaken by the Department was the streamlining of its approval processes to better align the level of internal approvals, with the complexity of the various applications and other supervisory decisions. In addition, removing low-value and time-consuming tasks from senior decision makers, lifted their capacity to focus on high-value outputs, thereby improving the effectiveness in supervising the financial sector.

With the issuance of the 2017 Caribbean Financial Action Task Force's (CFATF) Mutual Evaluation Report (MER), a key milestone coming out of the realignment process was the creation of an Analytics Unit to focus on AML/CFT surveillance and financial data analytics. Historically, the Department placed primary emphasis on financial soundness, with some supervision/examination of AML/CFT as it relates to its Supervised Financial Institutions (SFIs). Although prudential supervision will continue to be a key driver, the new Analytics Unit sets out a clear commitment by the Bank to enhance its AML/CFT supervisory framework and provide continuous supervision of both financial soundness and AML/CFT risks.

The examination process was another area of reform during the latter part of 2017. This process was re-engineered to achieve greater efficiencies, including the production of a final Report of Examination (RoE) within 20 working days after a visit to a SFI. Two key features of the re-engineered process, which came into effect in January 2018, include: discussions with external auditors prior to the onsite visit, to gain insights into their audit approach, key audit areas and any concerns that they may have with the SFI's management and or operations; and the elimination of draft reports issued to SFIs.

In 2017, the Department released a taxonomy of supervisory action words, which seeks to reduce any ambiguity regarding the actions required by SFIs. The Department has included these words in a document entitled "*General Glossary of Terms,*" which was shared with SFIs and posted on the Bank's website. The Department then undertook an extensive exercise to remap past recommendations set out in its previously issued RoEs into the "Directives, Requirements and Expectations" framework and reissued to SFIs. It is anticipated that new regulations and guidelines will adopt the new nomenclature, whilst issued guidelines will be retrofitted as they come up for review, to align with the new words.

Basel II & III Implementation Programme

Alongside its Basel II/III Implementation programme, the Bank also reviewed its approach to prudential regulation, with a view towards developing a more streamlined prudential framework, with higher value being placed on simplicity. The end goal being the development of a simplified rulebook that is super-equivalent to the Basel Committee's rule text, and appropriately optimized to the Bahamian context.

A key component of the Pillar II – Supervisory Review Process element of the Basel capital framework, is the Internal Capital Adequacy Assessment Process (ICAAP), which was to be completed by the SFIs and submitted in June, 2017. While assessing the ICAAPs, the Bank determined that several SFIs could be exempted from this requirement and for those not exempted, it defined the frequency with which the reports needed to be submitted.

During the second quarter of 2017, the Bank released the revised version of a Guide to the ***Central Bank's Ladder of Supervisory Intervention,*** which summarizes the circumstances under which intervention measures may be expected. The guideline was also revised to align with the Bank's risk-based supervisory framework, which supports the Basel Committee's Pillar II – Supervisory Review Process.

The Bank's ***Guidelines on Minimum Disclosures*** were released in late 2016. However, given the extensive industry feedback received, the Bank withdrew the guidelines via Notice dated 6th November, 2017. These guidelines will be revised and a simpler Pillar III disclosure rule will be issued in 2018.

The Bank will also focus on implementing the remaining elements of the Basel III framework, including the Capital Buffers, the Leverage Ratio, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), and a Domestic Systemically Important Banks (D-SIB) framework. Amendments to the relevant guidelines and supervisory frameworks are expected to occur throughout 2018.

Risk-Based Supervisory Framework

During the year, the Bank continued to refine its risk-based supervisory framework and in this regard, introduced the concept of "evergreening" as an enhancement to the risk assessment process. The evergreening framework is intended to refresh the Bank's point in time risk view of financial institutions, and deploy the necessary supervisory tools based on the magnitude and direction of emerging risks.

With the intended introduction of continuous "evergreening" of a SFI's risk profile, in 2018 the Bank plans to migrate from its initial practice of an 18-month to a three-year cycle for undertaking a full/simplified risk assessment, to a three to five-year cycle. For newly licensed institutions, a full or simplified risk assessment is required to be completed after the first year of the issuance of the license.

During 2017, the Department performed regular reviews of each SFI's financial soundness, based on financial data received as part of their monthly, quarterly, and annual reporting cycles. The Department also conducts comprehensive risk assessments of SFIs on an ad hoc basis. As at December 31, 2017, one of the 24 assessments was completed, while 14 were at various stages of completion. In addition, eight discovery reviews were completed, with one still in progress.

On-site Examinations

Examination Programme

Over the course of 2017, the Bank conducted a total of 19 on-site examinations and 11 discovery review meetings (See: Table 3). The examinations conducted included:

- three full scope safety and soundness examinations of international firms;
- four limited scope reviews of commercial banks' risk management frameworks around AML/CFT, elements of credit, financial reporting and controls and outsourcing risks;
- one follow-up examination of a financial credit union; and
- eleven limited scope views of international firms, where several risk areas, including AML compliance, outsourcing and corporate governance were examined, in addition to validating the effectiveness of the remedial work undertaken to close gaps identified during the previous examinations.

As a result of this process, 22 examination reports, including five outstanding from 2016, were completed. As at December 2017, there were two reports, which, although drafted, were yet to progress to final format. In 2017, the Bank received no requests from foreign (home) regulatory authorities to facilitate examinations of Bahamian SFIs.

TABLE 3: On-site Examinations Conducted

	2015	2016	2017
Examinations			
Domestic Licensees	1	4	4
Other Licensees	17	15	14
Follow-up /Special focus examinations/Regulator Initiated	7*	4*	0
Discovery Reviews	2*	8*	11*
Financial Credit Unions	3	4	1
Total	**30**	**35**	**30**
Reports			
Finalized Reports	21	27	22
Reports in Progress	7	5	5
Total	**28**	**32**	**27**

Source: Central Bank of The Bahamas
*No report to licensee required, internal report generated for supervisory purposes.

Joint Examinations with the Securities Commission of The Bahamas

In 2017, the Examination Unit undertook six joint examinations with the Securities Commission of The Bahamas, utilizing the Protocol for the Joint On-site Examinations by the Central Bank and the Commission, which was revised in January 2012. The Commission did not participate in any of the discovery review meetings with joint SFIs.

Off-site Surveillance and Monitoring Activities

Commercial Banks

Throughout 2017, enhanced monitoring of the domestic commercial banking sector was maintained. The Department employed its supervisory objectives through its Risk-Based Supervision Framework (RBSF), supported by prudential meetings with senior management to discuss organizational and/or senior management changes, emerging risk trends, operations and strategic initiatives, to be implemented within 2018 and beyond. Meetings were also held with critical functions, such as Internal Audit and Compliance, which provided an independent perspective of internal risk models. Financial and regulatory data submitted were also reviewed to ensure that commercial banking licenses complied with all prudential limits and regulatory requirements. In addition, SFIs were advised, following the release of The Bahamas' MER by the CFATF in July 2017, that the Department had undertaken a major initiative in an effort to enhance its AML/CFT supervision. Further, SFIs commenced reporting updates relative to all pre-2000 unverified facilities in the revised format for the period ending June, 2017.

Moreover, representatives of the Department participated in regional and international home supervisory colleges and periodic teleconferences for consolidated supervision purposes, mainly for the Canadian home-supervised commercial banks.

As at end-December 2017, the domestic asset base of the commercial banks and trust companies rose by $0.9 million (5.4%) to $16.7 billion, compared to $15.9 billion reported in the prior period. This was due primarily to investments in BRS and US$ fixed deposits. Commercial banks' branch networks contracted by eleven and stood at sixty-seven branches, compared with seventy-eight in the previous year. This contraction was driven mainly by further rationalization and consolidation of branch operations, particularly among Canadian banks, to reduce costs, improve operational efficiencies and enhance customers' experience.

Credit Risk Reviews

Credit risk is the most prominent risk facing the domestic financial system and it's vital that mitigating controls are effective. The Department's level of credit risk oversight was comprised of financial analysis of regulatory and financial returns, as well as onsite reviews and periodic meetings with senior management.

Meetings with management have aided the Department in evaluating the measures, both qualitative and strategic, taken by the commercial banks to mitigate risks, which are otherwise not evident through the monthly financial returns. However, reliance is placed on the review of trends within the credit portfolios, inclusive of the total B$ loans; the levels of arrears (i.e., past due and non-performing loans); sectoral and large exposures; provisioning levels and restructured loans with delinquency management strategies, specific aspects of operational risk management, including but not limited to fraudulent activity and stress testing.

During 2017, notable progress was made relative to the strategies employed by the commercial banks to increase profits and lower the level of non-performing facilities on their books. Commercial banks continued to provide concessions to existing customers through debt consolidation and restructuring, despite tighter policies. The passage of the Homeowners Protection Act 2017, received some opposition from SFIs, due to the purported challenges for banks in ensuring the timely collection and/or resolution of problem residential mortgages. The Act, which is seen as a landmark piece of legislation, aims to assist responsible homeowners who, for no fault of their own, become financially challenged and need an opportunity to readjust their position to the current economic realities. In such instances, the decision to foreclose on a residential mortgage is removed from the lender and placed under the discretion of the courts.

With the mild economic activity in 2017, some commercial banks continued to address their elevated non-performing loans (NPLs), through increased sales of assets in their residential and commercial real estate distressed property portfolios. In addition, close adherence to the 1.0% minimum regulatory general provision requirement imposed on all SFIs was maintained, as it is a mitigant for losses not yet identified or materialized in the entire loan book or aggregate credit exposures. Despite this fact, banks remained above the 17.0% regulatory minimum capital risk-adjusted ratio; thereby mitigating any financial stability concerns.

Stress Testing

Credit risk stress test results indicated that capital ratios remained above the required capital levels, despite a doubling in NPLs. Thus, at a system-level, no additional capital was required.

Capital Adequacy

During 2017, despite dividend payments to shareholders, a surplus in retained earnings and the redemption of non-qualifying Tier II capital, commercial banks' capital levels remained robust. The capital to risk-weighted ratio stood at 32.5%, well above the established regulatory target and trigger ratios of 17.0% and 14.0%, respectively.

Credit Unions

The number of credit unions under the supervisory oversight of the Department remained constant at 10– inclusive of The Bahamas Co-operative League Ltd. Meetings were held with the credit unions to discuss the Department's minimum expectations relative to corporate governance, as well as other relevant topics impacting the sector. The Department monitored the operations of its licensees through its assessment of regulatory findings, the financial returns and key PEARLS[1] standard ratios; all of which are a part of the supervisory programme in place.

At end-December 2017, credit unions' total assets stood at $420.3 million, for an average growth of 6.4% over the past five years. The membership totalled 42,186 persons, compared to 42,060 persons as at December 2016.

International Firms

The international banking and trust sector comprised 227 banks and trust companies at end-December, representing 94.0% of the total number of SFIs operating from within The Bahamas. Collectively, the international SFIs maintained an asset base of US$171.1 billion, with business activities primarily in private banking, wealth management, deposit taking, lending and trading. The majority of these SFIs are either subsidiaries or branches of larger international/global entities.

In June 2017, The Bahamas made a commitment to implement the Common Reporting Standard (CRS)/ Automatic Exchange of Information via the Multilateral Convention on the Mutual Administrative Assistance in Tax Matters, on a non-reciprocal basis. The decision was made by the Government to use the "wider approach". Such an approach would allow the SFIs to collect and retain CRS information, ready to report, on all non-resident account holders. On 13th December, 2017, The Bahamas signed onto the Multilateral Competent Authority Agreement. Subsequent to the signing of this document, the international banking and trust sector experienced marginal declines in customer deposits, due to international customers taking advantage of relevant Tax Amnesty Programmes, as well as the re-engineering of business operating models, which has also greatly impacted strategic plans, ownership structure and human capital.

The Bank continued to utilize its primary supervisory tools to monitor and supervise the international firms through on-going risk assessments, financial analyses, prudential meetings, discovery review meetings, meetings with internal auditors and on-site examinations, as well as collaborations with local financial industry stakeholders and home regulators. Given the fact that reputation risk continues to be a predominant factor for international firms, the Bank has strengthened its focus on continuous supervision of AML/CFT risks.

Operational efficiencies remained at the forefront for the international banking and trust sector. SFIs are engaged in cost cutting measures, such as outsourcing, standardizing processes, consolidating business services and the automation of many functions. Outsourcing agreements are a material consideration for the critical operations of many SFIs. In 2017, the Bank processed 23 outsourcing arrangements between international firms and their parent banks and/or third party providers.

In light of the increasingly demanding global regulatory requirements, compliance initiatives, and other reforms, parent banks have rationalized their offshore businesses, resulting in some restructured or reduced presence within the local jurisdiction. A total of two mergers and acquisitions took place throughout the year. At the same time, domestically-owned banks (with international operations), are seeking opportunities for expansion and growth by acquiring the businesses of exiting licensees, as well as entering into new markets and business lines.

De-risking initiatives have proven to be a material consideration for some SFIs, resulting in more constrained correspondent banking options. As a result, firms are developing contingency plans to address the varying scenarios, and the Bank continues to take measures to deal with this emerging risk. SFIs are currently engaged in strategic endeavours to diversify their CBRs for various currencies, in particular US Dollar correspondent relationships. In addition, SFIs are also comprehensively reassessing their operational strengths and vulnerabilities, to ensure that they are locally and internationally compliant with relevant regulations and to ensure that business operations remain profitable and viable. To supplement this initiative, the Bank is strengthening its risk management focus for the financial services industry, with particular interest surrounding its AML/CFT risk and controls compliance regime.

Money Transmission Businesses

During the year, the Bank maintained its robust regulatory and supervisory regime for MTBs and Money Transmission Agents (MTAs[1]). The total number of MTBs increased by two to five, while the total number of agents rose by one to twelve (See: Table 4). Principals of this sector of SFIs are assessing their business models, given

Table 4: Money Transmission Businesses

	2015	2016	2017
Non-Bank MTBs	2	3	5
Non-Bank MTAs	11	11	12
MTB Branches	13	13	36

Source: Central Bank of The Bahamas

1 Protection, Effective Financial Structure, Asset Quality, Rates of Return and costs, Liquidity, Signs of Growth.

1 An MTA means any person carrying on money transmission business on behalf of a Money Transmission Service Provider.

the trend in the commercial banking sector, with the view to deploying planned strategic initiatives to enhance service delivery, expand product offerings and grow their customer base.

Supervisory Policy and Guidance

Following ongoing consultation with the industry, the Bank revised a number of guidelines and withdrew one guideline in 2017. These are highlighted below:

Revised Guidelines

- *A Guide to the Central Bank's Ladder of Supervisory Intervention (May 2017)*. This guide, which replaces the one issued in April 2006, was revised to align with the Bank's Risk-Based Supervisory Framework and to broaden the applicability to all supervised financial institutions.
- *Guidelines for the Administration of Monetary Penalties (February 2017)*. The guidelines were amended to clarify that the due date for the submission of the Daily B$ Position report, is two business days after the reference period.
- *Guidelines for Supervised Financial Institutions on the Prevention of Money Laundering & the Countering the Financing of Terrorism (May 2017)*. The guidelines were amended to better align with the relevant international standards, namely the FATF's Forty Recommendations and the FATF's 2013 Methodology. The guidelines take account of the Bank's assumption of the regulatory and supervisory responsibility for co-operative credit unions, under the Bahamas Co-operative Credit Unions' Act, 2015, and other amending legislation.
- *Guidelines for the Management of Credit Risk for Credit Unions (July 2017).* These guidelines were revised to change the term limit for personal loans, from a maximum of 10 years to 7 years, to align with the term limit set out at Regulation 3(1) of the Bahamas Co-operative Credit Unions Regulations, 2015.

Withdrawn Guidelines

- *Guidelines on Minimum Disclosures (November 2017)*. These guidelines, which were originally issued in December 2016, were withdrawn.

Legislative Initiatives

Dormant Accounts

- During 2017, the Bank continued to develop proposals for revisions to the legislative framework for Dormant Accounts. The proposed reforms will broaden dormant account protection from deposits to securities, and define the minimum period before which unclaimed assets will be handed over to the Government for liquidation. The initiative also requires amendments to the Banks and Trust Companies Regulation Act, 2000, and the Central Bank of The Bahamas Act, 2000, which have been forwarded to the Attorney General's Department for final vetting.

Crisis Management/Bank Resolution Regime

- The Bank continued its work on finalizing the national financial crisis management plan. Further enhancements were also made to the Bank's resolution legislative framework. More specifically, amendments were made to the Banks and Trust Companies Regulation (Amendment) Bill, 2017, the Central Bank of The Bahamas Bill, 2017, and the Protection of Depositors (Amendment) Bill, 2017, to facilitate the Bank's new role as the resolution authority for banks going forward.

Credit Bureau

- The Bank's efforts to establish an appropriate legal and regulatory framework to support a national credit reporting system were on-going, and in this regard, the Credit Reporting Bill, 2014, and the Credit Reporting Regulations, 2014, received further amendments in 2017, and were tabled in Parliament. The draft legislation was passed in early 2018. In addition, the Bank is developing its guidelines for licensing, operating and supervising a credit bureau in The Bahamas, and will spearhead an awareness campaign, through several media outlets, to educate the public on the implications of establishing a credit reporting bureau.

Domestic, Regional and International Regulatory Cooperation

Supervisory Cooperation

In 2017, the Bank received and responded to 14 information requests from 11 foreign regulatory authorities (See: Table 5).

Engagement with Domestic and International Regulators

At the local level, senior staff from the Department, in conjunction with the Legal Unit, participated in the work of the Group of Financial Service Regulators (GFSR), which comprises the five domestic regulators for banks and trust companies, the securities industry, insurance companies, credit unions and financial and corporate service providers.

At the regional and international levels, senior staff of the Department participated in regulatory colleges in the Caribbean and Canada for the domestic systemically important commercial banks in 2017. Senior staff also attended the Group of International Financial Centres'

TABLE 5: Requests for Cooperation in 2017

Country	Requests Received From Foreign Regulators
British Virgin Islands	1
Cayman Islands	2
Guernsey	1
Hong Kong	1
Luxembourg	1
Malta	1
Panama	2
Philippines	1
Singapore	2
Switzerland	1
Trinidad & Tobago	1
Total Requests	**14**

Source: Central Bank of The Bahamas

discussions, held as a part of the annual International Banking Supervisors' Conference in London and Bermuda in 2017. The Department continued its engagement with home-consolidated regulators of SFIs, via the annual regulatory letters. This is a proactive measure to ascertain the risk areas identified within the group entity, and to gauge whether any impact would be transmitted to the established operations within The Bahamas. Information with respect to specific regulatory issues or financial, operational and environment risk factors, are exchanged through the various Memorandums of Understanding (MOUs) in force with foreign supervisors.

Regulated Entities and Functions

During 2017, the number of bank and trust companies decreased by 6 to 242 (See: Table 6). Eight licenses were issued (one public bank, one public trust and six restricted nominee trusts) and 14 entities ceased to carry on business, consisting of 4 public bank and trusts, 3 public banks, 5 restricted nominee trusts, and 2 non-active. Of the 242 licensed entities, 227 maintained a full physical presence in The Bahamas, while the remaining 15 operated via approved management agreements. Approximately 48% of the total SFIs originate from G-10 countries.

The Bank approved the registration of 13 Private Trust Companies (PTCs), while removing the same number of PTCs from its register, and resulting in the total number of registrants remaining at 121 at end-December 2017. The number of Financial and Corporate Service Providers that act as Registered Representatives (RRs) remained at 5, while 2 SFIs advised the Bank of their intention to act as RRs of PTCs, increasing the number to 21. Further, the number of Financial Co-operative Credit Unions remained at 10, inclusive of the Bahamas Cooperative League Ltd.

Regulatory applications processed and approved by the Bank totalled 360—the majority of which were linked to new appointments of officials. In keeping with prescribed "fit and proper" requirements, the Bank reviewed and approved the appointment of 102 directors, 142 money laundering reporting officers (MLROs) and executive officers and 93 senior officials/officers. In other administrative activities, some 52 outsourcing applications were approved, as SFIs took further decisions to streamline operational overhead and benefit from economies of scale. During 2017, 231 meetings were held with SFIs and other external guests to discuss license applications, prudential issues, on-site examinations and courtesy visits to the Bank.

Administrative Monetary Penalties

Penalties imposed since the implementation of the Administrative Monetary Penalties Regulations in 2016, totalled $646,062.50 as at 31st December, 2017, of which $561,250.00 had been paid–all breaches were attributed to 43 SFIs. Orders were issued for breaches covering 18 different categories, the most active being: late or erroneous filing of the Daily Bahamian Dollar Open Position, the Weekly Interim Reports, and the Quarterly Unaudited Financial Statements. In addition, one notice was issued to a licensee for failure to comply with a directive.

TABLE 6: Regulated Entities

	2015	2016	2017
Banks and Trusts	249	248	242
Banks & Trusts	64	62	55
Banks	31	31	30
Trusts	154	155	154
Non-Licensee Reg. Representative	4	5	5
Licensee Registered Representatives	18	19	21
PTC (Registered)	112	121	121
Non-Bank MTBs	2	3	5
Non-Bank MTAs	11	11	12
Cooperative Credit Unions	9	10	10
Memo Items:			
Assets of Domestic Banks (B$Bill)	9.80	9.97	10.18
% change	2.1%	1.7%	2.1%
Assets of International Banks (B$Bill)	180.50	175.65	171.10
% change	-6.4%	-2.7%	-2.6%

Source: Central Bank of The Bahamas

DEPOSIT INSURANCE CORPORATION

The Bank has the statutory responsibility to oversee the Deposit Insurance Fund (the Fund) for Bahamian dollar deposits in the banking system in The Bahamas. The Deposit Insurance Corporation (DIC) insures Bahamian dollar deposits up to a maximum of $50,000 for any single depositor in each of its 12 member institutions. These entities do not hold equity positions in the DIC.

The DIC assesses the depository institutions an annual premium equal to one-twentieth of one percent (0.05%) of deposits, averaged over their liabilities at 31st March and 30th September of the preceding year. Based on average total insurable Bahamian dollar deposits in domestic banks of $5.81 billion during 2017, relative to $5.75 billion in the previous year, premiums levied and collected during the year amounted to $2.91 million, compared to $2.87 million in the prior period. Factoring net earnings, the accumulated assets of the Fund increased by approximately $4.91 million to $50.68 million, with $49.27 million invested in BGRS.

In 2017, the DIC engaged a marketing and public relations firm to manage its public awareness campaign, which was aimed at strengthening confidence in the DIC's role, as a part of the domestic financial system safety net mechanism. The campaign included the launch of the DIC's Facebook page, radio and Internet advertisements, morning talk-radio appearances, distribution of DIC flyers and bank statement inserts by member institutions, as well as the broadcasting of DIC Infomercials in a cinema complex. In 2018, the DIC will measure the success of this awareness campaign by conducting a survey across the five islands of New Providence, Grand Bahama, Abaco, Eleuthera and Exuma.

INFORMATION TECHNOLOGY

The Bank's use of technology is an important avenue for it to achieve its strategic goals. As such, in 2017 sustained and focused investments were made, aimed at modernizing the Bank's information technology (IT) systems and processes, in order to respond effectively to a rapidly evolving environment. Efforts were also maintained to investigate and invest in innovative FinTech, in order to strengthen the country's payment systems.

Consistent progress was made on the on-going digitization project for documents, and in this regard, significant focus was placed on electronically capturing thirty years of files within the Bank Supervision Department. This multi-year project will provide more secure and efficient access to historical information, and reduce physical storage needs. The Bank also sought to raise further staff awareness of its records management programme, through an aggressive internal campaign during the latter part of the year.

In July, the Bank commenced upgrades to its security and threat management capabilities. This project responds to the globally high-profile cybersecurity incidents and threats, which have had damaging effects on the operations of both private and public enterprises. The Bank also continued to strengthen its IT governance, risk and controls framework, as a means of enhancing resiliency and reducing the impact of risks to the enterprise.

During the year, the Bank strengthened its mobile device management policy and introduced a "bring your own device" (BYOD) programme for users of non-enterprise equipment. The reforms added new policies and procedures, as well as software to protect data on corporate issued and user supplied mobile devices. The Bank also acquired a cloud-based monitoring solution to complement the existing systems and network monitoring infrastructure, to improve the supervision and availability of IT systems, including public facing services, such as the Online Reporting and Information Management Solution (ORIMS) and the Exchange Control online forms.

The IT Department also provided technical support and assistance on a number of other strategic projects, including:

- The incorporation of an "evergreening" process within the risk-based framework solution for banking supervision.
- The implementation of a new three-year budgeting and planning framework for the Bank, built on the existing business intelligence and data analytics platform, along with the acquisition of a new planning analytics solution.
- Enhancements to the security event and information management solution used to detect security and other incidents that may impact the Bank's systems and data.
- Development of a new online portal for Exchange Control matters.

In order to maintain the high standard of service, governance, and management of the Bank's information systems, the Department adopted a new project management methodology, aimed at improving the effectiveness and governance of its IT project delivery. Recognizing synergies with this new framework and the existing System Development Life Cycle, the Department drafted numerous project management documentation templates that will be shared by both processes.

FACILITIES MANAGEMENT AND HEALTH & SAFETY IN THE WORKPLACE

The Bank strives to effectively manage its various facilities, enhance workplace safety and improve energy efficiency. The Bank conducts business from the Main Building in New Providence, situated between Market Street and Frederick Street on the east, and the leased Trimark Building, located north of the Main Building. Another leased property, in Freeport, Grand Bahama, situated on the second floor of the Siboney Commercial Centre, The Mall Drive, is used to conduct exchange control-related business. The Bank also owns three protected historical buildings: the Great House, a limestone structure which serves as the employee cafeteria; Balcony House, a two-storied period building presently managed by the Antiquities, Monuments and Museums Corporation (AMMC) as a museum; and Verandah House, which was formally used as a training facility by The Bahamas Institute of Financial Services (BIFS).

Major structural works were undertaken during 2017 to further improve and protect the security, safety and functionality of the Bank's properties. These included: the start of the main building's roofing replacement and underdeck rehabilitation; the replacement of air-conditioning machinery and the upgrade, through replacement, of the security surveillance system. Further, concrete repair work for the vault walls and ceilings and the step areas adjoining the Bank's perimeter walk, also progressed steadily, and is expected to be completed in 2018. On the historic properties, the AMMC, aided the Bank with conservation and other repair work on Balcony House. In addition, Verandah House was repurposed into a staff recreational space, and plans were formulated to refurbish the eastern section of the Great House, in order to transform it into a training facility.

The Bank is focused on reducing its energy consumption footprint. Although energy costs increased by roughly 2% compared to 2016, the outcome corresponded to the electricity surcharge. In terms of fuel costs, the Main Building, which accounts for over two-thirds of the Bank's total electricity costs, realized a marked increase of nearly 16% in 2017. The development was partly due to the inefficiencies of its end-of-life air-conditioning systems, along with an increase in surcharge rates. Conversely the volume of electricity consumed decreased by 7.4%. The overall utility costs, including water & sewerage, electricity, cable and telecommunications, grew modestly by 1.4%, when compared to 2016.

Focus also remained on securing alternative, more adequate long-term accommodations for the Bank's operations. An immediate priority is to secure property for a new central building, within the limits of the City of Nassau. In collaboration with a technical team, comprising representatives from the Ministry of Works and the AMMC, the Bank is soliciting public input on the proposed design and site location for a new building. The technical team, completed planning and material production for an Architectural Urban Area Plan Competition, which included the Competition Brief to facilitate the launch of a competition and selection of a winning idea submission in the first half of 2018.

Separately, plans are advancing to design and construct a new currency operations centre, that will be separate from the rest of the Bank's operations. Discussions are progressing with the Government to secure an appropriate track of land outside of the city limits. This project is expected to gain momentum in 2018.

Business Continuity

The Bank updated its Business Impact Analysis (BIA) and Vulnerability & Risk Assessment (VRA) in 2017 and the on-going series of simulation exercises, Business Continuity Plan (BCP) enhancements and related training, will continue through 2018. The Bank is also in negotiations to secure a lease space in the Annex Building at the UBS Property for a business continuity facility.

STAFF COMPLEMENT & RELATIONS

At the end of December 2017, the staff complement stood at 245 employees, which comprised 174 non-management positions, 59 mid-managers, and 12 executive management staff. The female to male ratio remained close to 2:1 (See: Table 7). The turnover rate rose slightly by 1.2 percentage points to 7.35%. A total of 18 employees were separated from the Bank due to resignations (11), retirements (4), involuntary terminations (2), and completion of contract (1)–while there were 17 new hires. Movements among incumbent staff also included 34 internal appointments, of which 24 were promotions, 9 lateral transfers, and 1 appointment. At year's end, there were 25 either vacant or pending vacancies across the Bank.

The Bank is focused on having a highly engaged team and encourages the wholesome well-being of staff members by sponsoring activities which foster team spirit, communication and camaraderie, such as the annual Family Fun Day, the Health and Wellness week, the Annual Christmas Party for employees, the Annual Christmas Party for children of employees and monthly social gatherings for staff. In 2017, the Health and Wellness Week was given special emphasis to encourage staff to be more proactive in maintaining a healthy life-

TABLE 7: Workforce Metrics

	2015	2016	2017
Staff Complement	238	246	245
Gender Distribution (%)			
Male	33.0	33.7	32.3
Female	67.0	66.3	67.8
Turnover Rate (%)	4.7	6.2	7.4

Source: Central Bank of The Bahamas

style. In addition to the Health Fair and presentations on health-related topics, the week included activities such as the daily trivia and an after-work Fun/Run/Walk. In addition, an 8-week transformation challenge commenced, which, among other activities, incorporated a weight loss competition and weekly fitness challenges. Eighty staff participated in the programme.

The Bank continues to be a valued employer, as indicated by the high percentage of staff members with significant years of service. At the end of 2017, an estimated 59.2% of staff had served for more than 10 years, with 29% being employed for more than 20 years. During the year, a total of 17 employees reached significant milestones for years of continuous service, with recognition following at the Annual Long Service Award Ceremony on 18th January, 2018. Two staff members were honoured for 40 years of service, five for 30 years, six for 20 years, and four for 10 years.

In labour relations, the Bank remains constructively engaged with the non-management and the mid-management bargaining units which represent 93% of staff. The non-management staff is represented by the Union of Central Bankers (UCB) and mid-management staff by the Bahamas Communications and Public Managers Union (BCPMU). The Bank maintains communication with both unions, through separate quarterly meetings, to give and receive updates on current and upcoming events and issues, to explore remedies to known grievances, and address areas of employment which need improvement.

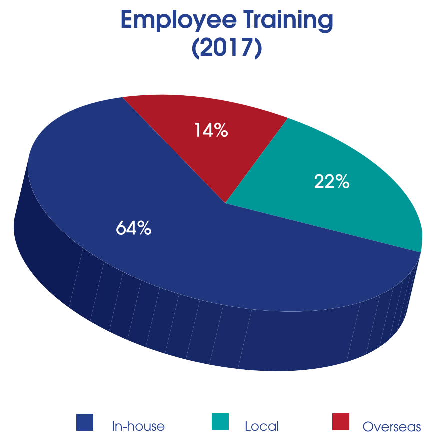
On 13th July, 2017, the Bank concluded negotiations and signed a new three-year Industrial Agreement with the UCB, which expires on 31st December, 2020. The agreement provided for a lump sum payment of $3,000 per employee on signing; salary increases of 3.25% in 2017 and 3.00% in 2019; and additional lump sum payments of $2,500 and $3,000 per employee in 2018 and 2020, respectively. In addition, the Bank expects to start engaging in negotiations with the BCPMU in 2018, as the current agreement is set to expire at the end of 2019.

STAFF DEVELOPMENT

The Bank provides learning opportunities to ensure that all members of staff have the requisite technical competencies and soft skills to perform all of their functions effectively. They are expected to be very knowledgeable and aware of financial services sector trends and best practices, and have the ability to adjust to the evolving needs of the Bank. In this regard, a series of in-house, local and overseas training opportunities, were facilitated by the Department over the year. A summary of the training and development options is shown in Table 8.

In-House Training

The in-house training opportunities offered, included a 4-module course in Spanish, held over a 15-month period; a 4-module Supervisory Leadership Course, held over a 4-week period, a Performance Management Seminar (half day) and a Retirement Training Workshop (3 days). In addition, there were also several team-building sessions for various departments, as well as First Aid and CPR Training.



Online and External Training

Through the Continuing Education Programme, the Bank supports staff who wish to pursue tertiary level education and/or professional certifications. In 2017, a total of 17 staff members received approvals for continuing studies. Twelve staff were also rewarded for degrees and certifications completed in 2017.

During the year, staff attended a variety of local and international conferences, which focused on various aspects of prudential supervision and regulation, macroeconomic and financial stability issues, external reserve management and corporate governance. Staff also participated in workshops, both online and externally, to strengthen their technical skills in the areas of statistical compilation, business continuity, human resources management and counterfeit currency detection.

Table 8: Summary of Training Developments

	In- House Training	Local Training	Overseas Training	Total Participants
First Quarter	137	48	20	205
Second Quarter	86	17	27	130
Third Quarter	45	12	22	79
Fourth Quarter	137	66	21	224
TOTAL	**405**	**143**	**90**	**638**

Source: Central Bank of The Bahamas

BOX 3: A TRIBUTE TO MR. TIMOTHY B. DONALDSON

The Inaugural T.B. Donaldson Memorial Lecture

In June 2017, the Central Bank unveiled the bust of Mr. Timothy B. Donaldson, CBE, who served as its founding Governor from 1974 to 1980. Mr. Donaldson, who died in February 2013, led the transition of this institution from a Monetary Authority to a Central Bank, and was instrumental in framing not just the monetary and supervisory policy regime of the Bank, but also the financial sector as a whole. As the founding sponsor of The Bahamas Institute of Financial Services (BIFS), Governor Donaldson's vision was to ensure that a lasting framework existed to develop the competent skillsets needed to sustain an internationally competitive financial services sector. Throughout his lifetime, his achievements earned him both national and international recognition, including the W.E.B Dubois Lifetime Achievement Award from his alma mater, Fisk University, and the Bahamas' Financial Service Industry's Lifetime Achievement Award.

During his leadership of the Bahamas Monetary Authority, Governor Donaldson served as Economic Advisor to The Bahamas Government at the Independence Conference in London in 1972, and in the subsequent year, was made the Commander of the Most Excellent Order of the British Empire by Her Majesty, Queen Elizabeth II. After his tenure as Governor, he served notably as the Ambassador for The Bahamas to the United States–and later to Columbia and Mexico–and as Permanent Representative of the Organization of American States (OAS). Subsequently, he was appointed Chairman of the Securities Commission, and later as Chairman of the Council of the College of The Bahamas (now the University of the Bahamas). In the private sector, his tenure included Chairmanship of Commonwealth Bank, and he was also a member of the Board of Trustees of Fisk University.

In honour of the former Governor, the Central Bank launched the T. Baswell Donaldson Memorial Lecture and Research Competition, to recognise outstanding research by Bahamian students on topics related to business, finance, monetary policy, fiscal policy, or developmental economics. The Annual Research Prize is set at $20,000. No prize was awarded in the first year; however, honourable mention was given to Ms. Zemi Holland, for her topic, *"Illegal Online Gambling and Crime."* The 2017 Memorial Lecture was delivered on June 27, 2017, by Ms. Kim Bodie, Executive Director of The Bahamas Institute of Financial Services. The Lecture reflected on Governor Donaldson's contribution to the development of the financial services sector in The Bahamas.

The Official Bust of T.B. Donaldson.

COMMUNITY INVOLVEMENT AND OUTREACH

Career Promotion

During the year, members of staff participated in career fairs hosted by four local high schools: the Charles W Saunders School, St John's College, C. V. Bethel and C.C. Sweeting High Schools. A total of ten schools visited the Bank as part of its "Schools Outreach Programme," which included presentations and discussions on the Role and Function of the Central Bank. In addition, the Bank also hosted participants of the Bahamas Youth Leadership Development Programme from Grand Bahama, and the Junior Achievement Programme. Through its Work Experience Programme–which allows high school students to work in the Bank for specified periods of up to one week–the Bank hosted twenty-three students from a total of six schools.

Providing college and university students with exposure to various aspects of the Bank's operations, is another important aspect of our outreach programme, while providing a potential resource pool for future employees. In this regard, the Bank employed approximately 16 high school students over two four-week sessions in its Summer Employment Programme. The students were placed in various Departments and Units throughout the Bank. Three college students were also placed in the Junior Professionals Summer Programme (JPSP), which provides opportunities to Bahamian students entering either their final year of college or university, to participate in an intensive summer internship experience in some of the main departments of the Bank. The students selected, had the opportunity to participate in the actual work of assigned departments; they were also mentored by a professional of the Bank during their stay and received training in various topics, designed to develop their technical and soft skills.

Community Relations

As a key aspect of its on-going community outreach, the Bank continued its partnership with Friends of the Blood Bank and the Princess Margaret Hospital, by hosting a series of blood drives.

Support for the Arts

The Bank's Art Programme is an important vehicle through which the skills and talents of young persons are honed and showcased. During the year, a total of nine exhibitions—including the Annual Art Exhibition—were held in the Art Gallery location.

The year began with the Caribbean in Motion's video (animation) exhibition, a joint initiative between the Central Bank and the Inter-American Development Bank (IDB), in February, 2017. This was followed by the 2016 Open Category winner, Jordana Kelly's first ever solo exhibition, "Bugs, Blessings & Barriers." Further, trilogy artists Jamaal Rolle, Allan P. Wallace, and Stefan Legend, staged an exhibition entitled, "Fifty Shades of Paint." Afterwards, Sue Katz Lightbourn presented her powerful one woman exhibition, "Exposed: A Collection of Collage and Assemblage." In addition, during the year, After School Music and Arts Classes (ASMAC) Studios, utilized the gallery space to host its 24th Annual Art Exhibition, once again displaying the magnificent artwork of its students. Another major highlight during the year, was the portrait exhibition by Duke and Lisa Wells, "Bright Lights & Raw Gems – Portraits from the Bahamian Project."

To further promote camaraderie and art awareness, the Bank held its first ever "Paint & Sip" on the Great House historical grounds, where employees enjoyed an evening of creative expression through a group painting lesson. Staff artworks were then featured during the Bank's second Annual Central Bank Staff Art Exhibition & Food Competition.

During 2017, the 34th Annual Open/Senior Category and High School/ Junior Art Competitions & Exhibitions, were held in October and November, respectively. Ryan Turnquest was selected as the overall winner of the Open Category, with his mixed media piece entitled, "The People Have Spoken." Minolta Butler, the recipient of the Bank's Staff Choice Award, was also given an honourable mention for her coffee painting, "A Taste of Freedom." Matthew Diesuel of C.V. Bethel placed first in the High School Competition with his work entitled, "Young Struggle." Central Eleuthera High School student Malia Carroll ("Free of Fear") and Queen's College student, Jayda Ritchie ("Authentically Bahamian") placed second and third, respectively. Ms. Ritchie also won the Governor's Choice award and the Most Outstanding Sculpture award was presented to Aashlee Cartwright from C.V. Bethel. The Gallery year concluded with Edrin Symonette's, the 2015 Open Category winner, much anticipated exhibition entitled, "Island Residues."

During the year, the Bank also bid farewell to its first curator, Mr. Antonius Roberts, who over the past 30 years, provided exemplary contributions and service through the meticulous organization of the various art exhibitions held in the Bank's art gallery, and through a visionary advancement of the arts programme. During his tenure, there was a constant diverse stream of artists from within the community, students from the public and private schools and joint collaborations with the international arena. The Bank greatly benefitted from the rich experiences shared by Mr. Roberts, which along with his knowledge, were valuable assets to the development of the Bank's art programme. The Bank thanks him for his many years of stellar service.

2017 FINANCIAL PERFORMANCE

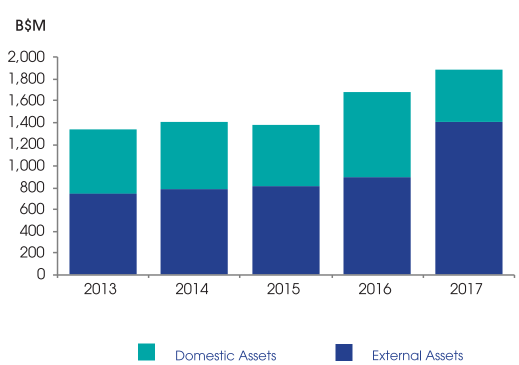
The Bank's financial outturn is largely determined by developments relating to the external reserves, which are influenced by the performance of the real sector, interest rates and Government's external borrowings.

The Bank's financial statements for the year ended 31st December 2017, along with comparable figures for 2016, are presented on pages 45 to 116 of this report.

In 2017, the Bank's total assets grew by $202.2 million (12.0%) to $1,883.8 million. External assets–which accounted for a higher 75.2% of the total–firmed by $513.4 million (56.8%) to $1,417.4 million, bolstered by proceeds from the Government's foreign currency borrowing, and to a lesser extent, net foreign currency purchases from real sector activities. A disaggregation of the various components, showed that cash and deposit balances more than doubled to $698.5 million, from $254.8 million in 2016. Further, the Bank's holdings of marketable securities firmed by $64.2 million (11.6%) to $614.7 million. Similarly, allocations from the IMF recorded growth, as Special Drawing Rights (SDRs) and the Reserve Tranche advanced by $4.1 million (5.5%) and $1.6 million (6.2%) to $76.8 million and $27.5 million, respectively.

The Bank's domestic assets decreased sharply by $311.3 million (40.0%) to $466.3 million, attributed mainly to

Assets

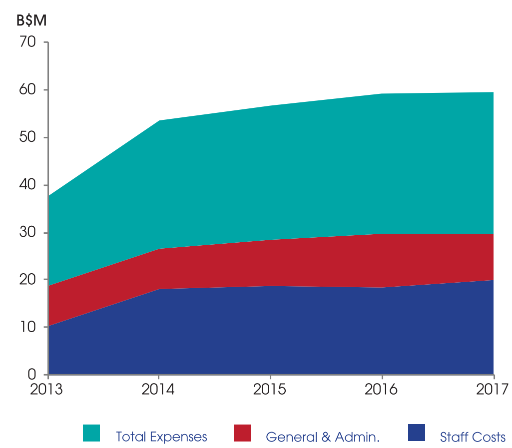


a decline in holdings of short-term Government debt. In this regard, investments in Treasury bills fell sharply by $216.7 million (96.7%) to a mere $7.2 million, due mainly to the conversion of two tranches of T-bills into bonds via swaps, sales to the private sector and maturities, which reduced the outstanding amount held by the Bank. In addition, the Bahamas Government Registered Stock (BGRS) portfolio contracted by $98.1 million (26.3%) to $274.5 million, while advances to the Government stabilized at $135.4 million. The remaining domestic assets rose by a combined $3.7 million (8.1%) to $49.4 million.

With regard to liabilities, the demand balances at the Bank increased by $180.2 million (13.4%) to $1,521.3 million. Underlying this outturn was a significant rise in the unremunerated deposits of commercial banks by $144.9 million (16.7%) to $1,011.2 million, reflecting Government's use of proceeds from its external borrowings to reduce outstanding short-term debt. Further, currency in circulation advanced by $12.8 million (3.0%) to $438.5 million, while Government and related agency deposits expanded by $16.3 million (58.4%) to $44.2 million. In addition, accounts payable firmed by almost two-fold to $11.1 million from $5.9 million, while the ICM-related liabilities grew by $0.9 million (11.5%) to $8.7 million.

The Bank's earnings increased marginally by $0.2 million (0.5%) to $41.7 million in 2017, as the interest income from investment sources–which represented a combined 93.8% of the total–rose by $4.4 million (12.6%) to $39.1 million. In particular, interest on foreign investments firmed by $2.9 million (18.1%), and earnings from the domestic component advanced by $1.6 million (9.1%). Further, interest on loans held steady at $1.1 million, while income from other miscellaneous sources declined by $3.9 million (52.7%) to $3.5 million.

Expenses



Total expenses increased by $1.4 million (4.7%) to $31.0 million in 2017, as the $1.6 million (8.6%) growth in staff costs, overshadowed the reduction in depreciation expenses by $0.2 million (8.3%), while general & administrative costs held steady at $8.7 million.

As a result of these developments, the Bank recorded total comprehensive income of $11.9 million–a decrease of $1.2 million (9.2%) over 2016.

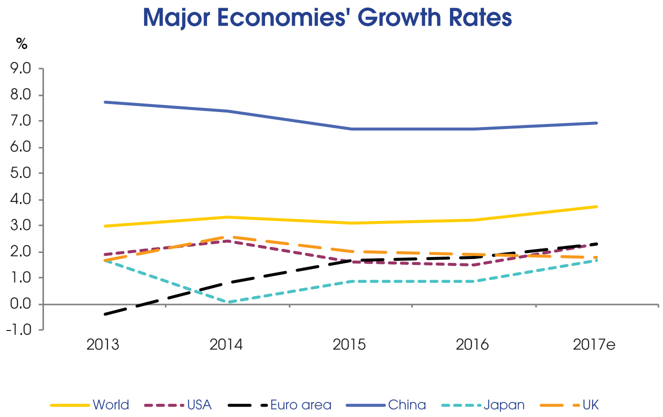
OUR ENVIRONMENT

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy continued to expand at a modest pace of 3.7% in 2017, exceeding the 3.2% gain in the prior year. Increased exports sustained growth in Europe and Asia, while robust consumer demand supported the strengthening in the United States' market. As a result of these developments, labour market conditions continued to improve among the major economies. Inflationary pressures remained well contained; although continued supply-restricted increases in global oil prices, resulted in higher fuel-related costs. Given the improving economic conditions and relatively low levels of inflation, the major central banks either tightened or maintained their accommodative monetary policy measures over the review year.

Real GDP growth in the United States quickened to 2.3%, from 1.5% in the prior year, driven largely by gains in personal consumption expenditure, non-residential fixed investments and exports. Similarly, the euro area's economy strengthened by 2.3% in 2017, outpacing the 1.8% advance recorded in the previous year, owing in part to higher private consumption and investment, while the United Kingdom's expansion narrowed slightly by 10 basis points to 1.8%, as growth in the services and construction sectors waned. In Asia, following the 6.7% rise in 2016, China's economy expanded at the faster pace of 6.9% over the review period–its strongest annual growth in seven years–as an increase in global demand for high-end electronic products bolstered the gains in exports. In addition, Japan's annual output growth advanced by 80 basis points to 1.7%, supported by higher exports of electronics and automobiles–particularly to its major trading partners.

Global labour market conditions continued to improve during 2017. In the United States, the unemployment rate decreased by 50 basis points to 4.4%, with notable job gains in the health care, construction and manufacturing sectors. In addition, the United Kingdom's jobless rate decreased by 50 basis points to a similar 4.4% in 2017, with the total number of employed persons firming by an estimated 321,000 over the prior year. Amid improving economic conditions, particularly in the southern member states, the euro area's unemployment rate fell by 90 basis points to 9.6% in December–the lowest level since January 2009. Further, the major economies in Asia



sustained their full employment levels, as Japan's jobless rate contracted by 30 basis points to 2.8%–its lowest level since 1994–while China's unemployment rate declined by 12 basis points to a 15-year low of 3.9%.

Global price developments reflected the modest firming in energy costs, although average inflation rates remained relatively subdued. In the United States, annual inflation steadied at 2.1%, as the rise in energy and food prices was offset by reductions in medical care and housing costs. Nevertheless, inflation in the United Kingdom quickened to 3.0% from 1.6% in the prior year, attributed to increases in miscellaneous goods & services, clothing & footwear, furniture & household equipment and alcoholic beverages & tobacco. Similarly, the euro area's annual inflation rate firmed by 30 basis points to 1.4%, largely associated with higher costs for fuel. In addition, Japan's inflation rate accelerated by 70 basis points to 1.0%, led by gains in fuel, light and water charges. In contrast, China's inflation rate decreased to 1.8%, from 2.1% in the prior period, reflecting declines in food costs.

In line with the improvement in economic conditions, the prices of primary commodities trended generally upwards during 2017. Specifically, average crude oil prices strengthened by 20.1% to US$54.99 per barrel over the year, as production cuts by several major OPEC and non-OPEC producers constrained supply, while the harsh winter conditions led to a rise in heating oil demand. Further, on a point-to-point basis, average costs advanced by 17.2% to US$66.60 per barrel at end-December, 2017, in comparison to the prior year. In the precious metal markets, the average cost of gold rose by 1.4% to $1,267.26 per troy ounce, while the average price of silver edged-up by 0.4% to $17.20 per troy ounce.

Reflecting in part the ongoing uncertainty regarding the ability of the new United States administration to implement its economic agenda, the US dollar depreciated against all the major currencies during the year. In particular, the dollar weakened by 12.4% vis-à-vis the euro, to €0.83 and by 8.6% relative to the British Pound, to £0.74. Similarly, the dollar declined versus the Canadian dollar and the Chinese renminbi, by 6.5% to CAD$1.26 and by 6.4% to CNY6.51, respectively. More muted decreases were posted against the Swiss Franc and the Japanese Yen, of 4.5% to CHF0.97 and 3.7% to ¥112.69.

Broad-based gains were registered in the major stock markets over the course of 2017, supported by tax cut measures in the United States and sustained global economic growth. In the United States, the Dow Jones Industrial Average (DJIA) and the S&P 500 strengthened by 25.1% and 19.4%, respectively. European bourses also moved upwards, with France's CAC 40 increasing by 9.3%, while Germany's DAX and the United Kingdom's FTSE 100 rose by 9.1% and 7.6%, respectively. Similarly, the Asian markets posted material gains, as Japan's Nikkei 225 and China's SE composite firmed by 19.1% and 6.6%, respectively.

The major economies experienced mixed trends in their external trade balances in 2017. In the United States, the trade deficit widened by $63.6 billion (12.6%) to $568.4 billion, as the 6.9% rise in imports—of mainly industrial supplies, capital and consumer goods—outstripped export growth of 5.6%. Further, the euro area's trade surplus contracted by €27.1 billion (10.2%) to €238.1 billion, attributed to a 9.7% increase in imports, which countered the 7.1% gain in exports. In Japan, the trade surplus declined by 25.2% to ¥3.0 billion, as the 11.8% expansion in exports, was outweighed by the 14.0% rise in goods purchased from abroad. Similarly, China's trade surplus decreased by US$86.6 billion (17.0%) to US$422.5 billion, underpinned by a 15.9% rise in imports, which outpaced the 7.9% growth in exports. Conversely, reflecting an 11.3% expansion in exports of primarily machinery, cars and medical products, which exceeded the 9.3% gain in imports, the United Kingdom's trade deficit narrowed by £7.0 billion to £33.7 billion in 2017.

In the context of the improving economic conditions and relatively benign inflationary environment, the major central banks either maintained or tightened their accommodative monetary policy stance. In the United States, the Federal Reserve continued with its programme geared towards normalizing interest rates, by increasing its target for the federal funds rate by 75 basis points to the 1.25%-1.50% range by December. The central bank also reduced the size of its asset purchase programme by an additional $10.0 billion per month. Similarly, in an effort to contain inflation, the Bank of England raised its key policy rate by 25 basis points to 0.50%—the first rate increase in 10 years—but sustained its £435 billion "quantitative easing" programme. Similarly, the European Central Bank (ECB) retained its key policy rates at historic lows, but signalled its intention to decrease the size of its asset purchase programme in 2018. In Asia, the People's Bank of China—in an attempt to promote monetary stability and lower the risks to the financial sector from excessive credit supply—raised its 7-day reverse repo rate by 50 basis points to 2.5%. However, the Bank of Japan maintained its highly accommodative monetary policy stance, in a bid to achieve its 2.0% inflation target.

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that the domestic economy expanded at a modest pace of 1.3% in 2017, following a mild 0.2% expansion registered in the prior year. This outturn reflected continued growth in construction sector output, which benefitted from several varied-scale foreign investment projects, including the multi-billion dollar Baha Mar development, and to a lesser extent sustained post-hurricane rebuilding work. However, the tourism sector faced challenges, due to the on-going impact of the weather-related loss of room capacity in the country's second largest tourist market in 2016, and the passage of several hurricanes through the region in September 2017, which disrupted flight and cruise ship itineraries. In this context, employment conditions improved in November, over the prior year, although the seasonal increase in the labour force, due to the entrance of new graduates, resulted in a slight up-tick in the unemployment rate. Further, domestic inflationary pressures remained relatively contained, although the pass-through effects of the recent uptrend in global oil prices, led to a firming in the rate.

The fiscal deficit widened to $669.3 million in FY2016/17, from an estimated $310.4 million in the previous period, attributed to increased hurricane-related capital outlays and higher spending prior to the 2017 elections. However, the fiscal gap narrowed over the first half of FY2017/18, as capital spending returned to trend levels and tax revenue expanded. At end-December, the Direct Charge on the Government stood at $7,177.9 million, a gain of $862.3 million (13.7%) over the prior year, while the Direct Charge to GDP ratio rose by 5.6 percentage points to 61.7%. Similarly, the National Debt—inclusive of Government guaranteed debt—increased by $831.9 million (11.8%) to $7,882.0 million at end-2017, for an estimated 67.8% of GDP, up from 62.6% at end-December 2016. Financing for the deficit was dominated by the Government's external borrowings, the majority of which was obtained via a US$750 million external bond.

Developments in the monetary sector reflected the Government's external borrowing activities, which resulted in robust growth in both bank liquidity and external reserves in 2017, as the increase in the deposit base contrasted with the contraction in domestic credit. As a consequence, at end-2017, the stock of external reserves was equivalent to an estimated 23.0 weeks of the current year's total merchandise imports, relative to 16.5 weeks in 2016. In addition, the sale of a portion of one bank's non-performing loan portfolio to a Government-owned entity, combined with ongoing debt restructuring measures and loan write-offs, resulted in banks' credit quality indicators improving during the year. In contrast, the banks' net income was reduced over the twelve-months to September, due to increased operating costs and a rise in loan loss provisioning. Further, the weighted average interest rate spread narrowed in 2017, as the decline in the lending rate, overshadowed the reduction in the deposit rate.

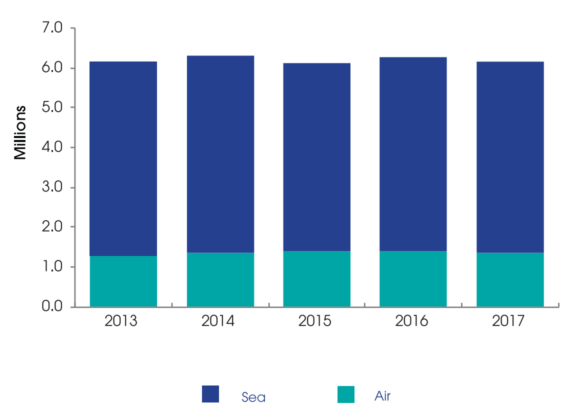
In the external sector, the estimated current account deficit deteriorated during 2017, in comparison to the previous year when significant hurricane-related re-insurance inflows resulted in a significant improvement in the current transfers account. In contrast, the capital and financial account surplus increased markedly, owing mainly to a sharp rise in debt-related "miscellaneous" investment inflows, associated largely with Government's external borrowings. Net private sector investment receipts also expanded.

REAL SECTOR

Tourism

Reflecting the adverse effects of the hurricane-related reduction in hotel capacity in Grand Bahama, the country's second largest tourist market, as well as an increase in competition from regional destinations, preliminary indicators showed that output in the tourism sector softened during 2017. According to data from the Ministry of Tourism, total visitor arrivals contracted by 2.1% to 6.1

Tourist Arrivals



million, a turnaround from the previous year's 2.5% gain (See: Table 9). Specifically, total air arrivals decreased by 4.0% to 1.3 million, following a flat position in 2016, reflecting declines in several key visitor source markets. Further, the dominant sea component—at 78.2% of overall visitors—contracted by 1.5% to 4.8 million, a reversal from the previous year's 3.2% expansion.

An analysis by first port of entry, showed that the growth in overall arrivals to New Providence slowed to 1.2% to 3.6 million tourists, vis-à-vis the prior year's 9.8% expansion. This outturn reflected a slowdown in the growth of the dominant sea segment to 3.2% from 13.7%, while air traffic declined by 3.6%, in contrast to a slight 0.8% gain in the prior period. Further, reflecting the loss of considerable hotel room capacity following the passage of Hurricane Matthew in 2016, tourist arrivals to Grand Bahama contracted sharply by 26.6% to 0.6 million, extending the 13.2% decline a year earlier, as the fall in air and sea traffic accelerated to 43.8% and 23.5%, from 21.3% and 11.6%, respectively, in the prior year. In a slight offset, the Family Island market firmed by 2.6% to 1.9 million, a reversal from a 2.0% reduction in 2016, due to gains in air and sea passengers by 14.3% and 0.8%, vis-à-vis the previous period, when air visitors firmed by a slower 11.8% and sea arrivals fell by 3.9%.

Hotel performance indicators mirrored the trends in the stopover visitor segment. Preliminary data for a sample of large hotels in New Providence and Paradise Island, showed a flat outturn for room revenue in 2017. Underlying this outcome was a 6.8 percentage point decrease in the average occupancy rate to 60.7%, while the average daily room rate (ADR) fell by 0.8% to $239.17.

Construction

During 2017, construction sector activity was driven largely by ongoing foreign investment projects, including work to complete the multi-billion dollar Baha Mar development. Hurricane rebuilding work was also sustained during the year. However, domestically financed private activity remained sluggish, as banks maintained their conservative lending stance in the face of high levels of non-performing mortgages.

Reflecting the challenges faced by the domestic sector, total mortgage loan disbursements for new construction and repairs–as reported by commercial banks, insurance companies and the Bahamas Mortgage Corporation–contracted by 3.4% to $108.8 million, although a moderation from the year-earlier decline of 6.7%. This outturn was due to a 5.0% reduction in the residential segment to $102.4 million, extending the prior year's 2.8% falloff. In contrast, the commercial component increased by 32.7% to $6.4 million, a reversal from a 51.0% decrease in 2016.

An analysis of the more forward looking indicator–mortgage commitments for new buildings and repairs–suggests that activity in the domestic private market is likely to improve over the near-term. Specifically, total domestic mortgage commitments for new buildings and repairs, increased in number by 6.0% to 510 and in value by 6.7% to $57.6 million. Residential approvals–which represented the bulk (97.0%) of the total–rose by 5.9% to total 507, with the associated value higher by 5.1% at $55.9 million. Similarly, commercial commitments increased in number by one to three and the corresponding value by $0.9 million to $1.8 million.

In terms of interest rates, the average cost of a commercial mortgage rose by 80 basis points, year-on-year, to 8.7%, while the corresponding residential mortgage rate declined by 20 basis points to 7.6%.

Employment

Labour market conditions improved during 2017, attributed mainly to several factors including the phased opening of the multi-billion dollar Baha Mar resort, hurricane construction recovery, and short-term stimulus from the hosting of a number of international cultural events. According to the Department of Statistics' Labour Force Survey, despite some setback in the second half of 2017, the jobless rate fell by 1.5 percentage points to 10.1% at November 2017, relative to the same point a year earlier. Over the 12-month interval, an additional 11,345 persons (5.9%) were employed, outstripping the 4.1% growth in the labour force to 226,680. A disaggregation by major job centres, showed that the unemployment rate in the dominant New Providence market–which accounted for an estimated 70.2% of the labour force–decreased over the year by 2.3 percentage points to 10.6%. In addition, the jobless rate for Grand Bahama narrowed by 1.2 percentage points to 12.1% and for Abaco by 0.5 percentage points to 8.6% at November 2017. At the end of the period, the unemployment rate for females stood at 11.1%, compared with 9.2% for males.

Prices

Reflecting mainly the sustained increase in global oil prices, the average Retail Price Index for The Bahamas rose by 1.5% in 2017, in contrast to a 0.4% decline a year earlier. Reflecting this outturn, average costs increased for housing, water, gas, electricity & other fuels–the most heavily weighted item on the index–by 3.7%, restaurant & hotels, by 2.3% and transport, by 2.0%, after registering respective declines of 1.1%, 1.3% and 4.0%, a year earlier. In addition, average price accelerations were recorded for communication, by 1.6 percentage points to 3.4%, alcoholic beverages, tobacco & narcotics, by 0.8 percentage points to 1.6% and recreation & culture, by

TABLE 9: Selected Economic Indicators

	2015	2016 (% Change)	2017
Real GDP*	(3.1)	0.2	1.3
Unemployment Rate (Nov.)	14.8	11.6	10.1
Occupied Hotel Room Nights	(2.3)	N/A	N/A
Hotel Occupancy (%)	58.0	N/A	N/A
Total Arrivals	(3.3)	2.5	(2.1)
Mortgage Disbursements	45.9	(3.4)	(0.4)
Inflation	1.9	(0.4)	1.5
National Debt/GDP* Ratio (%)	59.3	62.6	67.8

SOURCE: Central Bank of The Bahamas and the Ministry of Tourism
*2017 GDP estimates taken from the IMF's April 2018 forecast
N/A Not available

0.8 percentage points to 1.3%. Further, the reduction in average costs for food & non-alcoholic beverages slowed to 0.1% from 0.9% in the prior year. In contrast, the inflation rate tapered for health, by 3.0 percentage points to 0.8%. In addition, average prices fell for education, by 0.2%, furnishing, household equipment & routine maintenance, by 1.4%, other" goods & services, by 0.7% and clothing & footwear, by 1.2%, following respective gains of 5.6%, 1.3%, 0.9% and 0.7% in the previous year.

The increase in international oil prices fed through to the domestic energy market during the year. As a result, the average annual prices of gasoline and diesel, firmed by 8.9% and 10.6%, to $4.26 and $3.85 per gallon, respectively, vis-à-vis declines of 9.8% and 10.6% recorded in 2016.

FISCAL OPERATIONS

FY2016/17 Performance

During FY2016/17, the overall deficit more than doubled to $669.3 million, from $310.4 million in the preceding period (See: Table 10). This was significantly higher than the targeted deficit of $97.6 million, owing in part to higher than planned capital spending and disrupted revenue collections following the passage of Hurricane Matthew. In terms of the components, total expenditures firmed by $489.9 million (21.9%) to $2,729.9 million–exceeding projected outflows by $463.5 million (20.4%)–amid increased hurricane and election-related outlays. In contrast, aggregate total revenue increased by $131.0 million (6.8%) to $2,060.5 million; although $108.3 million (5.0%) lower than estimated.

Revenue

Tax revenue–at 89.1% of total collections–grew by 9.6% ($160.4 million) to $1,836.6 million, but was approximately 6.7% lower than anticipated. Receipts from taxes on international trade & transactions rose by $76.3 million (15.1%) to $582.7 million, as excise and import taxes firmed by $57.6 million (25.1%) and $22.4 million (8.5%), respectively. In addition, business and professional license fees moved higher by $42.6 million (29.2%) to $188.8 million, led by timing-related gains in "other" general license fees. In addition, buoyed by efforts to improve administration and reduce outstanding arrears, property tax collections increased by $16.8 million (16.2%) to $120.6 million. Further, non-trade stamp taxes advanced by $12.2 million (12.2%) to $112.2 million, due mainly to gains from financial sector transactions, while value-added taxes (VAT) firmed by $10.1 million (1.6%) to $638.0 million. More modest gains were noted for selective taxes on services, by $1.5 million (5.7%) to $28.5 million and motor vehicle taxes by $0.8 million (2.5%), to $31.1 million.

In contrast, non-tax receipts decreased by $29.3 million (11.6%) to $223.9 million over the prior year, resulting in a 13.0% ($25.7 million) shortfall when compared to the budgeted amount. Largely contributing to this development was a $46.0 million (21.8%) decline in proceeds from fines, forfeits & administrative fees, to $164.7 million, compared to the prior year, when license fees

TABLE 10: Fiscal Indicators (B$ Millions)

	FY2014/15 Actual	FY2015/16 Actual	FY2016/17 Actual Estimates	FY2017/18 Approved	FY2017/18 Preliminary[1] Estimates
Government Revenue	1,701.5	1,929.6	2,060.5	2,139.0	878.5
as % of GDP	15.4	17.2	18.0	17.9	7.3
Government Expenditure	2,083.5	2,240.0	2,729.9	2,460.4	1,074.1
as % of GDP	18.9	19.9	23.8	20.6	9.0
Surplus/(Deficit)	(382.0)	(310.4)	(669.3)	(321.3)	(195.6)
as % of GDP	(3.5)	(2.8)	(5.8)	(2.7)	(1.6)

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format.
[1] July - December, 2017

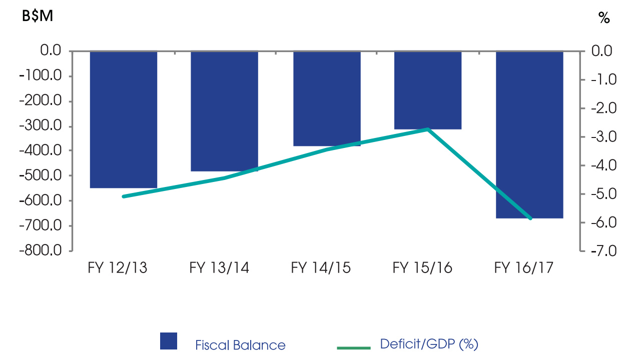
from the award of a cellular license were received, while revenue from the sale of Government property declined by $1.2 million to $0.4 million. In a slight offset, income from other "miscellaneous" sources increased by $17.1 million (48.0%) to $52.6 million, while the intake from public enterprises rose by $0.8 million (16.3%) to $6.0 million. Further, capital revenue remained at negligible levels over the review period.

Expenditure

Current expenditure, which comprised the bulk (85.7%) of total outlays, firmed by $334.6 million (16.7%) to $2,339.7 million–surpassing the budgetary estimate by $315.3 million (15.6%). Consumption outlays increased by $248.0 million (24.9%) to $1,243.6 million, as purchases of goods & services firmed by $208.2 million (63.0%), reflecting mainly higher costs for rent, communication & utilities, while outlays to cover the implementation of National Health Insurance (NHI), led to elevated contractual service payments. In addition, personal emoluments moved higher by $39.8 million (6.0%) to $705.1 million, amid broad-based promotions within the armed services. Similarly, transfer payments rose by $86.6 million (8.6%) to $1,096.1 million, as subsidies & transfers grew by $94.9 million (12.9%) to $829.4 million. A breakdown of the components showed that transfers to public corporations and provisions for contingencies advanced by $81.6 million (69.8%) to $198.5 million. Gains were also recorded for general subsidies by $38.9 million (10.4%) to $413.3 million, amid higher payments for health-related entities, while transfers to non-financial public enterprises increased by $1.3 million (8.1%). In contrast, decreases occurred for transfers to non-profit institutions ($9.5 million), households ($8.8 million), and transfers abroad ($8.6 million). In addition, interest payments contracted by $8.3 million (3.0%) to $266.7 million, as the internal component fell by $13.7 million (7.1%) to $178.4 million, overshadowing the $5.4 million (6.5%) increase in external payments.

Capital spending advanced by more than two-thirds, to $390.2 million, from $231.3 million in the prior period–overshooting the budget forecast by $148.1 million (61.2%). Capital formation expanded by $99.1 million (57.3%) to $272.0 million, reflecting in part infrastructure repairs following the passage of Hurricane Matthew. In addition, outlays for the acquisition of assets more than doubled to $118.2 million, from $58.4 million, due to a $39.2 million (90.0%) rise in the "other" assets acquisitions, which included the purchase of new defence force vessels, and a $20.0 million rise in equity purchases in a public/private partnership.

Fiscal Indicators



Financing

Financing for the deficit was obtained primarily from domestic sources, which included long-term bonds ($545.0 million), Treasury bills ($337.7 million), and advances ($249.5 million), related to a special hurricane relief loan. In addition, external borrowings, in the form of loan drawdowns, amounted to $43.3 million. Debt repayments for the period totalled $595.1 million, the bulk of which ($557.1 million), was used to retire Bahamian dollar obligations.

First Six Months of FY2017/18

Over the first half of FY2017/18, the Government's overall deficit narrowed by $110.0 million (36.0%) to $195.6 million, when compared to the corresponding period of the previous year. This outturn reflected an $83.3 million (7.2%) decrease in aggregate spending to $1,074.1 million, combined with a $26.7 million (3.1%) increase in total revenues to $878.5 million.

Expenditure

The falloff in aggregate expenditure reflected mainly a halving of capital outlays to $75.8 million, from $152.5 million in the prior period, as the expenditure component returned to trend levels after a hurricane-related increase in spending. Specifically, infrastructure outlays were reduced by $61.8 million (48.6%) to $65.3 million, as spending recovered after relatively higher outlays related to coastal protection, and building and dock repairs in the previous period. In addition, asset acquisitions contracted by $14.9 million (58.5%) to $10.6 million, as the other "miscellaneous" category fell to $2.5 million from $20.4 million in the prior period, when several Defense Force vessels were purchased. Further, land acquisitions decreased to negligible levels from $4.5 million in the comparative period of FY2016/17. These reductions overshadowed a $7.5 million expansion in financial assets, to $8.0 million, from $0.5 million, as the Government acquired equity positions in a number of private/public partnerships.

Current expenditures fell by $6.5 million (0.7%) to $998.3 million over the six-month period, due primarily to a $31.9 million (6.5%) contraction in transfer payments to $456.4 million. Specifically, subsidies & other transfers fell by $41.1 million (11.5%), largely reflecting a reduction in subsidies for the NHI Scheme, after initial expenditures in preparation for the launch of the programme in the prior period. In a slight offset, outlays to the Public Hospital Authority (PHA) expanded. Decreases were also posted for transfers to public corporations & provisions for contingencies ($9.7 million), transfers to non-financial public enterprises ($5.9 million), transfers abroad ($2.2 million) and transfers to non-profit institutions ($0.6 million). Further, reflecting the rising level of Government debt, interest payments firmed by $9.2 million (7.1%) to $139.3 million, owing to gains in both the internal and external components, by $4.5 million (5.3%), and by $4.7 million (10.6%), respectively. In contrast, consumption spending rose by $25.3 million (4.9%) to $541.9 million, explained by respective increases in personal emoluments and purchases of goods & services by $21.0 million (6.0%) and $4.3 million (2.6%).

Revenue

Over the review period, tax revenues rose by $20.8 million (2.7%) to $782.7 million. An analysis of the sub-components, showed that the most significant increase occurred for VAT receipts, by $9.9 million (3.3%) to $312.0 million. In addition, gains were recorded for motor vehicle taxes, by $6.1 million (63.9%) to $15.5 million and business and professional fees, by $5.3 million (34.3%) to $20.7 million. Similarly, selective taxes on services expanded by $5.0 million (51.5%), owing to a timing-related increase in gaming tax collections. In addition, receipts from property taxes firmed by $0.6 million (1.8%) to $31.8 million. Providing some offset, other "unallocated" taxes decreased by $2.6 million (12.5%) to $18.6 million, while international trade taxes fell by $2.3 million (0.9%) to $256.4 million, as import tax reductions outpaced gains in excise taxes on trade. More muted decreases were recorded for non-trade related stamp taxes, by $0.5 million (1.0%) to $53.8 million, and departure taxes, by $0.4 million (0.7%) to $59.5 million.

Non-tax receipts grew by $5.9 million (6.6%) to $95.8 million, as income from fines, forfeits & administrative fees, firmed by $4.8 million (6.8%), owing to a rise in immigration fee payments. In addition, receipts from the sale of Government property advanced to $1.3 million, from $0.4 million in the prior period.

Financing

Financing for the Government's operations, featured a sizeable rollover of bridging facilities into longer-term debt. Borrowing proceeds included $558.4 million in foreign currency loans, which preceded and was partially refinanced by the $750.0 million international bond issued near the end of the period. Gross domestic debt proceeds included locally issued long–term bonds ($307.0 million), loans from commercial banks ($14.0 million), and net Treasury bill issuances ($9.3 million). Driven by refinancing operations, debt repayments totalled $1,025.7 million, evenly distributed between external obligations of $472.7 million (46.1%)–mostly short-term loan repayments–and Bahamian dollar obligations of $553.0 million (53.9%).

Table 11: Debt Indicators (B$ Millions)

		2015p	2016p	2017p
A.	External Debt	2,175.8	2,373.0	3,231.7
	as % of GDP*	19.4	21.1	27.8
B.	Internal F/C Debt	398.2	273.8	250.4
	as % of GDP*	3.5	2.4	2.2
C.	Total F/C Debt	2,574.0	2,646.8	3,482.0
	as % of GDP*	22.9	23.5	29.9
D.	Debt Service Ratio[1]	5.4	9.9	7.3
E.	Direct Charge	5,904.6	6,315.6	7,177.9
	as % of GDP*	52.5	56.1	61.7
F.	National Debt	6,659.9	7,050.2	7,882.0
	as % of GDP*	59.3	62.6	67.8

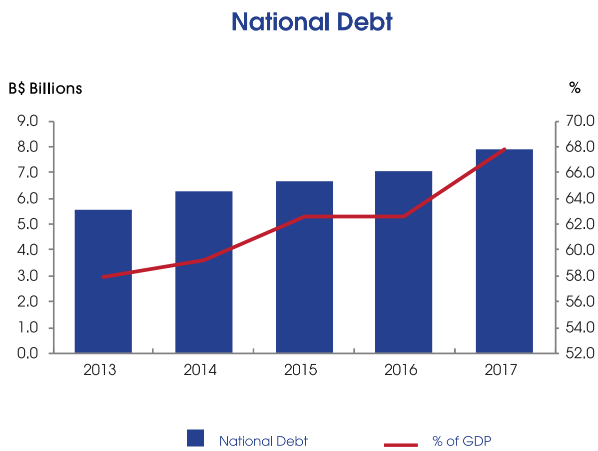
SOURCE: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Report
*2017 GDP estimates taken from the IMF's April 2018 forecast
[1] Excludes refinancing activities

National Debt

During 2017, the Government's Direct Charge expanded by $862.3 million (13.7%), year-on-year, to $7,177.9 million. At end-December, the ratio of the Direct Charge to GDP stood at an estimated 61.7%, a gain of 5.6 percentage points over the prior year (See: Table 11). Bahamian dollar denominated debt–at 63.6% of the total–decreased by $6.2 million (0.1%) to $4,563.9 million. In contrast, foreign currency claims expanded by $868.5 million (49.8%) to $2,614.0 million. An analysis by holder, showed that the majority of the Bahamian-dollar debt was held by commercial banks (43.3%), followed by the private sector (33.8%) and public corporations (13.2%). Smaller shares were held by the Central Bank (9.1%), and other local financial institutions (0.6%).

Government's contingent liabilities contracted by $30.4 million (4.1%) to $704.2 million, largely reflecting reductions in the guaranteed allocations of a few public entities. As a result, the National Debt–which includes contingent liabilities–grew by $831.9 million (11.8%) to

$7,882.0 million at the end of 2017, outstripping the prior year's increase of $390.3 million (5.9%). Similarly, the National Debt to GDP ratio rose by 5.2 percentage points to 67.8%, after a 3.3 percentage point increase to 62.6% in 2016.



Foreign Currency Debt

Public sector foreign currency debt increased by $835.3 million (31.6%) to $3,482.0 million during 2017, as new drawings–some subsequently refinanced–rose to $1,345.5 million from $282.3 million, outpacing the $352.2 million rise in amortization payments to $545.7 million. These culminated in an $868.5 million (49.8%) growth in the Government's debt obligations–which accounted for 75.1% of the aggregate–to $2,614.0 million; however, the public corporations' segment contracted by $33.2 million (3.7%) to $868.0 million.

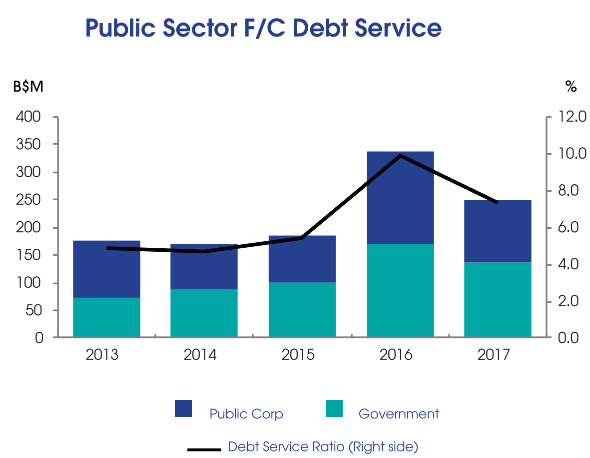
Reflecting mainly the repayment of short-term loans following the receipt of proceeds from the external bond, foreign currency debt service payments more than doubled to $698.6 million, from 2016's $337.3 million. In terms of the components, Government debt service payments expanded by $415.4 million to $586.0 million, while the public corporations' segment fell by $54.1 million (32.5%) to $112.6 million. Net of the short-term loan repayments, the debt service ratio decreased by 2.6 percentage points to 7.3%, contrasting with 2016's 4.5 percentage point expansion. Similarly, the Government's debt-service to total revenue ratio decreased by 2.5 percentage points to 6.5%, a reversal from a 3.7 percentage-point increase in 2016.

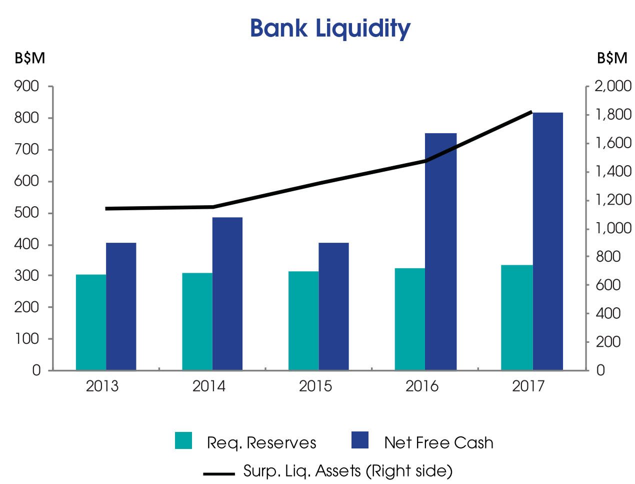
An analysis by creditor profile, showed that the majority of the foreign currency debt was held by private capital markets' investors (47.4%), followed by non-resident financial institutions (34.2%), multilateral institutions (8.1%), banks (7.7%), and bilateral agencies (2.6%). At end-December, the average maturity of the foreign currency debt stood at 11.0 years, down from 12.3 years posted in 2016. By currency, the bulk of the debt (84.7%), was denominated in US dollars, with the euro, Swiss Franc and Chinese Yuan, accounting for smaller proportions, of 6.8%, 5.8% and 2.6%, respectively.

MONEY, CREDIT AND INTEREST RATES

Monetary Sector

Buoyed by the Government's external borrowing activities, monetary developments during 2017 featured robust growth in both bank liquidity and external reserves, with the expansion in the deposit base, contrasting with the reduction in domestic credit. Further, banks' credit quality indicators improved significantly, reflecting mainly the transfer of a portion of one entity's non-performing loans to a Government-owned special purpose vehicle (SPV), combined with ongoing debt restructuring measures and loan write-offs. In contrast, banks' overall profitability contracted over the twelve months to September, as gains in operational costs and loan loss provisions, overshadowed the rise in other "miscellaneous" income. In addition, the weighted average interest rate spread declined, as the fall in the average lending rate, eclipsed the reduction in the corresponding deposit rate.





Liquidity

Average net free cash balances—a narrow measure of liquidity—expanded by $89.4 million (13.7%) to $741.2 million, compared to a gain of $198.0 million (43.6%) in the prior year. A trend analysis indicated that balances averaged $689.2 million over the first six-months, declining to a low of $662.3 million in April. After reaching a peak of $860.3 million in October, excess reserves declined slightly, to close the year at $819.2 million. This equated to a higher 12.3% of Bahamian dollar deposits, compared with 11.5% in the prior year.

Domestic banks' broader measure of liquidity–which includes Government securities holdings–posted an average monthly surplus of $1,603.3 million, an 8.7% gain over the previous year. Liquid assets declined over the first five months of 2017, reaching a low of $1,464.8 million in April, before peaking at $1,841.9 million in November. At year-end, balances stood at $1,825.9 million, a gain of 23.3% over the 12-month period, in comparison to a 12.5% advance in the prior year. Closing balances exceeded the statutory requirement by 161.7%, vis-à-vis 134.8% in 2016.

Money Supply

Growth in the overall money supply (M3) slowed to $107.2 million (1.5%) in 2017, from $556.3 million (8.7%) in the prior year, for an aggregate stock of $7,037.3 million. A breakdown of the various components, showed that accretions to narrow money (M1) moderated sharply to $193.4 million (7.9%), from $389.4 million (18.8%) in 2016. Notably, gains in demand deposits narrowed to $181.4 million (8.3%) and growth in currency in circulation tapered to $12.1 million (4.3%).

Similarly, the expansion in broad money (M2) slackened to $140.7 million (2.1%), from $436.5 million (7.1%) in the prior period. In particular, accretions to savings balances waned to $75.6 million (5.8%), from $147.3 million (12.8%) in the previous year, while the reduction in fixed balances quickened to $128.4 million (4.5%), from $100.2 million (3.4%) in 2016. In addition, foreign currency deposits fell by $33.5 million (10.9%), after a $119.8 million (63.8%) increase in 2016, when re-insurance receipts related to Hurricane Matthew and arrears payments for a major foreign investment project, were received.

In terms of the composition, Bahamian dollar fixed deposits represented the largest share of M3, at 38.9%, followed by demand (33.5%) and savings (19.5%) balances. Currency in active circulation and foreign currency deposits comprised smaller shares, of 4.2% and 3.9%, respectively.

Domestic Credit

During 2017, domestic credit to banks contracted, after the Government used foreign currency borrowings to reduce local debt, while asset sales led to a fall in claims on the private sector.

In comparison to growth of $162.4 million (1.8%) in 2016, total domestic credit declined by $284.5 million (3.1%), with 95.6% of the funding denominated in Bahamian dollars. Specifically, net claims on the Government decreased by $162.7 million (6.4%), a turnaround from a significant increase of $353.4 million (16.1%) in 2016 (See: Table 12), when hurricane-recovery financing was sourced from several commercial

TABLE 12: Flow of Bank Credit (B$ Millions)

	Outstanding as at 2015	Absolute Changes 2016	Absolute Changes 2017	Outstanding as at 2017
Destination				
Government (net)	2,198.0	353.4	(162.7)	2,388.7
Central Bank	493.7	222.9	(320.8)	395.8
Domestic Banks	1,704.3	130.5	158.1	1,992.9
Rest of Public Sector	468.3	(62.0)	66.2	472.5
Central Bank	8.9	-	(0.9)	8.0
Domestic Banks	459.4	(62.0)	67.1	464.5
Private Sector	6,299.8	(129.0)	(187.9)	5,982.9
Domestic Banks	6,299.8	(129.0)	(187.9)	5,982.9
Consumer	2,281.3	90.1	(49.1)	2,322.3
Mortgages	2,867.3	(150.4)	(12.4)	2,704.5
Other Loans	1,151.2	(68.7)	(126.4)	956.1
Financing				
Liabilities (Net of Government)	6,373.0	556.3	107.2	7,037.3
Currency	246.6	33.9	12.1	292.6
Total Deposit liabilities	6,127.2	522.4	95.1	6,744.7
Demand deposits	1,977.5	448.5	153.4	2,579.4
Savings deposits	1,162.2	153.0	75.3	1,390.5
Fixed Deposits	2,987.5	(79.1)	(133.5)	2,774.8
International reserves	811.9	92.1	513.4	1,417.4
Other net external liabilities	(531.7)	306.3	(26.4)	(251.8)
Capital and surplus	2,651.2	109.0	110.0	2,870.2
Other (net)	221.3	(104.5)	(14.7)	102.1

SOURCE: Central Bank of The Bahamas

banks. In contrast, credit to the rest of the public sector grew by $66.2 million (16.3%), to reverse last year's $62.0 million (13.2%) decline, as one entity issued new debt securities to finance its purchase of additional non-performing loans.

Credit to the private sector declined further by $187.9 million (3.1%), outpacing the prior year's $129.0 million (2.0%) falloff, due in part to the transfer of a portion of one entity's non-performing loan portfolio to the Government-owned SPV. An analysis by sector, showed that the dominant personal loans category—representing 81.8% of the total—declined by $62.4 million (1.2%), extending the $58.8 million (1.1%) decrease noted in the prior year. Further, significant reductions were recorded for construction ($80.2 million), entertainment & catering ($25.0 million), professional & other services ($15.6 million), "miscellaneous" purposes ($13.5 million), fisheries ($7.7 million), transport ($6.4 million) and tourism ($3.0 million), with declines of less than $1.0 million registered for private financial institutions and agriculture. These contrasted with overall credit growth noted for distribution ($32.1 million) and manufacturing ($11.6 million) and to a lesser extent mining & quarrying ($0.04 million).

A further breakdown of personal loan activity, indicated that the falloff was led by a decrease in consumer loans by $49.1 million (2.1%), a turnaround from the previous year's expansion of $90.2 million (4.0%). Further, the overdraft segment fell by $0.5 million, following a gain of similar magnitude in 2016. In a slight offset, the decline in housing loans slowed markedly to $12.8 million (0.5%), from $148.7 million (5.2%) last year, when several entities sold off portions of their NPLs.

A disaggregation of the consumer credit component, revealed net repayments for debt consolidation ($33.5 million), land purchases ($17.1 million), private cars ($12.2 million), home improvement ($8.1 million), credit cards ($1.3 million) and medical ($0.8 million). However, net lending increased significantly for miscellaneous purposes by $18.4 million and travel, by $4.3 million, while more modest gains of less than $1.0 million were posted for education, furnishings & domestic appliances, commercial vehicles and taxis & rented cars.

Interest Rates

During 2017, the weighted average interest rate spread on domestic banks' loans and deposits narrowed by 47 basis points to 10.78 percentage points, as the 74 basis point decrease in the average loan rate to 11.75%, outstripped the 27 basis point fall in the deposit rate to 0.97%.

In terms of lending, the average commercial mortgage and overdraft rates declined by 104 and 50 basis points, to 6.83% and 10.62%, respectively. Similarly, the respective average rates for residential and consumer loans declined by 45 and 42 basis points, to 5.76% and 13.61%.

In the context of the persistent liquidity overhang, declines were registered across all deposit categories, as the average rate on savings balances fell by 9 basis points to 0.72%, while the average range on fixed maturities narrowed to 0.64%-1.61%, from 0.97%-1.87% in 2016. Similarly, the average rate on demand balances fell marginally by 1 basis point to 0.27%.

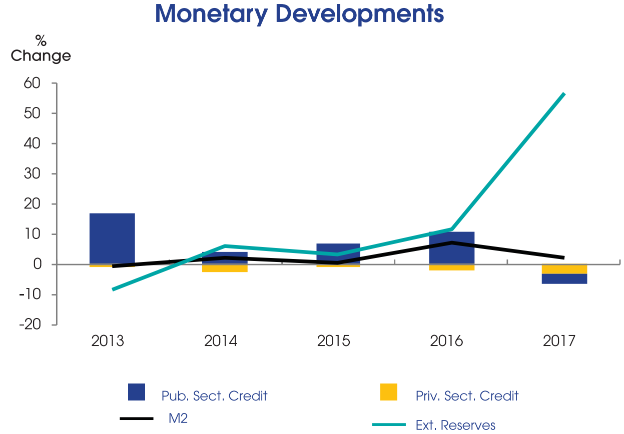
In other interest rate developments, the average 90-day Treasury bill rate increased by 19 basis points to 1.83%. The Central Bank's Discount rate was maintained at 4.00%, after a downward 50 basis point adjustment in December 2016; however, the corresponding commercial bank Prime rate, was lowered by 50 basis points to 4.25% in January 2017.

Net Foreign Assets

Reflecting an expansion in the Central Bank's net international reserves, the banking system's net foreign assets rose sharply by $487.1 million (71.8%) to $1,165.6 million during 2017, extending the $398.3 million (142.1%) expansion in the previous year. In addition, commercial banks' net foreign liabilities grew by $26.4 million (11.7%) to $251.8 million, following a $306.3 million (57.6%) reduction in 2016.

During the year, the Central Bank's external reserves increased by $513.4 million (56.8%) to $1,417.4 million, exceeding the $92.0 million (11.3%) gain in 2016. This outturn was associated primarily with the receipt of net proceeds from the Government's external borrowings and, to a smaller extent, inflows from real sector activities, related to tourism and foreign investments. An analysis of the monthly trends showed that external reserves fluctuated over the first half of the year, averaging $941.0 million, before falling to a low of $893.4 million in July. However, external balances were buffeted

Monetary Developments

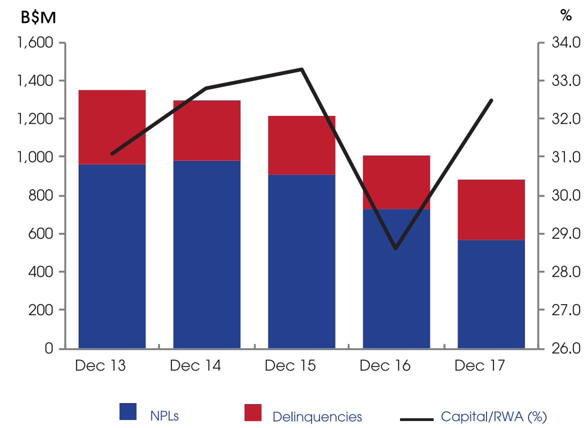


by Government's short-term loans and subsequently by the receipt of the external bond proceeds, resulting in balances peaking at $1,428.1 million in November, before falling slightly to $1,417.4 million at end-December. Overall, the average monthly external reserve balance strengthened by $88.1 million (9.2%) to $1,049.9 million.

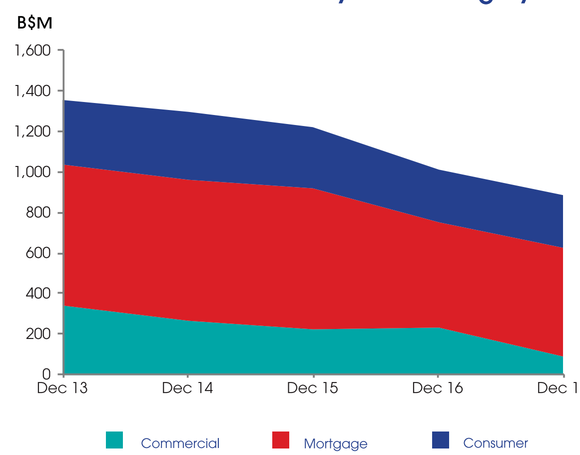
An analysis of the underlying foreign currency transactions, showed that the Bank's net purchase expanded to $487.6 million, from a mere $61.0 million in 2016. Underpinning this outturn was a $1,018.0 million expansion in total purchases, which surpassed the $591.4 million increase in total sales. Specifically, the receipt of external bond proceeds contributed to a sharp increase in the Bank's net purchase from the Government to $724.1 million, from $70.0 million last year. In a slight offset, the Bank's net sale to public corporations–primarily for fuel imports–rose by $19.1 million (6.6%) to $306.6 million, reflecting the rise in global oil prices. Further, the net purchase from commercial banks decreased considerably to $70.1 million, from $278.6 million in the prior year, when re-insurance and arrears payments related to the re-start of a major resort project were received.

At end-December, the stock of external reserves stood at an estimated 23.0 weeks of current year's total merchandise imports, relative to 16.5 weeks a year earlier. After accounting for the statutory requirement to maintain reserves equivalent to 50% of the Bank's demand liabilities, "useable" reserves grew by $428.2 million to $672.0 million.

Private Sector Loan Arrears



Private Sector Arrears by Loan Category



BANKING SECTOR PERFORMANCE

Credit Quality

Banks' credit quality indicators improved significantly during the review year, reflecting mainly the sale of a portion of one institution's non-performing commercial loan portfolio to the Government-owned special purpose vehicle (SPV), Bahamas Resolve Corporation, as well as ongoing debt restructuring activities and loan write-offs. Consequently, total private sector loan arrears contracted by $125.8 million (12.5%) to $884.8 million–the lowest level since 2008–compared to last year's $209.0 million (17.1%) reduction. In addition, the ratio of arrears to total private sector loans narrowed by 1.7 percentage points to 15.4%, albeit lower than the prior year's 3.3 percentage point contraction.

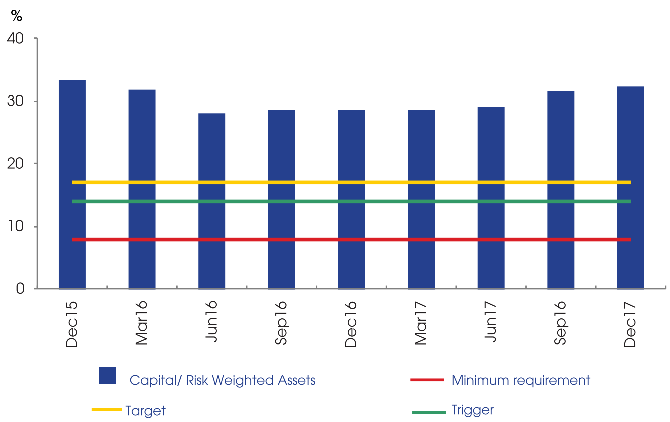
The reduction in total delinquencies was largely concentrated in the non-performing segment (NPLs)–arrears in excess of 90 days and on which banks have stopped accruing interest–which fell by $161.6 million (22.2%) to $567.5 million, although below the $177.5 million (19.6%) decrease recorded in the prior year. Similarly, the ratio of NPLs to total private sector loans contracted by 2.4 percentage points to 9.9%. In contrast, the short-term (31-90 day) component expanded by $35.8 million (12.7%) to $317.4 million, reversing last year's fall of $31.5 million (10.1%), while the attendant ratio firmed by 77 basis points to 5.5% of total private sector loans.

An analysis by loan type, showed that the improvement in credit quality was dominated by the commercial component, which fell sharply by $139.6 million (60.2%) to $92.4 million, vis-à-vis a $7.1 million (3.2%) increase last year, with the relevant ratio declining by 14.9 percentage points to 12.7%. Conversely, mortgage arrears grew by $13.1 million (2.5%) to $534.1 million, compared to a sharp asset-sale related contraction of $176.2 million (25.3%) a year earlier, while the associated loan ratio firmed by 59 basis points to 20.0%. In addition, consumer arrears edged-up by $0.8 million (0.3%) to $258.3 million, a turnaround from the $40.0 million (13.4%) reduction last year–this represented a 25 basis point increase in the relevant ratio to 11.0% of total private sector loans.

Capital Adequacy and Provisions

Banks maintained their conservative posture over the review period, as evidenced by their high capital adequacy ratios, while the level of loan loss provisioning in the system decreased modestly, in line with the improvement in loan arrears. At end-December, the ratio of capital to total risk weighted assets stood at 32.5%, a gain of 3.9 percentage points over the prior year's level (See: Table 13); remaining significantly above the prudentially prescribed target and trigger ratios of 17.0% and 14.0%, respectively. However, banks reduced their provisions for bad debts, by $91.2 million (17.7%) to $423.6 million, extending 2016's contraction of $15.6 million (2.9%). As a result, the ratio of provisions to total loans decreased by 1.2 percentage points to 6.9%, while the ratio of provisions to arrears declined by 3.1 percentage points, to 47.9%. In contrast, given the reduction in loan delinquencies, the ratio of provisions to NPLs firmed by 4.0 percentage points to 74.7%. Banks also wrote-off a total of $128.3 million in delinquent loans, while recoveries totalled $27.1 million.

Commercial Banks' Capital/Risk Weighted Assets



Bank Profitability

Reflecting mainly higher operating costs and increased provisions for bad debts, domestic banks' profitability deteriorated during the twelve months to September 2017–the latest data available. Total net income fell by $21.7 million (10.2%) to $189.7 million, vis-à-vis an increase of $75.9 million (56.1%) during the corresponding period of 2016. Underlying this performance, the net interest margin fell by 1.5% ($8.4 million) to $533.3 million, as the 3.1% ($19.6 million) contraction in interest income to $603.0 million, overshadowed the 13.8% ($11.2 million) falloff in interest expense to $69.6 million. In a slight offset, earnings from commission & foreign exchange firmed by 11.2% ($2.8 million) to $27.9 million; however, the gross earnings margin fell by 1.0% ($5.6 million) to $561.3 million, compared to a gain of 0.9% ($5.0 million) in the previous year.

Total operating costs rose by 1.5% ($5.2 million) to $363.1 million, as non-staff outlays–including professional services, Government fees and maintenance–increased by 6.7% ($11.2 million). These outpaced declines in both staffing and occupancy costs, of 3.6% ($5.9 million) and 0.5% ($0.1 million), respectively. As a result, the net earnings margin contracted by 5.2% ($10.8 million) to $198.2 million, vis-à-vis a 1.4% ($2.8 million) growth in 2016. Banks also recorded a net loss on their "non-core" operations of $8.5 million, in contrast to a profit of $2.4 million in the prior year. This outturn reflected a 9.8% ($11.2 million) expansion in bad debt provisioning and a 4.3% ($0.6 million) increase in depreciation costs, which eclipsed the 0.8% ($1.0 million) rise in other fee-based income.

The earnings reduction also impacted the relevant profitability indicators, as the interest margin ratio narrowed by 13 basis points to 5.26%, while the commission & forex income ratio rose by 3 basis points, to 0.28%, resulting in the gross earning margin ratio falling by 10 basis points to 5.54%. In addition, the net earnings margin declined by 12 basis points to 1.95%, due in part to a 2 basis point increase in the operational cost ratio to 3.58%. After accounting for "non-core" operations, the net income ratio decreased by 23 basis points to 1.87%.

Table 13: Commercial Banks' Financial Soundness Indicators

	2015	2016	2017
Capital Adequacy			
Regulatory capital/risk weighted assets	33.3	28.6	32.5
Regulatory Tier 1 capital/risk weighted assets	31.6	27.0	29.0
Asset Quality			
NPLs/private sector loans	15.1	12.3	9.9
NPLs to capital	34.2	28.1	21.0
Earnings & Profitability*			
Return on assets	1.9	2.0	1.9
Return on equity	7.0	7.9	7.0
Liquidity			
Liquid assets to total domestic assets	24.1	25.9	29.0

SOURCE: Central Bank of The Bahamas
*Ytd - September 2017

CAPITAL MARKET DEVELOPMENTS

Amid the generally improving economic conditions, activity on the Bahamas International Securities Exchange (BISX) was relatively brisk over the review year. Specifically, reflecting broad-based share price gains, the BISX All Share Index–a market capitalization weighted index–increased by 6.5% to 2,063.57 points, after a similar 6.3% gain recorded in the previous year. In addition, the market capitalization of listed firms expanded by 12.3% to $4.4 billion, which exceeded the prior year's 10.8% expansion. Further, the volume of shares traded on the exchange decreased by 7.6% to 5.1 million; although the corresponding value firmed by 11.3% to $44.6 million.

At end-December 2017, the number of publicly traded securities on BISX stood at 52, in line with the previous year's level, and comprised 20 common shares, 13 preference shares and 19 debt tranches.

INTERNATIONAL TRADE AND PAYMENTS

Preliminary data on the external account for 2017, showed that the current account deficit deteriorated by an estimated $751.0 million (64.8%) to $1,909.3 million, as increased capital-related imports led to a widening in the merchandise trade deficit, while the services account surplus narrowed. In contrast, the capital and financial account surplus more than doubled from $461.3 million to $1,602.3 million, reflecting the Government's external borrowing activities, along with an increase in loan-based financing for private foreign investments.

The estimated merchandise trade deficit widened by $253.9 million (11.8%) to $2,404.1 million. This reflected an increase in net non-oil imports by $193.8 million (8.8%) to $2,391.8 million, related in part to capital equipment purchases for foreign investment projects and hurricane repair work. In addition, the rise in international oil prices elevated fuel payments by $136.7 million (31.5%) to $570.3 million. In terms of the components, the largest per barrel cost gains were registered for aviation gas (by 51.4% to $140.86). More modest per barrel increases were recorded for jet fuel (by 16.7% to $67.39), propane (by 15.2% to $40.88), motor gas (by 14.9% to $76.72) and gas oil (by 12.3% to $65.41).

The surplus on the services account contracted by an estimated $119.6 million (10.7%) to $996.3 million. As the tourism sector faced headwinds and with residents spending more abroad on overseas trips, net travel receipts declined by $54.8 million (2.4%) to $2,206.5 million. Also net inflows from offshore companies' local expenses fell by $40.2 million (23.8%) to $128.6 million. In addition, net outflows for "miscellaneous" services and transportation, expanded by $117.4 million (22.8%) to $632.8 million and by $87.0 million (32.5%) to $354.7 million, respectively. In addition, net external payments for Government services decreased sharply by $102.9 million (49.3%) to $105.8 million, as disbursements for resident Government operations declined. Further, net outflows for insurance services fell by $42.6 million (27.4%) to $112.6 million, while net disbursements for construction services decreased by $25.5 million (17.7%) to $118.7 million and for royalty & license fees, by $8.7 million (38.0%) to $14.2 million.

The estimated deficit on the income account decreased by $75.6 million (17.2%) to $364.3 million, mainly attributed to an 18.8% decline in investment-related outflows to $325.6 million. Underlying these developments, net private sector interest and dividend payments contracted by 24.0% to $250.8 million, as non-banks' net outflows declined by $35.5 million (13.4%) to $229.3 million and commercial banks' net profit remittances fell by over two-thirds (67.1%) to $21.5 million. Similarly, net repatriation of employee earnings declined marginally by $0.1

Table 14: Balance of Payments Summary (B$ Millions)

	2015p	2016p	2017p
I. CURRENT ACCOUNT	(1,610.2)	(1,158.3)	(1,909.3)
i) Merchandise Trade (net)	(2,433.5)	(2,150.2)	(2,404.1)
Exports	520.5	481.4	558.0
Imports	2,954.0	2,631.6	2,962.1
of which: Oil	480.4	433.6	570.3
ii) Services (net)	1,280.5	1,115.9	996.3
Travel	2,264.7	2,261.3	2,206.5
Other	(984.2)	(1,145.4)	(1,210.2)
iii) Income (net)	(362.9)	(439.9)	(364.3)
iv) Current Transfers (net)	(94.3)	316.0	(137.1)
II. CAPITAL AND FINANCIAL ACCOUNT	336.7	461.3	1,602.3
i) Capital Account (Transfers)	(20.2)	(13.8)	(26.1)
ii) Financial Account	356.9	475.1	1,628.4
of which: Direct Investment	69.8	73.7	73.6
III. NET ERRORS AND OMISSIONS	1,297.7	789.0	820.6
IV. CHANGES IN EXTERNAL RESERVES[1]	(24.3)	(92.0)	(513.4)

SOURCE: Central Bank of The Bahamas
[1]( ) = increase.

million (0.4%) to $38.7 million. In contrast, net outflows for official transactions grew by $3.8 million (5.4%) to $74.8 million, associated with a $2.1 million (13.3%) rise in the Central Bank's net investment income, alongside a $6.0 million (6.9%) increase in Government transaction outflows to $93.0 million.

Current transfers were reversed to a $137.1 million net outflow, from a $316.0 million net receipt in the previous year, when significant re-insurance inflows from claims related to Hurricane Matthew were received. Reflecting this outturn, non-income related transfer inflows were normalized to $54.4 million, from $352.6 million in 2016. In addition, workers' remittances more than doubled to $305.5 million, from $155.0 million. Further, Government's net receipts decreased by $4.4 million (3.7%) to $114.0 million.

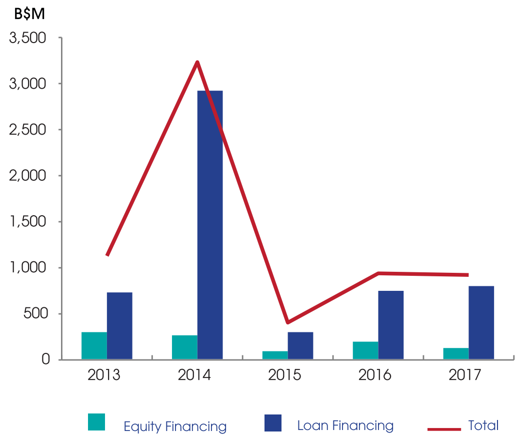
The significant growth in the surplus on the capital and financial account was mainly associated with an almost three-fold ($1,148.4 million) expansion in other "miscellaneous" investment inflows to $1,571.5 million, as the marked increase in Government borrowing led to a significant rise in net public sector receipts, to $823.2 million from $218.9 million in 2016. Similarly, private sector net non-equity inflows rose by $211.4 million (41.4%) to $721.9 million. Further, domestic banks' net short-term transactions reversed from a net outflow of $306.3 million in the prior period, to a modest net receipt of $26.4 million in 2017. In contrast, net private direct investment receipts almost stabilized at $73.6 million. Similarly, residents' net portfolio outflows under the Bahamian Depository Receipt (BDR) programme, narrowed by $5.0 million to $16.7 million.

After making adjustments for net errors and omissions, the overall balance–which tracks the change in the Central Bank's external reserves–recorded a higher surplus of $513.4 million, compared to $92.0 million in 2016.

DOMESTIC ECONOMIC OUTLOOK FOR 2018

The modest upward trajectory in the domestic economy, is expected to be maintained during 2018, as the growth in tourism sector output should be fuelled by the ongoing strengthening in several key source markets, and the significant increase in room capacity, as the Baha Mar resort becomes fully operational. Further, construction output is anticipated to be undergirded by smaller-scale foreign investment developments in the capital and the Family Islands, as well as Government-supported domestic projects. Against this backdrop, employment conditions should continue to improve relative to prior years.

Foreign Investment Inflows



Domestic inflationary pressures are expected to remain well contained over the review period, as global crude oil prices stabilise, following supply-restricted gains in the prior period.

Efforts to improve the fiscal deficit and the related debt indicators, will continue to depend heavily on the success of Government's measures to enhance revenue administration and curtail expenditure growth. In addition, the proposed introduction of fiscal responsibility legislation, should frame medium-term targets and policies for more entrenched support to this process.

Liquidity in the banking system is anticipated to remain buoyant over the near-term, as entities maintain their cautious lending posture, and households continue to deleverage. Moreover, the on-going reduction in NPLs from their elevated levels is expected to be sustained, due in part to banks' enhanced restructuring and recovery efforts, and further sales of non-performing assets. In this context, capital levels, on average, are projected to remain healthy, thereby minimizing any threat to financial stability.

The outlook for external reserves remains positive, although some reduction in balances from the record levels is expected during the year, amid the seasonal increase in demand for foreign currency during the holiday period. Nevertheless, reserve levels are expected to stay in line with international benchmarks.

Despite these positive economic signs, downside risks to the forecasts remain, stemming mainly from potential external shocks, such as increased protectionist trade policies among major economies. In addition, although the environment has somewhat stabilised, threats from more tenuous correspondent banking relationships remain present for domestic banks. Risk could also relate to the speed at which capacity restoration in the Grand Bahama tourism sector is impeded. Potential threats of disruptions from major hurricanes also persist for The Bahamas.

THE CENTRAL BANK OF THE BAHAMAS

Financial Statements

December 31, 2017

Independent auditors' report

To the Board of Directors of The Central Bank of The Bahamas

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Central Bank of The Bahamas as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000, as amended.

What we have audited

The Central Bank of The Bahamas financial statements comprise:

- the statement of financial position as at December 31, 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity and reserves for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of The Central Bank of The Bahamas in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the information presented in The Central Bank of the Bahamas' complete Annual Report 2017 (but does not include the financial statements and our auditors' report thereon).

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000, as amended, and for such internal control as management determines is 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 Central Bank of The Bahamas' 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 Central Bank of The Bahamas or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Central Bank of The Bahamas' financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 control.

- Obtain an understanding of internal control 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 Central Bank of The Bahamas' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Central Bank of The Bahamas' 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 Central Bank of The Bahamas 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 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 control that we identify during our audit.

Other Matter

This report, including the opinion, has been prepared for and only for The Central Bank of The Bahamas in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

April 13, 2018

The Central Bank of The Bahamas
(Established under the laws of the Commonwealth of The Bahamas)

Statement of Financial Position
As at December 31, 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
ASSETS			
EXTERNAL ASSETS	5		
Cash and deposits with banks	3	698,535,734	254,773,638
Marketable securities issued or guaranteed by foreign governments	6	614,662,080	550,511,272
International Monetary Fund:	7		
Bahamas Reserve Tranche		27,464,827	25,925,814
Special drawing rights – holdings		76,784,418	72,744,523
		1,417,447,059	903,955,247
DOMESTIC ASSETS			
Cash on hand	3	32,190	40,358
Bahamas Government Treasury bills	14	7,169,543	223,890,162
Advances to Bahamas Government	9	135,360,600	135,360,599
Bahamas Government Registered Stocks	10	274,511,585	372,647,953
Loans to Bahamas Development Bank	11	2,759,867	3,634,843
Bahamas Development Bank bonds	8	4,091,984	4,150,545
Bridge Authority bonds	12	491,351	486,601
Clifton Heritage Authority bonds	13	638,069	638,423
Currency inventory		11,582,274	8,023,844
Retirement benefit asset – Employees	29	5,692,780	4,063,775
Receivables and other assets		11,751,054	11,806,918
Property, plant and equipment	4	12,255,430	12,882,409
		466,336,727	777,626,430
TOTAL ASSETS		**1,883,783,786**	**1,681,581,677**

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Statement of Financial Position (Continued)
As at December 31, 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
LIABILITIES			
DEMAND LIABILITIES			
Notes in circulation	15	411,120,706	400,075,161
Coins in circulation		27,396,830	25,648,024
Deposits by commercial banks	16	1,011,246,639	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies		44,152,152	27,859,918
Deposits by international agencies	17	255,217	255,274
Accounts payable and other liabilities		11,110,160	5,949,521
Investment Currency Market payable		8,736,314	7,782,800
Health insurance subsidy benefit for retirees	30	3,112,941	2,951,833
Retirement benefit liability - Governors and Deputy Governors	31	4,188,009	4,277,451
		1,521,318,968	1,341,119,521
OTHER LIABILITIES			
International Monetary Fund:	7		
Special drawing rights allocation		177,399,213	167,319,042
TOTAL LIABILITIES		**1,698,718,181**	**1,508,438,563**
EQUITY AND RESERVES			
Authorised and fully paid capital	18	3,000,000	3,000,000
Exchange equalisation account	18	10,143,882	14,225,479
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	18	20,680,403	10,680,403
General reserve	18	140,101,905	134,097,817
TOTAL EQUITY AND RESERVES		**185,065,605**	**173,143,114**
TOTAL LIABILITIES, EQUITY AND RESERVES		**1,883,783,786**	**1,681,581,677**

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY:

Director **Director**

April 13, 2018

Date

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Statement of Comprehensive Income
For the Year Ended December 31, 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
INCOME			
Interest income:	19		
Foreign investments		18,857,304	15,957,999
Domestic investments		19,157,402	17,649,955
Loans		1,050,841	1,058,358
		39,065,547	34,666,312
Interest expense		(921,557)	(155,364)
Net interest income		**38,143,990**	**34,510,948**
Net foreign exchange (loss)/gain		(4,052,958)	2,008,419
Net trading gains		1,781,256	332,958
Other income		5,809,081	5,075,226
Total income		**41,681,369**	**41,927,551**
EXPENSES			
Staff costs	20	20,142,188	18,480,666
General and administrative	20	8,741,643	8,774,681
Depreciation	4	2,163,178	2,380,329
Total expenses		**31,047,009**	**29,635,676**
NET INCOME		**10,634,360**	**12,291,875**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to net income			
Actuarial gain on defined benefit pension plan for employees		1,301,634	865,230
Actuarial (loss)/gain on group insurance subsidy		(52,920)	2,662
Actuarial gain/(loss) on defined pension plan benefit for Governors and Deputy Governors		39,417	(41,289)
Total other comprehensive income		**1,288,131**	**826,603**
TOTAL COMPREHENSIVE INCOME		**11,922,491**	**13,118,478**

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Statement of Changes in Equity and Reserves
For the Year Ended December 31, 2017
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	General Reserve $	Total $
Balance at January 1, 2016	**3,000,000**	**12,222,982**	**750,000**	**10,389,415**	**10,680,403**	**122,981,836**	**160,024,636**
Comprehensive income							
Net income	-	-	-	-	-	12,291,875	**12,291,875**
Other comprehensive income							
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	2,002,497	-	-	-	(2,002,497)	**-**
Actuarial gain on defined benefit pension plan for employees (Note 29)	-	-	-	-	-	865,230	**865,230**
Actuarial gain on health insurance subsidy benefit for retirees (Note 30)	-	-	-	-	-	2,662	**2,662**
Actuarial (loss) on defined benefit pension plan for Governors and Deputy Governors (Note 31)	-	-	-	-	-	(41,289)	**(41,289)**
Total comprehensive income	-	2,002,497	-	-	-	11,115,981	**13,118,478**
Balance at December 31, 2016	**3,000,000**	**14,225,479**	**750,000**	**10,389,415**	**10,680,403**	**134,097,817**	**173,143,114**

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Statement of Changes in Equity and Reserves (Continued)
For the Year Ended December 31, 2017
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	General Reserve $	Total $
Balance at January 1, 2017	**3,000,000**	**14,225,479**	**750,000**	**10,389,415**	**10,680,403**	**134,097,817**	**173,143,114**
Comprehensive income							
Net income	-	-	-	-	-	10,634,360	**10,634,360**
Other comprehensive income							
Allocation to building fund (Note 18)	-	-	-	-	10,000,000	(10,000,000)	-
Appropriation of foreign exchange loss (Note 2 (b) ii)	-	(4,081,597)	-	-	-	4,081,597	-
Actuarial gain on defined benefit pension plan for employees (Note 29)	-	-	-	-	-	1,301,634	**1,301,634**
Actuarial (loss) on health insurance subsidy benefit for retirees (Note 30)	-	-	-	-	-	(52,920)	**(52,920)**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 31)	-	-	-	-	-	39,417	**39,417**
Total comprehensive income	-	(4,081,597)	-	-	10,000,000	6,004,088	**11,922,491**
Balance at December 31, 2017	**3,000,000**	**10,143,882**	**750,000**	**10,389,415**	**20,680,403**	**140,101,905**	**185,065,605**

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Statement of Cash Flows
For the Year Ended December 31, 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		**10,634,360**	**12,291,875**
Adjustments for non-cash items:			
Discount earned on marketable securities - net	6	(1,031,764)	(955,404)
Discount earned on Bahamas Government Registered Stocks - net	10	(15,300)	-
Depreciation	4	2,163,178	2,380,329
Loss on disposal of property, plant and equipment - net	4	83,573	1,294
Interest income		(38,018,483)	(33,710,811)
Gain on Sale of Marketable securities		-	(325,242)
Interest expense		921,557	155,364
(Increase)/Decrease in operating assets			
Currency inventory		(3,558,430)	(849,894)
International Monetary Fund		(5,495,996)	3,141,573
Deposits with banks – with original contractual maturities greater than three months		(100,000,000)	(55,000,000)
Retirement benefit asset		(327,371)	320,582
Receivables and other assets		55,864	(532,626)
Increase/(Decrease) in operating liabilities			
Notes in circulation		11,045,545	34,153,569
Coins in circulation		1,748,806	2,388,153
Deposits by commercial banks		144,927,100	275,231,871
Deposits by Bahamas Government and Bahamas Government agencies		16,292,234	(18,870,741)
Deposits by international agencies		(57)	13
Investment Currency Market payable		953,514	1,122,200
Health insurance subsidy benefit for retirees		108,189	104,481
Retirement benefit liability – Governors and Deputy Governors		(50,025)	108,695
Accounts payable and other liabilities		5,160,639	(2,893,902)
International Monetary Fund		9,928,493	(5,150,566)
Net cash from operating activities		**55,525,626**	**213,110,813**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of held-to-maturity marketable securities	6	(69,919,317)	(157,368,242)
Proceeds from maturities/redemptions of held-to-maturity marketable securities	6	7,000,000	130,000,000
Purchase of property, plant and equipment	4	(1,640,246)	(945,154)
Proceeds from sale of property, plant and equipment		20,474	-
Purchase of Bridge Authority bonds	12	(5,300)	(12,900)
Purchase of Bahamas Government Registered Stock	10	(54,163,200)	(231,075,500)
Proceeds from sales and maturities of Bahamas Government Stock	10	150,909,400	120,625,100
Repayments of loans by Bahamas Development Bank	11	800,000	150,000
Purchase of Bahamas Government Treasury bills	14	(1,095,088,890)	(1,125,506,349)
Proceeds from the sale and maturities of Bahamas Government Treasury bills	14	1,311,294,313	1,028,671,936
Interest received		39,360,989	31,596,536
Net cash from/ (used in) investing activities		**288,568,223**	**(203,864,573)**

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Statement of Cash Flows (Continued)
For the Year Ended December 31, 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of SDRs	7	-	(18,160,422)
Interest paid		(769,879)	(103,478)
Net cash used in financing activities		**(769,879)**	**(18,263,900)**
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**343,323,970**	**(9,017,660)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		199,503,425	208,521,085
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**542,827,395**	**199,503,425**

The accompanying notes are an integral part of these financial statements

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017

1. General Information

The Central Bank of The Bahamas (the "Bank") is established as a body corporate, under the Central Bank of The Bahamas Act, 1974, and was continued under the Central Bank of The Bahamas Act, 2000 (the Act). The Act establishes the structure, governance and funding of the Bank. The Bank's principal business is the provision of Central Banking facilities for the Commonwealth of The Bahamas (The Bahamas). In accordance with the Act, it is the duty of the Bank to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the Bahamian economy; in collaboration with the financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and to advise the Minister of Finance on any matter of financial or monetary nature referred by him to the Bank for its advice. Its main place of business is located at Frederick Street, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

i) Compliance with IFRS

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

ii) Historical cost convention

The financial statements have been prepared under the historical cost convention except for financial instruments that are measured at fair value, as disclosed in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 2 (d), 2 (m), 29, 30 and 31.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

iii) New standards, amendments and interpretations adopted by the Bank

Standards and amendments and interpretations to published standards that became effective for the Bank's financial year beginning on January 1, 2017 were either not relevant or not significant to the Bank's operations and accordingly did not have a material impact on the Bank's accounting policies or financial statements.

iv) New standards, amendments and interpretations not yet adopted by the Bank

With the exception of the following standards, amendments or interpretations, the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Bank's accounting policies or financial statements in the financial period of initial adoption.

IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* (IFRS 9) addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Bank's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39.

For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Bank is currently assessing the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after January 1, 2018.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

iv) New standards, amendments and interpretations not yet adopted by the Bank (continued)

IFRS 15 Revenue from contracts with customers

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Bank is currently assessing the full impact of adopting IFRS 15.

IFRS 16 Leases

IFRS 16 "*Leases*" set out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces as single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank has not yet assessed the full impact of adopting IFRS 16, which is effective for annual periods on or after January 1, 2019.

2. Summary of Significant Accounting Policies (Continued)

(b) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Bahamian dollars (B$), which is the Bank's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as a part of net income in the statement of comprehensive income. Translation differences on monetary financial assets and liabilities carried at fair value are part of the fair value gain and losses.

The net foreign exchange gain/(loss) in the Bank's assets and liabilities arising from movements in foreign exchange rates is included in the statement of comprehensive income and, in accordance with Sections 32(2)(a) and 32(2)(b) of the Act, the gain/(loss) is appropriated from the general reserve to an exchange equalisation account within equity and reserves.

(c) Financial assets

Financial assets represent a contractual right to receive cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions favorable to the Bank.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Investment Management Committee. Financial assets classified as at fair value through profit or loss consist of the International Monetary Fund asset balances and have been so designated by management.

ii) Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Changes in the carrying amount of AFS monetary financial assets relating to foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in the statement of comprehensive income. Other changes in the carrying amount of available-for-sale financial assets are recognised through other comprehensive income.

Bahamas Government Treasury bills are classified as available-for-sale financial assets.

iii) Held-to-maturity financial assets

Held-to-maturity (HTM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

iii) Held-to-maturity financial assets (continued)

Marketable securities issued or guaranteed by foreign governments and Clifton Heritage Authority bonds are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than, (a) those that the Bank intends to sell immediately or in the short term, (b) those that the Bank, upon initial recognition, designates as available-for-sale, or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale. Loans and receivables are measured at amortised cost.

Accounts set out below are classified as loans and receivables originated by the Bank and not held-for-trading:

- Advances to Bahamas Government
- Loans to Bahamas Development Bank
- Bahamas Government Registered Stocks
- Bahamas Development Bank bonds
- Bridge Authority bonds
- Employee loans and other receivables

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Bank commits to originate, purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for securities traded in active markets (e.g. international securities exchange) or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants, for securities not traded in active markets. Loans and receivables and HTM investments are subsequently carried at amortised cost using the effective interest method, less provisions for impairment.

Gains or losses arising from sales and changes in fair value of financial assets are recognised as a part of net income in the statement of comprehensive income in the financial period in which they arise.

(d) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as a part of net income in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised as a part of net income in the statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of accounts previously written off are recognised directly in the statement of comprehensive income as a part of net income.

(e) Property, plant and equipment

Property, plant and equipment, other than land, are recorded at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income as part of net income during the financial period in which they are incurred.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other assets are calculated using the straight-line method to allocate cost (net of residual values) over their estimated useful lives as follows:

	Rate
Buildings and renovations	2% - 20%
Office equipment	20% - 33%
Computer software	20% - 50%
Office furniture and fittings	20%
Other fixed assets	20% - 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the statement of comprehensive income as a part of net income.

(f) Financial liabilities

Financial liabilities are any liabilities that are contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or a contract that will or may be settled in the Bank's own equity instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those designated at fair value through profit or loss) and financial liabilities at amortised cost, with the exception of Notes and Coins in circulation which are measured at face value.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial liabilities (continued)

i) Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or if so designated by management. Financial liabilities designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be extinguished in response to needs for liquidity or changes in interest rates or exchange rates. Information about these financial liabilities is provided internally on a fair value basis to the Investment Management Committee. Financial liabilities classified as at fair value through profit or loss consist of the International Monetary Fund liability balance and has been so designated by management.

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value with any gains or losses recognised in the statement of comprehensive income. Fair value is computed using quoted market prices.

ii) Other financial liabilities at amortised cost

Other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, where applicable.

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

(g) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

3. Summary of Significant Accounting Policies (Continued)

(g) Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(h) Currency inventories

Bank notes and coins are recorded at cost upon receipt of stock and are placed into inventory. They are subsequently expensed when issued into circulation.

(i) Numismatic coins

Numismatic coins, which are specially minted or packaged as collectors' items and are not issued for monetary purposes, are not included in coins in circulation. Any profit or loss arising from the sale of these coins is included in the statement of comprehensive income.

(j) Investment currency market payable

The Bank maintains a market in investment currency, prescribed for facilitating direct investment and foreign currency securities acquisitions outside The Bahamas. The investment currency attracts a deposit of 10.0%. Such deposits are treated as financial liabilities, recognised initially at fair value and subsequently measured at amortised cost. The financial liabilities are derecognised when repaid to investors and funds are repatriated to the country.

The purchase of investment currency attracts a 2.5% surcharge to facilitate the transaction. This fee is recognised upon completion of the investment currency purchase and is recognised in 'Other income' in the statement of comprehensive income.

(k) Income and expense recognition

The Bank recognises income when it is probable that future economic benefits will flow to the Bank and the amount of income can be reliably measured. Income is measured at the fair value of the consideration received or receivable. Interest income is accounted for on an accrual basis using the effective interest method.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(k) Income and expense recognition (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition of the financial asset or liability.

Other income and expenses are recognised on the accrual basis.

(l) Leases

The Bank is the lessee

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the statement of comprehensive income as a part of net income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial period in which termination takes place.

(m) Employee benefits

The Bank's employees participate in a defined benefit and a defined contribution pension plan.

Defined Benefit Plan

The Bank's retirement plan has a contributory defined benefit plan with participants being permanent employees who have been employed on or before December 31, 2013 and have not attained age 55. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries. Remeasurements are recognised in other comprehensive income when they occur. Past service cost is recognised immediately in the period of a plan amendment or curtailment. Contributions are made by employees at 5% of basic salary and the difference by the Bank, which amounted to 18.8% (2016: 12%).

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

Defined Benefit Plan (continued)

The asset or liability amount recognised in the statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less, the fair value of plan assets. Any asset arising as a result of this calculation is considered a surplus in the defined benefit plan which is fully recoverable by the Bank.

Defined Contribution Plan

Employees who join the Bank on or after January 1, 2014 participate in the defined contribution plan. The Bank pays fixed contributions, equivalent to 10% of each member employee's salary, into the Plan which is administered by a third party. These contributions are expensed in the period in which the employees rendered the services entitling them to the benefits. In addition, each member also contributes 5% of their salary. The Bank has no legal or constructive obligations to pay further contributions if the Plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense in the statement of comprehensive income in the period when they are due. The Bank has no further payment obligations once the recognised contributions have been paid.

Health insurance subsidy for retirees

The Bank pays a portion of the group life and health insurance (GLHI) premium for retirees who elect to remain covered by the Bank's GLHI policy after retirement. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plan. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries. The amount recognised in the statement of financial position represents the present value of the retirement benefit obligation.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

Defined Benefit Plan for Governors and Deputy Governors

Governor's and Deputy Governors participate in a non-contributory defined benefit plan which pays a lifetime pension if ten (10) or more years are served in either or both positions. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries. Remeasurements are recognised in other comprehensive income when they occur. Past service cost is recognised immediately in the period of a plan amendment or curtailment. The plan is financed on a pay-as-you-go basis.

The liability amount recognised in the statement of financial position represents the present value of the defined benefit obligation at the end of the reporting period.

(n) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and deposits that have original contractual maturities of three months or less.

(o) Taxation

Under the current laws of The Bahamas, the country of domicile of the Bank, there are no income, capital gains or other corporate taxes imposed. The Bank's operations do not subject it to taxation in any other jurisdiction.

(p) Fiduciary items

No account is taken in these financial statements of assets held or liabilities incurred by the Bank in a fiduciary capacity.

(q) Corresponding figures

Corresponding figures have been reclassified to conform with changes in presentation in the current year as follows:

Financial instruments - Disclosure of notes and coins in circulation as financial instruments.

Risk management - Excluded non-financial assets and non-financial liabilities from risk management disclosures.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(q) Corresponding figures (continued)

Concentration of assets and liabilities – Updated Government and financial sector percentages for demand liabilities.

Related party transactions – Disclosed defined contribution pension plan for employees.

3. Cash and Deposits with Banks

Cash and cash equivalents per the statement of cash flows comprise the following:

	2017 $	2016 $
External Assets		
Cash on hand	4,000	4,000
Cash in vault	467,035	2,625,554
Cash and deposit with banks	698,064,699	252,144,084
	698,535,734	254,773,638
Domestic Assets		
Cash on hand	32,190	40,358
	698,567,924	254,813,996
Less: Deposits with banks with original contractual maturities greater than three months	(155,740,529)	(55,310,571)
	542,827,395	**199,503,425**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

4. Property, Plant and Equipment

	Land $	Buildings & Renovations $	Office Equipment $	Computer Software $	Office Furniture & Fittings $	Other Fixed Assets $	Total $
COST							
As at January 1, 2017	2,452,938	15,060,801	7,959,896	11,114,648	700,766	319,769	37,608,818
Additions	-	296,700	604,582	627,969	92,210	18,785	1,640,246
Transfer	-	-	4,476	-	(4,476)	-	-
Disposals/Retirement	-	(456,395)	(128,063)	-	(3,650)	(51,595)	(639,703)
As at December 31, 2017	**2,452,938**	**14,901,106**	**8,440,891**	**11,742,617**	**784,850**	**286,959**	**38,609,361**
ACCUMULATED DEPRECIATION							
As at January 1, 2017	-	8,723,357	6,695,552	8,616,386	568,568	122,546	24,726,409
Charge for the year	-	433,515	531,453	1,066,940	70,536	60,734	2,163,178
Transfer	-	-	3,730	-	(3,730)	-	-
Disposals/Retirement	-	(395,732)	(109,617)	-	(3,650)	(26,657)	(535,656)
As at December 31, 2017	**-**	**8,761,140**	**7,121,118**	**9,683,326**	**631,724**	**156,623**	**26,353,931**
NET BOOK VALUE							
As at December 31, 2017	**2,452,938**	**6,139,966**	**1,319,773**	**2,059,291**	**153,126**	**130,336**	**12,255,430**
COST							
As at January 1, 2016	2,452,938	14,619,568	7,692,983	11,089,230	656,977	352,197	36,863,893
Additions	-	471,455	364,103	25,418	44,428	39,750	945,154
Disposals/Retirement	-	(30,222)	(97,190)	-	(639)	(72,178)	(200,229)
As at December 31, 2016	**2,452,938**	**15,060,801**	**7,959,896**	**11,114,648**	**700,766**	**319,769**	**37,608,818**
ACCUMULATED DEPRECIATION							
As at January 1, 2016	-	7,887,150	6,232,146	7,726,515	566,397	132,807	22,545,015
Charge for the year	-	866,430	486,751	889,871	75,361	61,916	2,380,329
Disposals/Retirement	-	-	72,551	-	(72,551)	-	-
Transfer	-	(30,223)	(95,896)	-	(639)	(72,177)	(198,935)
As at December 31, 2016	**-**	**8,723,357**	**6,695,552**	**8,616,386**	**568,568**	**122,546**	**24,726,409**
NET BOOK VALUE							
As at December 31, 2016	**2,452,938**	**6,337,444**	**1,264,344**	**2,498,262**	**132,198**	**197,223**	**12,882,409**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

5. External Assets

External assets comprise those assets defined by Section 18(1) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At year end, external assets represented 93.2% (2016: 67.4%) of such liabilities.

6. Marketable Securities Issued or Guaranteed by Foreign Governments

Section 18(1) of the Act requires that marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years, shall at no time constitute more than 30% in value of the Bank's external assets. At December 31, 2017, marketable securities held by the Bank, which mature after 5 years, constituted 22.03% (2016: 31.61%) of the Bank's external assets and deviation occurred during the year 2017. The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass any deviation as occurred.

The movement in marketable securities classified as held-to-maturity are as follows:

	2017 $	2016 $
Beginning balance	547,050,753	518,401,865
Purchases at nominal value	70,000,000	159,425,000
Discount on purchases	(80,683)	(2,056,758)
Redemptions/maturities	(7,000,000)	(130,000,000)
Gain on redemption/maturities	-	325,242
Discount earned	1,044,887	978,233
Amortised premium	(13,123)	(22,829)
Total	611,001,834	547,050,753
Add: Accrued interest	3,660,246	3,460,519
Ending balance	**614,662,080**	**550,511,272**

These securities bear interest at rates varying between 1.125% and 3.375% (2016: 1.125% and 4.75%).

7. International Monetary Fund

Background

The International Monetary Fund (IMF) is an organisation of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The Bahamas was admitted as a member of the IMF on August 21, 1973.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

7. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche

Each IMF member country is assigned a quota, or contribution, that reflects the country's relative size in the global economy. Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account, which is essentially a specified basket of five (5) major international currencies (i.e., the U.S. Dollar, Japanese Yen, Chinese Rehminbi, Euro and Pound Sterling).

As at December 31, 2017, The Bahamas was assigned a quota of SDR 182,400,000 (2016: SDR 182,400,000) which represents 0.04% (2016: 0.04%) of the total quota allocated by the IMF.

A member's quota determines that country's financial and organisational relationship with the IMF which includes:

- Determining the maximum amount of financial resources the member is obliged to provide to the IMF via its subscription;
- Determining a member's voting power in IMF decisions; and
- Establishing the maximum amount of financing a member can obtain from the IMF.

The Reserve Tranche Position (RTP) represents that proportion of the required quota of currency that each IMF member country must provide to the IMF, but can designate for its own use. The RTP was purchased from the Government of The Bahamas in 1976 and can be encashed on demand in order to meet a balance of payments financing need. This reserve asset is established when a member pays its initial subscription into the IMF at the predetermined amount of SDR or freely usable currency. The IMF designates freely usable currencies as those widely used to make payments for international transactions and are traded in the principal exchange markets.

The Bahamian dollar is designated as an unusable currency which permits the Bank to pay the non-reserve portion of the quota in the form of promissory notes. Subsequent to its initial subscription into the IMF, the Bank has increased the IMF subscriptions of The Bahamas by issuing, non-negotiable, interest-free promissory notes which are payable if the IMF requires an emergency loan. Payment of the promissory notes will give rise to an equal and opposite receivable from the IMF. These promissory notes were issued by the Bank and the Government of The Bahamas on behalf of the Bank, in the Bahamian dollar equivalents of SDR 43,280,648 and SDR 114,711,096 (2016: SDR 43,326,727 and SDR 114,832,392) respectively. The promissory notes form, in substance, part of a loan commitment to the IMF and as such are not recognised on the statement of financial position.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

7. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (Continued)

The IMF reserve tranche represents the difference between the members quota and the sum of promissory notes and subscription payments in local currency paid to the IMF as noted below:

	2017		2016	
	SDR	**$**	**SDR**	**$**
Quota	182,400,000	259,762,084	182,400,000	245,206,113
Subscription payments in promissory notes	(157,991,744)	(225,001,452)	(158,159,119)	(212,618,327)
Subscription payments in local currency	(5,122,976)	(7,295,805)	(4,955,601)	(6,661,972)
Reserve tranche	**19,285,280**	**27,464,827**	**19,285,280**	**25,925,814**

The movement in the reserve tranche during the year are as follows:

	2017		2016	
	SDR	**$**	**SDR**	**$**
Beginning balance	19,285,280	25,925,814	6,260,280	8,675,061
Purchase of SDRs	-	-	13,025,000	18,160,422
Currency movement	-	1,539,013	-	(909,669)
Total	**19,285,280**	**27,464,827**	**19,285,280**	**25,925,814**

SDR Holdings and SDR Allocation

The IMF may allocate SDRs to member countries in proportion to their IMF quotas. SDRs allocated is treated as a liability in the financial statements of a member, with an equal asset initially being recorded in the form of SDR Holdings.

Members can hold their SDRs as part of their international reserves or sell part or all of their SDR holdings. Members can exchange SDRs for freely usable currencies (and vice versa) among themselves and with prescribed holders; such exchange can take place under a voluntary arrangement or under designation by the IMF. Revaluation differences of SDR assets and liabilities are reported in net foreign exchange gains/losses account in the statement of comprehensive income.

IMF members can also use SDRs in operations and transactions involving the IMF, such as the payment of interest on and repayment of loans, or payment for future quota increases.

Consequently, a member's SDR Holdings (asset) and SDR Allocation (liability) can be different at a point in time.

The IMF pays interest at the SDR interest rate on the amount that a member's net holdings exceed their cumulative allocations. Conversely, if a member's SDR holdings are below its allocation, it incurs a net interest obligation.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

7. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation (Continued)

Interest on SDR holdings and allocations are received/paid quarterly. The SDR interest rate is determined weekly on each Friday and is based on a weighted average of representative interest rates on three month debt in the money markets of the basket of five (5) SDR international currencies.

SDR Holdings

	2017		2016	
	SDR	**$**	**SDR**	**$**
Beginning balance	54,084,961	72,708,131	54,123,129	75,000,076
Remuneration and other charges	(252,175)	(674,773)	(38,168)	(51,910)
Currency movement	-	4,631,756	-	(2,240,035)
Total	53,832,786	76,665,114	54,084,961	72,708,131
Add: Accrued interest		119,304		36,392
Ending balance		**76,784,418**		**72,744,523**

SDR Allocation

	2017		2016	
	SDR	**$**	**SDR**	**$**
Beginning balance	124,413,351	167,252,819	124,413,351	172,403,385
Currency movement	-	9,928,493	-	(5,150,566)
Total	124,413,351	177,181,312	124,413,351	167,252,819
Add: Accrued interest		217,901		66,223
Ending balance		**177,399,213**		**167,319,042**

In accordance with a resolution of the Board of Governors of the IMF, effective December 11, 1978, The Bahamas became a participant in the Special Drawing Rights Department of the IMF, receiving a total allocation of SDR 10,230,000 between 1979 and 1981. A general allocation took effect on August 28, 2009 and a special allocation on September 9, 2009 and increased the Bank’s allocations to SDR 124,413,351.

The interest rate, which is the same on both SDR Holdings and allocation, varied between 0.287% and 0.744% (2016: 0.05% and 0.228%) during the period.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

8. Bahamas Development Bank Bonds

The movement in the Bahamas Development Bank bonds is as follows:

	2017 $	2016 $
Balance	4,000,000	4,000,000
Add: Accrued interest	91,984	150,545
Total	**4,091,984**	**4,150,545**

These bonds bear interest at the Bahamian dollar prime rate of 4.25% (2016: 4.75%) with $2,000,000 maturing on August 1, 2025 and November 1, 2025, respectively.

9. Advances to Bahamas Government

Sections 28(3) and 28(4) of the Act require that advances to the Government, which may be outstanding at any one time, shall not exceed the lesser of either (a) 10% of the annual average ordinary revenue of the Government over the three preceding years, for which the accounts have been laid before Parliament, or (b) the estimated ordinary revenue of the Government for the year.

At the year end date, advances to the Government were 9.52% (2016: 9.47%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2017 $	2016 $
Beginning balance	134,657,052	134,657,052
Add: Accrued interest	703,548	703,547
Ending balance	**135,360,600**	**135,360,599**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

9. Advances to Bahamas Government (Continued)

The advances, which are repayable on demand, are as follows:

Rate	2017 $	2016 $
0.356%	19,069,444	19,069,444
0.395%	20,000,000	20,000,000
0.483%	5,000,000	5,000,000
0.512%	5,000,000	5,000,000
0.540%	60,000,000	60,000,000
0.638%	20,000,000	20,000,000
0.841%	5,587,608	5,587,608
	134,657,052	**134,657,052**

10. Bahamas Government Registered Stocks

The movement in Bahamas Government Registered Stocks are as follows:

	2017 $	2016 $
Beginning balance	368,444,300	257,993,900
Purchases	54,163,200	231,075,500
Discounts carried	31,814	-
Premiums amortised	(16,514)	-
Redemptions/maturities	(150,909,400)	(120,625,100)
Total	271,713,400	368,444,300
Add: Accrued interest	2,798,185	4,203,653
Ending balance	**274,511,585**	**372,647,953**

Bahamas Government Registered Stocks bear interest at rates ranging between 3.00% and 5.40% (2016: 2.95% and 6.00%).

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

11. Loans to Bahamas Development Bank

This balance is comprised of one Government Guaranteed loan facility made available in accordance with Section 29(1)(f) of the Act.

The movement in loans to Bahamas Development Bank are as follows:

	2017 $	2016 $
Beginning balance	3,550,000	3,700,000
Repayments	(800,000)	(150,000)
Total	2,750,000	3,550,000
Add: Accrued interest	9,867	84,843
Ending balance	**2,759,867**	**3,634,843**

The loans bear interest at 2.00% (2016: 2.00%), with $2,750,000 maturing on October 28, 2024.

12. Bridge Authority Bonds

The movements in the Bridge Authority bonds are as follows:

	2017 $	2016 $
Beginning balance	478,800	465,900
Purchases	5,300	12,900
Total	484,100	478,800
Add: Accrued interest	7,251	7,801
Ending balance	**491,351**	**486,601**

These bonds bear interest at rates ranging from 1.25% to 1.63% (2016: 1.25% to 1.63%) per annum over the Bahamian dollar prime rate with $450,600, $14,000 and $19,500 maturing on March 24, 2019, 2024 and 2029, respectively.

13. Clifton Heritage Authority Bonds

These bonds, which mature on May 20, 2025, bear interest at 5.25% (2016: 5.25%). The balance of the Clifton Heritage Authority bonds is made up as follows:

	2017 $	2016 $
Balance	634,600	634,600
Add: Accrued interest	3,469	3,823
Total	**638,069**	**638,423**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

14. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 99.45% and 99.47% (2016: 99.46% and 99.74%) maturing 91 to 182 days from acquisition.

	2017 $	2016 $
Beginning balance	223,373,196	126,538,783
Purchases	1,095,088,890	1,125,506,349
Redemptions/maturities	(1,311,294,313)	(1,028,671,936)
Total	7,167,773	223,373,196
Add: Discount earned	1,770	516,966
Ending balance	**7,169,543**	**223,890,162**

15. Notes in Circulation

In accordance with the Act, the Bank has the sole authority to issue banknotes for circulation in The Bahamas. A breakdown, by denomination, is presented below.

Notes	2017 $	2016 $
0.50	767,305	737,313
1.00	24,285,623	23,509,536
3.00	2,016,801	1,972,440
5.00	11,917,775	11,503,120
10.00	18,510,170	17,753,390
20.00	61,348,800	59,900,280
50.00	123,722,200	116,723,650
100.00	168,470,000	167,895,600
Other bank notes	82,032	79,832
	411,120,706	**400,075,161**

16. Deposits by Commercial Banks

Deposits by commercial banks include current account balances deposited as statutory reserves in accordance with Section 19 of the Act. The remaining funds deposited in the current account are used to facilitate settlement and to effect foreign currency transactions.

The present level of the statutory reserves applicable to commercial banks is 5% of total Bahamian dollar deposit liabilities, of which at least 4% must be placed on deposit with the Bank. These deposits are interest free and are repayable on demand, subject to maintenance of minimum balances required by the Act.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

17. Deposits by International Agencies

The Bank is designated as the fiscal agency for the Commonwealth of The Bahamas. Deposits by international agencies include deposits in Bahamian currency by the World Bank, the International Monetary Fund and the Inter-American Development Bank. These deposits are interest free and are repayable on demand.

18. Equity and Reserves

Capital management - The Bank's objectives when managing capital, which consists of total equity and reserves on the statement of financial position, are:

- To comply with the capital requirements outlined in Sections 6 and 7 of the Act;
- To safeguard the Bank's ability to continue as a going concern in its provision of Central Banking facilities for The Bahamas; and
- To maintain a strong capital base to support the development of the Bahamian economy.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, and in accordance with the guidelines established by the Act.

At December 31, 2017, and 2016, the Bank's paid up capital was equal to the authorised capital of $3,000,000.

To comply with Section 32(2)(a) of the Act, the table below presents the performance of the Bank excluding from the calculation any profit or loss arising from any revaluation of any assets or liabilities of the Bank occasioned by any change in the value of the currency of The Bahamas or any foreign currency.

	2017 **$**	**2016** **$**
Net income	10,634,360	12,291,875
Appropriation of foreign exchange loss/(gain)	4,081,597	(2,002,497)
Net income per the Act	14,715,957	10,289,378
Other comprehensive income	1,288,131	826,603
Total comprehensive income stated in accordance with the Act	16,004,088	11,115,981

Exchange equalisation account - Under the terms of Sections 32(2)(a) and 32(2)(b) of the Act, this account represents the net foreign exchange gain or loss arising from the revaluation of foreign currency monetary assets and liabilities of the Bank at the date of the statement of financial position.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

18. Equity and Reserves (Continued)

Building fund - This account represents a reserve for construction of a new premises. During the year, the Bank appropriated $10,000,000 (2016: $Nil) from general reserve to the building fund as approved by the Board of Directors.

General reserve - Section 7(2) of the Act requires that, at the end of any year where the amount in the general reserve exceeds twice the authorised capital of the Bank or 15% of its demand liabilities, whichever is greater, the excess shall be paid to the Consolidated Fund, unless the Minister of Finance determines otherwise.

The balance of the general reserve at the year end amounted to $140,101,905 (2016: $134,097,817 equivalent to 9% (2016: 10%) of demand liabilities.

19. Income

	2017 $	2016 $
Interest on foreign investments		
Demand deposits	1,045,526	171,857
Fixed deposits	3,099,850	1,845,521
Marketable securities	14,314,522	13,875,771
Interest Income on SDR	397,406	64,850
	18,857,304	15,957,999
Interest on loans		
Loans to Bahamas Development Bank	65,401	72,425
Government advances	703,548	703,547
Staff	281,892	282,386
	1,050,841	1,058,358
Interest on domestic investments		
Bahamas Development Bank bonds	170,110	190,000
Bahamas Government Registered Stocks	14,329,383	13,715,757
Bridge Authority bonds	26,635	28,396
Bahamas Government Treasury bills	4,601,113	3,682,485
Clifton Heritage bonds	30,161	33,317
	19,157,402	17,649,955
Interest expense on IMF allocation	(921,557)	(155,364)
Net foreign exchange (loss)/gain	(4,052,958)	2,008,419
Net trading gain	1,781,256	332,958
Other income		
Allocated bank license fees	3,700,000	3,700,000
Bank statutory fines	88,780	86,445
Commission on foreign currency sales	953,152	676,953
Premium on Investment Currency Market	238,729	322,796
Other	828,420	289,032
	5,809,081	5,075,226
Total income	**41,681,369**	**41,927,551**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

20. Expenses

	2017 $	2016 $
Staff costs		
Salaries, wages and gratuity	14,529,163	13,580,752
Defined benefit plan	1,331,381	1,387,810
Group insurance plan	1,419,211	1,375,116
Staff training	509,120	481,584
National insurance	466,951	450,332
Health insurance subsidy	239,810	231,433
Responsibility allowance	202,650	190,300
Former Governors' retirement benefit	893,799	277,445
Defined contribution plan	238,663	185,272
Other	311,440	320,622
	20,142,188	**18,480,666**
General and administrative		
Currency	1,813,934	2,293,502
Professional fees	2,129,647	1,922,177
Utilities	868,435	839,590
Repairs and maintenance	965,246	823,162
Rent	505,251	531,020
Insurance	182,420	216,898
Cash shipment	254,008	259,556
Subscription and membership fees	128,286	117,259
Stationery and office supplies	89,346	58,246
Directors' remuneration	49,898	58,025
Other	1,755,172	1,655,246
	8,741,643	**8,774,681**

21. The Deposit Insurance Corporation

During 1999, in accordance with Section 5(1) of the Protection of Depositors Act, 1999, the Bank has made an initial capital contribution of $500,000 in the Deposit Insurance Corporation (DIC). This represents 100% of the paid-up portion of the capital of DIC, which was established to manage the Deposit Insurance Fund set up to protect deposits placed with member institutions.

In the opinion of the Directors, the Bank is not exposed, or has rights, to variable returns from its involvement with the DIC and does not have the ability to affect its returns. Consequently, the Deposit Insurance Corporation is not treated as a subsidiary in these financial statements.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

21. The Deposit Insurance Corporation (Continued)

Considering the substance of this transaction, this contribution does not meet the recognition criteria as an investment and was subsequently derecognised.

22. Commitments & Contingencies

(a) Contingencies

The Bank is party to claims in the normal course of business, which are at various stages of the judicial process. The Bank is defending all such claims and is of the opinion that the outcomes, which cannot presently be determined, will not adversely affect its operations or financial position.

(b) Commitments

i) Leases

The Bank leases office space with lease terms of between three to five years. At year-end, the Bank was committed to the following payments:

	2017 $	2016 $
Not later than one year	351,643	53,383
Later than one year but not later than five years	1,012,346	91,075

ii) Printing of Currency

The Bank also commits to order currency from several minters and printers. At year-end, the Bank was committed to the following payments for currency:

	2017 $	2016 $
Not later than one year	53,470	2,787,878
Later than one year but not later than five years	3,565,556	2,716,000

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

23. Concentration of Assets and Liabilities

	2017 $	2016 $
EXTERNAL ASSETS		
Geographic Region		
North America	72.00%	80.35%
Europe	21.55%	15.34%
Other	6.45%	4.31%
	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%
DOMESTIC ASSETS		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Government Sector	100.00%	100.00%
DEMAND LIABILITIES		
Geographic Region		
Bahamas	100.00%	99.99%
Other	0.00%	0.01%
	100.00%	100.00%
Industry		
Financial Sector	96.62%	97.38%
Government Sector	3.38%	2.62%
	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

Section 29(1)(c) of the Act requires that the total amount of Government issued or guaranteed securities held at any time by the Bank, which mature beyond five (5) years after their date of issue, shall not exceed 20% of the demand liabilities of the Bank. At the statement of financial position date, such securities held by the Bank, which matured beyond five years after their date of issue, was 11.28% (2016: 18.96%) of demand liabilities. The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass any deviation.

The Act further requires that any holdings of Government issued or guaranteed securities should not have maturities extending beyond 20 years from the date of their acquisition. The Bank held no securities maturing beyond 20 years, at either December 31, 2017 or 2016.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

24. Related Party Transactions

Related parties comprise i) Government ministries and departments; ii) Government corporations and agencies; iii) entities controlled by the Government; iv) entities in which the Government has a significant ownership interest; and v) key management personnel. Transactions that the Bank has with such related entities are disclosed on the statement of financial position and accompanying notes. The amounts and terms of these transactions are discussed and agreed upon by the parties.

The Bank provides certain services to the Government of The Bahamas, in accordance with its mandate under Sections 26 to 29 of the Act. These services include but are not limited to:

- Act as banker to the Government or any public corporation;
- Act as the agent of the Government in the management of the public debt;
- Make temporary advances to the Government;
- Open accounts for, accept deposits from, and collect money for or on account of, the Government or any public corporation; and
- Buy, hold and sell securities issued or guaranteed by the Government

The Bank's senior officials and directors are regarded to be its key management personnel.

The following balances and transactions relate to key management personnel:

(a) Compensation:

	2017	**2016**
	$	**$**
Senior officials' salaries and short-term benefits	1,526,662	1,865,107
Directors' remuneration	49,898	58,025
Post-employment benefits	124,851	157,385
	1,701,411	**2,080,517**

24. Related Party Transactions (Continued)

(b) Other assets include secured loans to employees totaling $9,559,225 (2016: $10,222,628), of which the following relates to key management personnel:

	2017 $	2016 $
Beginning of the year	966,456	1,015,188
Advances during the year	42,350	55,238
Repayments during the year	(137,362)	(103,970)
End of the year	**871,444**	**966,456**

(c) Post-employment pension obligation and other benefits:

	2017 $	2016 $
Defined contribution pension plan for Employees	109,738	63,711
Defined benefit pension plan for Employees	2,175,120	2,658,196
Defined benefit pension plan for Governors and Deputy Governors	230,674	826,524
Gratuity	4,422	25,200
End of the year	**2,519,954**	**3,573,631**

25. Fiduciary Assets and Liabilities

Section 24 of the Act authorises the Bank to accept unclaimed customer deposits that are required to be transferred to it by a bank in The Bahamas in accordance with the Banks and Trust Companies Regulation Act, pay interest on money deposited and pay out money to any person entitled thereto. At December 31, 2017 the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $100,077,726 (2016: $95,250,622). These amounts are excluded from the statement of financial position.

To manage fiduciary risk, the Bank generally takes a conservative approach in its fiduciary undertakings.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

26. Financial Instruments

Categories of Financial Instruments

	Loans & Receivables (amortised cost) $	Fair Value Through Profit or Loss $	Held-to-Maturity (amortised cost) $	Available-for-Sale $	Total Carrying Amount $
December 31, 2017					
EXTERNAL ASSETS					
Cash and deposits with banks	698,535,734	-	-	-	698,535,734
Marketable securities issued or guaranteed by foreign governments	-	-	614,662,080	-	614,662,080
International Monetary Fund:					
Bahamas reserve tranche	-	27,464,827	-	-	27,464,827
Special drawing rights - holdings	-	76,784,418	-	-	76,784,418
DOMESTIC ASSETS					
Cash on hand	32,190	-	-	-	32,190
Bahamas Development Bank bonds	4,091,984	-	-	-	4,091,984
Advances to Bahamas Government	135,360,600	-	-	-	135,360,600
Bahamas Government Registered Stock	274,511,585	-	-	-	274,511,585
Loans to Bahamas Development Bank	2,759,867	-	-	-	2,759,867
Bridge Authority Bonds	491,351	-	-	-	491,351
Clifton Heritage Authority Bonds	-	-	638,069	-	638,069
Bahamas Government Treasury Bills	-	-	-	7,169,543	7,169,543
Employee loans and other receivables	9,784,592	-	-	-	9,784,592
Total	**1,125,567,903**	**104,249,245**	**615,300,149**	**7,169,543**	**1,852,286,840**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

26. Financial Instruments (Continued)

Categories of Financial Instruments (Continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2017			
DEMAND LIABILITIES			
Notes in circulation	-	411,120,706	411,120,706
Coins in circulation	-	27,396,830	27,396,830
Deposits by commercial banks	-	1,011,246,639	1,011,246,639
Deposits by Bahamas Government and Bahamas Government agencies	-	44,152,152	44,152,152
Deposits by International agencies	-	255,217	255,217
Accounts payable and other liabilities	-	11,110,160	11,110,160
Investment Currency Market payable	-	8,736,314	8,736,314
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	177,399,213	-	177,399,213
Total	**177,399,213**	**1,514,018,018**	**1,691,417,231**

26. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Loans & Receivables (amortised cost) $	Fair Value Through Profit or Loss $	Held-to-Maturity (amortised cost) $	Available-for-Sale $	Total Carrying Amount $
December 31, 2016					
EXTERNAL ASSETS					
Cash and deposits with banks	254,773,638	-	-	-	254,773,638
Marketable securities issued or guaranteed by foreign governments	-	-	550,511,272	-	550,511,272
International Monetary Fund:					
Bahamas reserve tranche	-	25,925,814	-	-	25,925,814
Special drawing rights - holdings	-	72,744,523	-	-	72,744,523
DOMESTIC ASSETS					
Cash on hand	40,358	-	-	-	40,358
Bahamas Development Bank bonds	4,150,545	-	-	-	4,150,545
Advances to Bahamas Government	135,360,599	-	-	-	135,360,599
Bahamas Government Registered Stock	372,647,953	-	-	-	372,647,953
Loans to Bahamas Development Bank	3,634,843	-	-	-	3,634,843
Bridge Authority Bonds	486,601	-	-	-	486,601
Clifton Heritage Authority Bonds	-	-	638,423	-	638,423
Bahamas Government Treasury Bills	-	-	-	223,890,162	223,890,162
Employee loans and other receivables	10,513,599	-	-	-	10,513,599
Total	**781,608,136**	**98,670,337**	**551,149,695**	**223,890,162**	**1,655,318,330**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

26. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2016			
DEMAND LIABILITIES			
Notes in circulation	-	400,075,161	400,075,161
Coins in circulation	-	25,648,024	25,648,024
Deposits by commercial banks	-	866,319,539	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	-	27,859,918	27,859,918
Deposits by International agencies	-	255,274	255,274
Accounts payable and other liabilities	-	5,949,521	5,949,521
Investment Currency Market payable	-	7,782,800	7,782,800
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	167,319,042	-	167,319,042
Total	**167,319,042**	**1,333,890,237**	**1,501,209,279**

27. Fair Value Measurements

Fair value of financial instruments

Below is a comparison of the carrying value and the fair value of the Bank's financial instruments, other than those with carrying value that approximates its fair value.

	2017 Carrying Value $	2017 Fair Value $	2016 Carrying Value $	2016 Fair Value $
FINANCIAL INSTRUMENTS				
Marketable securities issued or guaranteed by foreign governments	614,662,080	617,020,047	550,511,272	557,597,025
Bahamas Government Registered Stocks	274,511,585	276,830,251	372,647,953	372,647,953
Loans to Bahamas Development Bank	2,759,867	3,539,415	3,634,843	3,655,321
Bridge Authority bonds	491,351	509,559	486,601	510,244
Clifton Heritage Authority bonds	638,069	661,404	638,423	664,009
TOTAL	**893,062,952**	**898,560,676**	**927,919,092**	**935,074,552**

i) It is the Directors' opinion that the carrying value of other assets and liabilities approximate their fair value due to the short-term maturities of these investments.

ii) Investments in Bahamas Development Bank bonds yield market-based interest rates resulting in its carrying value approximating its fair value.

27. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

iii) Advances to Bahamas Government and deposits by commercial banks, international agencies, Bahamas Government and government agencies are considered due on demand. Thus, in the absence of any impairment on the financial assets, the carrying amount approximates the fair value.

Fair value hierarchy and measurements

The Bank ranks its investment securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset.

The determination of what constitutes 'observable' requires significant judgment by the Bank. The Bank considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Central Bank of The Bahamas

Notes to the Financial Statements
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(Continued)

27. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include government debt securities and other securities with observable inputs.

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components, including equity securities.

The following table categorizes into three levels the inputs measure fair value of financial instruments:

Financial assets and liabilities that are measured at fair value on a recurring basis

	Fair value measurements as at December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
International Monetary Fund:				
Bahamas reserve tranche	27,464,827	-	-	27,464,827
Special Drawing rights - holdings	76,784,418	-	-	76,784,418
Available-for-sale financial assets				
Bahamas Government Treasury bills	-	7,169,543	-	7,169,543
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	177,399,213	-	-	177,399,213

27. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

Financial assets and liabilities that are measured at fair value on a recurring basis (continued)

	Fair value measurements as at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
International Monetary Fund:				
Bahamas reserve tranche	25,925,814	-	-	25,925,814
Special Drawing rights - holdings	72,744,523	-	-	72,744,523
Available-for-sale financial assets				
Bahamas Government Treasury bills	-	223,890,162	-	223,890,162
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	167,319,042	-	-	167,319,042

Level 3

The Bank does not have a level three classification at December 31, 2017 and 2016.

There were no transfers between levels in the year.

Financial assets and liabilities that are not measured at fair value on a recurring basis.

	Fair value measurements as at December 31, 2017			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	698,567,924		-	698,567,924
Loans and receivables				
Bahamas Development Bank bonds	-	4,091,984	-	4,091,984
Advances to Bahamas Government	-	135,360,600	-	135,360,600
Bahamas Government Registered Stocks	-	276,830,251	-	276,830,251
Loans to Bahamas Development Bank	-	3,539,415	-	3,539,415
Bridge Authority bonds	-	509,559	-	509,559
Employee loans and other receivables	-	9,784,592	-	9,784,592
Held-to-maturity investments				
Marketable securities issued or guaranteed by foreign governments	617,020,047	-	-	617,020,047
Clifton Heritage Authority bonds	-	661,404	-	661,404

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

27. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

Financial assets and liabilities that are not measured at fair value on a recurring basis (continued)

	Fair value measurements as at December 31, 2017			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	411,120,706	-	-	411,120,706
Coins in circulation	27,396,830	-	-	27,396,830
Deposits by commercial banks	-	1,011,246,639	-	1,011,246,639
Deposits by Bahamas Government and Bahamas Government agencies	-	44,152,152	-	44,152,152
Deposits by international agencies	-	255,217	-	255,217
Accounts payable and other liabilities	-	11,110,160	-	11,110,160
Investment Currency Market payable	-	8,736,314	-	8,736,314

	Fair value measurements as at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	254,813,996	-	-	254,813,996
Loans and receivables				
Bahamas Development Bank bonds	-	4,150,545	-	4,150,545
Advances to Bahamas Government	-	135,360,599	-	135,360,599
Bahamas Government Registered Stocks	-	372,647,953	-	372,647,953
Loans to Bahamas Development Bank	-	3,655,321	-	3,655,321
Bridge Authority bonds	-	510,244	-	510,244
Employee loans and other receivables	-	10,513,599	-	10,513,599
Held-to-maturity investments				
Marketable securities issued or guaranteed by foreign governments	557,597,025	-	-	557,597,025
Clifton Heritage Authority bonds	-	664,009	-	664,009
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	400,075,161	-	-	400,075,161
Coins in circulation	25,648,024	-	-	25,648,024
Deposits by commercial banks	-	866,319,539	-	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	-	27,859,918	-	27,859,918
Deposits by international agencies	-	255,274	-	255,274
Accounts payable and other liabilities	-	5,949,521	-	5,949,521
Investment Currency Market payable	-	7,782,800	-	7,782,800

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Notes to the Financial Statements
December 31, 2017
(Continued)

27. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

Financial assets and liabilities that are not measured at fair value on a recurring basis (continued)

The fair value of the financial assets and liabilities disclosed under level 2 and 3 above have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the Bahamian prime rate as the discount rate. The Bahamian dollar Prime rate was reduced by 0.50% effective January 2017, and prior to this change Prime rate had not experienced any changes since the year ended December 31, 2011.

28. Risk Management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The most important types of risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

Risk management is carried out by the investment and monetary policy committees under policies approved by the Board of Directors. The committees identify, evaluate and hedge financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and financial instruments.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the statement of financial position date. Credit exposures arise principally in loans and advances, debt securities and other bills in the Bank's asset portfolio. The Investment Committee monitors credit risk management and control, and regular reports are provided to the Board of Directors. The Directors do not consider that the Bank is exposed to any significant credit risk because its financial assets consist primarily of cash and securities issued or guaranteed by the United States Government or The Bahamas Government. Accordingly the Bank has not established a provision for its financial assets. Maximum credit exposure at the year end approximates the carrying value of all assets.

Exposure to credit risk

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

	2017 $	2016 $
Cash and deposits with banks		
Aaa	218,092	42,434,226
Aa2	33,774,567	-
A1	261,438,414	47,999,400
Aa1	22,089,466	-
Aa3	94,255,610	-
A2	-	77,166,058
A3	-	10,063,507
Ba2	33,059,022	-
Ba3	253,229,528	-
Baa3	-	74,480,893
	698,064,699	252,144,084
Bahamas Development Bank Bonds		
Baa3	4,091,984	4,105,545
Advances to Bahamas Government		
Baa3	135,360,600	135,360,599
Bahamas Government Registered Stock		
Baa3	274,511,585	372,647,953
Loans to Bahamas Development Bank		
Baa3	2,759,867	3,634,843
Bridge Authority Bonds		
Baa3	491,351	486,601

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2017 $	2016 $
Receivables and Other Assets	9,784,592	10,513,599
Available-for-sale Securities		
Baa3	7,169,543	223,890,162
Held-to-maturity Investments		
Aaa	614,662,080	550,511,272
Baa3	638,069	638,423
	615,300,149	551,149,695
International Monetary Fund		
Bahamas reserve tranche	27,464,827	25,925,814
Special drawing rights - holdings	76,784,418	72,744,523
	104,249,245	98,670,337
	1,851,783,615	**1,652,603,418**

Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank's exposure to market risk is from its financial investment portfolios.

The market risks arising from the Bank's activities are monitored by the Investment Committee and the Monetary Policy Committee. Regular reports are submitted to the Board of Directors and operating units.

Currency risk

Apart from the Bank's assets and liabilities with the IMF, which are denominated in SDRs, its exposure to foreign currency risk is limited. The only other significant foreign currency is US dollar, on which there is no exposure because the Bahamian dollar and the US dollar are pegged 1:1. The Bank manages any other foreign currency exposure using internal hedging techniques, by matching assets and liabilities wherever possible.

The following table presents the carrying amounts of the Bank's financial assets and liabilities by currency:

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2017							
Financial Assets							
Cash and deposits with banks	32,190	698,535,500	5	65	164	-	698,567,924
Marketable securities	-	614,662,080	-	-	-	-	614,662,080
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	27,464,827	27,464,827
Special drawing rights - holdings	-				-	76,784,418	76,784,418
Domestic financial assets	434,807,591	-	-	-	-	-	434,807,591
Total financial assets	**434,839,781**	**1,313,197,580**	**5**	**65**	**164**	**104,249,245**	**1,852,286,840**
Financial Liabilities							
Notes in circulation	411,120,706	-	-	-	-	-	411,120,706
Coins in circulation	27,396,830	-	-	-	-	-	27,396,830
Deposits by commercial banks	1,011,246,639	-	-	-	-	-	1,011,246,639
Deposits by Bahamas Government and Bahamas Government agencies	44,152,152	-	-	-	-	-	44,152,152
Deposits by international agencies	-	255,217	-	-	-	-	255,217
Accounts payable and other liabilities	11,110,160	-	-	-	-	-	11,110,160
Investment Currency Market payable	8,736,314	-	-	-	-	-	8,736,314
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	177,399,213	177,399,213
Total financial liabilities	**1,513,762,801**	**255,217**	**-**	**-**	**-**	**177,399,213**	**1,691,417,231**
Net on-balance sheet position	**(1,078,923,020)**	**1,312,942,363**	**5**	**65**	**164**	**(73,149,968)**	**160,869,609**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2016							
Financial Assets							
Cash and deposits with banks	40,358	254,749,649	248	880	22,861	-	254,813,996
Marketable securities	-	550,511,272	-	-	-	-	550,511,272
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	25,925,814	25,925,814
Special drawing rights - holdings	-	-	-	-	-	72,744,523	72,744,523
Domestic financial assets	751,322,725	-	-	-	-	-	751,322,725
Total financial assets	**751,363,083**	**805,260,921**	**248**	**880**	**22,861**	**98,670,337**	**1,655,318,330**
Financial Liabilities							
Notes in circulation	400,075,161	-	-	-	-	-	400,075,161
Coins in circulation	25,648,024	-	-	-	-	-	25,648,024
Deposits by commercial banks	866,319,539	-	-	-	-	-	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	27,859,918	-	-	-	-	-	27,859,918
Deposits by international agencies	-	255,274	-	-	-	-	255,274
Accounts payable and other liabilities	5,949,521	-	-	-	-	-	5,949,521
Investment Currency Market payable	7,782,800	-	-	-	-	-	7,782,800
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	167,319,042	167,319,042
Total financial liabilities	**1,333,634,963**	**255,274**	**-**	**-**	**-**	**167,319,042**	**1,501,209,279**
Net on-balance sheet position	**(582,271,880)**	**805,005,647**	**248**	**880**	**22,861**	**(68,648,705)**	**154,109,051**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Currency risk (continued)

Sensitivity of BSD compared to foreign currencies reflected in these financial statements is as follows:

	Average Rate		Year-end Spot Rate	
	2017	**2016**	**2017**	**2016**
USD	1.0000	1.0000	1.0000	1.0000
GBP	1.2900	1.2987	1.3503	1.2343
EUR	1.1300	1.0638	1.1910	1.0545
SDR	1.4055	1.3957	1.4154	1.3443

Special Drawing Rights (SDRs), the IMF's unit of account, is essentially a specified basket of five (5) major international currencies (i.e., the U.S. Dollar, Euro, Japanese Yen, Pound Sterling and Chinese Renminbi). The weightage of each currency is as follows:

Currency	Weight
USD	41.73%
EUR	30.93%
JPY	10.92%
GBP	8.09%
CNY	8.33%
	100%

At December 31, 2017, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 7,496,305 (2016: BSD 6,200,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of SDR-denominated financial assets and liabilities.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise. The level of mismatch of interest rate repricing that may be undertaken by the Bank is monitored frequently by the Investment Committee and the Monetary Policy Committee.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Interest rate risk (continued)

Certain of the Bank's financial assets and liabilities are exposed to interest rate risk. Marketable securities carry an average yield of 1.48% (2016: 2.48%); however, if these securities had a reduced average yield of 1.39% (2016: 1.98%), derived from their varying yields at the lower end of the spectrum, income for the year and equity at year end would have been reduced by $502,070 (2016: $939,123). Had the yield been tilted towards the higher end of the spectrum, to 1.39% (2016: 2.13%), income for the year and equity at year end would have increased by $502,070 (2016: $939,123).

In respect of all variable interest bearing instruments, if interest rates had been 50 basis points higher, with all other variables remaining constant, the increase in equity and net operating results for the year would amount to approximately $890,455 (2016: $1,341,647), arising from variable rate instruments. If interest rates had decreased by 50 basis points, the decrease in equity and net operating results for the year would amount to approximately $890,455 (2016: $1,341,647).

	December 31, 2017 $	December 31, 2016 $
Fixed Rate Instruments		
Financial assets	1,362,661,691	1,225,859,401
Financial liabilities	-	-
Variable Rate Instruments		
Financial assets	479,783,347	409,334,131
Financial liabilities	177,399,213	167,319,042

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank manages its foreign liquidity risks through appropriate structuring of its foreign investment portfolios to ensure that the maturity profiles of foreign assets sufficiently match those of foreign commitments. This is monitored and managed on a regular basis. In addition, the Bank's foreign investment portfolio comprises mainly short-term, highly liquid investment instruments.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Liquidity risk (continued)

The Bank's liquidity risk management process, as carried out within the Bank, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, inclusive of replenishment of funds as they mature. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring statement of financial position liquidity ratios against internal and statutory requirements; and

- Managing the concentration and profile of debt and financial instrument maturities.

The table below analyses financial assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity dates as of the statement of financial position date and represent undiscounted cash flows.

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2017						
Financial Assets						
Cash and deposits with banks	543,963,708	65,187,315	89,416,901	-	-	698,567,924
Marketable securities issued or guaranteed by foreign governments	-	-	14,062,156	342,016,438	330,152,531	686,231,125
International Monetary Fund:						
Bahamas reserve tranche	27,464,827	-	-	-	-	27,464,827
Special drawing rights – holdings	76,784,418	-	-	-	-	76,784,418
Bahamas Development Bank bonds	-	-	170,000	680,000	4,510,000	5,360,000
Advances to Bahamas Government	135,360,600	-	-	-	-	135,360,600
Bahamas Government Registered stock	-	-	5,131,953	148,618,426	226,303,549	380,053,928
Bahamas Government Treasury Bills	-	7,200,000	-	-	-	7,200,000
Loans to Bahamas Development Bank	-	-	55,000	220,000	2,860,000	3,135,000
Bridge Authority bonds	-	-	29,154	472,591	42,893	544,638
Clifton Heritage Authority bonds	-	-	33,317	133,266	717,891	884,474
Employee and other receivables	230,437	3,753	48,573	2,766,681	6,735,148	9,784,592
Total financial assets	**783,803,990**	**72,391,068**	**108,947,054**	**494,907,402**	**571,322,012**	**2,031,371,526**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2017						
Financial Liabilities						
Notes in circulation	411,120,706	-	-	-	-	411,120,706
Coins in circulation	27,396,830	-	-	-	-	27,396,830
Deposits by commercial banks	1,011,246,639	-	-	-	-	1,011,246,639
Deposits by Bahamas Government and Bahamas Government agencies	44,152,152	-	-	-	-	44,152,152
Deposits by International agencies	255,217	-	-	-	-	255,217
Accounts payable and other liabilities	11,110,160	-	-	-	-	11,110,160
Investment Currency Market Payable	8,736,314	-	-	-	-	8,736,314
International Monetary Fund: Special drawing rights allocation	177,399,213	-	-	-	-	177,399,213
Total financial liabilities	**1,691,417,231**	**-**	**-**	**-**	**-**	**1,691,417,231**
Net on-balance sheet position	**(907,613,241)**	**72,391,068**	**108,947,054**	**494,907,402**	**571,322,012**	**339,954,295**

The Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2016						
Financial Assets						
Cash and deposits with banks	142,488,346	57,015,078	55,310,572	-	-	254,813,996
Marketable securities issued or guaranteed by foreign governments	-	-	19,805,031	301,051,375	305,823,016	626,679,422
International Monetary Fund:						
Bahamas reserve tranche	25,925,814	-	-	-	-	25,925,814
Special drawing rights – holdings	72,744,523	-	-	-	-	72,744,523
Bahamas Development Bank bonds	-	-	190,000	760,000	4,760,000	5,710,000
Advances to Bahamas Government	135,360,599	-	-	-	-	135,360,599
Bahamas Government Registered stock	-	-	27,414,440	176,061,866	341,104,498	544,580,804
Bahamas Government Treasury Bills	103,209,000	121,224,000	-	-	-	224,433,000
Loans to Bahamas Development Bank	-	-	71,000	566,000	3,445,000	4,082,000
Bridge Authority bonds	-	28,836	-	493,850	45,011	567,697
Clifton Heritage Authority bonds	-	-	33,317	133,266	751,208	917,791
Employee and other receivables	244,110	2,379	64,640	2,639,037	7,563,433	10,513,599
Total financial assets	**479,972,392**	**178,270,293**	**102,889,000**	**481,705,394**	**663,492,166**	**1,906,329,245**

Notes to the Financial Statements
December 31, 2017
(Continued)

28. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2016						
Financial Liabilities						
Notes in circulation	400,075,161	-	-	-	-	400,075,161
Coins in circulation	25,648,024	-	-	-	-	25,648,024
Deposits by commercial banks	866,319,539	-	-	-	-	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	27,859,918	-	-	-	-	27,859,918
Deposits by International agencies	255,274	-	-	-	-	255,274
Accounts payable and other liabilities	5,949,521	-	-	-	-	5,949,521
Investment Currency Market Payable	7,782,800	-	-	-	-	7,782,800
International Monetary Fund: Special drawing rights allocation	167,319,042	-	-	-	-	167,319,042
Total financial liabilities	**1,501,209,279**	**-**	**-**	**-**	**-**	**1,501,209,279**
Net on-balance sheet position	**(1,021,236,887)**	**178,270,293**	**102,889,000**	**481,705,394**	**663,492,166**	**405,119,966**

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December 31, 2017
(Continued)

28. Risk Management (Continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

29. Retirement Benefit Plans

Defined Contribution Plan

	2017 $	2016 $
Amount recognised as an expense (Note 20)	238,663	185,272

Defined Benefit Plan

The movements in the contributory defined benefit obligation over the year are as follows:

	2017 $	2016 $
Present value of obligation at start of year	53,273,856	52,100,389
Interest cost	2,606,904	2,539,401
Current service cost	2,034,655	2,039,638
Benefits paid	(2,271,556)	(2,624,720)
Actuarial loss/ (gain) on obligation due to experience	237,203	(780,852)
Actuarial (gain) on obligation due to demographic assumption changes	-	-
Actuarial (gain) on obligation due to financial assumption changes	(1,699,221)	-
Present value of obligation at end of year	**54,181,841**	**53,273,856**
Fair value of plan assets at start of year	57,337,631	55,619,511
Interest income	2,862,747	2,752,999
Contributions paid – both employees' and employer's	2,122,923	1,514,024
Benefits paid	(2,271,556)	(2,624,720)
Administrative costs	(16,740)	(8,561)
Return on plan assets, excluding interest income	(160,384)	84,378
Fair value of plan assets at end of year	**59,874,621**	**57,337,631**

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Notes to the Financial Statements
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(Continued)

29. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

The amount recognised as an asset in the statement of financial position in respect of the Bank's contributory defined retirement benefit plan is as follows:

	2017 $	2016 $
Present value of funded obligations	54,181,841	53,273,856
Fair value plan assets	(59,874,621)	(57,337,631)
	(5,692,780)	**(4,063,775)**

Summary of plan investments, in accordance with IAS 19 is as follows:

	2017 $	2016 $
Cash	2,400,890	389,987
Interest receivable	678,974	664,584
Bahamas Government Registered Stocks	55,659,335	55,215,400
Other bonds	446,272	379,245
Preference shares	700,000	700,000
Accounts payable	(10,850)	(11,585)
Total	**59,874,621**	**57,337,631**

The expense recognised in the statement of comprehensive income in respect of the Bank's contributory defined retirement benefit plan is as follows:

	2017 $	2016 $
Current service cost	1,593,495	1,592,847
Administrative cost	16,740	8,561
Net interest income	(255,843)	(213,593)
	1,354,392	**1,387,815**
Remeasurements recognised in OCI	**(1,301,634)**	**(865,230)**

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Notes to the Financial Statements
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(Continued)

29. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

	2017 $	2016 $
Net assets at beginning of year	(4,063,775)	(3,519,122)
Net expense recognised in net income	1,354,392	1,387,815
Employer contributions	(1,681,763)	(1,067,238)
Remeasurements recognised in OCI	(1,301,634)	(865,230)
	(5,692,780)	**(4,063,775)**

The Bank intends to contribute approximately 18.9% of gross payroll to the plan during 2018 (2017: actual 18.8%).

Principal actuarial assumptions used at the statement of financial position date are as follows:

	2017 $	2016 $
Discount rate	5.20%	5.00%
Expected rate of salary increase at age 18	4.00%	4.00%
Expected rate of salary increase at age 59	4.00%	4.00%
Cost of living adjustment for active employees	1.25%	1.25%

The actual return on plan assets during the year was $2,702,363 (2016: $2,837,372).

Sensitivity and other results

The benefit obligation as at year-end is distributed as follows:

	2017 $	2016 $
Pensioners	13,583,810	13,587,222
Vesting actives	39,530,802	39,657,475
Deferred actives	-	29,159
Unvested actives	1,067,229	-
	54,181,841	53,273,856

The pensioner liability of $13,583,810 (2016: $13,587,222), includes $2,605,283 (2016: $1,303,997) relating to assumed cost of living adjustments.

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Notes to the Financial Statements
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(Continued)

29. Retirement Benefit Plans (Continued)

Sensitivity and other results (continued)

The liability for actives of $39,530,802 (2016: $39,657,475), includes $1,346,535 (2016: $1,334,331) relating to assumed cost of living adjustments and $7,317,097 (2016: $7,728,854) relating to assumed future salary increases.

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2017 for 1% changes in discount rate and salary increases.

	2017		2016	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(7,420,950)	9,366,230	(7,567,124)	9,612,999
Future salary increases	2,331,289	(2,105,627)	2,483,569	(2,235,029)

If all members lived one year longer than projected, the liability at year-end would be $55,304,406 (2016: $54,399,683).

The weighted average duration of the defined benefit obligation at December 31, 2017 is 15.3 years (2016: 15.9 years).

30. Health Insurance Subsidy Benefit for Retirees

The movement in the health insurance subsidy for retirees over the year is as follows:

	2017 $	2016 $
Present value of obligation at start of year	2,951,833	2,850,014
Interest cost	144,297	139,327
Current service cost	95,692	92,106
Benefits paid	(131,801)	(126,952)
Actuarial loss/ (gain) on obligation due to experience	27,035	(2,662)
Actuarial (gain) on obligation due to financial assumption change	(76,506)	-
Actuarial loss on obligation due to demographic assumption change	102,391	-
Present value of obligation at end of year	**3,112,941**	**2,951,833**
Contribution paid – employees' and employers' contributions	131,801	126,952
Benefits paid	(131,801)	(126,952)
	-	-

30. Health Insurance Subsidy Benefit for Retirees (Continued)

The expense recognised in the statement of comprehensive income in respect of the health insurance subsidy benefit for retirees is as follows:

	2017 $	2016 $
Current service cost	95,692	92,106
Net interest cost	144,297	139,327
	239,989	**231,433**
Remeasurements recognised in OCI	**52,920**	**(2,662)**

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

	2017 $	2016 $
Net liability at beginning of year	2,951,833	2,850,014
Net expense recognised in net income	239,989	231,433
Employer contributions	(131,801)	(126,952)
Remeasurements recognised in OCI	52,920	(2,662)
	3,112,941	**2,951,833**

Principal actuarial assumptions used at the statement of financial position date are as follows:

	2017 $	2016 $
Discount rate	5.20%	5.00%
Rate of Medical Subsidy Increases	0.00%	0.00%

Sensitivity and other results

The benefit obligation as at year-end comprises:

	2017 $	2016 $
Pensioners	1,474,690	1,432,784
Actives	1,638,251	1,519,049
Total	**3,112,941**	**2,951,833**

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Notes to the Financial Statements
December 31, 2017
(Continued)

30. Health Insurance Subsidy Benefit for Retirees (Continued)

Sensitivity and other results (continued)

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2017 for 1% changes in discount rate.

	2017		2016	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount rate	(354,508)	436,157	(343,681)	(335,081)

If all members lived one year longer than projected, the liability would be $3,187,982 (2016: $3,023,635).

The weighted average duration of the defined benefit obligation at December 31, 2017 is 12.6 years (2016: 12.9 years).

31. Retirement Benefit Plan for Governors and Deputy Governors

The movements in the non-contributory defined benefit obligation over the year are as follows:

	2017 $	2016 $
Present value of obligation at start of year	4,277,451	4,127,467
Interest cost	202,841	202,155
Current service cost	188,384	75,290
Benefits paid	(441,250)	(168,750)
Actuarial loss on obligation due to experience	48,214	41,289
Actuarial (gain) on obligation due to financial assumption change	(87,631)	-
Present value of obligation at end of year	**4,188,009**	**4,277,451**

31. Retirement Benefit Plan for Governors and Deputy Governors (Continued)

The amount recognised as a liability in the statement of financial position in respect of the Bank's contributory defined retirement benefit plan is as follows:

	2017 $	2016 $
Present value of funded obligations	4,188,009	4,277,451

The expense recognised in the statement of comprehensive income in respect of the Bank's contributory defined retirement benefit plan is as follows:

	2017 $	2016 $
Current service cost	188,384	75,290
Net interest expense	202,841	202,155
	391,225	**277,445**
Remeasurements recognised in OCI	**(39,417)**	**41,289**

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

	2017 $	2016 $
Net liability at beginning of year	4,277,451	4,127,467
Net expense recognised in net income	391,225	277,445
Employer contributions	(441,250)	(168,750)
Remeasurements recognised in OCI	(39,417)	41,289
	4,188,009	**4,277,451**

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Notes to the Financial Statements
December 31, 2017
(Continued)

31. Retirement Benefit Plan for Governors and Deputy Governors (Continued)

Principal actuarial assumptions used at the statement of financial position date are as follows:

	2017 $	2016 $
Discount rate at end of year	5.20%	5.00%
Salary increase (p.a.)	3.50%	3.50%
Cost of living adjustment for pensioners (p.a.)	3.50%	3.50%

Sensitivity and other results

The benefit obligation as at year-end is distributed as follows:

	2017 $	2016 $
Pensioners	3,957,335	3,450,927
Actives - Vested	-	-
Actives - Unvested	230,674	826,524
	4,188,009	4,277,451

The pensioner liability of $3,957,335 (2016: $3,450,927) includes $1,051,927 (2016: $859,385) relating to assumed cost of living adjustments.

The liability for actives of $230,674 (2016: $826,524) includes $58,329 (2016: $194,842 relating to assumed cost of living adjustments and $1,138,848 (2016: $1,072,791) of the benefit obligation is due to salary increases, $98,227 (2016: $213,406) for actives and $1,040,621 (2016: $859,385) for pensioners.

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Notes to the Financial Statements
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(Continued)

31. Retirement Benefit Plan for Governors and Deputy Governors (Continued)

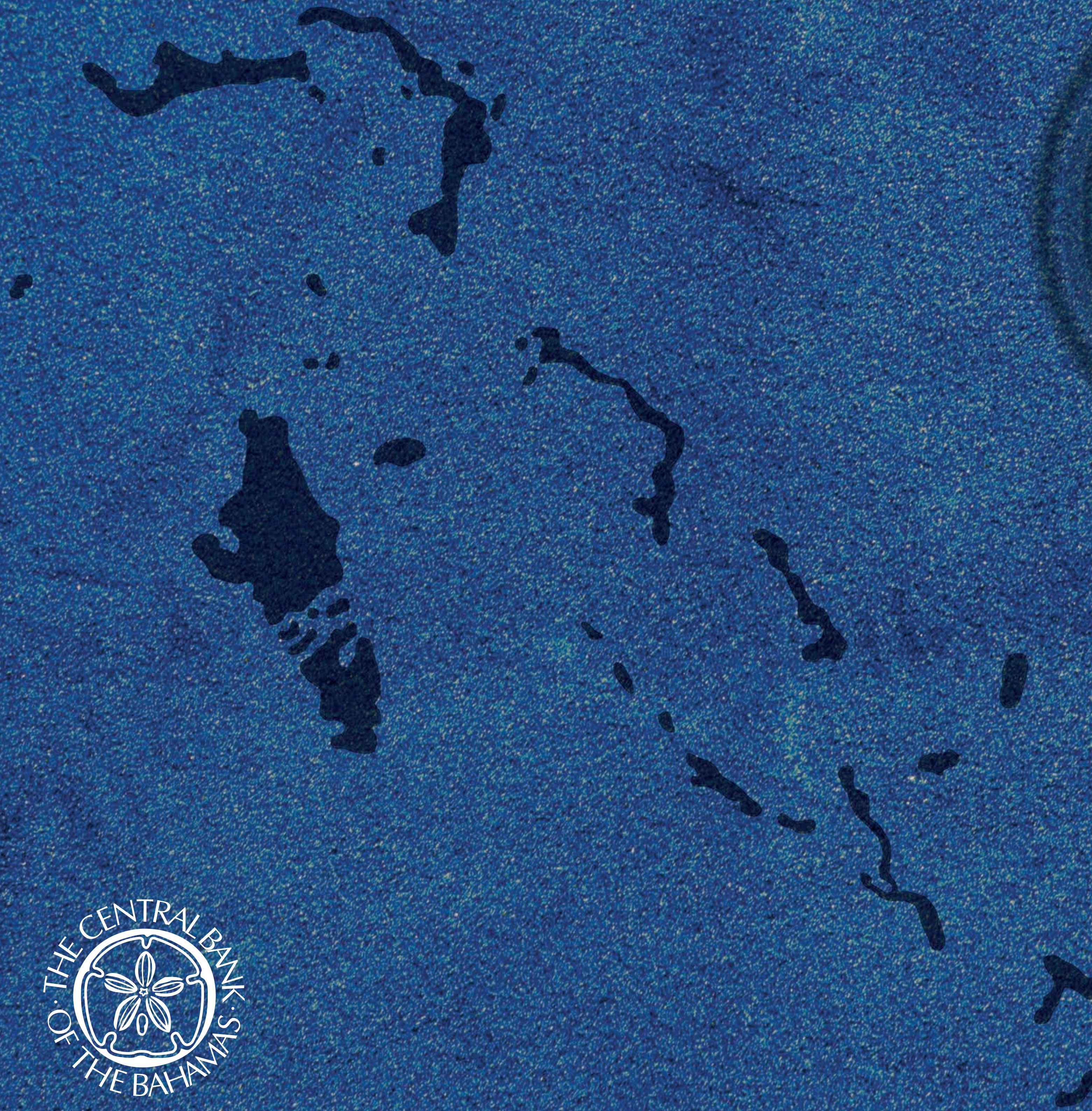
Sensitivity and other results (continued)

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2017 for 1% changes in discount rate and salary increases.

	2017		2016	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	$	$	$	$
Discount	(395,464)	471,268	(379,207)	452,921
Future salary increases	452,922	(387,389)	428,617	(365,772)

If all members lived one year longer than projected, the liability at year-end would be $4,358,283 (2016: $4,475,700).

The weighted average duration of the defined benefit obligation at December 31, 2017 is 10.3 years (2016: 9.7 years).



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