Celebrating
40 Years of Service

2014

ANNUAL REPORT
& Statement of Accounts

for the year ended
December 31, 2014

March 24, 2015

Dear 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 2014. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

Wendy M. Craigg
Governor

The Rt. Hon. Perry G. Christie
Prime Minister and 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 him to the Bank for its advice.

MONETARY POLICY

In its monetary role, a central objective of the Bank is to ensure support for the fixed parity of the Bahamian dollar against the United States currency. To do so, the Bank has to maintain adequate foreign reserves against the stock of its demand liabilities to banks and the public, 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.

FINANCIAL STABILITY

The Bank's supervision regime, through its 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 inspection and market intelligence informs the risk-based assessments that are used to monitor the soundness of licensees, and stress testing is undertaken to gauge resilience to key economic and financial shocks.

PAYMENTS

The Bank's involvement in the payments system is yet another integral component of its overall mandate to promote stability of and confidence in the financial system. In performing 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 technological, product and service development is adequate and satisfies 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.

PUBLIC DEBT & FUND MANAGEMENT

The Bank provides front, middle 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.

CONTENTS

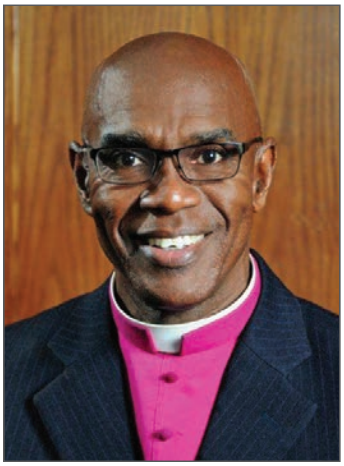
DIRECTORS AND SENIOR OFFICIALS

At December 31, 2014

Mrs. Wendy Craigg - Chairman

Mr. Maxwell Gibson

Mr. L. Edgar Moxey



Archdeacon James Palacious

Ms. Paula Adderley

THE CENTRAL BANK OF THE BAHAMAS

CELEBRATING 40 YEARS OF SERVICE

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.

SENIOR OFFICIALS

Mrs. Wendy M. Craigg
Governor

Mr. Michael F. Lightbourne
Deputy Governor

Mr. Abhilash Bhachech
Inspector

Ms. Rochelle A. Deleveaux
Legal Counsel & Board Secretary

Mr. Gerard L. Horton
Manager, Exchange Control

Mr. Alwyn Jordan
Sr. Economist, Research

Mr. Derek Rolle
Manager, Banking

Ms. Karen Rolle
Manager, Banking Supervision

Mr. Keith T. Jones
Manager, Accounts

Mr. Errol L. Bodie
Manager, Information Technology

Mr. Ian B. Fernander
Manager, Administration

Ms. Cleopatra Rolle
Manager, Internal Audit

Ms. Deborah Ferguson
Manager, Human Resources

VALUES

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

OBJECTIVITY
CONFIDENTIALITY
INTEGRITY
EXCELLENCE
TEAMWORK
EMPOWERMENT
INITIATIVE

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.

FOREWORD

The year 2014 was very special for the Central Bank of The Bahamas, as we commemorated our 40th anniversary on June 1. This important milestone provided an occasion for retrospection on the Bank's role in building confidence, credibility and stability in both the financial and real sectors.

The external backdrop for domestic economic and financial developments for 2014 was one of sustained, although divergent growth outcomes in the major global economies. Preliminary evidence suggests that The Bahamas' real output grew by 1.0% in 2014, although not accompanied by significant employment gains. Benefiting from a strengthening in US economic activity, tourism performance was boosted by a recovery in the high value-added stopover segment, while foreign investment inflows underpinned steady growth in construction output. These real sector gains, together with proceeds from Government's foreign currency borrowings in January, kept external reserves in line with the broad international benchmark position.

Fiscal consolidation efforts secured a reduction in the Government's overall deficit for FY2013/14, and further improvement is envisaged following the 1st January 2015 implementation of the 7.5% Value Added Tax (VAT) regime.

Financial sector conditions were stable, notwithstanding the persistence of elevated loan arrears, which limited the opportunities for a restart in private sector growth for the fifth consecutive year. In this context, bank liquidity remained at excessive levels, while capital buffers, well in excess of prudential requirements, reinforced institutional resilience and the Bank's broader financial stability objective.

On the external account, outcomes continued to be significantly shaped by the transitory import-intensive requirements of various foreign investment projects. In the context of monetary policy determination, the Bank's Monetary Policy Committee (MPC) closely monitored developments in the real and financial sectors, and determined that, given the outcomes, there was no need for any shift in policy stance.

Building on our commitment to promote financial stability and resilience, through balanced, relevant and consistent oversight of the financial sector, the Bank maintained a very active supervisory

and regulatory agenda. In compliance with new international standards of banking regulatory reform, initiatives included the rollout of Phase 1 of the Basel II & III implementation framework, with the release of four (4) consultation papers for industry comments. We continued to strengthen our prudential oversight of banks, through a combination of onsite examinations, offsite surveillance, credit and prudential-related meetings and stress testing. Advanced preparations are also underway to facilitate the Bank's assumption of the supervision and regulation of credit unions in the first half of 2015. As part of the reforms aimed at safeguarding the financial system, the Bank issued the draft Credit Reporting Bill, and accompanying regulations, for public consultation and launched the beginning of a comprehensive public awareness campaign.

Consistent with our responsibility for financial stability, we continued to monitor the financial system throughout the year, reporting findings and concerns in our semi-annual Financial Stability Reports. Operational efficiency remained a key priority of the Bank and, in this context, several projects were undertaken to achieve targeted results. Key among these were the commencement of the Bank's Online Reporting and Information Management System (ORIMS) project, in June, to improve the efficiency of our data collection, analysis and reporting activities, and system upgrades to the payments system infrastructure.

Alongside these operational initiatives, the Bank continued to build organizational capacity through succession planning for critical positions, and ongoing recruitment and development of professionals integral to the Bank's achievement of its mandates.

The Bank's staff worked diligently to achieve the outcomes discussed in this Annual Report, as well as the commemorative activities undertaken to highlight various aspects of the Bank's operations and changes taking place over the last four decades. On behalf of the Board of Directors, I extend sincere appreciation to them for their commitment in ensuring that we effectively attain our goals, and I look forward to their support in the future.

Wendy Craigg

Wendy M. Craigg
Governor

2014 AT A GLANCE

- The domestic economy grew by a modest 1.0% in 2014, after a flat performance in the prior year, in context of steady gains in tourism output and varied-scale foreign investment projects.
- Inflation firmed marginally, due to broad-based price gains; however, domestic energy costs contracted, reflecting the pass-through effects of the sharp reduction in international oil prices.
- Employment conditions remained challenging, with the jobless rate firming by 1.4 percentage points to 15.7% by November 2014, over the previous six-month period, vis-à-vis a 0.8 percentage point reduction to 15.4% in the year-earlier period.
- The fiscal deficit to GDP ratio narrowed to an estimated 4.3% in FY2013/14, from 6.6% in FY2012/13, as new tax measures supported growth in revenue, and expenditure contracted.
- At end-December, the National Debt stood at an estimated 73.4% of GDP, a gain of 7.2 percentage points over 2013.
- Banking sector liquidity persisted at above average levels, reflecting weakness in private sector credit, amid a combination of still elevated consumer indebtedness, mildness in economic growth and accompanying slack in employment conditions, and banks' conservative lending practices.
- As the dominant shareholder, Government's measures to strengthen the balance sheet of one domestic bank in October, enhanced the already robust capital position of the banking sector.
- External reserves benefited from a combination of Government's external bond issue and inflows from real sector activities. At end-December, reserves stood at $787.7 million, approximately 11.6 weeks of total imports.
- The Bank, as part of the wider Basel II & III implementation initiatives, issued four (4) papers for industry review and comments.
- The Credit Reporting Bill and associated draft regulations were issued for public consultation, along with a Request for Solution (RFS), inviting proposals from qualified and experienced agencies to operate the Bahamas Credit Bureau.
- Proposed revisions to the dormant account legislation were drafted and disseminated for public comments.
- The Bank observed its 40th anniversary, with a number of events—including a Rawson Square Exhibit depicting various elements of its history.

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 (4) independent directors. At end-2014, the members of the Board were Messrs. Maxwell Gibson, L. Edgar Moxey and Archdeacon James Palacious, being reappointed to the Board for one (1) year, through end-June, 2015; and Ms. Paula Adderley, who was appointed on 1st September, 2014, replacing Mr. Felix Stubbs, who resigned with effect from 31st May, 2014.

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 actions done in good faith while carrying out their statutory duties. Members also subscribe to a Code of Conduct, which provides guidance on the ethical standards expected of them in the execution of their duties.

The Board, which is statutorily required to hold monthly meetings, met on twelve (12) occasions in 2014; three (3) Directors form a quorum. There is statutory provision for the appointment of two (2) Deputy Governors, who may attend Board meetings but are only eligible to vote in cases where, in the absence of the Governor, he or she chairs the Board Meeting. Currently, only one (1) Deputy Governor has been appointed.

During 2014, the Board's agenda included discussions on domestic and international economic and financial conditions, their implications for the external reserves, the Bank's progress in achieving its strategic goals, and the status of proposed legislative amendments impacting the Bank's operations. Deliberations were facilitated by various management briefs and reports.

Audit Committee

In performing its oversight function, the Board is supported by the Audit Committee, which considered and made recommendations on financial reporting, the effectiveness of internal audit and controls and risk management. Its membership comprised Messrs. L. Edgar Moxey (Chair) and Maxwell Gibson and Ms. Paula Adderley. The Heads of Internal Audit and the Accounts Department normally attend the meetings of the Committee.

In 2014, the Committee convened on twelve (12) occasions and addressed various issues, including internal audit methodologies, plans and operations, risk exposures and other policy matters. An additional three (3) meetings were held with the external auditors.

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 2013, which was subsequently laid before Parliament. Monthly balance sheet information was also provided to the Minister and published in the Gazette.

The Governor maintained the scheduled monthly briefings with the Minister of State for Finance, and provided 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, as well as provide an opportunity for keeping the Government informed of the Bank's performance in meeting its statutory obligations.

BOX 1: STRATEGIC FOCUS FOR 2015

IMPROVE OPERATIONAL FRAMEWORK FOR MONETARY POLICY

- Sustain efforts to improve the predictive capability and sectoral linkages of the economic forecasting model.
- Fully implement the Online Reporting and Information Management System (ORIMS) to improve the efficiency and accuracy of data collected, compiled and analyzed from the Bank's licensees, for supervisory and research purposes.
- Implement the latest Balance of Payments methodology and create International Investment Position (IIP) accounts for the country.

STRENGTHEN REGULATORY AND SUPERVISORY FRAMEWORKS

- Complete implementation of Basel II and key elements of Basel III frameworks, which will facilitate the creation of more robust risk measurement techniques, bring regulatory capital in line with banks' internal risk profiles and give banks greater incentives to enhance their risk management systems.
- Enhance the Risk Based Supervisory Framework (RBSF), to include alignment with the Ladder of Supervisory Intervention guidelines and full integration with onsite examinations.
- Strengthen onsite examination capabilities and extend supervisory coverage, through specialist resources and process improvements.
- Sustain monitoring of credit risks, by conducting regular meetings with commercial banks and undertaking stress testing exercises.
- Sustain the rollout of the payment system oversight and licensing regime, and undertake a review of non-systemically important payment providers, to ensure comprehensive supervision of the sector.

DEVELOP FINANCIAL STABILITY ARRANGEMENTS

- Continue to expand the content of the semi-annual Financial Stability Report, to provide more in-depth analysis of key sectors.
- Conclude legislative requirements to facilitate the introduction of a credit reporting system and complete selection of a credit bureau service provider.
- Strengthen efforts to coordinate with other regulators to develop a national financial crisis management plan.
- Finalize integration of credit unions into the supervisory and regulatory purview of the Central Bank.

ENHANCE OPERATIONAL EFFICIENCY

- Continue review of business processes and update standard operating procedures to reflect new requirements, as part of the Control Self-Assessment (CSA) programme.
- Secure continuity of the Bank's operations, through ongoing succession planning initiatives, and continuous assessments, to ensure that staff have the required skills, capabilities and competencies.
- Improve efficiency of Exchange Control arrangements, and determine further opportunities for liberalization.
- Ensure resilience of business continuity arrangements, inclusive of finalizing all critical redundancy processes.
- Continue to leverage automation in work processes, to achieve greater operational efficiency.

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.

In other activities aimed at promoting accountability and transparency, the Governor and senior officers of the Bank gave official speeches on various topics, including domestic economic conditions and prospects, developments in the regulatory and supervisory space and updates on strategic projects.

Strategic Planning

During 2014, strategic activities undertaken included several of the key elements of the 2009-2013 Plan, given the need to revise implementation timelines, due to exogenous factors. The Bank also reaffirmed the following six (6) strategic goals.

Goal 1: Effective Monetary Policy

Goal 2: Safety and Soundness of the Financial System

Goal 3: Effective Contribution to Economic Policy Making

Goal 4: Secure, Efficient and Modern Payment System

Goal 5: Prudent Foreign Exchange Management

Goal 6: Operational Efficiency

The Bank achieved notable progress on several targets concerned with the safety and soundness of the financial system, monetary policy implementation and the payment system.

Management Committee

Under delegated authority from the Board, the Governor, Deputy Governor and Senior Officers govern the daily operations of the Bank. In weekly meetings, the Executive

BOX 2: MONETARY POLICY 2014

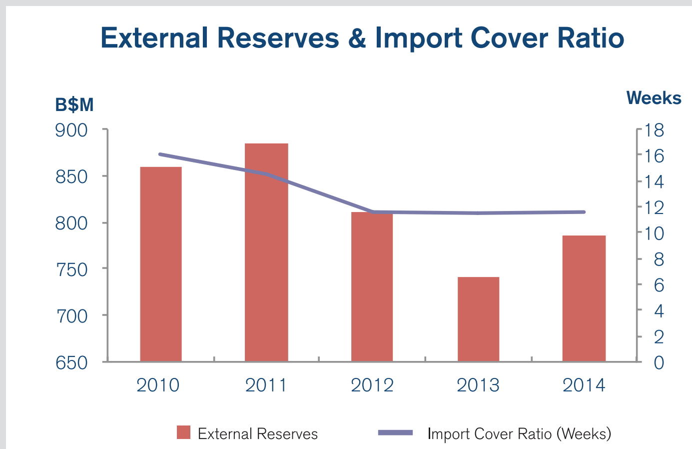
During 2014, the Bank's MPC, which is chaired by the Governor and comprises the heads from several Departments and other technicians, continued to monitor and analyze domestic and international developments. The overriding objective of the Committee was to ensure that the Bank's monetary policy stance was appropriate to support the stability of the financial sector and the adequacy of external reserves for maintaining the fixed exchange rate regime and economic growth. The MPC met on twelve (12) occasions and its deliberations were summarised in press releases, issued five (5) days subsequent to the meetings.

The Committee's discussions were influenced by a combination of several persistent domestic economic and financial trends, namely:

- the mild and uneven pace of economic growth and elevated unemployment rate, notwithstanding a nascent recovery in the high value-added stopover segment of the tourism sector;
- sustained activity in the construction sector, supported by the multi-billion dollar Baha Mar project and smaller contributions from other foreign investments;
- elevated loan arrears and non-performing loans (NPLs) in the banking sector, which dampened private sector credit demand;
- bank liquidity overhang; and
- some downward pressure on external reserves, due to the softness in the key foreign exchange earning sectors, and the seasonal demand for foreign currency to facilitate the hike in consumer imports and bank profit repatriations.

On balance, the Committee assessed the risks to the domestic economy from developments in the international environment as relatively modest, given the emergence of three (3) positive trends. Firstly, after a weather-related dip in economic performance during the first quarter, the economic rebound in the United States, The Bahamas' key source market for tourists strengthened, accompanied by consistently improved gains in non-farm payrolls. Next, the downward slide in oil prices, since June, due to excess supply, augured well for near-term foreign exchange savings. Finally, a number of pipeline foreign direct investments signalled extended opportunities for construction and employment.

Given the Bank's mandate to maintain the country's fixed exchange rate regime, the Committee closely monitored the two (2) external reserve adequacy indicators; namely, the ratio of external reserves to base money and the import reserve cover. In January, Government's net receipts from the US$300 million external bond issuance elevated the base money ratio to 97.1%—the higher end of its 90% - 100% benchmark range. This indicator stayed within range over the ensuing few months, as external reserves were braced by improving net receipts from the tourism sector. However, with the seasonal peak in foreign currency demand during the latter half of the year, the ratio fell to 86.3% in August, although levelling-off at 80.1% by end-December, 2014.



Similar trends were observed for the more widely referenced import reserve cover adequacy indicator, which rose from 14.7 weeks in the first quarter to a peak of 15.2 weeks over the following three months, before falling to 13.4 weeks and 11.6 weeks, respectively, in the final two quarters.

The MPC also continued to track various indicators of financial soundness, noting the persistently high levels of liquidity in the banking system and subdued credit demand, amid the mild economic growth impulses, high unemployment and banks' conservative lending stance. As consumers still experienced difficulties in servicing their debt obligations, loan arrears and non-performing loans (NPLs) rose during the first half of the year; however, Government's intervention in the market, in October, to restore the capital adequacy position of the Bank of The Bahamas (BOB), resulted in a general decline in system delinquencies by end-2014. The MPC also observed that, notwithstanding the credit quality issues in the banking sector, their overall capital position remained at a healthy level, reducing concerns for overall financial stability.

Given the narrowness of the economic recovery and the weakness in foreign currency inflows from real sector activities, the Committee decided to maintain a neutral monetary policy stance throughout 2014.

Committee discussed progress with strategic activities and the work programme for 2014. Ongoing emphasis was placed on addressing recruitment requirements, skills development needs and the appropriateness of the Bank's operating policies and procedures.

Decision making on matters pertaining to the Bank's critical functions continued to be supported by several other key internal committees, such as those focusing on monetary policy determination, investment of external reserves, recruitment and pension administration.

Legislative Issues

During 2014, the Bank made progress on several initiatives, aimed at enacting changes to its key enabling legislation.

In November, 2014, amendments to the Banks and Trust Companies Regulation Act (BTCRA), which seek to empower the Bank to, *inter alia*, impose administrative monetary penalties for infringement of the BTCRA, were tabled in Parliament. In other initiatives underway, with industry input, the Bank progressed legislative proposals that would have the Bahamas Executive Entities (BEE) come under the same regulatory framework as Private Trust Companies. This would effectively require a BEE, which acts as a trustee, to be regulated and supervised by the Central Bank, although allowing them to be exempt from the licensing requirements of the BTCRA, provided certain criteria are met.

Discussions also continued on the proposed changes to the Central Bank of The Bahamas Act (the Act), which will modernize and enhance existing provisions, in keeping with current best practices in central banking legislation; afford the Bank greater operational flexibility in conducting its investment activities, and strengthen existing provisions on the objectives and functions of the Bank.

Risk Management

As a first line of defense, risk management is an integral part of the management function, involving the identification, assessment, control and mitigation of risks in operations. Mechanisms employed include effective budgetary controls, policies and standard operating procedures, limits, internal controls and separation of duties, evaluation of information security and extensive reporting.

During the year the Bank continued to strengthen its risk governance framework, as a means of enhancing resiliency and limiting the impact of a range of financial, business and enterprise risks.

Internal Audit

In support of the framework for managing risk, Internal Audit (IA) facilitated the work of the Bank's Audit Committee by providing an independent and objective evaluation of the adequacy and effectiveness of internal controls and governance processes for critical business areas. The operations of IA are guided by a Board-approved Internal Audit Charter and a risk-driven Audit Plan. To maintain independence, the Head of IA reports, functionally, to the Audit Committee and, administratively, to the Governor.

In its 2014 work programme, IA achieved further progress with the implementation of the Control Self-Assessment programme (CSA), intended to strengthen the Bank's risk management framework. IA also conducted several procedural, statutory and ad hoc audits and reviews, covering financial accounting, account reconciliations, fixed assets, dormant accounts, foreign investments, currency and payments, the Business Continuity Plan (BCP)/the disaster recovery plan, Information Technology (IT) change and project management, as well as on-site and off-site examinations. Recommended process improvements were accepted and implemented by management.

In its consulting role, IA supported business processes in the areas of project management, policy and risk assessments, and various Bank committees, geared towards promoting a robust control and compliance environment.

Information Security

The Bank's information security programme provided focused oversight on the detection, management and mitigation of enterprise risks in respect of its information assets.

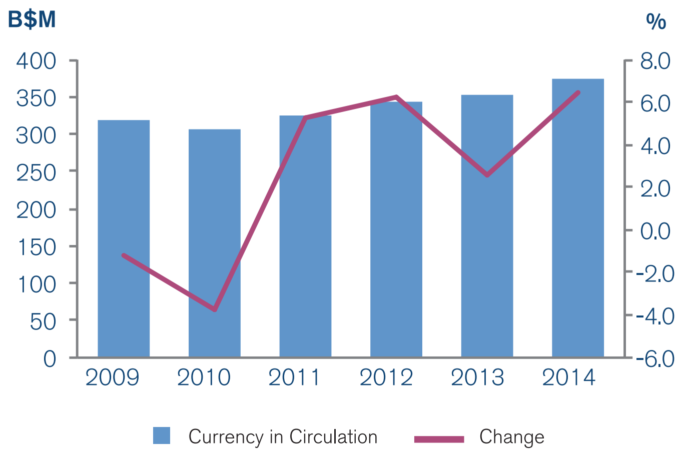
A comprehensive review was undertaken of the Bank's information security policies, with recommendations considered for achieving greater alignment with industry best practices and standards. Progress was also made in the selection of a unified information security management tool, that would provide coordinated security management, simple security event management and reporting, asset discovery, security intelligence and vulnerability assessments.

Reviews and risk assessments were pursued in the areas of user access controls, IT log management and network vulnerability scanning and detection. Bank staff also benefited from year-round information security awareness initiatives, highlighted by the inaugural annual information security month and fair.

Business Continuity

Priority emphasis was maintained on ensuring the adequacy of the Bank's business continuity arrangements, as a key component of enterprise risk management. Initiatives included a desktop simulation exercise, to test systems and emergency response procedures, and outcomes were utilized to enhance the robustness of the Bank's BCP. Training was also provided to members of the various recovery teams, to improve readiness.

Currency in Circulation



BANKING OPERATIONS

Currency

The Bank's currency issuance strategy continued to emphasize security of design, integration of Bahamian imagery, public education to deter counterfeiting, high lifecycle quality and cost efficiency in production.

Consistent with this strategy, the Bank worked to redesign its family of banknotes, and will phase CRISP (Counterfeit Resistant Integrated Security Product) Evolution—its successor to the CRISP family—into circulation, beginning with the $10 denomination in 2016. CRISP *Evolution* will display icons from a broad spectrum of Bahamian culture, and will feature substantially upgraded security features, many of which will serve as first-line authentication tools for the public. Taking advantage of cutting-edge design and production techniques, CRISP Evolution will also promote cleaner and more durable banknotes which, over time, will result in lower replacement costs. The Bank also completed the redesign of the family of active circulation coins, with the first denomination, the 5 cent coin, expected to be issued into circulation in 2015.

Cash remained an important means of undertaking transactions in The Bahamas. In 2014, the value of currency in circulation grew by 6.5% to $375.4 million. Banknotes accounted for 94% ($354.1 million) of the total, with the $100 and $50 banknotes representing 40% and 29%, respectively. The volume of currency in circulation, at just over 681 million pieces, grew by 5.3%, and was dominated by coins, at 68% of the total. The 1 cent coin constituted 76% of the aggregate.

As part of the Bank's strategy to reduce counterfeiting, annual public education sessions, targeting high-volume merchant cash handlers and clearing banks, were held in Nassau and Freeport, throughout the year, in addition to specialized programmes for law-enforcement agencies. These stakeholder partnerships, coupled with a keen commitment to frequently upgrade banknote security, have kept the incidence of counterfeiting in The Bahamas at relatively low levels over the years. Compared with a global average target of 50 counterfeit banknotes per million genuine banknotes—or 50 parts per million (ppm), used as a measure of a successful anti-counterfeiting strategy, The Bahamas has detected fewer than 3.5 ppm over the past five (5) years.

In plans to revitalize numismatic activities, the Bank finalized conceptual designs for a new multi-year limited edition silver proof coin series. The first coin—the Aerial View of the Islands of The Bahamas $10 Silver Proof Coin—will be launched in 2015, with at least one (1) new coin to follow annually, over the ensuing four (4) years. Alongside this initiative, discussions commenced with numismatic stakeholders on the conceptual design and production of a new collectors' gold coin series, with an expected launch in 2016.

Public Debt Administration

The Bank, in its role as Registrar and Transfer Agent for the Bahamas Government Registered Stock (BGRS) debt instruments, facilitates initial public offerings of these government securities, maintains a register of existing securities, and processes scheduled principal and interest payments, as well as transfers and redemptions, prior to maturity. The Bank also assists the Government with its short-term financing needs, through conducting 91 and 182 day Treasury bill auctions, and manages three (3) public sector sinking fund arrangements.

Activity within the short-term domestic Government paper market was flat in 2014, with the value of outstanding Treasury bills unchanged at $579.3 million. The average tender rate (on rollover maturities) decreased by 0.05% to 99.87115% for 91 day maturities, with 75% of the auctions undersubscribed by the market.

The value of BGRS outstanding was slightly lower, by 0.20% at $2,950.5 million, reflecting the net effect of new short-term BGRS issues ($75.0 million) and scheduled maturities ($81.0 million). New short-term issues, with coupons ranging from 3.50% to 3.552%, extended the Treasury coupon schedule, and helped to contain Government's effective cost of borrowing. Government securities maintained a maximum maturity of thirty (30) years, bearing fixed interest rates ranging from 3.50% to 4.35% per annum and variable interest rates between Prime and Prime +1.25%.

Initiatives remain underway to secure greater efficiency and cost effectiveness in the public debt market—inclusive of migrating the existing BGRS series into structures with fewer maturities, increasing the frequency of Treasury bill auctions, the introduction of new short-term maturities, where appropriate, and dematerialization of physical certificates.

In other public debt activities, the Bank also acts as Registrar and Transfer Agent for the Bridge Authority Bonds, the Clifton Heritage Authority Bonds, Education Loan Authority Bonds, Bahamas Development Bank Bonds and Bahamas Mortgage Corporation Bonds. During 2014, $5.0 million in Bridge Authority Bonds and $1.5 million in Bahamas Mortgage Corporation Bonds matured, reducing the value outstanding to $23.0 million and $165.6 million, respectively. Outstanding amounts for the Clifton Heritage Authority Bonds, Education Loan Authority Bonds and Bahamas Development Bank Bonds were unchanged, at $24.0 million, $67.0 million and $50.0 million, respectively.

Banking Services

In accordance with section 19 of the Act, domestic banks are required to maintain "statutory reserves" against their Bahamian Dollar deposit liabilities. Since implementation in 1974, the reserve ratio has remained at 5.0%, with a minimum of 80% to be held in deposit balances with the Bank. Throughout 2014, banks held balances in excess of the required amount, which are also used to facilitate settlement requirements. Alongside these operations, the Bank continued to offer foreign exchange services to the Government and several public bodies, to facilitate various external payments.

FOREIGN RESERVES MANAGEMENT

The Bank manages the country's portfolio of foreign reserve assets, which is comprised of foreign government securities, deposits in foreign banks, Special Drawing Rights and the reserve position (Reserve Tranche) in the International Monetary Fund (IMF). Apart from the Government's foreign currency borrowing in January 2014, inflows from tourism and foreign investments continued to be the major source of growth for the external reserves.

The Bank's Investment Committee (IC) monitored the performance of the portfolio, in accordance with mandates prescribed by the Central Bank Act and a Board-approved Investment Policy & Guidelines. The IC met weekly to deliberate on investment and liquidity strategies, review counterparty risk, discuss market trends and their potential impact on foreign reserves, and to support the Government's domestic debt programme. To preserve the capital base, the Bank only invests in high quality, investment grade instruments. The need to maintain sufficient buoyancy in the liquidity tranche to settle foreign exchange claims—routine and unexpected—is also a key target of the Bank's external reserve management strategy.

2014 was another challenging year for yields and returns on the Bank's foreign portfolio, which earned an average rate of return of 2.42% compared with 2.62% in 2013. Amid the continuation of the US quantitative easing policy, the yield on US held securities, which comprised some 70% of the portfolio, was relatively stable at 2.28%, while the average deposit rate remained at historical lows, although almost doubled to 0.22%.

At end-2014, external reserves stood at $787.7 million, some $46.1 million above the 2013 level, as significant net inflows from tourism in the closing month of the year, offset the typical robust foreign demand. This negated the need for recourse to contingency arrangements, in contrast to the prior year's debt financed support.

EXCHANGE CONTROL ARRANGEMENTS

During 2014, the Bank continued its administration of exchange controls, as part of its historical mandate of monitoring the public's demand for foreign exchange, while servicing their approval needs and ensuring prudent management of the external reserves.

Initiatives to further enhance the administration of the foreign currency accounts of residents continued, with the commencement of online reporting of foreign currency client and company accounts bank statements by attorneys and other resident account holders. The Bank, through the Exchange Control Regulations, also assisted commercial banks in ensuring customer compliance with requirements of the Stamp (Amendment) Act, 2013, relating to payment of stamp duty on the transfer abroad of dividends/profits and services to related parties.

Three (3) Bahamas International Stock Exchange (BISX) Broker Dealers participated in the Bank's non-sponsored Bahamian Depository Receipt (BDR) programme. Of the $25 million allocated for the scheme during 2014, some $21.8 million was drawn, compared with $13.2 million in 2013. The National Insurance Board utilized only one-quarter of its $25.0 million annual allocation, compared to $18.8 million in 2013, to increase its external investment portfolio.

Residents continued to make outward capital investments through the Investment Currency Market (ICM), at unchanged premium bid and offer rates, of 12.5% and 10.0%, respectively. Sales activity for 2014 amounted to $14.5 million, up from $10.7 million in the prior year; and purchases were a nominal $0.685 million.

To assist with the January 2015 implementation of the Value Added Tax (VAT), the Bank amended its process for operating external

Bahamian Dollar accounts, to allow the crediting of VAT refunds to these accounts held by non-resident registrants (e.g., offshore banks and trust companies, embassies, international organizations, etc.). In this regard, Authorized Dealers (commercial banks) will be permitted to credit refunds from the VAT Department to such accounts, without prior reference to the Central Bank, as is now required for all credit to such accounts from local currency sources.

Authorized Dealers and Authorized Agents remained important intermediaries in the administration of exchange controls. At end-2014, the number of Authorized Dealers was unchanged at eight (8), while the number of Agents fell by one (1) to ten (10).

PAYMENTS & SETTLEMENT SYSTEMS

Oversight & Market Developments

The Bank maintained oversight of payments and settlement systems, in keeping with the objectives of efficiency, reliability and security in the country's infrastructure. To this end, the Bank's Payment Unit held regular meetings with members of the Bahamas Automated Clearing House (BACH), the owners of the Automated Clearing House (ACH), which processes small value transactions (<$150,000). These meetings considered collateral and settlement issues of the commercial banks, internal audits and any other significant developments that emerged. 2014 also marked the first full year of the Unit's formal oversight of the Bank-owned Bahamas Inter-Bank Settlement System (BISS), which provides real time settlement for large value payments (>$150,000). Quarterly meetings were held with representatives from the Banking Department and discussions focused on data reporting and operational arrangements of the BISS.

The Bank also provided logistical and administrative support for the second meeting of the National Payments Committee (NPC), which acts as the advisory body to the Bank on domestic payment systems, and comprises representatives from both the public and private sectors, inclusive of the commercial banks, Government, utility companies and credit unions. The meeting, which was held on 22nd September, 2014, covered a number of topics—including an update on a proposal by VISA International for a national ATM switch, the recent changes to the Interchange Fees charged to execute card-based transactions and the implementation of Pre-arranged Payment and Deposit Entries (PPDs), which would seamlessly facilitate payroll and utility payments for commercial banks' customers.

The Bank continued to support initiatives geared towards expanding the use of electronic payment services. Meetings were held with representatives from the two (2) main credit card firms, on opportunities to broaden the domestic footprint of card usage for everyday purchases, and the Bank reviewed a number of private sector proposals for the provision of e-money services.

Real Time Gross Settlement (RTGS)

In 2014, the Bank upgraded its RTGS platform, aimed at enhancing payment and settlement services to the domestic banking community. The launch of the new BISS-RTGS introduced options for multi-currency processing, intra-day reporting, automated start-of-day and end-of-day processes, and VAT compatibility. Other system enhancements, slated for introduction in 2015, include the launch of a new Global Collateral service, which will allow BISS-RTGS participants to collateralize all BACH settlement sessions at one point during the day, rather than the present arrangement of setting individual collateral for each session.

The seven (7) participating clearing banks processed X9 (cheques) and NACHA (direct debits) payments, over the BISS, in seven (7) daily settlement windows, starting at 8:15 a.m. and ending at 4:45 p.m. During 2014, the volume of RTGS transactions firmed by 16.5% to 65.3 million, while the associated value expanded by 38.2% to $18.0 billion.

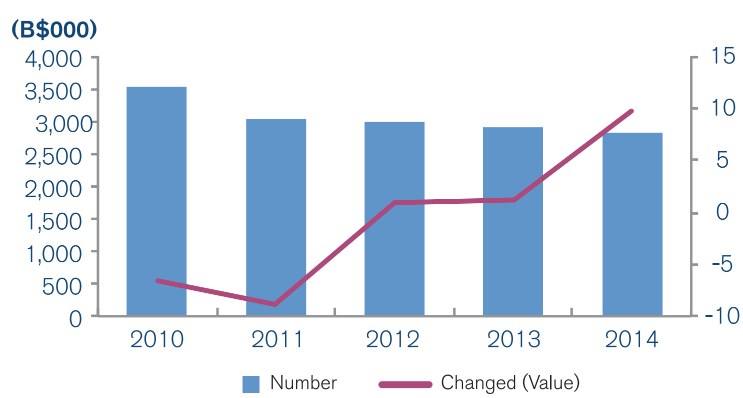
Retail Payment Services

The increasing use of technology has been a key driver behind the development of the payments landscape in The Bahamas over the past decade. This trend continued in 2014, with an expansion in the volume of electronic payments (e-payments) and mobile payments (m-payments).

Cheques

Although the use of cheques has declined over the past four (4) years,

Cheques Cleared



they remain the most dominant method of non-cash payment, and are primarily used to facilitate large value transactions. In 2014, the volume of cheques processed by BACH increased by 7.6% to 3,110,252, and the corresponding value was higher by 21.3% at $7.7 billion.

Automated Teller Machines (ATMs)

ATMs are installed throughout The Bahamas and, apart from bank premises, are generally located in heavy transit areas, such as supermarkets and gas stations. Several of the machines—particularly those placed in high tourist traffic areas—are configured to dispense both local and US currency.

At end-2014, the number of ATMs in operation stood at 334, an increase of 7.7%. Although the volume of transactions was higher by 5.7% at 12.9 million, the corresponding value fell by 14.1% to $6.7 billion.

Debit Cards

Debit cards are issued locally by the commercial banks and carry international card logos, such as Visa and MasterCard, which allow them to be utilized for both domestic and international transactions. Due to their convenience as a means of payment for various types of transactions, four (4) of the seven (7) clearing banks currently offer internationally branded debit cards. The removal of the stamp tax on these types of transactions, in 2013, supported an increase in volume of debit card transactions, by 3.2% to 7.2 million, although the associated value declined by 8.5% to $6.3 billion.

Credit Cards

Credit cards issued by the local commercial banks are generally affiliated with international payment providers—although there is one locally branded card still in circulation. The majority of the personal credit cards have limits, which range from $500 to $25,000; however, for select high net worth individuals, specific limits are negotiable.

At end-2014, the number of credit cards issued stood at 298,425, for an annual gain of 17.9%. Growth was concentrated in those with limits under $5,000, which were up strongly in number, by 38.7% to 135,032, but only by 2.2% in value to $119.2 million. Cards with limits between $5,000 and $10,000 decreased by 6.1% to number 17,119, but the corresponding value was higher by 8.3% at $73.5 million. For cards with caps in excess of $10,000—which are generally issued to high-end clients, both the number and value declined, by 21.9% and 7.4%, to 7,088 valued at $52.5 million.

NACHA Payments

Payments processed by BACH, in accordance with the National Automated Clearing House Association (NACHA), which sets the globally accepted standards governing the operations of the ACH network, continued to expand. Following a gain of 11.4% in 2013, the volume of these transactions accelerated in 2014, by 12.7% to 1.9 million, and the associated value, by 17.9% to $1,334.0 million.

Internet Banking

Internet banking services afford customers the ability to, *inter alia*, check their account balances, make transfers between personal and third party bank accounts, pay their utility bills and purchase foreign currency. While some of the commercial banks offer this service to customers free of charge, others impose a fee—ranging from a low of $0.50 to a high of $2.00, depending on the type of transaction. The Bank's payments survey showed that the number of residential and business users stood at 24,667 and 35,124, respectively, at end-December, with a considerably lower number for "miscellaneous" private (493) and public sector (50) users.

Mobile Payments

Mobile payments made via smart phones are still in their fledgling stages in The Bahamas. However, the integration of mobile payment applications and new smart phone technology, using near field communication (NFC), could provide considerable impetus for non-cash transactions going forward.

On the local front, international credit card and mobile payment companies have begun collaborating with banks and other enterprises to offer mobile payment options, including "Apple Pay" and the "Square" point-of-sale payment options.

ECONOMIC ANALYSIS RESEARCH & STATISTICS

The Bank, through its research and statistical activities, continued to play an important role in the formulation of economic policy and the provision of timely information on domestic economic and financial trends to the public. A wide range of monetary, financial and real sector statistics, and economic commentary were published in the Bank's various quarterly and annual publications, and monthly releases. To ensure widespread circulation of its reports, all documents were placed on the Bank's website.

The Bank continued to monitor a comprehensive set of indicators to assess vulnerability and stress in the financial system. In 2014, two (2) issues of the Bank's Financial Stability Report (FSR) were published, providing assessments of the underlying risks to the financial sector during 2013, and the first six (6) months of 2014, respectively. In addition, findings from the Bank's 2013 economic survey entitled, "The Gross Economic Contribution of the Financial Sector to the Economy", were reported in the Quarterly Economic Review (QER) for the first quarter of 2014.

Four (4) studies were added to the Bank's working paper series, which were presented at internal Roundtable forums and covered diverse topics, such as the significance of maintaining adequate external reserves for fixed exchange rate countries, the planned national credit reporting system and an assessment of the financial soundness of credit unions in The Bahamas. The Bank's Research staff also presented the paper, "Measuring the Level of Financial Stability in The Bahamas", at the annual Caribbean Centre for Money and Finance's (CCMF) Conference, held in Trinidad and Tobago during the month of November. In other presentations to various segments of the public, topics covered included the role of the Bank and the implications of the VAT for the economy.

Initiatives to enhance the quality of data analysis included capacity building consultancies to assist with the planned conversion, in 2015, of the Balance of Payments (BOP) framework to the sixth edition of the BOP Manual (BPM6) format, to lay the groundwork for constructing comprehensive International Investment Position (IIP) accounts for the country. Bank staff also benefited from technical assistance provided by the Commonwealth Secretariat in the area of debt and cash management arrangements. This assistance covered a review of the existing legislation and procedures utilized to issue Government securities, and provided recommendations aimed at modernizing the debt market.

The Bank continued to fulfil its international statistical reporting obligations to agencies such as the IMF, the Bank for International Settlements (BIS), the Caribbean Centre for Money and Finance (CCMF), the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IADB).

PRUDENTIAL SUPERVISION AND REGULATION

The Bank's prudential supervision and regulation strategy continued to focus on the key objective of maintaining an effective monitoring and supervisory regime, commensurate with industry risks and aligned with best practices, international standards and regulatory reforms underway.

Supervisory initiatives were pursued against the backdrop of global reforms in the areas of capital adequacy, liquidity, crisis preparedness and bank resolution—aimed at securing financial stability and enhancing standards for regulation, transparency and international cooperation. In the aftermath of the recent global financial crisis, these agreed positions are being rolled out through regional representative groups of the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) or directly by national bank regulators. The Bank's supervisory conduct is timely and measured, in response to the risk drivers underlying the systemically important domestic commercial banking segment, as well as the emerging risks and strategic shifts in the offshore private banking and trust sectors.

Apart from the enhanced Basel III capital requirements, licensees continue to balance the requirements posed by the implementation of the US Foreign Account Tax and Compliance Act (FATCA) and the increased demands for information transparency on tax matters.

Basel II & III Implementation Programme

The Bank successfully rolled-out several key deliverables in Phase 1 of the Basel II and III Implementation Programme's roadmap, including the release of four (4) consultation papers covering national discretion, the calculation of the capital charge for operational risk, the definition of capital and the minimum disclosure requirements under Pillar 3. As part of the initiative, the Bank partnered with CARTAC and successfully hosted an industry session on the Internal Capital Adequacy Assessment Process (ICAAP), on the 25th September, 2014. The objective was to sensitize licensees to the key components of the ICAAP, the role and responsibility of senior management and the board, and the Bank's supervisory expectations for reporting.

Basel Readiness Survey

In April, 2014, the Bank conducted a survey to assess the readiness of licensees for the implementation of Basel II and III approaches, and inform the development of the overall Basel framework for The Bahamas. Of the 87 public banks and bank & trust companies invited to participate, responses were received from 67 licensees, representing an overall response rate of 84%. The survey results indicated that:

- 66% of the respondents (or 44 banks) had already taken steps to implement Basel II; however, most had not yet developed a roadmap;
- for the majority of respondents (71%), their parent bank/head office chose to implement the Standardized Approach—which aligns with the approach determined by the Bank to be more appropriate for its licensees;
- the Basic Indicator Approach for operational risk is expected to be the most widely used by respondents (60%), followed by the Standardized Approach (28%);
- about 59 banks (representing 88%) do not expect to see a material change in their capital levels as a result of Basel II and III implementation—reinforcing the Bank's assessment of licensees being adequately capitalized; and
- banks have Tier 1 and Tier 2 capital structures that are largely consistent with Basel III standards. Some 55 banks reported that they had no capital instruments that would be restricted under the Basel III framework.

Overall, while licensees appear to be supportive of the new Basel II and III frameworks, they have identified related IT costs, enhanced reporting requirements and training for staff, as areas presenting key implementation challenges.

Risk Based Supervisory Framework

The Bank's Risk Based Supervision Framework (RBSF) is well entrenched in defining off-site and on-site supervision work programmes, based on the premise that more value can be achieved by focusing supervisory resources on the risks that pose a greater threat to financial stability.

During 2014, the Bank scheduled twenty-four (24) full and fourteen (14) simplified risk assessments—with 20 (53%) being completed by end-2014 and 13 (34%) in the final stages of completion. The Bank also upgraded the system tool employed to facilitate end-to-end management of risk assessments and support peer group analysis and management information reporting.

International Firms

Banks and trust companies operating in the overseas market totalled 240 or 94% of all licensees, of which 140 or 55% originate from G-10 countries. Collectively, these entities had an asset base of $192.8 billion—a decline of 22.1% year-on-year.

The Bank continued its efforts to monitor and ensure the safety and soundness of international firms, through its main supervisory tools i.e., risk assessments, on-site examinations and annual prudential meetings with the firms' senior management. Supervisors also maintained contact with home regulators, to be kept abreast of any systemic issues that could impact licensees' local operations.

Offshore wealth management business remained under intense and increasing pressure, particularly from tax authorities in the U.S. and Western Europe. The challenge of placing funds profitably in the low-interest rate environment and volatile capital markets also conspired to constrain revenue performance—compelling firms to rethink and adapt their business models. In the face of these externalities, there were a few closures, where licensees no longer fit their groups' strategic profiles. However, others sought to restructure and rebrand their operations—resulting in growth in business conducted from the jurisdiction.

Commercial Banks

Given the systemic importance of the commercial banks to the domestic market, the Bank maintained an intensive monitoring regime of licensees' adherence to prudential norms on capital, liquidity and credit. One of the key tools utilized for supervisory oversight was ongoing and in-depth analyses of prudential returns and regulatory filings on a weekly, monthly and quarterly basis. These activities were complemented by semi-annual meetings with Senior Management to review and discuss credit quality, liquidity and operational risks, in addition to in-camera sessions with the banks' internal auditors. Where necessary, meetings were also held with the licensees' Board of Directors to review Board engagement and to convey the Bank's expectations relating to corporate governance and supervisory intervention measures.

Credit Risk Reviews

During 2014, in light of the mild economic recovery, the domestic commercial banks remained cautiously optimistic, although loan delinquencies persisted at elevated levels and credit demand was weak. Banks' earnings were negatively impacted by the sustained and high levels of arrears and non-performing loans (NPLs), which were concentrated in the residential mortgage and commercial credit portfolios, and necessitated increased loan loss provisioning. Licensees sought to offset this development through a number of measures, including increased service fees, more competitive pricing of loans, innovative marketing campaigns, consolidation of operations, branch closures and increased outsourcing or centralization of services to regional centres of excellence.

In the case of BOB, the Government of The Bahamas, as the majority shareholder, provided support to this institution through the establishment of Bahamas Resolve Ltd, a wholly-owned company of the Ministry of Finance, to relieve BOB of B$100.0 million in non-performing commercial loans. This transaction restored the bank's capital adequacy position to the required level and also improved the credit quality of loan assets on its balance sheet.

The year 2014 also saw a shift in business strategies or target markets for some banks, from small business, commercial and residential mortgage lending to more profitable retail consumer lending via salary deductions or consumer lending linked to savings incentives.

Stress Testing

Stress testing remained a key tool employed in the Bank's oversight of the domestic commercial banking sector. These exercises provided meaningful input to inform supervisory decisions, through real and forecast economic analytics and plausible and extreme shock scenarios to various risk factors, such as credit quality, domestic interest rates and liquidity. In 2014, while the focus was mainly on consolidated stress testing exercises, individual bank stress tests were also updated, as needed. Annual stress testing of interest rate sensitivity and liquidity remained in place, although risks were contained, given the stability in interest rates and the continuation of above average system-wide liquidity levels.

In line with the deterioration in credit quality indicators, the Bank modified the stress testing model to reflect more realistic shock rates, of 100%, 150% and 200% to the non-performing loans (NPLs). Notwithstanding, the ongoing analyses of NPLs, provisioning levels and earnings indicate that the commercial banks, as a group, remained resilient. As at December, 2014, banks' total eligible capital ratio, of 32.7%, was well-above the established regulatory minimum requirement of 17% and 14% target and trigger ratios, respectively. During the year, licensees commenced the process of redeeming preference shares which no longer qualify as regulatory capital under the Basel III capital regime, which became effective 1st January, 2013. A total of $38.4 million was redeemed and $35.0 million re-issued, based on the qualifying criteria.

On-site Examination Programme

For the 2014 onsite examination cycle, the Bank conducted thirty-three (33) examinations compared to thirty (30) in the prior year. On the domestic side, two (2) full scope examinations of commercial banks focused primarily on reputation, information technology, operational and credit risks (see Table 1). Staff of the Bank Supervision Department were also appointed by the Director of Cooperatives to conduct the examinations of the seven (7) financial credit unions. These full scope reviews covered all aspects of the credit unions' business activities, as well as the senior management, corporate governance, IT, internal controls and compliance programmes. Findings and recommendations were provided to the Director, for onward transmission to the respective credit unions. The Bank's involvement in this exercise provided examiners with an opportunity to obtain a comprehensive understanding of the operations of the credit unions, prior to the anticipated approval of the legislation, that would effect their transfer to the supervisory remit of the Bank.

TABLE 1: ONSITE EXAMINATIONS CONDUCTED

	2012	2013	2014
Examinations			
Domestic Licensees	7	5	2
Other Licensees	17	9	21
Follow-up /Special focus examinations/ Regulator Initiated	5	6*	2*
Discovery Reviews	0	7	1*
Financial Credit Unions		3	7
Total	**29**	**30**	**33**
Reports			
Finalized Reports	36	26	27
Reports in Progress	6	2	6
Total	**42**	**28**	**33**

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

The special focused examinations of twenty (21) international (offshore) licensees included a cross-sector review of nine (9) entities to assess their level of compliance with the Minimum Physical Presence Guidelines, in particular, the effectiveness of their corporate governance and risk management regimes. The review also entailed an assessment of the control environment frameworks for significant outsourced functions, record keeping arrangements and premises and facilities, generally. Overall, the findings did not identify any material gaps or significant breaches of the Guidelines, but did highlight a range of partially compliant practices in the licensees' management of their operations—in the areas of governance (the level of engagement by the independent non-executive director in directing the affairs of the businesses) and record keeping arrangements (the AML/KYC due diligence documentation not consistently meeting all aspects of the legislative requirements e.g., source of wealth documentation for high risk clients).

Examinations were also undertaken of ten (10) international firms of European origin, focusing on reputation, concentration (including related party) and liquidity risk management. One (1) of these was conducted jointly with the Securities Commission of The Bahamas, utilizing the *Protocol for the Joint On-site Examinations by the Bank and the Securities Commission of The Bahamas,* formalized in January, 2012. Thematic deficiencies identified included the lack of independence in the compliance function; insufficient scrutiny into sources of wealth for high risk clients, and high concentration of deposits held by related parties and the level of third party deposits to capital. Supervisors also had the opportunity to participate in two (2) visits to international firms, in response to requests from an overseas supervisory authority, and to conduct one (1) Discovery Review.

Supervisory Policy and Guidance

The Bank maintained a consultative and transparent approach to policy development, supported by robust analysis and benchmarking. During 2014, the Bank revised two (2) guidelines and issued four (4) consultative papers; namely, Areas of National Discretion, the Calculation of the Capital Charge for Operational Risk, the Definition of Capital and the Minimum Disclosure Requirements Guidelines, in its continuing effort to ensure that the framework for the supervision and prudential regulation of licensees remains relevant, current and effective.

- ***The Guidelines for the Minimum Physical Presence Requirements for Banks and Trust Companies Licensed in The Bahamas*** (15th April, 2014) were amended to clarify the Bank's requirements regarding back-up storage facilities.

- ***The Guidelines on the Relationship between External Auditors of Licensees and the Bank*** (15th April, 2014) were amended to remove the requirement for external auditors to meet with the Bank during the planning stages of an audit of a licensee. The associated Guidance Notice was also revised along the same lines.

Supervisory Cooperation

The Bank acknowledges that effective oversight of the financial system, in an environment of domestic, regional and international linkages, requires strong cooperative arrangements with other supervisory authorities. The Bank, therefore, has a framework for cooperation with domestic and foreign supervisors, based on legislative or specific agreements and arrangements, which also provides for protection of confidential information shared by supervisory authorities.

On the local level, senior supervisory staff participated in the work of the Group of Financial Service Regulators (GFSR), which comprises the six (6) domestic regulators for the banks and trust companies, the securities industry, insurance companies, credit unions and financial and corporate service providers. The GFSR made a number of recommendations to the Government in the area of achieving enhanced compliance with international standards in the area of cross-border transportation of currency and the oversight of non-profit organizations.

Supervisory colleges continued to be a key mechanism for exchanging information and co-coordinating activities involving cross border financial groups. During 2014, senior supervisory staff participated in two (2) separate regulatory colleges, for two (2) systemically important domestic banks, which entailed, *inter alia*, a discussion of key risks and developments facing these institutions, the impact of various national and global regulatory reform initiatives on the business operations of their groups and other operational strategic goals and events. Supervisory engagement with home (or consolidated) regulators capitalized on the exchange of annual regulatory letters, as a proactive mechanism to ascertain the risk areas identified within the group and any impact on their operations within The Bahamas.

Memoranda of Understanding (MoUs) are also used to enhance cooperation and the exchange of information in the supervision of cross-border institutions, with provisions to ensure that confidentiality of information is maintained. The Bank has a total of eight (8) MoUs, with seven (7) countries and one (1) regional group, facilitating the exchange of information for specific regulatory issues or financial, operational and environmental risk factors. In 2014, the Bank received and responded to thirteen (13) information requests from ten (10) foreign regulatory authorities (see Table 2).

TABLE 2: 2014 REQUESTS FOR COOPERATION

Country	Requests from Foreign Regulators
Canada	1
Colombia	1
Guyana	2
Hong Kong	2
Jamaica	2
Maldives	1
Malta	1
Peru	1
Qatar	1
Turks & Caicos	1
Total Requests	**13**

Source: Central Bank of The Bahamas

Membership in International and Regional Bodies

The Bank, represented by senior banking supervisory staff and the Legal Unit, continued to participate in discussions relating to regional and cross-border bank supervision in the following groups:

- Association of Banks of the Americas (ASBA)
- Group of International Financial Centres Supervisors (GIFCS)
- Caribbean Group of Banking Supervisors (CGBS)
- Caribbean Financial Action Task Force (CFATF)

A number of staff also served on various technical working groups and committees within these bodies.

FINANCIAL SECTOR INITIATIVES

Credit Union Transition Project

The Bahamas Cooperative Credit Unions Bill, 2014, the Central Bank of The Bahamas (Amendment) Bill, 2014 and the Cooperatives Societies (Amendment) Bill, 2014, were introduced in Parliament, on the 19th November, 2014, following extensive consultation with the credit union sector and other stakeholders. When enacted, in early 2015, these Bills will provide the legal and regulatory framework required for the Bank to assume the role of supervisor of credit unions. The provisions seek to achieve a balance between the need for more rigorous oversight of the sector, aligned with international standards and best practices relevant to governance and KYC requirements, and the desire to support the continued growth of the sector—through a lighter touch regime for credit unions having less than $1.0 million in assets.

In preparatory initiatives for these new responsibilities, the Bank drafted several guidelines covering corporate governance, credit, liquidity, operational and interest rate risks, which are to be released for public consultation, once the new legislation is in place. The Bank also continued to obtain a comprehensive view of the operations of the sector, through provision of

BOX 3: REGULATED ENTITIES

During 2014, the number of bank and trust company licensees decreased by thirteen (13) to 254 (see Table 3). Five (5) licences were issued [one (1) unrestricted bank, one (1) unrestricted trust and three (3) restricted nominee trusts], and eighteen (18) entities ceased to carry on business [six (6) public, one (1) restricted bank, eight (8) restricted trust and three (3) non-active].

Of the 254 licensed entities, 236 maintained a full physical presence, while the remaining eighteen (18) operated via approved management agreements. Approximately fifty-five percent (55%) of licensees originate from G-10 countries.

TABLE 3: REGULATED ENTITIES

	2012	2013	2014
Bank and Trusts	268	267	254
Banks & Trusts	70	66	64
Banks	38	36	33
Trusts	160	165	157
Non-Licensee RR	5	5	5
PTC (Registered)	73	98	105
Non-Bank MTB	2	2	2
Non-Bank MTA	7	8	11
Memo Items:			
Assets of Domestic Banks (B$M)	9,602.11	9,773.27	9,637.15
% change	1.2%	1.8%	-1.4%
Assets of Offshore Banks (B$M)	292,608	232,878	242,951
% change	(43.1%)	(20.4%)	4.3%

Source: Central Bank of The Bahamas

The Bank approved the registration of nine (9) Private Trust Companies (PTCs), while removing two (2) from its register, bringing the total to one hundred and five (105) at end-December, 2014. The number of Financial and Corporate Service Providers (FCSP) that act as Registered Representatives (RR) remained at five (5), and one (1) additional licensee advised the Bank of its intention to act as a RR of PTCs, increasing the number to sixteen (16).

Licensed non-bank money transmission businesses (MTBs) were unchanged at two (2), while related agents increased by three (3) to eleven (11).

Applications processed and approved by the Bank totalled 536—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 one hundred and forty-seven (147) directors, one hundred and fifty-nine (159) Money Laundering and Reporting Officers (MLROs) and executive officers, and seventy-one (71) senior officials/officers. In other administrative activity, some thirty-five (35) outsourcing applications were approved, as licensees took further decisions to streamline operational overheads and benefit from economies of scale.

From a strategic perspective, licensees continued to realign their business models in response to global policy and regulatory initiatives in their home jurisdictions by:

- consolidating and rationalizing offshore operations in The Bahamas—including the simplification of group structures and business models through divestment of subsidiaries where inherent risks and costs outweigh the desired returns to shareholders.
- seeking greater operational efficiencies, through the deployment of technology, staff rationalization and increased outsourcing; and selective paring of business lines, given the calls for higher capital infusion and price sensitivity of the newer client segments.
- seeking growth in business originating substantially from external asset managers, in the face of increased regulatory focus on corporate governance, reputation risk management and client verification processes; and
- exploring newer business lines (for example, in capital markets)—leveraging technical competencies and infrastructure readily available in The Bahamas.

For 2014, one hundred and seventy (170) meetings were held with licensees to discuss prudential issues, on-site examinations, and to facilitate courtesy visits.

on-site examination support to the Department of Cooperatives.

The Bahamas Credit Bureau Project

In a significant project milestone, the Bank issued, on 23rd September, 2014, the draft Credit Reporting Bill, 2014 (the Bill) and the draft Credit Reporting Regulations, 2014, for a ninety (90) day public consultation period—ending on the 17th December, 2014.

As part of the public awareness strategy, the Bank published information in the newspaper on the credit bureau, made presentations to several public stakeholders and is in the process of concluding radio and television advertisements and other user friendly pamphlets.

In advancing the associated initiative to identify a potential service provider, the Bank issued a Request For Solution (RFS), on the 28th November, 2014, inviting qualified credit bureau operators, with international experience in operating credit bureaus, to submit proposals to apply for a license to establish and operate a credit bureau in The Bahamas. Within the designated period established for submission of questions on the RFS, the Bank received and responded to queries from several potential credit bureau operators. Final responses to the RFS are due by the 23rd February, 2015. The Bank anticipates concluding the legislative requirements for the introduction of a credit reporting system, by the third quarter of 2015, and the identification/licensing of a preferred service provider between 2015 and 2016.

Crisis Management

With technical assistance from the IMF, the Bank continues to progress work to implement a recommended roadmap for establishing a legal and regulatory framework for bank resolution that aligns with international best practice. Following submission of a report on its analysis of the legal and policy infrastructure underlying The Bahamas' financial system safety net, the IMF agreed to provide the Bank with additional technical assistance, to craft the necessary legislative amendments, for broader public consultation during the first half of 2015.

This consultative process will take the form of a series of presentations to relevant public and private sector stakeholders, on the reform proposals, the rationale for these proposals, the legal frameworks in other jurisdictions and the key attributes of effective resolution regimes for banks. To facilitate discussions with the relevant stakeholders, the Bank will prepare a discussion brief, detailing the key findings and recommendations of the IMF for reform to the existing bank resolution framework.

BOX 4: BAHAMAS CREDIT BUREAU PROJECT

…establishing the legal, regulatory and technical framework for a national credit reporting system in The Bahamas, which can support a credit bureau.

The Draft Credit Reporting Bill, 2014, and the Draft Credit Reporting Regulations, 2014, contain provisions which, when enacted, will:

- protect consumer rights. Consumers have the right to know what information was submitted to the credit bureau about them and who submitted the information, access this information and have erroneous information corrected.
- establish the rights and obligations of the credit bureau, its users, and the organizations that supply information to the bureau.
- provide clear guidelines on the kinds of information that can be collected. This will include personal information, to ensure proper identification, credit history and payment information, public records, and credit inquiries made by lenders or users requesting your credit report.
- require the proper use of consumer information. Credit reports may be issued only for permissible purposes, which include a loan application, a tenancy agreement, a business or other credit transaction, an insurance contract and a pre-employment check by a prospective employer.
- facilitate comprehensive information sharing about borrowing and bill paying history. Both positive (e.g., amount/type of loan, accounts currently active, balances on accounts, credit limits) and negative information (e.g., delinquencies, written-off loans, missed payments, late payments, etc.) will be included in credit reports.
- indicate how long information can be retained. All information on a particular consumer is saved for a defined period, rather than erasing negative records once debts have been repaid.
- set out market entry, permanence and exit criteria for a credit bureau operator.
- specify how credit bureau databases will be maintained, sold or otherwise disposed of, if a credit bureau operator decides to leave the market, fails or otherwise suspends services.
- identify minimum requirements for the operation of a credit reporting activity, designed to ensure adequate data security, to comply with restrictions on access to information and to maintain data quality, reliability of the credit bureau's services and the ability of the bureau to meet the demands of its users.
- facilitate the effective supervision of the credit reporting sector and enforcement of the requirements of the credit reporting legislation, by providing the Central Bank with effective powers for fulfilling its responsibilities, including, for example, the ability to request information, external audits and periodic reports, to bring court actions when necessary, to levy sanctions and penalties when warranted, and to move to close operations under the most extreme circumstances.

OTHER FINANCIAL SECTOR MANAGEMENT ACTIVITIES

Dormant Account Administration

The Bank has responsibility for the custody and administration of dormant account balances transferred by banks, pursuant to Section 20 of the Central Bank Act. According to section 20 of the Banks and Trust Companies Regulation Act, 2000, account dormancy is defined as deposits on which no customer-initiated activity has taken place for a period of at least seven (7) years, and whose owner cannot be contacted by the financial institution holding the funds. In 2014, some eighty-nine (89) licensees transferred a total of 1,054 dormant accounts, denominated in six (6) currencies, and totalling the equivalent of B$3.9 million. At end-2014, the cumulative dormant account balances, inclusive of investment returns, aggregated $86.0 million—of which U.S. Dollar and Bahamian Dollar denominated accounts represented 53% and 30%, respectively. Of the nearly 37,900 dormant accounts, some 79% held balances below $500—aggregating $3.4 million, and with $2.8 million (81.3%) in Bahamian Dollars.

On the 4th April, 2014, the Bank issued, for public comments, proposals for amendments to section 24 of the Central Bank of The Bahamas Act, 2000 and section 20 of the Banks and Trust Companies Regulations Act, 2000—designed to address issues raised by industry, fill gaps in the law vis-à-vis the Bank's existing practices relating to the administration of dormant accounts and effect general improvements to the administrative regime. During the consultation period, the Bank held further meetings with industry stakeholders to discuss and finalize the issue relating to the treatment of securities which become dormant. Proposed legislative amendments are expected to be passed into law during 2015.

Deposit Insurance Corporation (DIC)

By statute, the Bank oversees the Deposit Insurance Fund (the Fund) for Bahamian Dollar deposits in The Bahamas. The DIC insures Bahamian dollar deposits, up to a maximum of $50,000 for any single deposit in each of the member institutions, which numbered 12 at end-2014.

Premiums are assessed by the DIC at an annual rate of one-twentieth of one percent (0.0005%) of deposits, averaged over the end-March and September periods of the preceding year. Premiums levied and collected during 2014 amounted to $2.77 million, bringing the accumulated assets of the Fund to $36.42 million—an annual gain of 13.38%.

During 2014, the Bank's staff tasked with oversight of the DIC activities, were actively engaged with implementing various aspects of the DIC's Strategic Plan, as approved by its Board of Members.

INFORMATION TECHNOLOGY

Improved efficiency of processes utilizing information technology remained a high priority for the Bank, given the heavy reliance on a number of information technology systems to support its core functions.

The Bank concluded the vendor selection process for its Online Reporting and Information Management System (ORIMS), with the engagement of Vizor Software Limited, in June, 2014. This solution will provide enhanced efficiency to the Bank's data collection, validation, analysis and reporting of fiduciary and other data required to promote stability and soundness of the country's financial system. Since commencement, the Bank has achieved significant progress with the project, which has a "Go Live" date in early 2015.

To improve internal productivity and reduce operating costs, the Bank

Proposed Revisions to the Dormant Account Legislation

The key legislative amendments will:

- expand the types of accounts and facilities that are subject to the dormant accounts regime to include, *inter alia*, chequing accounts, payment instruments, collateral held on loans, safety deposit boxes, balances on credit cards and loans, and securities accounts which are to be liquidated and the proceeds transferred to the Bank;
- require the transfer, to the Treasurer, within two (2) months of the Bank's receipt of dormant account balances, all accounts under $500, and after 25 years, all sums of $500 or more;
- extinguish the right of any person to claim dormant account balances after 25 years;
- enhance banks' record keeping and reporting requirements for dormant account balances transferred to the Bank and dormant accounts retained;
- establish a criminal penalty for persons who make fraudulent claims for dormant account balances; and
- empower the Bank to charge an administrative fee and determine the rate and manner of computation of interest payable on dormant account balances under its management.

commenced the replacement of its aging telephony infrastructure with a state-of-the-art solution that encompasses voice, collaboration and mobility. This project is expected to be completed in early 2015.

In strategic initiatives to strengthen business resilience and infrastructure, the Bank upgraded its email servers, enhanced the resiliency of the SWIFT connections and servers that support the country's payments systems, and the existing backup and recovery solution, to improve system recovery in the event of a disaster. Further progress was also made with the enterprise-wide document back-file scanning conversion project.

PROPERTY MANAGEMENT AND HEALTH & SAFETY

The Bank conducts its business from the Main Building, situated between Market Street on the west and Frederick Street on the east and the leased Trimark Building, which is located north of the Main Building. Another leased property in Freeport, Grand Bahama is used to conduct exchange control-related business.

The Bank also owns the Great House, an historical building which serves as the employees' cafeteria; Balcony House, a two (2) storied period building presently managed by the Antiquities, Monuments and Museums Corporation as a museum; and Verandah House, another historical building utilized by the Bahamas Institute of Financial Services as an office and training facility.

In its ongoing programme to maintain workplace safety and appropriate working conditions, the Bank undertook a number of major capital works in 2014, including the resurfacing of the parking lot, installation of a new air conditioning filtration system and enhanced air conditioning for the currency operational areas, and flooring refurbishment through sections of the Main Building's hallways and corridors.

To gain greater energy efficiency, the Bank embarked on a project to update its external light fixtures—improvements which are expected to result in a reduction in kilowatt hour (kWh) usage, which increased in 2014 by 4.16% and electricity costs, by 1.69%.

The upgrade and commissioning of the Bank's new fire pump was completed in December, along with other related equipment. Major re-shingling and other interior repair work was also undertaken at the Balcony House and its adjacent buildings.

Training remained a key component of the Bank's overall strategy to maintain workplace health and safety. Security personnel were exposed to training in the area of asset protection and loss prevention, and safety wardens received the annual refresher training in CPR and First Aid.

STAFF COMPLEMENT & RELATIONS

For 2014, the Bank's staff complement increased by 2 to 236—the net of sixteen (16) new hires and fourteen (14) separations [four (4) resignations, four (4) end-of-contracts, and six (6) retirements]. The turnover rate for the year was 5.93% (see Table 4).

Of the total employee count, eighty-two (82) were support staff; forty-nine (49) were middle management, twelve (12) were executive management and the balance were technical/professional. The female to male ratio remained at 2:1. Sixty-two percent (62%) of the Bank's staff have served for more than eleven (11) years—twenty-nine (29%) of whom have served for more than twenty (20) years.

At the Bank's Annual Long Service Award Ceremony, held on 21st January to recognize and reward long-serving employees, nineteen (19) staff received awards for continuous and loyal service to the Bank; four (4) were recognized and awarded for thirty (30) years of service, eight (8) for twenty (20) years, and seven (7) for ten (10) years.

In industrial relations matters, the Bank's middle managers are represented by the Bahamas Communications and Public Managers Union and non-management staff, by the Union of Central Bankers. During 2014, the Bank pursued open, constructive and active engagement with both unions, on a number of employment related matters, as they emerged.

Building on a loyal employee base, the Bank continued its efforts to maintain an engaged, well-trained and highly motivated team. Sponsored events, aimed at fostering employee engagement and well-being, included a family fun day, health and wellness week, employee participation in national sporting club activities, monthly social gatherings

Total Employees by Category (2014)

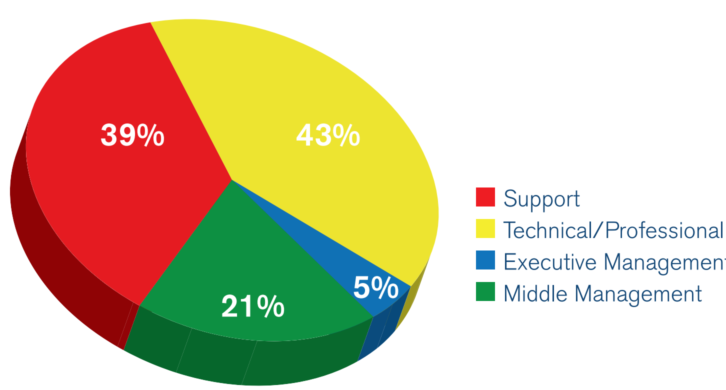


TABLE 4: WORKFORCE METRICS

	2012	2013	2014
Staff Complement	232	234	236
Gender Distribution (%)			
Male	34.0	32.0	33.5
Female	66.0	68.0	66.5
Turnover Rate (%)	5.6	6.8	5.9

Source: Central Bank of The Bahamas

and separate annual Christmas parties for employees and their children.

STAFF DEVELOPMENT

In 2014, the Bank continued to provide staff with relevant training and development opportunities, designed to equip them with the technical and leadership skills needed to meet the challenging demands of the institution.

Training for 2014 encompassed a variety of initiatives, including targeted development programs for participants of the 2014 Talent Pool under succession planning objectives. These were delivered through a combination of overseas, local, in-house and online training opportunities—funded by the Bank's annual training budget and bilateral partners.

Capacity in the area of banking supervision was enhanced through staff participation in courses and seminars hosted by ASBA on problem bank management, supervising operational risk, Basel III's impact on banks' business models, consolidated supervision and risk integration, and liquidity risk management. Other opportunities included participation in the international conference of banking supervisors hosted by the Bank for International Settlements (BIS) & China Banking Regulatory Commission; supervisory colleges organized by the CGBS; online training courses facilitated by the Financial Stability Institute (FSI) and in bank resolution and crisis management and deposit insurance issues, as arranged jointly by the FSI and the International Association of Deposit Insurers.

During 2014, the Bank's supervisory staff also benefited from hosting a Train-the-Trainer Workshop, facilitated by the Caribbean Technical Assistance Centre (CARTAC), which was attended by participants from across the region. The workshop focused on the following areas: (i) the Internal Capital Adequacy Assessment Process (ICAAP)/ Supervisory Review Process – Pillar II; (ii) Capital Adequacy Measurement / Assessment of Pillar II risks (e.g. concentration, business strategy and reputation risks) and (iii) Transition to Basel III.

The Bank's economic research and statistical staff participated in several initiatives hosted by CARTAC, covering macroeconomic management and debt issues, external sector statistics, credit union, balance of payments and international investments position statistics, and workshops on stress testing and financial stability issues organized by the Center for Latin American Monetary Studies (CEMLA). Consistent with the Bank's goal to keep abreast of and explore new technologies in its currency operations, staff from the Banking Department participated in banknote conferences and counterfeiting seminars and were exposed to cash paying and receiving operations at the Federal Reserve Bank of Atlanta.

In-house courses, workshops and seminars were facilitated by both international and local agencies—focusing on developing skills in the areas of presentation, critical thinking, leadership essential, creative problem solving and decision making, project management and retirement planning. Mandatory participation in seminars on the Bank's Fraud and Corruption Prevention Policy, as organized by the Legal Unit, sought to reinforce the Bank's code of ethics.

Members of the Bank's security staff were afforded the opportunity to gain exposure through familiarization visits and short-term attachments to similar overseas installations.

The Bank's Annual Induction Training Program was conducted for seventeen (17) new staff, providing for a general awareness of the Bank's role and functions, its operations and specific awareness of the expectations of the employer and employee.

Aside from Bank-directed training opportunities, staff also took advantage of Bank-assisted training initiatives for self-development. These included participation in local continuing education programs offered by the Bahamas Institute of Financial Services (BIFS), the Bahamas Institute of Chartered Accountants (BICA), the Bahamas Association of Compliance Officers (BACO), the International Association of Administrative Professionals (IAAP) and the Bahamas Human Resources Development Association (BHRDA).

In rolling out the 2014 Succession Plan for the fifteen (15) employees selected for the Talent Pool, the Bank crafted development plans, which sought to close gaps in identified competencies. The training included a combination of opportunities for developing presentation, report writing, critical thinking and decision making skills, job rotations to broaden knowledge of various operational aspects of central banking and, in a limited number of cases, short-term external attachments.

COMMUNITY RELATIONS AND OUTREACH

The Bank continued its educational outreach to the community. Among the activities undertaken was support for BIFS's G12 program, which also included having two (2) students in the Bank's summer work programme. Throughout the year, the Bank hosted school visits from numerous Government and Independent High Schools, and supported the College of The Bahamas' Career Fair.

In 2014, the Bank's Gallery hosted a total of nine (9) exhibitions, inclusive of its signature Annual Art Exhibition and Competition for High School students, and commemorative events in celebration of the Bank's 40th anniversary. The 2014 exhibitions began with a project entitled, "Beneath The Hat" by photographer Lyndah Wells, writer Laurie Tuchel and artist Chantal Bethel, in celebration of International Women's Day. This exhibition delved into the lives of women, many of whom participated in a well-attended afternoon of talk at the Gallery, and was a cultural and metaphorical display of the many hats worn by women within society.

As part of the 40th anniversary celebrations, the Bank hosted a two-day Street Art and Conch Festival, while exhibitions such as the D'Aguilar and Davies Collection and The Young Collectors Show further showcased the constituents of the Bahamian art community. From its own collection, the Bank contributed numerous works to the National Art Gallery of The Bahamas' (NAGB) five (5) month exhibition, Creation's Grace: Minnis Family Retrospective.

Further investigation into the sustainability of art communities prompted the Bank's Art Gallery to host the Orange Economy Talk, featuring Pamela Burnside, owner of Doongalik Studios and co-founder of Creative Nassau, and Felipe Buitrago, author of *The Orange Economy*.

The Bank's Annual Open Category and High School Art Competitions continued to showcase young talents through various artistic mediums and expressions. As with previous years, the number of entrants, attendance and level of talent for the competitions continued to expand.

CENTRAL BANK OF THE BAHAMAS 40TH ANNIVERSARY

The Bank celebrated its 40th Anniversary in June 2014, marking another significant milestone in its rich legacy of transformation, assimilation and adaptation.

In commemorating the past 40 years of institutional progress, the Bank organized a number of events and activities during the months of June and July 2014. The 40th Anniversary commenced with a church service at Christ Church Cathedral, attended by both present and former staff of the Bank, including three of the past four Governors. Another highlight of the celebrations was an exhibition at Rawson Square, which featured iconic frames of all Governors, traced the institutional changes of the Bank from the Currency Board and the Bahamas Monetary Authority era to its present structure, outlined the Bank's key functions, documented significant monetary policy actions and covered the evolution of the Bahamian currency.

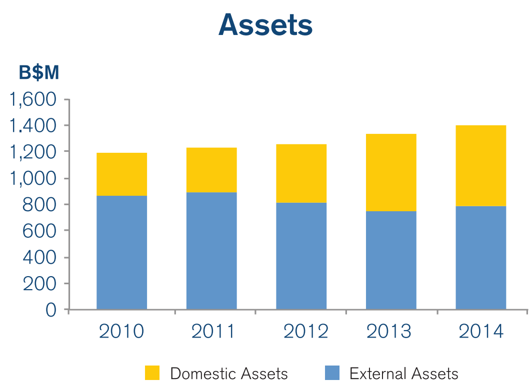
The Bank also commemorated this milestone with the publication of a comprehensive booklet featuring developments over its 40 year existence, a newspaper supplement on the Bank's evolution, as well as a 40th Anniversary Exhibition booklet featuring extracts of the Bank's history, functions and currency development.

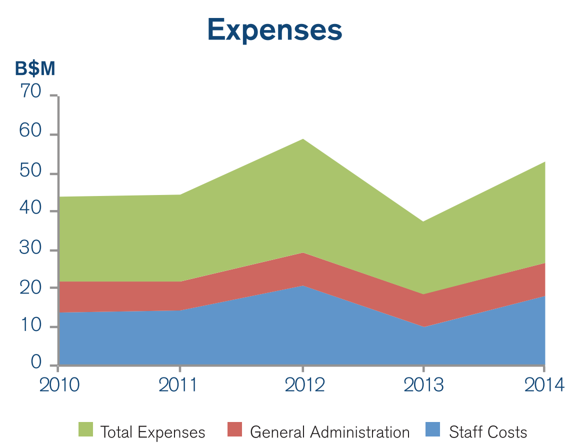
2014 FINANCIAL PERFORMANCE

The Bank's balance sheet is significantly affected by foreign reserve management and currency operations, and financial performance is also influenced by changes in both domestic and foreign interest rates. The Bank's main source of income is the return on its foreign and domestic investments, which are funded by the issuance of currency and the Bank's equity.

The Bank's financial statements for the year ended 31st December, 2014, along with comparable figures for 2013, are presented on pages 43 to 95 of this report.

In 2014, the Bank's balance sheet grew by $72.6 million (5.4%) to $1,404.9 million. External assets, which accounted for over half (56.1%) of the total assets, increased by $46.1 million to $787.7 million, reflecting net foreign currency purchases arising from real sector activities and Government's foreign currency borrowing. Cash and deposits were higher by $32.8 million at $155.2 million and IMF liabilities, Special Drawing Rights (SDRs) and the Reserve Tranche, rose by a combined $19.3 million to $87.5 million, consequent on the Bank's purchase of 16.2 million in SDRs. Reflecting scheduled maturities, holdings of marketable securities declined by $1.5 million to $544.9 million.





Buoyed by increased holdings of Government debt, the Bank's domestic assets grew by $27.6 million (4.8%) to $606.2 million. In particular, holdings of BGRS advanced by $93.0 million to $316.5 million, to offset the $66.9 million decrease in Treasury bills. The remaining domestic assets declined by $1.5 million to $170.0 million.

The Bank's demand liabilities expanded by $71.6 million (7.2%) to $1,072.3 million. The principal liability, currency in circulation, rose by $22.7 million to $375.4 million. However, with the continuation of mild domestic demand, commercial banks' unremunerated deposits with the Bank were higher by $35.5 million at $607.7 million. Government and related agency deposits also rose, by $10.6 million to $74.4 million.

Earnings improved by $14.7 million (54.5%) to $41.6 million, with some $5.8 million (14.0%) representing unrealized exchange rate gains on the SDR Allocation arising from the weakening of the SDR rate. In line with the Bank's increased holdings of Government paper, income on domestic securities grew by $3.4 million to $13.6 million, and the Bank received from the Government its share of the bank and trust companies' license fees, in the amount of $3.7 million.

Operating expenses totalled $26.7 million, an annual increase of $8.0 million (42.6%), which corresponded to an almost equivalent hike in staff costs to $18.3 million. Underling this outcome was a switch in the Bank's defined benefit pension plan position, from a $5.7 million income in 2013, to a net expense of $1.5 million in 2014–following on changes in the valuation model and assumptions. Further, general and administrative expenses decreased by 2.4% to $6.8 million and depreciation expenses, by 2.9% to $1.6 million.

As a result of these developments, the Bank recorded a total comprehensive income of $12.3 million–a gain of $3.0 million (33.7%) over 2013.

ECONOMIC AND FINANCIAL ENVIRONMENT

INTERNATIONAL ECONOMIC DEVELOPMENTS

In 2014, the global economy continued to expand at a modest pace, with divergent outcomes among the major economies. Strengthened gains in the United States' market, coincided with more paced rates of expansion in Asia and of fledging recovery in the euro zone, after prolonged recessionary results. In this context, the unemployment situation remained a key policy challenge, while the sharp fall in oil prices over the latter half of the year, to ten-year lows, kept inflationary pressures subdued. The major central banks, therefore, either maintained or enhanced their highly accommodative monetary policy measures, with the exception of the United States' Federal Reserve, which ended its "Quantitative Easing" programme.

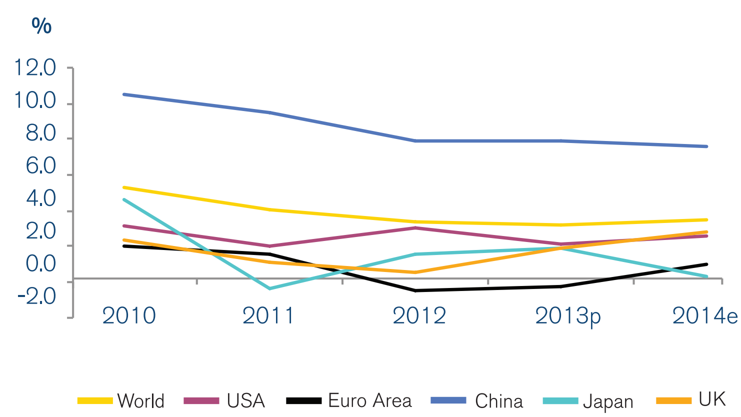
The most recent forecasts from the International Monetary Fund (IMF) showed that global growth stabilized at 3.3% in 2014, as the weaker than anticipated expansion in output in the first half of the year, dampened gains in the final six-month period.

Despite sharp quarterly swings in economic activity, real output growth in the United States improved to 2.4% from 2.2% in 2013, driven largely by personal consumption expenditures gains. Oscillating from a 2.1% weather-related decline in the first quarter, personal consumption, federal spending and real residential fixed investments powered real GDP growth to a record 5.0% in the third quarter, before shifting inventories and a weaker trade balance, associated with the rising value of the dollar, shaved growth to 2.6% in the final quarter. Following on the 1.7% rise in 2013, the United Kingdom's economy achieved its strongest annual expansion, of 2.6%—buoyed by robust gains in the dominant services sector and construction activity. Real output in the euro zone firmed marginally, by 0.9%, a reversal from the year-earlier 0.5% contraction, owing to sustained growth in Germany—the region's largest economy—and a recovery in output in several southern states. In Asia, China's real GDP growth tapered, from 7.7% in 2013 to 7.4%, owing partly to a falloff in property investments, which declined to a five-year low. A sharp drop in private consumption, caused by the April hike in the sales tax rate, constrained the Japanese economic expansion rate to a mere 0.1% from 2013's 1.6% rebound.

Global labour market conditions continued to show increasingly positive outcomes for 2014. Buoyed by gains in the professional and business services sectors, the unemployment rate in the United States declined by 1.2 percentage points to 6.2%, with employers adding an average of 246,000 workers, per month, to their payrolls. Similarly, the jobless rate in the United Kingdom narrowed to 5.8% from 7.1% in 2013, with the total number of unemployed persons decreasing by 418,000 to 1.9 million—the lowest level since 2009. Despite the euro zone's lackluster economic performance, the region's unemployment rate decreased by 40 basis points to 11.6% in 2014, reflecting improving conditions in a number of adversely affected southern countries. The major economies in Asia continued to record full employment, as China's jobless rate steadied at 4.1%, while Japan's unemployment rate grew by 20 basis points to 3.6%.

Global price developments benefited from the sharp reduction in oil prices during the second half of the year. In the United States, average consumer price gains softened by 70 basis points to 0.8%, primarily attributed to a 10.6% plunge in energy

Major Economies' Growth Rates



costs, which outpaced gains in food prices. Annual inflation in the United Kingdom retreated to 0.5% from 2.0% in 2013, occasioned by lower food and motor fuel costs; and the annualized 0.2% decline in euro zone consumer price inflation, following last year's 0.8% increase, was achieved through lower transportation fuels, heating oil and telecommunication costs. In China, inflation steadied at 2.6%, as gains in food and clothing prices were offset by reductions in transportation and communication costs. In contrast, the hike in the sales tax rate elevated Japan's inflation rate, to 2.4% from 1.6% in 2013.

Prices of primary commodities continued to trend downwards during 2014. Average crude oil prices declined by 9.7% to US$98.50 per barrel over the year, owing to a combination of relatively weak consumer demand and excess supply brought on by a sustained increase in US shale oil production and stable OPEC output. On a point-to-point basis, the average cost contracted by 48.6% to $57.33 per barrel at end-December, 2014, in comparison to the prior year. In the precious metal markets, gold prices tumbled, by 10.4% to $1,252.23 per troy ounce, as expectations of a near-term hike in US interest rates, along with the precipitous fall in oil prices, reduced the demand for the metal as an inflation hedge. Similarly, the slowdown in China's economic growth—particularly in the manufacturing sector—contributed to a decrease in silver prices, by 9.7% to $18.66 per troy ounce.

During 2014, most of the central banks in the major markets either sustained or enhanced their highly accommodative monetary policy measures, in a bid to provide further stimulus to their economies. In the United Kingdom, the Bank of England kept its official bank rate at an historic low of 0.5% and the size of its asset purchase programme at £375 billion. Given slow to stagnant growth conditions in the European economies, the European Central Bank left its key policy rates unchanged and pledged, in November, to implement a €1.0 trillion liquidity injection programme in early 2015. Faced with a slowdown in the rate of economic growth, the People's Bank of China (PBoC) increased the level of monetary accommodation, by reducing the benchmark one-year lending and deposit rates, by 40 and 25 basis points, to 5.60% and 2.75%, respectively. The PBoC also injected US$269.5 billion into the newly-created Medium-term Lending Facility, as part of its efforts to stimulate additional bank lending. With inflation remaining well below its 2.0% target, the Bank of Japan expanded its asset purchase programme, by ¥30.0 trillion to ¥80.0 trillion, in 2014. In contrast, the improving economic environment in the United States prompted the Federal Reserve, in October, to conclude its six-year long asset purchase programme, which involved the monthly purchase of $15.0 billion in Government and private sector bonds. However, the authorities held the benchmark interest rate at a historic low of 0.0%-0.25%.

Buoyed by the strength of the United States' economy and expectations that the country's central bank would raise interest rates in the near-term, the US dollar appreciated against all of the major currencies during 2014. The largest increases were recorded versus the Japanese Yen (by 13.65% to ¥119.68), the euro (by 13.60% to €0.83) and the Swiss Franc (by 11.45% to CHF 0.99). More muted gains were posted relative to the Canadian dollar, the British Pound and the Chinese Yuan, of 9.38% to CAD$1.16, 6.28% to £0.64 and 2.47% to CNY 6.21, respectively.

Most major stock markets recorded gains over the course of 2014, supported, in part, by central banks' stimulus measures and positive sentiments regarding prospects for the decline in oil prices on economic growth. In the United States, the S&P 500 finished higher by 11.0% and the Dow Jones Industrial Average (DJIA) firmed by 7.5% to record levels by end-2014. Among the European bourses, Germany's DAX gained 2.7%; however, the United Kingdom's FTSE and France's CAC 40 decreased by 2.7% and 0.5%, respectively, year-on-year. After registering a modest loss in 2013, China's SE Composite surged by 52.9%, propelled by improvements in the financial and industrial sectors in the latter half of the year, while Japan's Nikkei 225's close was higher by 7.1%.

In the context of the slow and uneven recovery in major developed economies and the moderated growth momentum in developing countries, world trade remained sluggish during 2014. For the United States, the external deficit expanded by $28.7 billion to $505.0 billion, as gains in imports of 3.4% to $2.9 trillion, partly explained by the appreciation of the dollar, outstripped export growth of 2.9% to $2.3 trillion. Reflecting a 3.1% decline in exports, attributed to subdued demand from its main trading partners, which exceeded the 2.7% falloff in imports, the United Kingdom's trade gap widened to a four-year high of £34.8 billion in 2014, from $33.7 billion a year ago. Conversely, the euro zone's trade surplus moved higher by an estimated €42.5 billion to €194.8 billion in 2014, due solely to a 2.3% improvement in exports to two of the largest trading partners, while imports were relatively unchanged. In China, the trade surplus grew by 47.2% to a record US$382.5 billion, bolstered by a 6.1% expansion in exports, which outpaced modest gains in imports of 0.4%. In contrast, Japan's goods and services deficit deteriorated to a record of ¥12.8 trillion, up 11.4% from 2013, attributed primarily to a net increase in fuel-based imports.

TABLE 5: SELECTED ECONOMIC INDICATORS (% CHANGE)

	2011	2012	2013	2014
Real GDP	0.6	2.2	0.0	1.0
Unemployment Rate (Nov.)	15.9	14.0	15.4	15.7
Occupied Hotel Room Nights	0.8	6.8	(8.5)	7.5[1]
Hotel Occupancy (%)	53.7	56.0	51.9	58.1[1]
Total Arrivals	6.3	6.3	3.5	2.8
Mortgage Disbursements	(9.3)	(8.4)	(13.7)	(9.9)
Inflation	3.2	2.0	0.4	1.2
National Debt/GDP Ratio	55.3	60.8	66.2	73.4

SOURCE: Central Bank of The Bahamas
[1] YTD October 2014

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that the domestic economy grew at a modest pace of 1.0%, an improvement over the flat outcome for 2013, as the ongoing recovery in the high value-added stopover segment of the market supported gains in tourism output (see Table 5). Construction sector activity also benefited from several varied-scaled foreign investment-led projects, the largest of which was the multi-billion dollar Baha Mar development. However, with the continued narrow track of the recovery, employment gains were insufficient to offset the expansion in the labour force, hence a firming in the jobless rate over the six months to November. Although the downturn in global oil prices translated into lower domestic energy costs, broad-based price gains led to some firming in the domestic inflation rate for 2014.

The overall fiscal deficit narrowed in FY2013/14, as the implementation of new tax measures boosted total revenue and aggregate expenditure contracted. However, for the first half of FY2014/15—which predates the implementation of the Value Added Tax (VAT)—the overall deficit deteriorated, as programmed increases in capital spending surpassed the modest gain in revenue. Budgetary financing for calendar year 2014 included domestic debt issues of various maturities, aggregating to $636.0 million, and a US$300 million bond. As a consequence of these developments, the National Debt—inclusive of contingent liabilities—rose by 7.2 percentage points to approximately 73.4% of GDP at end-December 2014.

Monetary developments featured modest increases in both bank liquidity and external reserves in 2014, in the context of Government's external borrowing activities and persistent weakness in private sector demand. As consumers continued to deleverage, private sector credit contracted moderately, while Government's measures to strengthen the capital position of one locally owned entity was a key factor underlying the moderate improvement in banks' asset quality indicators. Nevertheless, faced with elevated loan arrears, banks increased their loan loss provisions which, together with a tightening in net interest income, resulted in an overall net loss.

In the external sector, the estimated current account deficit deteriorated during 2014, reflecting a widening of the merchandise trade deficit and a fall-off in the services account surplus—both primarily explained by the typical upsurge in payments associated with foreign investment projects. The corollary was a sharp rise in private investment inflows to fund such projects which, together with the increase in public sector external borrowings, resulted in an expansion in the capital and financial account surplus. However, some offset was provided by the decline in net foreign direct investment inflows. At end-2014, external reserves represented an estimated 11.6 weeks of merchandise imports, compared with 15.4 weeks for 2013.

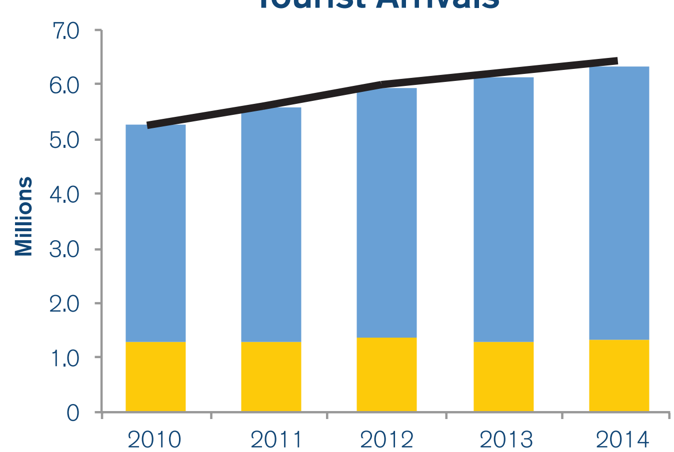
Real Sector

Tourism

Preliminary data suggest a positive outturn for tourism output in 2014. This was due largely to a rebound in the high value-added stopover segment of the market, which benefited from improving economic conditions in several key source countries, ongoing public/private sector incentive programmes, as well as increased airline and hotel room capacity.

Visitor arrivals grew by 2.8% to approximately 6.3 million, slightly below 2013's 3.5% gain. Underpinned by an improvement in the group business segment and the hosting of several international events, air traffic recovered strongly by 4.9% to 1.3 million, to reverse 2013's 5.7% contraction,

Tourist Arrivals



and accounted for a slightly higher 21.3% of the overall visitor count. The dominant sea component—at 78.7% of the total—grew by 2.2% to 5.0 million, although slowing from the year-earlier 6.3% boost.

By first port of entry, New Providence's visitor growth tapered to 0.6% from 6.3% in 2013, for a 3.5 million count, as the moderated 0.2% rise in sea passengers outstripped the1.8% recovery in the air segment. In contrast, visitors to the Family Islands strengthened by 7.5% to 2.0 million, following a 3.5% hike for 2013, and was attributed to gains in both the air (3.0%) and sea (8.0%) components. A favourable outturn was also posted in Grand Bahama, where the contraction in visitors receded to 0.9% from 7.3% in 2013. Air passengers surged by 43.0%, following the introduction of new non-stop flight service from eight (8) US cities and the opening of a mid-sized resort in April, while the decline in the larger sea segment slowed to 4.6% from 6.1%.

Among the major source markets, stopover visitors from the United States—which accounted for 78.5% of the total—improved by 2.7% to 726,772 over the first seven (7) months of 2014. Similarly, visitors from the second largest market, by size, Canada, firmed by 17.7%; however, declines were recorded for the smaller Latin American (7.3%), Caribbean (6.6%) and European (1.1%) market segments.

Hotel sector performance indicators improved, amid the expansion in the stopover visitor segment. Total room revenue rebounded by 3.3% during the ten months to October, from a comparative 5.3% contraction in 2013. Gains were recorded solely in the average occupancy rate, which firmed by 4.5 percentage points to 56.9%, behind a similar reduction in 2013. The average daily room rate (ADR), however, fell by 3.9% to $197.04, vis-à-vis a year-earlier increase of 5.1%.

Construction

In 2014, foreign investment led projects continued to be the key driver behind construction activity, as evidenced by the multi-billion dollar Baha Mar redevelopment and other varied-scale projects in New Providence and the Family Islands. In contrast, private housing developments remained subdued, weighed down by the mildness in economic activity and private sector demand.

Total mortgage loan disbursements for new construction and repairs—as reported by commercial banks, insurance companies and the Bahamas Mortgage Corporation—grew by 8.9% to $97.6 million, a turnaround from the 16.1% contraction in 2013. This outcome was primarily linked to a $15.3 million recovery in the commercial mortgage component, after no disbursements were recorded in 2013. However, the residential segment fell by 8.1% to $82.4 million, albeit below the year-earlier 13.0% reduction.

According to the more forward looking indicator—mortgage commitments for new buildings and repairs—challenges facing the domestic private market are likely to persist in the near-term. Both the total number and value contracted, by 14.1% and 22.1%, to 452 and $72.3 million, respectively.

In terms of funding costs, the average interest rate on commercial mortgages rose by 30 basis points to 8.6%, while the corresponding residential rate narrowed by 10 basis points to 8.0%.

Employment

The mild economic recovery continued to limit opportunities for sustained improvement in employment conditions. Based on information from the Department of Statistics' Labour Force Survey, the jobless rate fell by 1.1 percentage points to 14.3% in May 2014 vis-a-vis November 2013, due to modest gains in payrolls, of 1.5% to 169,040, which outstripped the slight 0.2% increase in the labour force to 197,335. However, the rate subsequently deteriorated, by 1.4 percentage points to 15.7%, by end-November. The combination of the traditional influx of new graduates, along with a 6.6% decline in the number of discouraged workers, to 4,560, led to a 1.9% advance in the labour force to 201,040 persons—which exceeded the marginal 0.3% increase in employment to 169,500 persons.

In terms of major economic centres, the unemployment rate in the dominant New Providence market—which accounted for an estimated 74.9% of the labour force—narrowed over the November 2013 to May 2014 period, by 0.6 of a percentage point to 15.0%, while the rate for Grand Bahama decreased by 2.1 percentage points to 14.7%. However, in the ensuing six-months to November, the jobless rate deteriorated, by 1.0 and 3.9 percentage points, in New Providence and Grand Bahama, to 16.0% and 18.6%, respectively. At end-November, the unemployment rate for females stood at 17.3% compared with 14.1% for males.

Prices

Despite the downward trajectory in global oil prices during the latter half of the year, domestic inflation in The Bahamas—as measured by changes in the average Retail Price Index—firmed by 84 basis points to 1.19% during 2014. The most significant price gains were posted for alcohol, tobacco & narcotics and transport, which advanced, by 3.61 and 3.55 percentage points, to 7.08% and 3.77%, respectively. Notable average price accelerations were also registered for recreation and culture, of 3.44 percentage points to 3.59%, food & non-alcoholic beverages, of 1.17 percentage points to 1.71% and furnishing, household equipment & routine maintenance, of 1.08 percentage points to 1.58%. More muted average cost increases were observed for health, education and miscellaneous goods & services, of 64, 58 and 28 basis points, to 1.84%, 2.52% and 1.31%, respectively. Communication costs firmed by 0.37%, after declining by 2.34% in 2013, with moderated cost outcomes for restaurant & hotels, which subsided by 1.67 percentage points to 2.03%. Further, average price gains for clothing and footwear steadied at 0.45% and fell for the dominant housing, water, gas, electricity & other fuels component, by 0.30%, after a 0.41% contraction in 2013.

Reflecting the pass-through effects of lower international crude oil prices, domestic fuel costs contracted over 2014. Declines were noted for the average per gallon prices of both gasoline (by 2.0% to $5.24) and diesel (by 2.8% to $4.99), extending decreases of 2.0% and 1.2% in 2013; and The Bahamas Electricity Corporation's fuel charge was reduced by 4.8% to 24.68 cents per kilowatt hour (kWh), after a 2.8% drop in 2013.

Fiscal Operations

FY2013/14 Performance

The central Government's overall deficit narrowed by one-third ($184.3 million) during FY2013/14 over the previous period, and was $74.3 million (17.0%) below the budgeted amount, at $361.8 million (see Table 6). Boosted by the implementation of new tax measures, aggregate revenue improved by $95.4 million (7.0%) to $1,450.0 million—although some $43.2 million (2.9%) less than expected. Total expenditure, at $1,811.8 million, contracted by $89.0 million (4.7%) and was $117.4 million (6.1%) lower than forecasted.

TABLE 6: FISCAL INDICATORS (B$ MILLIONS)

	FY2012/13 Actual	FY2013/14 Actual	FY2014/15 Approved Estimates	Preliminary[1] Estimates
Government Revenue	1,354.6	1,450.0	1,763.3	685.9
as % of GDP	16.3	17.1	20.8	8.1
Government Expenditure	1,900.8	1,811.8	2,046.8	943.6
as % of GDP	22.8	21.4	24.2	11.1
Surplus/(Deficit)	(546.1)	(361.8)	(165.9)	(257.7)
as % of GDP	(6.6)	(4.3)	(3.3)	(3.0)

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1] July - December, 2013

Revenue

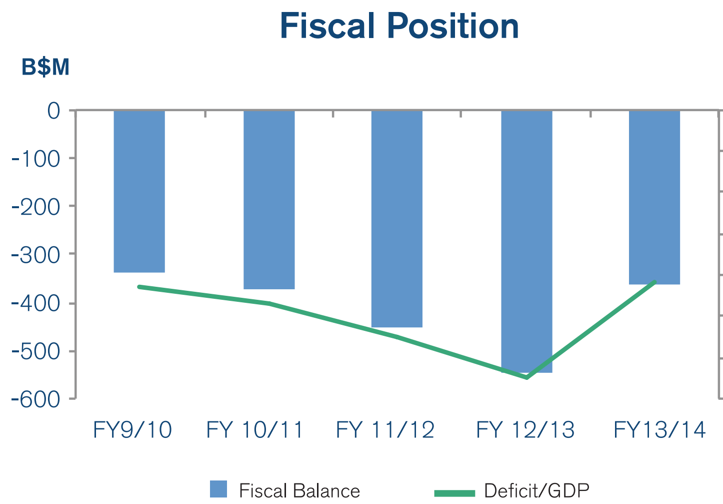
Tax revenue, at 86.0% of total collections, grew by 2.6% ($32.1 million) to $1,247.7 million—but was approximately 5.9% below the anticipated level. This development was largely attributed to a $64.0 million (53.0%) expansion in business and professional license fee collections, following the introduction of a broad-based, graduated fee schedule for firms, while fees for international banks and trust companies were also raised. Similarly, inflows from other "miscellaneous" taxes totalled $37.7 million, compared to the year-earlier period when no revenues were recorded. In contrast, taxes on international trade & transactions contracted by 5.8% ($35.5 million), largely explained by a $17.6 million reduction in stamp taxes from imports, as these receipts were reclassified as import taxes; and smaller declines were noted for excise and import taxes, of $6.6 million each, and export taxes of $4.6 million. Returning to trend, departure taxes narrowed by $22.4 million (15.5%), in comparison to the year-earlier surge triggered by the receipt of airline passenger ticket tax arrears. In addition, the expiration of the amnesty programme for delinquent taxpayers contributed to the $15.5 million (13.5%) fall in property taxes, while other "miscellaneous" stamp taxes decreased by $4.7 million (3.0%) and motor vehicle taxes steadied at $28.3 million.

Non-tax receipts strengthened by $63.0 million (45.3%) to $201.9 million during the period—exceeding the budgeted amount by 26.7%—as the implementation of a new customs processing fee regime secured a $39.0 million (41.0%) uplift in fines, forfeits & administrative fees. In addition, higher dividend receipts buoyed income from other "miscellaneous" sources, almost two-fold, to $62.1 million. In a modest offset, net revenues from public enterprises and the sale of Government property decreased by $5.6 million (57.1%) and $0.4 million (23.4%), respectively, while capital revenues remained negligible.

Expenditure

Current spending—which comprised 83.1% of total outlays—narrowed by 2.6% ($39.7 million) to $1,506.3 million, to stand 7.9% below budget estimates. The most significant decrease was noted for consumption outlays, which fell by $94.6 million (10.0%), but the outcome was skewed by the reclassification of tourism-related payments to the other transfers category. As such, goods and services payments fell by $65.7 million (18.6%) and personal emoluments, by $28.9 million (4.9%), while transfer payments advanced by $16.9 million (8.5%). Subsidies and transfers abroad firmed by $33.8 million and $17.4 million, respectively, whereas the rising stock of outstanding debt boosted interest payments by $16.9 million (8.5%), featuring increases in both the external ($10.4 million) and internal ($6.5 million) components.

With the winding-down of several infrastructure projects, capital spending declined by $32.2 million (12.5%) to $226.1 million—approximately 4.3% less than budget projections. In the underlying developments, capital formation



contracted by $75.9 million (35.9%), following the completion of several infrastructure projects, and transfers to non-financial public enterprises fell by $15.8 million (94.7%) to trend levels, following the purchase of specialized aviation equipment in the prior period. In contrast, asset acquisitions surged almost three-fold, to $90.6 million, as the delivery of several new Defence Force vessels resulted in a $60.2 million escalation in "miscellaneous" expenditures. Also, land purchases firmed by $5.0 million, while equity investments declined by $5.7 million.

Financing

Financing for the deficit was sourced mainly from domestic entities, which included local currency loans and short-term advances ($144.0 million); long-term bonds ($115.0 million), Treasury bills ($81.0 million), and short-term foreign currency loans ($191.0 million). In addition, external financing was dominated by the issuance of a US$300.0 million bond and smaller drawings on external loans ($140.2 million). Total debt repayment for 2014 amounted to $505.7 million, the majority of which was used to retire Bahamian dollar ($366.8 million) obligations.

First Six Months of FY2014/15

For the first half of FY2014/15, the deficit on the overall fiscal position was higher by 23.2% ($48.6 million) at $257.7 million. This outturn reflected an 8.4% ($73.0 million) increase in aggregate spending to $943.6 million, which negated a 3.7% ($24.4 million) gain in total revenue to $685.9 million.

Revenue

Tax collections firmed by $34.6 million (6.2%) to $587.7 million, inclusive of a $15.9 million (5.6%) rise in international trade taxes; there was a $26.7 million expansion in excise tax receipts, which offset declines in revenues from export ($3.7 million) and import ($7.1 million) taxes. Selected taxes on services were higher by $6.7 million (36.5%), almost entirely explained by a similar hike in gaming tax revenues, following the implementation of the new legislation which required local "web shop" operators to regularize their operations through the payment of back taxes for the period July 1- November 24, 2014. Business and professional license fees grew by $6.0 million (24.5%); departure taxes, by $11.7 million (23.0%) and stamp taxes, by $7.2 million (10.8%). These offset declines in other unclassified taxes ($7.9 million) and property taxes ($5.9 million).

Non-tax receipts contracted by $13.0 million (12.3%) to $95.3 million, as a timing-related decrease in dividend receipts led to a $17.2 million (39.3%) reduction in income from "other" sources, to outpace the slight $0.8 million uptick in the public enterprises component. In a marginal offset, revenues from both fines, forfeits and administrative fees rose and the sale of Government property increased, by $3.0 million (4.7%) and $0.5 million, respectively. In addition, proceeds from the sale of Government assets secured capital revenue of $3.0 million, compared to negligible receipts last year.

Expenditure

Current expenditure expanded by $45.5 million (6.0%) to $809.5 million, due primarily to a $44.5 million (15.1%) gain in transfer payments to $366.0 million. Specifically, subsidies and other transfers were higher by $37.8 million (17.6%) at $252.8 million—although primarily attributed to the reclassification of tourism expenditures, from consumption to this category. Modest increases were also posted for subsidies to the public health-care provider ($2.6 million), and transfers to public corporations ($3.3 million), non-profit institutions ($1.9 million) and households ($1.4 million).
In contrast, transfers abroad and subsidies to the tertiary sector softened, by $1.8 million and $0.9 million, respectively. Interest payments rose by $10.3 million (10.1%) to $109.5 million, mainly linked to a $10.8 million increase in external outlays, as payments on domestic debt fell marginally by $0.4 million. In a modest offset, consumption spending was reduced, by $2.6 million (0.6%) to $443.6 million, as the reclassification exercise caused a reduction in purchases of goods and services, which outweighed the $18.3 million expansion in the wages & salaries bill.

Capital spending rose by $17.4 million (22.8%) to $93.8 million, as the acquisition of new ships for the Defence Force led to an almost three-fold ($15.8 million) surge in asset acquisitions. Similarly, spending on infrastructure developments advanced by $3.3 million (5.0%), while transfers to public corporations fell from $1.1 million last year to negligible levels. However, net lending to public corporations for budgetary support grew by one-third ($10.1 million) to $40.3 million.

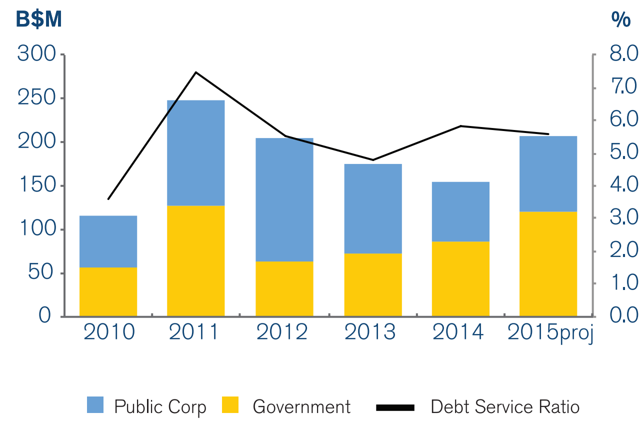
Financing

Budgetary financing for the first six months of FY2014/15 was mainly sourced locally in the form of short-term loans and advances ($275.0 million), long-term bonds ($150.0 million) and Treasury bills ($30.0 million). The balance of the deficit was financed through $110.7 million in external borrowings. Debt servicing for the period totalled $123.1 million, the majority of which ($116.0 million) was used to meet domestic Bahamian and foreign currency obligations.

National Debt

As Table 7 shows, the Government's Direct Charge increased by $616.2 million (12.4%) to $5,599.7 million, following a $583.6 million (13.3%) increment in 2013. As a consequence, the ratio of the Direct Charge to GDP firmed by 6.7 percentage points to 65.8%.

Public Sector F/C Debt Service



Bahamian dollar denominated debt, at 71.6% of the total, was higher by $339.0 million (9.2%) at $4,009.7 million and foreign currency claims strengthened by $277.2 million (21.1%) to $1,590.0 million. By holder classification, the bulk of the Bahamian dollar debt was owed to commercial banks (39.6%), followed by the private sector (29.5%) and public corporations (16.6%). Of the remaining 14.3% in obligations, the Central Bank and other local financial institutions accounted for 14.1% and 0.2%, respectively.

As a result of these developments, and inclusive of a $53.0 million (7.8%) increase in contingent debt liabilities to $648.3 million, the National Debt firmed by $663.3 million (11.9%) to $6,248.0 million at end-2014. Accordingly, the ratio of the National Debt to GDP rose by approximately 7.2 percentage points to an estimated 73.4% by year-end.

TABLE 7: DEBT INDICATORS (B$ MILLIONS)

	2011p	2012p	2013p	2014p	Projections 2015[1]
a. EXTERNAL DEBT	1,044.5	1,464.3	1,613.7	2,026.5	1,994.7
as % of GDP	13.2	17.8	19.1	23.8	22.4
b. INTERNAL F/C DEBT	417.2	429.6	525.6	394.8	357.5
as % of GDP	5.3	5.2	6.2	4.6	4.0
c. TOTAL F/C DEBT	1,461.7	1,893.9	2,139.3	2,421.2	2,352.2
as % of GDP	18.5	23.0	25.4	28.5	26.4
d. DEBT SERVICE RATIO[2]	7.5	5.5	4.8	4.5	5.6
e. DIRECT CHARGE	3,806.3	4,399.9	4,983.5	5,599.7	5,419.0
as % of GDP	48.2	53.4	59.1	65.8	60.9
f. NATIONAL DEBT	4,364.5	5,003.2	5,584.7	6,247.8	6,056.1
as % of GDP	55.3	60.8	66.2	73.4	68.1

SOURCE: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Report
[1]Based on contractual obligations and planned borrowings
[2]Excludes refinancing activities

Foreign Currency Debt

Public sector foreign currency debt grew by $282.0 million (13.2%) to $2,421.2 million in 2014, as new drawings of $518.3 million, outpaced amortization payments of $234.6 million. The Government's debt obligations—which comprised the bulk (65.7%) of the total—firmed by $277.2 million (21.1%) to $1,590.0 million, while the public corporations' segment rose slightly by $4.8 million (0.6%) to $831.2 million.

Debt service payments doubled to $349.8 million, as the repayment of short-term borrowings to domestic banks led to a $208.4 million uplift in the Government's component, to $279.9 million. In contrast, public corporations' debt service payments narrowed by $33.5 million (32.4%) to $69.8 million. The debt service ratio, net of refinancing activities, fell by 30 basis points to 4.5%, while the Government's debt service to total revenue ratio advanced by 70 basis points to 6.0%.

The majority of the foreign currency debt was held by private capital markets, at 37.2%, led by non-resident investors, mainly international financial institutions and insurance firms (35.3%), and commercial banks (13.1%). In addition, smaller portions were held by multilateral (11.6%) and bilateral (2.8%) agencies. At end-December, the average maturity of the debt stood at 12.8 years, a decrease from the 13.4 years recorded in 2013. By currency, the bulk of the debt (88.6%) was denominated in US dollars, with euros and Chinese Yuans accounting for much smaller proportions, of 8.5% and 2.9%, respectively.

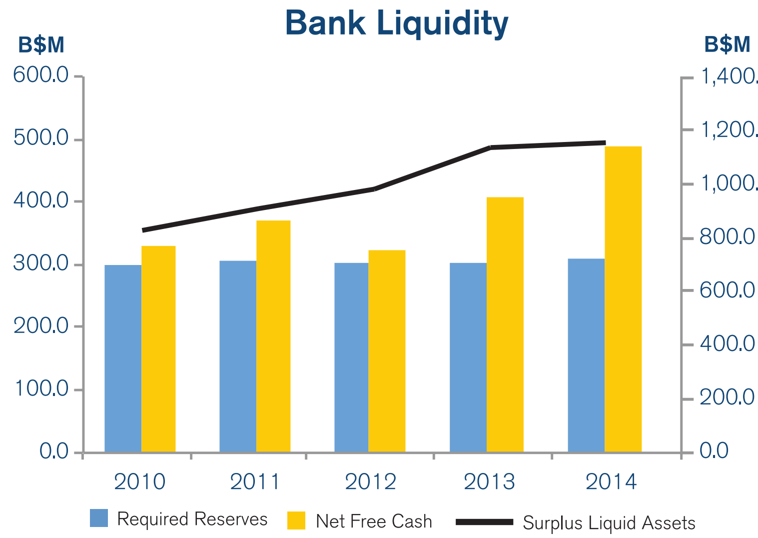
Monetary Sector

Monetary developments during 2014 featured buoyant liquidity levels and moderate growth in external reserves, in the context of sustained weakness in private sector credit demand and supported by gains in foreign currency inflows from real sector activities. Banks' loan arrears remained elevated, although the improvement was a consequence of the Government's decision to transfer a significant portion of the non-performing loans of BOB, to a special purpose vehicle (SPV). Despite a widening in the weighted average interest rate spread, banks recorded a net loss in 2014, owing in part to higher provisioning and operating costs.

Liquidity

Banking sector liquidity remained at robust levels throughout 2014, with average net free cash balances—the narrowest measure of liquidity—higher by 31.6% at $500.6 million and held mostly in non-interest bearing deposits at the Central Bank. From an average monthly balance of $459.3 million in the first quarter, liquidity trended upwards to over $500.0 million in April, and remained above this level until August, before levelling-off to close the year at $488.0 million. This equated to a lower annual gain of 19.8%, but a higher 8.0% of Bahamian dollar deposits.

Domestic banks' broader measure of liquidity, which includes holdings of Government securities, averaged $1,231.5 million, on a monthly basis, for a 12.5% increase over 2013's level. However, the year-end close, at $1,156.8 million, represented a lesser annual gain of 1.7% vis-à-vis 17.6% in 2013, and exceeded the statutory requirement at a slightly lower 112.8%.



Money Supply

In 2014, growth in overall money supply (M3) advanced to $72.0 million (1.1%) from $13.5 million (0.2%) in 2013, for an aggregate stock of $6,389.1 million. Narrow money (M1), at 31.3% of the total, expanded at an intensified pace of $355.1 million (21.6%), relative to $66.3 million (4.2%) in 2013. Reflecting some reporting reclassifications, demand balances rose strongly, by $336.7 million (23.6%), while currency in circulation advanced by $18.4 million (8.6%), to reverse the previous year's $2.1 million (1.0%) contraction.

Following the prior year's $44.8 million (0.7%) falloff, broad money (M2) recovered by $121.2 million (2.0%) to $6,164.3 million. Savings deposits were lower by $46.5 million (4.2%), to contrast with growth of $45.0 million (4.2%) in 2013; and the decline in fixed deposits was extended to $187.5 million (5.7%) from $156.1 million (4.5%). Foreign currency deposits—mainly those of the private sector—fell by $49.2 million (17.9%), a turnaround from the $58.3 million (27.0%) accretion in 2013.

Domestic Credit

During 2014, domestic banks' total loan portfolio declined as lending

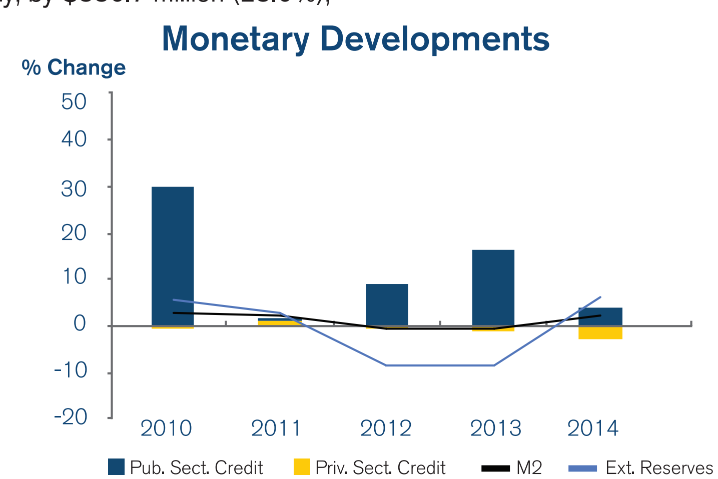


TABLE 8: FLOW OF BANK CREDIT (B$ MILLIONS)

	Outstanding as at 2012	Absolute Changes 2013	2014	Outstanding as at 2014
Destination				
Government (net)	1,592.2	351.1	78.0	2,021.4
Central Bank	394.7	95.2	31.0	520.9
Domestic Banks	1,197.5	256.0	47.0	1,500.5
Rest of Public Sector	463.5	(8.9)	20.3	474.9
Central Bank	5.7	(0.2)	(0.9)	4.6
Domestic Banks	457.8	(8.7)	21.2	470.3
Private Sector	6,629.3	(77.4)	(184.1)	6,367.8
Domestic Banks	6,629.3	(77.4)	(184.1)	6,367.8
Consumer	2,155.2	66.7	50.5	2,272.4
Mortgages	2,923.6	3.3	(27.2)	2,899.7
Other Loans	1,550.5	(147.4)	(207.4)	1,195.7
Financing				
Liabilities (Net of Government)	6,303.7	13.4	73.4	6,390.5
Currency	216.5	(2.1)	18.4	232.8
Total Deposit liabilities	6,087.2	15.5	55.0	6,157.7
Demand deposits	1,541.6	122.2	280.8	1,944.6
Savings deposits	1,074.4	45.5	(45.7)	1,074.2
Fixed Deposits	3,471.2	(152.2)	(180.1)	3,138.9
International reserves	810.2	(68.6)	46.1	787.7
*Other net external liabilities	(601.8)	(93.3)	193.0	(502.1)
Capital and surplus	2,539.6	52.2	(81.7)	2,510.1
Other (net)	50.1	37.3	161.7	249.1

SOURCE: Central Bank of The Bahamas
[1] ( ) = increase, R - revised

to the public sector contracted and weakness in private sector credit persisted—reflecting the continuing mildness in economic activity and banks' conservative lending stance.

After expanding by $264.8 million (3.0%) in 2013, total domestic credit fell by $85.8 million (1.0%), primarily attributed to the Government's net repayment of foreign currency debt. Specifically, banks' net claims on the Government slackened to $78.0 million (4.0%) from $351.1 million (22.1%) in 2013, as borrowing proceeds were used to repay a bridging foreign currency loan (see Table 8). However, credit to the rest of the public sector expanded by $20.3 million (4.5%), to reverse the prior period's $8.9 million (1.9%) reduction.

The contraction in private sector credit broadened to $184.1 million (2.8%) from $77.4 million (1.2%) in 2013, partially reflecting the transfer of $100 million in non-performing loans from BOB to the SPV. By sectoral distribution, notable reductions were recorded for construction ($86.9 million), "miscellaneous" purposes ($40.0 million), distribution ($26.7 million), professional & other services ($25.3 million), manufacturing ($15.1 million) and tourism ($11.9 million) lending. Decreases of less than $5.0 million were registered for entertaining & catering, private financial institutions, agriculture and mining & quarrying. These contrasted with respective rebounds in credit for transportation ($9.5 million) and fisheries ($1.2 million), and moderated growth in the dominant personal loan category of $16.4 million, relative to $38.9 million in 2013.

A further breakdown of the personal loan activity, showed that growth was primarily associated with the rise in consumer credit, by $50.5 million, albeit a slowdown from the prior period's $66.7 million gain. In contrast, housing loans fell by $27.2 million, a reversal from the $3.3 million advance last year, while the contraction in overdraft facilities tapered to $7.0 million from $30.5 million. A disaggregation of the consumer credit component revealed heightened lending for "miscellaneous" purposes ($61.8 million), private cars ($11.3 million) and home improvements ($7.8 million), which outstripped net repayments for debt consolidation ($24.9 million) and land acquisitions ($8.3 million).

Interest Rates

During 2014, the weighted average interest rate spread on domestic banks' loans and deposits widened by 97 basis points to 10.39%. In the context of the persistent liquidity overhang, the weighted average deposit rate declined by 26 basis points to 1.42%, whereas tightened lending conditions were evidenced by a firming in the corresponding loan rate, by 71 basis points to 11.81%.

On the lending side, both the average consumer loan and overdraft rates were higher, by 25 and 43 basis points, at 13.90% and 9.76%, respectively. In contrast, reductions were posted for the average interest rates on commercial (19 basis points) and residential (11 basis points) mortgages, to 8.02% and 7.16%, respectively.

Broad-based average rate reductions were registered across all deposit categories. For savings deposits, the average rate declined by 8 basis points to 0.89% and was 2 basis points lower for demand deposits at 0.29%. Similarly, the average interest rate range on fixed balances narrowed to 1.16% - 1.76% from 1.35% - 2.20% in 2013.

In other interest rate developments, both the benchmark commercial banks' Prime Rate and the Central Bank's Discount Rate were unchanged, at 4.75% and 4.50%, respectively. However, the average 90-day Treasury bill rate trended upwards, by almost a quarter of a percent to 0.53%.

Net Foreign Assets

The banking system's net foreign asset position rose sharply, by $239.1 million to $285.6 million in 2014—a reversal from the previous year's $161.9 million (77.7%) reduction. As banks repaid short-term foreign currency borrowings, their net foreign liabilities declined by $193.0 million (27.8%) to $502.1 million, in contrast to 2013's $93.3 million (15.5%) gain.

The Bank's external reserves advanced by $46.1 million (6.2%) to $787.7 million, in contrast to a $68.6 million (8.5%) contraction a year earlier. The outcome was supported by a combination of foreign currency purchases associated with the Government's external bond and real sector inflows linked to tourism and foreign investments. External reserves increased during the first six (6) months of the year, to peak at $1,016.8 million in June, and trended downwards in the closing half, by some $230.9 million, in line with the traditional increase in foreign currency demand to facilitate holiday travel and consumer goods imports. Overall, the average monthly external reserve balance strengthened to $897.6 million from $753.3 million in 2013.

At end-December, the stock of external reserves stood at an estimated 11.6 weeks of merchandise imports, relative to 11.4 weeks at end-December 2013. After complying with the statutory requirement that the Bank hold external reserves equivalent to 50% of its demand liabilities, "useable" reserves decreased by $16.4 million to $260.7 million.

Banking Sector Performance

Credit Quality

The performance of the banking sector continued to reflect the mildness in real sector activity, which constrained improvements in credit quality and profitability indicators. However, the transfer of a large portion of the non-performing commercial loan portfolio from BOB to the SPV in October, induced a net contraction in private sector loan arrears, by $64.9 million (4.8%) to $1,287.3 million, vis-à-vis a $101.7 million (8.1%) hike in 2013. At end-December, arrears constituted some 21.4% of total private sector credit—down 56 basis points from 2013's close and more favourable to the prior year's 1.9 percentage point advance.

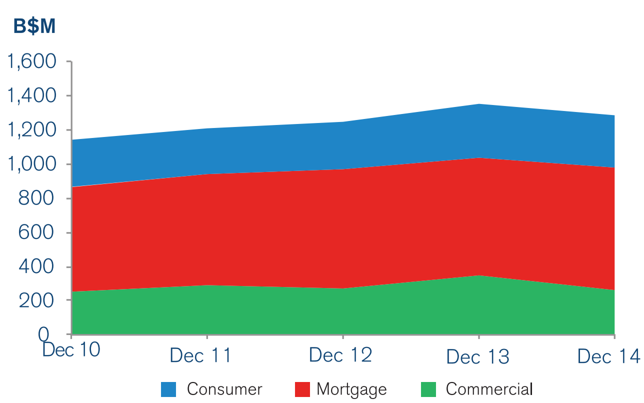
The reduction in loan delinquencies was concentrated in the short-term (31-90 day) segment, which fell by $71.0 million (18.4%) to $315.2 million, compared to a $3.2 million (0.8%) increase in 2013, and narrowed by 1.0 percentage point to 5.2% of total private sector loans. Although non-performing loans (NPLs)—arrears in excess of 90 days and on which banks have stopped accruing interest—grew by $6.1 million (0.6%) to $972.1 million, this was significantly below the $98.4 million (11.4%) surge in the prior year. NPLs, therefore, advanced by 47 basis points to 16.1% of total private sector loans.

Following on the one-off Government-related transaction, commercial loan arrears contracted by $80.0 million (23.3%) to $263.5 million, behind a $72.7 million (26.9%) rise in 2013, and with the corresponding ratio to total private sector loans narrowing by 4.1 percentage points to 29.4%. Consumer loan arrears also receded by $5.6 million (1.8%) to $312.0 million, to reverse 2013's $37.4 million (13.4%) gain, and fell by 31 basis points to 13.9% of total private sector loans, vis-à-vis a 74 basis point comparative year earlier rise. In contrast, mortgage delinquencies, which accounted for the bulk (55.3%) of arrears, firmed by $20.7 million (3.0%) to $711.7 million, following an $8.5 million (1.2%) decrease in 2013, and were 90 basis points higher at 24.7% of total private sector loans.

Capital Adequacy and Provisions

Banks continued to take measures to minimize their credit risk, as evidenced by high capital adequacy

Banks' Private Sector Debt Indicators



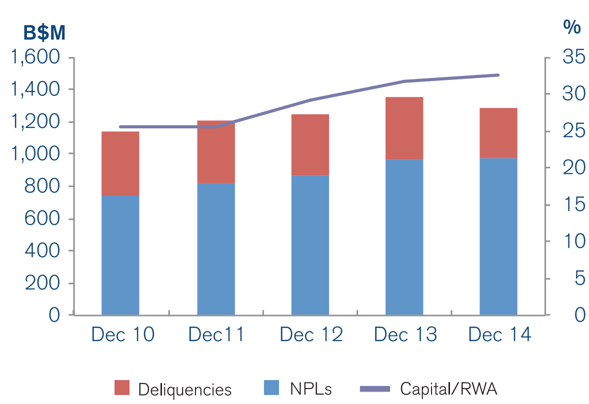


TABLE 9: COMMERCIAL BANKS' FINANCIAL SOUNDNESS INDICATORS (%)

	2012	2013	2014
Capital Adequacy			
Regulatory capital/risk weighted assets	29.1	31.7	32.7
Regulatory Tier 1 capital/risk weighted assets	26.3	29.7	31.1
Asset Quality			
NPL/private sector loans	13.9	15.7	16.1
NPL to capital	41.4	43.8	49.4
Earnings & Profitability			
Return on assets	1.5	1.4	-1.2
Return on equity	7.2	6.6	-4.7
Liquidity			
Liquid assets to total assets	19.7	21.1	22.3

ratios and levels of loan loss provisioning. Although capital stocks contracted marginally, by $0.2 million to $2.0 billion in 2014, the reduction was less than the decline in risk-weighted assets (13.2%). Consequently, the ratio of capital to total risk weighted assets improved by one (1) percentage point to 32.7%, which remained well above the prudentially prescribed target (17%) and trigger (14%) ratios (see Table 9). To address ongoing credit quality challenges, banks boosted their loan loss provisions by $122.5 million (32.4%) to $501.2 million, surpassing the $6.0 million (1.6%) rise in 2013. Resultantly, the ratio of provisions to total loans firmed by 1.9 percentage points to 7.9%, and provisioning as a percentage of both arrears and non-performing loans was higher by 10.9 and 12.4 percentage points, at 38.9% and 51.6%, respectively. Banks also wrote-off a total of $103.7 million in delinquent loans, with recoveries placed at $37.9 million.

Bank Profitability

Higher provisioning and other operating costs significantly impacted domestic banks' profitability outcomes. During 2014, banks experienced a net loss of $114.1million, a turnaround from a $139.0 million net income position in 2013. Underlying this performance, the net interest margin contracted by 1.7% ($8.8 million) to $519.5 million, as the 4.4% ($28.3 million) reduction in interest income, to $617.8 million, outstripped the decline in interest expense, of 16.5% ($19.5 million) to $98.3 million. Commission and forex income also decreased, by 3.4% ($0.8 million) to $22.5 million, and the gross earnings margin fell by 1.7% ($9.6 million) to $542.0 million, vis-à-vis the prior year's 1.2% ($6.4 million) expansion.

Operating costs were higher by 38.9% ($134.1 million) at $478.7 million, due primarily to a $146.8 million hike in "miscellaneous" operating costs—which includes professional services, Government fees, maintenance and impairment of goodwill by one institution. In contrast, staff costs decreased by 5.7% ($10.3 million) and occupancy costs fell by 7.7% ($2.3 million). Consequently, the net earnings margin declined by $143.7 million to $63.3 million, extending last year's 14.1% ($34.1 million) contraction. The loss on "non-core" operations increased more than two-fold, to $177.4 million, owing largely to a $117.5 million surge in bad debt provisioning, which eclipsed the $10.4 million gain in non-core, mainly fee-based, income and the $2.3 million reduction in depreciation costs.

Reflecting these trends, the interest margin ratio narrowed by 13 basis points to 5.31% and the commission & forex income ratio fell by 1 basis point to 0.23%—resulting in a 14 basis point contraction in the gross earnings margin ratio, to 5.54%. Further, the net earnings margin declined by 1.5 percentage points, to 0.65%, owing mainly to a 1.4 percentage point increase in the operating cost ratio to 4.89%. After accounting for "non-core" operations, banks recorded a net loss ratio of 1.16%, in contrast to 2013's net income ratio of 1.43%.

Capital Market Developments

Domestic capital market outcomes were subdued during 2014, consistent with the modest pace of economic activity. Both the volume and value of shares traded posted respective declines, of 2.0% and 10.0%, to approximately 4.0 million, valued at $15.0 million. On the Bahamas International Securities Exchange (BISX), the number of securities publicly traded increased by two (2) to twenty-nine (29), and included twenty (20) common share listings, five (5) preference share offerings and four (4) debt tranches.

For 2014, annual price gains of several securities boosted market capitalization by 12.9% to approximately $3.5 billion, to exceed 2013's 4.5% appreciation. Similarly, the BISX All Share Index—a market capitalization weighted index—was 13.1% higher at 1,659.30, up from the 9.1% gain in 2013.

International Trade and Payments

Based on preliminary external sector data, the current account deficit widened by an estimated $366.3 million (24.5%) to $1,860.2 million in 2014, as increased capital imports and construction related service payments—primarily associated with foreign investment projects—extended the merchandise trade deficit and reduced the services account surplus. However, in the corresponding

TABLE 10: BALANCE OF PAYMENTS SUMMARY (B$ MILLIONS)

	2012p	2013p	2014p
I. CURRENT ACCOUNT	(1,504.6)	(1,493.9)	(1,860.2)
i) Merchandise Trade (net)	(2,401.5)	(2,211.0)	(2,420.5)
Exports	984.0	954.9	849.2
Imports	3,385.5	3,165.9	3,269.8
of which: Oil	972.0	866.0	752.4
ii) Services (net)	1,153.9	1,042.9	996.7
Travel	2,025.9	2,022.2	2,096.8
Other	(872.0)	(979.3)	(1,100.1)
iii) Income (net)	(267.6)	(329.1)	(436.8)
iv) Current Transfers (net)	10.5	3.2	0.4
II. CAPITAL AND FINANCIAL ACCOUNT	1,306.4	990.0	1,415.4
i) Capital Account (Transfers)	(7.3)	(9.6)	(8.9)
ii) Financial Account	1,313.6	999.6	1,424.2
of which: Direct Investment	526.2	382.3	251.2
III. NET ERRORS AND OMISSIONS	123.6	435.4	490.8
IV. CHANGES IN EXTERNAL RESERVES[1]	74.7	68.6	(46.1)

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

financing transactions, foreign investment-based loan financing and proceeds from Government's external borrowings strengthened the capital and financial account surplus, by an estimated $425.4 million (43.0%) to $1,415.4 million.

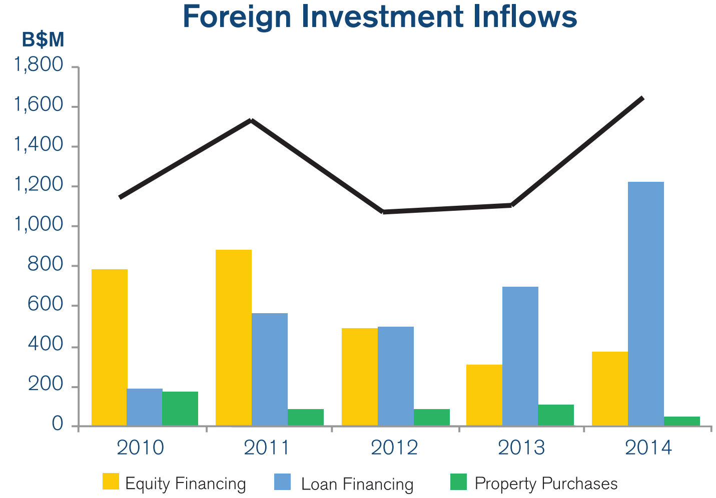
The estimated merchandise trade deficit broadened by $209.5 million (19.5%) to $2,420.5 million, with net non-oil imports higher by $242.5 million (14.2%) at $1,946.7 million. Benefiting from the sharp reduction in international oil prices, fuel payments declined by $113.6 million (13.1%) to $752.4 million. In terms of the components, the largest per barrel cost decrease was registered for jet fuel (by 23.4% to $124.2), while more modest average price declines were recorded for motor gas, propane and gas oil, of 5.2%, 4.4% and 0.8%, to $120.3, $61.9 and $123.1 per barrel, respectively. These movements contrasted with aviation fuel costs, which rose by 5.7% to an average of $199.3 per barrel.

The surplus on the services account narrowed by $46.3 million (4.4%) to $996.7 million, owing primarily to a $160.5 million (33.3%) expansion in net payments for construction services—related to foreign investment projects—and a $40.5 million (16.6%) increase in the net outflow for transportation services to $285.3 million. Buoyed by the improved tourism performance, net travel receipts firmed by $74.6 million (3.7%) to $2,096.8 million, and the net receipt arising from offshore companies' local expenses and Government services grew, by $20.3 million (11.3%) and $8.6 million (31.3%), to $200.6 million and $36.2 million, respectively. The net outflow from other "miscellaneous" services contracted by $37.1 million (13.1%) to $245.5 million, while the net payment for royalty and license fees steadied at $19.5 million.

The income account deficit widened by $107.7 million (32.7%) to $436.8 million, led by a $79.1 million (27.0%) hike in investment income outflows to $372.4 million. Developments reflected a firming in the net private sector payment, by $63.2 million (25.2%) to $314.2 million, inclusive of a turnaround in commercial banks' transactions, from a modest $3.3 million net inflow to a net outflow of $27.9 million, and a $32.1 million (12.6%) hike in non-bank profit repatriations. In addition, net outflows for employee compensation and official transactions moved higher, by $28.6 million and $15.9 million, respectively, with the latter reflecting a $15.0 million rise in Government's external interest payments and a marginal $0.9 million decline in the Bank's foreign income.

The net inflow under current transfers was lower by $2.7 million (85.2%) to a mere $0.5 million, led by a $3.8 million (3.1%) decrease in the Government's component to $118.7 million. In some offset, the net payment for other "miscellaneous" sectors fell slightly, by $1.1

Foreign Investment Inflows



million (0.9%) to $118.3 million, as the $16.5 million falloff in workers' remittances outstripped the $15.4 million growth in other transfers.

Gains in the capital and financial account surplus were mainly associated with an almost two-fold ($548.5 million) surge in other "miscellaneous" investment inflows, to $1,199.9 million. Specifically, higher loan financing related to the large-scale tourism foreign investment project underway, led to a doubling in other private investment inflows, from $451.4 million to $947.2 million. The outcome also reflected a firming in net public sector capital inflows, to $414.7 million from $137.8 million in 2013, amid the Government's US$300 million external bond issue. These were significantly moderated by the reversal in domestic banks' net short-term transactions, to a net outflow of $161.9 million from a $62.2 million net receipt last year, and a reduction in the net direct investment inflows of $131.0 million (34.3%) to $251.3 million. Included in the latter was a contraction in real estate purchases, by $75.1 million (96.2%) to $3.0 million, and in the net equity investment inflow, by $55.9 million (18.4%) to $248.3 million. The net portfolio investment outflow was also lower, by $7.2 million (21.0%) at $26.9 million, as the slowdown in purchases of debt securities outpaced the rise in equity security investments.

After adjusting for net errors and omissions, the overall balance, which is equivalent to the change in the Bank's external reserves, registered a surplus of $46.1 million, a reversal from 2013's $68.6 million deficit.

ECONOMIC OUTLOOK FOR 2015

The domestic economy is expected to gain further momentum in 2015, fuelled by extended gains in the high value-added stopover segment of the tourism market, following the proposed phased opening of the multi-billion dollar Baha Mar resort in the first six months of 2015, together with the planned hosting of several international events. Construction sector output is also poised to benefit from a variety of ongoing and new foreign investment projects in the tourism area, which should increase opportunities for employment in both sectors. However, employment conditions are likely to remain challenging, until other key sectors, such as wholesale & retail and personal services, exhibit more durable gains. Domestic inflation is projected to rise—albeit from a low base—reflecting the near-term impact of the introduction, on 1st January 2015, of the Value Added Tax (VAT) on the prices of goods and services—although the precipitous fall in global crude oil prices, observed since the middle of 2014, is likely to dampen the upturn.

In the fiscal sector, opportunities for a reduction in the overall deficit and associated debt indicators are enhanced in the context of the new VAT regime, which is projected to achieve revenues equal to an estimated 9.5% of total budgeted tax receipts in FY2014/15. Other measures geared towards enhancing revenue administration and curtailing expenditure growth could also support this more positive trajectory.

Domestic demand is likely to remain mild, and correspondingly private sector credit expansion—as consumers continue to reduce their outstanding debts and banks maintain their conservative lending practices. As a consequence, the strong bank liquidity overhang is poised to persist in the near-term. In this environment, loan delinquencies are projected to remain elevated, until the growth in the economy becomes more broad-based. However, the banking sector as a whole is expected to sustain robust capital levels and buffers.

Developments in the external account will continue to be dominated by foreign direct investment projects, tourism receipts and payments for oil imports. However, current trends indicate that the net impact should lead to a reduction in the current account deficit, as tourism revenue is poised to move upwards, following the opening of the Baha Mar resort, while fuel purchases—which account for almost one-quarter of total imports—should continue to decline if the current downward trend in prices is maintained over the near-term. Given the winding down of the Baha Mar project and the expected reduction in Government's external borrowings, net capital account inflows are likely to be reduced in the coming year; however, the overall impact should be tempered by foreign investments related to other smaller scale developments. Taken together, the opportunities for external reserve rebuilding are expected to improve at a measured pace during the coming year.

CENTRAL BANK'S 40TH ANNIVERSARY CELEBRATIONS

Rawson Square Exhibition

The Rt. Hon. Prime Minister Perry G. Christie, and Mrs. Wendy M. Craigg, Governor of the Central Bank of The Bahamas, viewing exhibits in Rawson Square during the 2014 40th Anniversary Celebrations.

Pictured from left: Past Governor, Sir William Allen, Governor, Wendy Craigg; Rt. Hon. Prime Minister Perry Christie; Mrs. Yolande Donaldson, wife of former Governor, TB Donaldson; former Governors, James Smith, and Julian Francis.

Cocktail Reception at Sapodilla Restaurant

Staff Members at the 40th Anniversary cocktail reception

Official Opening Ceremony

Cake cutting by staff

Art Exhibition – Central Bank's Art Gallery

Bank's Curator, Antonius Roberts, right, with Central Bank Governor, Wendy Craigg.

Church Service at Christ Church Cathedral

Pictured above from left: Archdeacon James Palacious; Deputy Governor, Michael Lightbourne; Former Governor, James Smith; Governor, Wendy Craigg; former governors, William Allen and Julian Francis; Financial Secretary, John Rolle.

Pictured below: The Central Bank's choir "Forty Voices".

The Central Bank of The Bahamas

FINANCIAL STATEMENTS

For the year ended December 31, 2014 and Independent Auditors' Report

PKF
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Directors of The Central Bank of The Bahamas

Report on the financial statements

We have audited the accompanying financial statements of the Central Bank of The Bahamas (the "Bank") which comprise the statement of financial position as of December 31, 2014, and the related statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of The Bahamas as of December 31, 2014 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.

March 24, 2015

Nassau, Bahamas

PKF

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014
(Expressed in Bahamian dollars)

	Notes	2014	2013
ASSETS			
PROPERTY, PLANT AND EQUIPMENT	5	**10,991,951**	**12,114,128**
EXTERNAL ASSETS	6		
Cash and deposits		155,210,814	122,439,760
Trading securities	7	-	4,517,248
Marketable securities issued or guaranteed by foreign governments	7	544,913,338	546,447,500
International Monetary Fund:	8		
Bahamas reserve tranche		9,069,925	9,640,826
Special drawing rights - holdings		78,473,884	58,579,218
		787,667,961	**741,624,552**
DOMESTIC ASSETS			
Bahamas Development Bank bonds	9	4,055,697	4,055,697
Advances to Bahamas Government	10	135,235,783	135,162,931
Bahamas Government Registered Stocks	11	316,537,255	223,509,541
Loans to Bahamas Development Bank	12	4,207,035	4,611,514
Bridge Authority bonds	13	472,385	983,733
Clifton Heritage Authority bonds	14	638,434	638,434
Bahamas Government Treasury bills	15	119,657,414	186,585,946
Currency inventory		7,097,251	7,291,897
Retirement benefit asset	29	1,556,553	3,924,102
Receivables and other assets		16,756,010	11,812,662
		606,213,817	**578,576,457**
TOTAL ASSETS		**$ 1,404,873,729**	**$ 1,332,315,137**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014
(Expressed in Bahamian dollars)

	Notes	2014	2013
LIABILITIES, EQUITY AND RESERVES			
DEMAND LIABILITIES			
Notes in circulation	16	354,148,708	332,695,121
Coins in circulation		21,301,243	19,988,492
Deposits by commercial banks	17	607,745,338	572,209,100
Deposits by Bahamas Government and Bahamas Government agencies		74,421,172	63,763,038
Deposits by international agencies	18	255,443	434,461
Accounts payable and other liabilities		5,661,623	4,542,626
Provision for Investment Currency Market		5,914,733	4,537,716
Health insurance subsidy benefit for retirees	30	2,841,282	2,470,101
		1,072,289,542	**1,000,640,655**
OTHER LIABILITIES			
International Monetary Fund:			
Special drawing rights - allocation	8	**180,265,829**	**191,633,310**
EQUITY AND RESERVES			
Authorized and fully paid capital	19	3,000,000	3,000,000
Exchange equalization account	19	7,975,948	2,167,901
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	19	10,680,403	6,980,403
General reserve	19	119,522,592	116,753,453
		152,318,358	**140,041,172**
TOTAL LIABILITIES, EQUITY AND RESERVES		**$ 1,404,873,729**	**$ 1,332,315,137**

The financial statements, as approved by the Board of Directors and authorized for issuance on March 24, 2015, are signed on its behalf by:

Governor

Director

The accompanying notes form an integral part of these financial statements

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

(Expressed in Bahamian dollars)

	Notes	2014	2013
INCOME			
Interest on foreign investments	20	15,840,316	15,556,731
Interest on loans	20	993,322	916,580
Interest on domestic investments	20	13,619,985	10,149,073
Unrealized exchange gain/(loss)	20	5,808,047	(458,818)
Realized exchange loss	20	(144,941)	-
Unrealized loss on trading securities	7, 20	-	(383,985)
Realized trading gain	20	152,320	27,734
Interest expense	20	(158,337)	(161,012)
Other income	20	5,448,934	1,258,162
Total income		**41,559,646**	**26,904,465**
EXPENSES			
Staff costs	21	18,268,988	10,221,680
General and administrative	21	6,813,451	6,829,786
Depreciation	5	1,633,294	1,682,219
Total expenses		**26,715,733**	**18,733,685**
NET INCOME FOR THE YEAR		**$ 14,843,913**	**$ 8,170,780**
OTHER COMPREHENSIVE INCOME			
Actuarial (loss)/gain on defined benefit pension plan	29	(2,296,711)	1,064,680
Actuarial loss on group insurance subsidy	30	(270,016)	(3,205)
Total other comprehensive (loss)/income		**(2,566,727)**	**1,061,475**
NET COMPREHENSIVE INCOME		**$ 12,277,186**	**$ 9,232,255**

The accompanying notes form 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, 2014

(Expressed in Bahamian dollars)

	Authorized and Fully Paid Capital	Exchange Equalization Account	Contingency Reserve	Other Reserves	Building Fund	General Reserve	Total
Balance at December 31, 2012	3,000,000	2,626,719	750,000	10,389,415	6,980,403	107,062,380	**130,808,917**
Transfer of unrealized exchange loss	-	(458,818)	-	-	-	458,818	-
Net comprehensive income	-	-	-	-	-	9,232,255	**9,232,255**
Balance at December 31, 2013	3,000,000	2,167,901	750,000	10,389,415	6,980,403	116,753,453	**140,041,172**
Transfer of unrealized exchange gain	-	5,808,047	-	-	-	(5,808,047)	-
Transfer from General Reserve to Building Fund	-	-	-	-	3,700,000	(3,700,000)	-
Net comprehensive income	-	-	-	-	-	12,277,186	**12,277,186**
Balance at December 31, 2014	**$ 3,000,000**	**$ 7,975,948**	**$ 750,000**	**$ 10,389,415**	**$ 10,680,403**	**$119,522,592**	**$152,318,358**

The accompanying notes form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Expressed in Bahamian dollars)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net comprehensive income for the year		**12,277,186**	**9,232,255**
Adjustments for non-cash items:			
Discount earned on marketable securities - net	7	(1,103,598)	(1,116,362)
Realized gain on sale of trading securities	20	(152,320)	(27,734)
Unrealized loss on trading securities	7	-	383,985
Depreciation	5	1,633,294	1,682,219
Loss on disposal of property, plant and equipment - net		29,559	250,759
Interest income		(29,405,804)	(25,541,649)
Interest expense		158,337	161,012
Net cash used in operating activities before changes in operating assets and liabilities		**(16,563,346)**	**(14,975,515)**
Decrease/(Increase) in operating assets:			
Currency inventory		194,646	741,616
International Monetary Fund - net SDRs	8	(5,694,429)	573,893
Retirement benefit asset	29	2,367,549	(8,250,053)
Receivables and other assets		(6,054,874)	115,982
(Decrease)/Increase in operating liabilities:			
Notes in circulation	16	21,453,587	7,800,226
Coins in circulation		1,312,751	890,731
Deposits by commercial banks	17	35,536,238	17,006,533
Deposits by Bahamas Government and Bahamas Government agencies		10,658,134	38,868,446
Deposits by international agencies	18	(179,018)	62,947
Provision for Investment Currency Market		1,377,017	971,006
Health insurance subsidy benefit for retirees	30	371,181	96,466
Accounts payable and other liabilities		1,118,997	1,596,742
Net Cash Provided by Operating Activities		**45,898,433**	**45,499,020**

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Expressed in Bahamian dollars)

	Notes	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of HTM marketable securities - net	7	(85,386,719)	(9,817,187)
Proceeds from maturities of HTM marketable securities	7	88,000,000	20,000,000
Purchase of trading securities	7	-	(19,592,578)
Proceeds from sale of trading securities	7	4,658,960	14,729,687
Purchase of property, plant and equipment	5	(547,276)	(1,033,686)
Proceeds from sale of property, plant and equipment		6,600	5,700
Advances made to Bahamas Government	10	90,000,000	(59,000,000)
Advances repaid by Bahamas Government	10	(90,000,000)	30,000,000
Purchase of Bridge Authority bonds	13	(2,500)	(86,000)
Proceeds from matured Bridge Authority bonds	13	506,000	-
Purchase of Bahamas Government Registered Stocks	11	(114,285,800)	(61,272,300)
Proceeds from sales and maturities of Bahamas Government Registered Stocks	11	22,205,500	9,885,800
Repayments of loans by Bahamas Development Bank	12	400,000	200,000
Purchase of Bahamas Government Treasury bills	15	(450,446,229)	(878,509,510)
Proceeds from the sale and maturities of Bahamas Government Treasury bills	15	517,341,258	821,756,250
Proceeds from bank deposits maturing over 3 months		-	16,600,528
Interest received		28,471,351	24,788,769
Net Cash Provided by/(Used in) Investing Activities		**10,921,145**	(91,344,527)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of SDRs	8	(24,980,000)	(30,337,592)
Interest paid		(180,049)	(124,159)
Net Cash Used in Financing Activities		**(25,160,049)**	**(30,461,751)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**31,659,529**	**(76,307,258)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		123,606,735	199,913,993
CASH AND CASH EQUIVALENTS AT END OF YEAR		**$ 155,266,264**	**$ 123,606,735**
CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:			
Cash and deposits		155,210,814	122,439,760
Cash on hand (included in receivables and other assets)		55,450	1,166,975
		$ 155,266,264	**$ 123,606,735**

The accompanying notes form an integral part of these financial statements.

1. GENERAL INFORMATION

The Central Bank of The Bahamas, (the "Bank") was established under the Central Bank of The Bahamas Act, and was continued under the Central Bank of The Bahamas Act, 2000 (the Act). Its main place of business is located at Frederick Street, Nassau, Bahamas. The Bank's principal business is the provision of Central Banking facilities for the Commonwealth of 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 on any matter of a financial or monetary nature referred by him to the Bank for its advice.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The new and revised IFRSs prescribe new accounting recognition, measurement and disclosure requirements applicable to the Bank. When applicable, the adoption of the new standards was made in accordance with their transitional provisions; otherwise, the adoption is accounted for as change in accounting policy under IAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors".

2.1 New and revised IFRSs with no material effect on the financial statements

The following new and revised standards have been adopted in the current year. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years, except when specifically disclosed, but may affect the accounting for future transactions or arrangements.

1. Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilitie*s

The application guidance to IAS 32 has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities. A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, the Bank (a) currently has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank does not have any financial assets and financial liabilities that qualify for the offset based on the criteria.

2.2 New and revised IFRSs in issue but not yet effective

1. IFRS # 9 - *Financial instruments*

The new standard requires all financial assets within the scope of IAS # 39 to be stated at amortized cost or fair value where the intention is to hold such instruments to collect the contractual cash flows which are repayments of capital and interest. All other investments are stated at fair value at the end of each reporting period. Furthermore, where changes in the fair value of financial liabilities at fair value through profit or loss can be attributed to changes in credit risk, those changes are recognized in other comprehensive income/(loss). The only exception would be when such treatment would give rise to, or enlarge an accounting mismatch in profit and loss.

A revised version issued in July 2014 mainly includes impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The standard is effective for years commencing on or after 1 January 2018, with earlier adoption permitted.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2. Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments to IAS 16 prohibit entities from using the revenue-based depreciation method for items of property, plant and equipment. Currently, the Bank uses the straight-line method of depreciation for its property, plant and equipment. The amendments are effective on or after January 1, 2016

3. Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. The amendments are effective for accounting periods beginning on or after July 1, 2014.

The Bank does not anticipate that the application of these amendments to IAS 19 will have significant impact on its financial statements.

4. Annual Improvements to IFRSs 2010-2012 Cycle

IFRS 13 *Fair Value Measurement*

Entities are not prevented by the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The amendments are effective for accounting periods beginning on or after July 1, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of preparation

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

(c) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be measured reliably; revenue is measured at the fair value of the consideration received or receivable. Interest income is accrued on a time basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leases

The Bank as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(e) Foreign currency translation

i. Functional currency 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; the Bahamian dollar is the Bank's functional and presentation currency.

ii. Transactions and balances

Transactions in currencies other than Bahamian dollars are recorded at the rates of exchange ruling at the time of the transactions. Balances in currencies other than Bahamian dollars at the statement of financial position date are converted at the rate of exchange prevailing at that date.

The net change in the Bank's assets and liabilities arising from movements in currency 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 unrealized portion is transferred from general reserve to an exchange equalization account within equity.

(f) Borrowing costs

Borrowing costs are recognized in the period in which they are incurred.

(g) Retirement benefits

The Bank operates both a defined benefit plan and a defined contribution plan.

Defined Benefit Plan

The Bank's defined benefit plan is a contributory plan with participants being permanent employees who joined the Bank prior to age 55 and before December 31, 2013. 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. Remeasurements are recognized in other comprehensive income when they occur. Past service cost is recognized immediately in the period of a plan amendment or curtailment. Contributions are made by employees at 5% of basic salary and the difference by the Bank, which equals to 14.4% (2013: 16.9%).

The amount recognized in the statement of financial position represents the present value of the retirement benefit obligation and the current service cost reduced by the fair value of plan assets. Any asset arising as a result of this calculation is measured at the lower of the surplus in the defined benefit plan and the asset ceiling. The asset ceiling is the present value of any economic benefits available for refund from the plan or reductions in future contributions to the plan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Defined Contribution Plan

Employees who join the Bank on or after 1 January 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.

(h) 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 amount recognized in the statement of financial position represents the present value of the health insurance subsidy benefit obligation.

(i) Fiduciary items

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

(j) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are assessed for indicators of impairment at the end of each reporting period. 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 recognized 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 costs are charged to general and administrative expenses during the financial period in which they occur.

Depreciation is provided in equal annual instalments so as to write off the cost of assets, other than land which is not depreciated, over their estimated useful lives. The following rates are used:

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

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value of the asset and is recognized in the statement of comprehensive income.

The Bank reviews the estimated useful lives of property, plant and equipment at the end of the reporting period. If management's expectations differ from previous estimates, indicating signs of impairment, then, changes are made to the estimated useful lives of property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized 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.

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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(l) Financial instruments

Financial assets and financial liabilities are recognized on the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

(m) 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 favourable to the Bank.

For those financial assets carried at fair value, they are ranked into Levels 1 to 3, based on the extent to which the fair value is observable:

Level 1 - Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Fair value measurements are those derived from 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 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Classification of financial assets

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) 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.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition, it is a part of a portfolio of identified financial instruments that the Bank has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial assets relating to foreign currency rates, interest income calculated using the effective interest rate method and dividends on AFS equity investments are recognized in the statement of comprehensive income. Other changes in the carrying amount of AFS financial assets are recognized directly in equity.

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

iii. Held-to-maturity financial assets

Held-to-maturity 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.

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 amortized cost using the effective interest rate method less any impairment.

Financial assets at amortized cost and the effective interest method

Debt instruments are measured at amortized cost, if both of the following conditions are met:

(1) The asset is held within a business model where the objective is to hold assets in order to collect contractual cash flows; and

(2) The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method less any impairment, with interest income recognized in the statement of comprehensive income.

The effective interest rate method is a method of calculating the amortized 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 of the debt instrument.

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 amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets set out below are classified as loans and receivables originated by the Bank and not held-for-trading. These amounts are stated at amortized cost, using the effective interest rate method less any provision for impairment.

- 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

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 26.18% (2013: 23.03%) 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 the above 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, 2014 or 2013.

(n) Impairment of financial assets

Financial assets that are measured at amortized cost are assessed for indicators of impairment at the end of each reporting period.

The Bank assesses at the end of each year whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment is decreased and the decrease is recognized in the statement of comprehensive income. At year-end, there were no indicators of impairment.

(o) Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership, of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 unfavourable 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 or other financial liabilities.

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

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, where applicable. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest 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 liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition of the financial liability.

(q) Derecognition of financial liabilities

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

(r) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from date of acquisition and demand deposits.

(s) Currency inventory

Currency notes and coins are recorded at cost upon receipt of new stock from the printers and are placed into inventory. They are subsequently expensed when issued into circulation.

(t) Numismatic coins

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

(u) Investment Currency Market provision

A provision account has been established to recognize the Bank's obligations to investors, who might redeem premiums paid upon repatriation of foreign currency previously purchased.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such accounting estimates and judgments are disclosed in Notes 3 (g), (h), (j), (k), (n), 23, 27, 29 and 30.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and Renovations	Office Equipment	Computer Software	Office Furniture and Fittings	Other Fixed Assets	Total
COST							
As of January 1, 2014	2,452,938	14,679,776	10,275,081	8,831,123	6,565,859	297,985	43,102,762
Additions	-	90,911	166,166	273,441	16,758	-	547,276
Disposals/Retirement	-	-	(116,435)	(53,245)	(10,786)	(43,065)	(223,531)
As of December 31, 2014	**2,452,938**	**14,770,687**	**10,324,812**	**9,051,319**	**6,571,831**	**254,920**	**43,426,507**
ACCUMULATED DEPRECIATION							
As of January 1, 2014	-	7,361,384	8,671,365	8,457,466	6,258,824	239,595	30,988,634
Charge for the year	-	434,570	728,505	332,962	116,260	20,997	1,633,294
Disposals/Retirement	-	-	(83,625)	(53,245)	(7,437)	(43,065)	(187,372)
As of December 31, 2014	**-**	**7,795,954**	**9,316,245**	**8,737,183**	**6,367,647**	**217,527**	**32,434,556**
NET BOOK VALUE							
As of December 31, 2014	**$ 2,452,938**	**$ 6,974,733**	**$ 1,008,567**	**$ 314,136**	**$ 204,184**	**$ 37,393**	**$ 10,991,951**
COST							
As of January 1, 2013	2,452,938	14,654,654	10,081,104	8,576,445	6,430,009	283,442	42,478,592
Additions	-	25,122	552,296	254,678	140,400	61,190	1,033,686
Disposals/Retirement	-	-	(358,319)	-	(4,550)	(46,647)	(409,516)
As of December 31, 2013	**2,452,938**	**14,679,776**	**10,275,081**	**8,831,123**	**6,565,859**	**297,985**	**43,102,762**
ACCUMULATED DEPRECIATION							
As of January 1, 2013	-	6,924,288	7,877,065	8,232,122	6,142,555	283,442	29,459,472
Charge for the year	-	437,096	896,160	225,344	120,819	2,800	1,682,219
Disposals/Retirement	-	-	(101,860)	-	(4,550)	(46,647)	(153,057)
As of December 31, 2013	**-**	**7,361,384**	**8,671,365**	**8,457,466**	**6,258,824**	**239,595**	**30,988,634**
NET BOOK VALUE							
As of December 31, 2013	**$ 2,452,938**	**$ 7,318,392**	**$ 1,603,716**	**$ 373,657**	**$ 307,035**	**$ 58,390**	**$ 12,114,128**

6. 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 73.45% (2013: 74.11%) of such liabilities.

7. 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, 2014, marketable securities held by the Bank, which mature after 5 years, constituted 36.58% (2013: 33.02%) of the Bank's external assets.

The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass the above deviation.

(a) The movements in marketable securities classified as held-to-maturity are as follows:

	2014	2013
Beginning balance	542,758,365	551,824,816
Purchases at nominal value	86,000,000	10,000,000
Discount on purchases	(613,281)	(182,813)
Maturities	(88,000,000)	(20,000,000)
Discount earned	1,150,478	1,161,867
Amortized premium	(46,880)	(45,505)
Total	541,248,682	542,758,365
Add: Accrued interest	3,664,656	3,689,135
Ending balance	**$ 544,913,338**	**$ 546,447,500**

These securities bear interest at rates varying between 1.25% and 4.75% (2013: 1.25% and 4.75%).

(b) The movements in marketable securities classified as held-for-trading are as follows:

	2014	2013
Beginning balance	4,506,640	-
Purchases	-	19,592,578
Sales	(4,506,640)	(14,701,953)
Unrealized fair value loss	-	(383,985)
Total	-	4,506,640
Add: Accrued interest	-	10,608
Ending balance	**$ -**	**$ 4,517,248**

8. INTERNATIONAL MONETARY FUND

Background

The International Monetary Fund (IMF) is an organization of 188 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.

Quota, Subscriptions and Reserve Tranche

The IMF's quota system was created to raise funds for loans. Each IMF member country is assigned a quota, or contribution, that reflects the country's relative size in the global economy. Countries contribute money to a pool through a quota system from which countries with payment imbalances can borrow funds temporarily.

Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account, which is essentially a specified basket of four (4) major international currencies (i.e., the U.S. Dollar, Japanese Yen, Euro, and Pound Sterling).

The Bahamas is assigned a quota of SDR 130,300,000 which represents 0.05% of the total quota allocated by the IMF.

The quota is payable partly in SDRs or specified international currencies, and partly in the member's own currency/promissory notes. The difference between a member's quota and the IMF's total holdings of its currency/promissory notes is a country's Reserve Tranche Position (RTP). The member country can access its reserve tranche funds at its discretion, and is not under an immediate obligation to repay those funds to the IMF.

Bahamas Tranche

The reserve tranche represents the amount by which The Bahamas' quota of SDRs with the IMF exceeds subscription payments as noted below:

	2014		2013	
	SDR	$	SDR	$
Quota	130,300,000	188,779,295	130,300,000	200,661,892
Subscription payments in prom notes	(119,507,383)	(173,143,042)	(119,385,163)	(183,853,052)
Subscription payments in currency	(4,532,337)	(6,566,328)	(4,654,557	(7,168,014)
Reserve tranche	**6,260,280**	**9,069,925**	**6,260,280**	**9,640,826**

The reserve tranche was purchased from the Government of The Bahamas in 1976. Subsequent to that purchase, the Bank has funded 25% of each increase in the IMF subscriptions of The Bahamas by issuing interest-free promissory notes which are payable on demand. In the opinion of the Directors, it is not probable that an outflow of resources employing economic benefits will be required to settle these promissory notes, which total $52,660,417 (2013: $51,093,226). Consequently, this amount is not recognized in the Bank's statement of financial position, nor as a contingent liability.

8. INTERNATIONAL MONETARY FUND (Continued)

Bahamas Tranche (Continued)

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.

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.

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 3-month debt in the money markets of the basket of four (4) SDR international currencies.

SDR Holdings

	2014		2013	
	SDR	$	SDR	$
Beginning balance	38,030,916	58,567,579	18,491,399	28,419,799
Purchase of SDRs	16,205,900	24,980,000	19,607,550	30,337,592
Remuneration & other charges	(76,913)	(111,432)	(68,033)	(104,771)
Currency movement (unrealized)	-	(4,969,007)	-	(85,041)
	54,159,903	78,467,140	38,030,916	58,567,579
Add: Accrued interest		6,744		11,639
Total		**78,473,884**		**58,579,218**

SDR Allocation

	2014		2013	
	SDR	$	SDR	$
Beginning balance	124,413,351	191,596,457	124,413,351	191,213,354
Currency movement (unrealized)	-		(11,345,769)	-
	383,103			
Ending balance	124,413,351	180,250,688	124,413,351	191,596,457
Add: Accrued interest		15,141		36,853
Total		**180,265,829**		**191,633,310**

8. INTERNATIONAL MONETARY FUND (Continued)

Bahamas Tranche (Continued)

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 0.04% and 0.13% (2013: 0.06% and 0.13%) during the period.

9. BAHAMAS DEVELOPMENT BANK BONDS

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

	2014	2013
Balance	4,000,000	4,000,000
Add: Accrued interest	55,697	55,697
Total	**$ 4,055,697**	**$ 4,055,697**

These bonds bear interest at the Bahamian prime rate of 4.75% (2013: 4.75%) with $2,000,000 each maturing on August 1, 2025 and November 1, 2025, respectively.

10. 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) 10% of the estimated ordinary revenue of the Government for the year.

At the year end date, advances to the Government were 10.00% (2013: 9.96%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2014	2013
Beginning balance	134,657,052	105,657,052
Additions	90,000,000	59,000,000
Repayments	(90,000,000)	(30,000,000)
Total	134,657,052	134,657,052
Add: Accrued interest	578,731	505,879
Ending balance	**$ 135,235,783**	**$ 135,162,931**

10. ADVANCES TO BAHAMAS GOVERNMENT (Continued)

These advances, which are repayable on demand, bear interest at the following rates:

Rate	2014	2013
0.097%	-	22,970,444
0.138%	-	7,099,000
0.218%	-	20,000,000
0.353%	-	20,000,000
0.356%	19,069,444	29,000,000
0.372%	-	10,000,000
0.395%	20,000,000	-
0.483%	5,000,000	-
0.512%	5,000,000	-
0.554%	60,000,000	-
0.638%	20,000,000	20,000,000
0.840%	5,587,608	5,587,608
	$ 134,657,052	**$134,657,052**

11. BAHAMAS GOVERNMENT REGISTERED STOCKS

The movements in Bahamas Government Registered Stocks are as follows:

	2014	2013
Beginning balance	220,879,500	169,493,000
Purchases	114,285,800	61,272,300
Redemptions/maturities	(22,205,500)	(9,885,800)
Total	312,959,800	220,879,500
Add: Accrued interest	3,577,455	2,630,041
Ending balance	**$ 316,537,255**	**$ 223,509,541**

Bahamas Government Registered Stocks bear interest at rates ranging between 3.5% and 6.00% (2013: 4.78% and 6.00%).

12. LOANS TO BAHAMAS DEVELOPMENT BANK

This balance is comprised of two Government Guaranteed loan facilities made available in accordance with Section 29(l) (f) of the Act.

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

	2014	2013
Beginning balance	4,550,000	4,750,000
Repayments	(400,000)	(200,000)
Total	4,150,000	4,550,000
Add: Accrued interest	57,035	61,514
Ending balance	**$ 4,207,035**	**$ 4,611,514**

These loans bear interest at 2.00% (2013: 2.00%), with $525,000 and $3,625,000 maturing on October 21, 2018 and October 28, 2024, respectively.

13. BRIDGE AUTHORITY BONDS

The movements in the Bridge Authority bonds are as follows:

	2014	2013
Beginning balance	968,300	882,300
Purchases	2,500	86,000
Maturities	(506,000)	-
Total	464,800	968,300
Add: Accrued interest	7,585	15,433
Ending balance	**$ 472,385**	**$ 983,733**

These bonds bear interest at rates ranging from 1.25% to 1.63% (2013: 1.00% to 1.63%) per annum over the Bahamian prime rate with $442,900, $4,000 and $17,900 maturing on March 24, 2019, 2024 and 2029, respectively.

14. CLIFTON HERITAGE AUTHORITY BONDS

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

	2014	2013
Balance	634,600	634,600
Add: Accrued interest	3,834	3,834
Total	**$ 638,434**	**$ 638,434**

15. BAHAMAS GOVERNMENT TREASURY BILLS

Bahamas Government Treasury bills are discounted at rates ranging between 99.55% and 99.86 (2013: 99.53% and 99.91%) maturing 30 to 181 days from acquisition.

The movements in the Bahamas Government Treasury bills are as follows:

	2014	2013
Beginning balance	186,439,040	129,685,780
Purchases	450,446,229	878,509,510
Redemptions/maturities	(517,341,258)	(821,756,250)
Total	119,544,011	186,439,040
Add: Discount earned	113,403	146,906
Ending balance	**$ 119,657,414**	**$ 186,585,946**

16. 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	**2014**	**2013**
$ 0.50	669,736	668,148
$ 1.00	22,114,045	21,279,807
$ 3.00	1,921,257	1,903,731
$ 5.00	10,730,945	10,451,290
$ 10.00	15,794,890	15,196,250
$ 20.00	57,060,500	54,189,060
$ 50.00	102,993,900	96,746,200
$ 100.00	142,783,600	132,180,800
Other bank notes	79,835	79,835
	$ 354,148,708	**$ 332,695,121**

17. DEPOSITS BY COMMERCIAL BANKS

Deposits by commercial banks include balances maintained as statutory reserve in accordance with Section 19 of the Act. Additional funds are also maintained and used to facilitate cheque-clearing/settlement and to effect foreign currency transactions.

The present level of the statutory reserve 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 the minimum balance as required by the Act.

18. 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.

19. EQUITY AND RESERVES

Capital management - The Bank's objectives when managing capital, which is a broader concept than 'equity' on the face of 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, 2014, and 2013, the Bank's paid up capital was equal to the authorized capital of $3,000,000.

Exchange equalization account - Under the terms of Sections 32(2) (a) and 32(2)(b) of the Act, this account represents the net accumulated unrealized profits or losses arising from the revaluation of foreign currency assets and liabilities of the Bank at the statement of financial position date.

Building fund - Profit for the year ended December 31, 2008 of $6,980,403 before restatement, was transferred to a fund for construction of a building in the near future. During the year, the income from allotted bank license fees amounting to $3,700,000 was transferred to the same fund.

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 authorized 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 $119,522,592 (2013: $116,753,453) equivalent to 11.15% (2013: 11.66%) of demand liabilities.

20. INCOME

	2014	2013
	$	$
Interest on foreign investments		
Demand deposits	23,986	37,892
Fixed deposits	397,289	264,240
Marketable securities	15,419,041	15,254,599
	15,840,316	15,556,731
Interest on loans		
Loans to Bahamas Development Bank	85,432	91,679
Advances to Bahamas Government	572,823	500,751
Staff loans	335,067	324,150
	993,322	916,580
Interest on domestic investments		
Bahamas Development Bank bonds	190,000	190,000
Bahamas Government Registered Stocks	12,468,669	9,265,138
Bridge Authority bonds	34,403	54,604
Bahamas Government Treasury bills	893,597	606,014
Clifton Heritage bonds	33,316	33,317
	13,619,985	10,149,073
Unrealized exchange gain/(loss)	5,808,047	(458,818)
Realized exchange loss	(144,941)	-
Unrealized loss on trading securities	-	(383,985)
Realized gain on trading securities	152,320	27,734
Interest expense on SDR allocation	(158,337)	(161,012)
Other income		
Allotted bank license fees	3,700,000	-
Bank statutory fines	530,321	1,194
Commission on foreign currency sales	612,118	865,750
Premium on Investment Currency Market	392,621	301,815
Interest income on SDR holdings	55,779	35,627
Other	158,095	53,776
	5,448,934	1,258,162
Total income	**$ 41,559,646**	**$ 26,904,465**

21. EXPENSES

	2014	2013
Staff costs		
Salaries, wages and gratuity	13,778,772	13,108,496
Group insurance plan	1,341,163	1,270,350
Health insurance subsidy (Note 30)	208,888	193,494
Defined benefit pension (Note 29)	1,449,555	(5,677,405)
Defined contribution pension (Note 29)	51,789	-
Former governors' retirement benefit	117,614	117,613
Staff training	430,438	389,146
National insurance	423,475	413,542
Responsibility allowance	190,625	191,041
Other	276,669	215,403
	$ 18,268,988	**$ 10,221,680**

	2014	2013
General and administrative		
Currency	1,468,550	1,676,023
Professional fees	1,050,444	1,099,536
Utilities	1,148,844	1,150,773
Repairs and maintenance	880,954	882,541
Rent	534,290	539,892
Insurance	263,607	254,323
Subscription and membership fees	225,755	175,756
Cash shipment	233,095	210,104
Stationery and office supplies	74,848	91,707
Directors' remuneration	51,825	49,100
Other	881,239	700,031
	$ 6,813,451	**$ 6,829,786**

22. THE DEPOSIT INSURANCE CORPORATION

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 does not have the power to govern the financial and operating policies of the DIC so as to attain benefits from its activities. Consequently, the Deposit Insurance Corporation is not treated as a subsidiary in these financial statements.

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

23. CONTINGENCIES AND COMMITMENTS

(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 in consultation with legal counsel, 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:

	2014	2013
Not later than one year	182,671	369,146
Later than one year but not later than five years	16,500	199,171
	$ 199,171	**$ 568,317**

(ii) Printing of Currency

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

	2014	2013
Not later than one year	2,407,982	1,225,000
Later than one year but not later than five years	506,686	1,023,627
	$ 2,914,668	**$ 2,248,627**

24. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities:

	2014	2013
EXTERNAL ASSETS		
Geographic Region		
North America	89.74%	97.64%
Europe	10.26%	2.36%
	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%	99.96%
Other	0.00%	0.04%
	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

25. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government corporations and agencies in The Bahamas. Transactions and balances 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.

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

The following balances and transactions relate to key management personnel:

(a) **Compensation:**

	2014	2013
Senior officials' salaries and short-term benefits	1,616,564	1,785,804
Directors' remuneration	51,825	49,100
Post-employment benefits	169,095	158,001
	$ 1,837,484	**$ 1,992,905**

(b) Receivables and other assets include secured loans to employees totalling $9,781,677 (2013: $9,689,506), of which the following relates to key management personnel:

Loans:

	2014	2013
Beginning of the year	1,046,565	1,146,629
Advances during the year	476,511	68,074
Repayments during the year	(410,630)	(168,138)
End of the year	**$ 1,112,446**	**$ 1,046,565**

(c) **Accrued post-employment pension:**

	2014	2013
Pension payments	685,613	394,956
Gratuity	421,697	424,038
End of the year	**$ 1,107,310**	**$ 818,994**

26. FIDUCIARY ITEMS

Section 24 of the Central Bank of The Bahamas Act, 2000 authorizes 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, hold these funds, and pay out money to any person entitled thereto. As at December 31, 2014, the Bank held funds in respect of the unclaimed customer deposits amounting to $86,023,241 (2013: $77,242,631). These amounts are excluded from the statement of financial position.

27. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The table below categorizes financial instruments based on the classification adopted by the Bank:

Categories of Financial Instruments

	December 31, 2014				
	Loans and Receivables (amortized cost) $	**Fair Value Through Profit and Loss $**	**Held-to-Maturity (amortized cost) $**	**Available for Sale $**	**Total Carrying Amount $**
EXTERNAL ASSETS					
Cash and deposits	155,210,814	-	-	-	155,210,814
Trading securities	-	-	-	-	-
Marketable securities issued or guaranteed by foreign governments	-	-	544,913,338	-	544,913,338
International Monetary Fund:					
Bahamas reserve tranche	-	9,069,925	-	-	9,069,925
Special drawing rights - holdings	-	78,473,884	-	-	78,473,884
DOMESTIC ASSETS					
Bahamas Development Bank bonds	4,055,697	-	-	-	4,055,697
Advances to Bahamas Government	135,235,783	-	-	-	135,235,783
Bahamas Government registered stocks	316,537,255	-	-	-	316,537,255
Loans to Bahamas Development Bank	4,207,035	-	-	-	4,207,035
Bridge Authority bonds	472,385	-	-	-	472,385
Clifton Heritage Authority bonds	-	-	638,434	-	638,434
Bahamas Government Treasury bills	-	-	-	119,657,414	119,657,414
Employee loans and other receivables	13,481,677	-	-	-	13,481,677
TOTAL	**629,200,646**	**87,543,809**	**545,551,772**	**119,657,414**	**1,381,953,641**

27 FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Categories of Financial Instruments (Continued)

	December 31, 2014		
	Fair Value Through Profit and Loss $	**Other Financial Liabilities $**	**Total Carrying Amount $**
DEMAND LIABILITIES			
Deposits by commercial banks	-	607,745,338	607,745,338
Deposits by Bahamas Government and Bahamas Government agencies	-	74,421,172	74,421,172
Deposits by international agencies	-	255,443	255,443
Accounts payable and other liabilities	-	5,661,623	5,661,623
Provision for Investment Currency Market	-	5,914,733	5,914,733
OTHER LIABILITIES			
International Monetary Fund:			
Special drawing rights - allocation	180,265,829	-	180,265,829
TOTAL	**180,265,829**	**693,998,309**	**874,264,138**

27. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Categories of Financial Instruments (Continued)

	December 31, 2013				
	Loans and Receivables (amortized cost) $	Fair Value Through Profit and Loss $	Held-to-Maturity (amortized cost) $	Available for Sale $	Total Carrying Amount $
EXTERNAL ASSETS					
Cash and deposits	122,439,760	-	-	-	122,439,760
Trading securities	-	4,517,248	-	-	4,517,248
Marketable securities issued or guaranteed by foreign governments	-	-	546,447,500	-	546,447,500
International Monetary Fund:					
Bahamas reserve tranche	-	9,640,826	-	-	9,640,826
Special drawing rights - holdings	-	58,579,218	-	-	58,579,218
DOMESTIC ASSETS					
Bahamas Development Bank bonds	4,055,697	-	-	-	4,055,697
Advances to Bahamas Government	135,162,931	-	-	-	135,162,931
Bahamas Government Registered Stocks	223,509,541	-	-	-	223,509,541
Loans to Bahamas Development Bank	4,611,514	-	-	-	4,611,514
Bridge Authority bonds	983,733	-	-	-	983,733
Clifton Heritage Authority bonds	-	-	638,434	-	638,434
Bahamas Government Treasury bills	-	-	-	186,585,946	186,585,946
Employee loans and other receivables	9,689,506	-	-	-	9,689,506
TOTAL	**500,452,682**	**72,737,292**	**547,085,934**	**186,585,946**	**1,306,861,854**

27. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Categories of Financial Instruments (Continued)

	December 31, 2013		
	Fair Value Through Profit and Loss $	**Other Financial Liabilities $**	**Total Carrying Amount $**
DEMAND LIABILITIES			
Deposits by commercial banks	-	572,209,100	572,209,100
Deposits by Bahamas Government and Bahamas Government agencies	-	63,763,038	63,763,038
Deposits by international agencies	-	434,461	434,461
Accounts payable and other liabilities	-	4,542,626	4,542,626
Provision for Investment Currency Market	-	4,537,716	4,537,716
OTHER LIABILITIES			
International Monetary Fund:			
Special drawing rights - allocation	191,633,310	-	191,633,310
TOTAL	**191,633,310**	**645,486,941**	**837,120,251**

27. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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 a carrying value that approximates its fair value.

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	$	$	$	$
FINANCIAL INSTRUMENTS				
Marketable securities issued or guaranteed by foreign governments	544,913,338	565,330,890	546,447,500	562,929,559
Bahamas Government Registered Stocks	316,537,255	319,034,785	223,509,541	230,107,829
Loans to Bahamas Development Bank	4,207,035	3,376,349	4,611,514	3,309,547
Bridge Authority bonds	472,385	504,379	983,733	1,028,835
Clifton Heritage Authority bonds	638,434	668,059	638,434	669,940
TOTAL	**866,768,447**	**888,914,462**	**776,190,722**	**798,045,710**

(i) It is the directors' opinion that the carrying value of Bahamas Government Treasury bills, receivables and other assets excluding staff loans, and accounts payable and other liabilities approximate their fair value due to the short-term maturities of these instruments with no expected significant change in value.

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

(iii) Advances to Bahamas Government and deposits by commercial banks, international agencies, Bahamas Government and government agencies have no maturity dates making them demandable any time. Thus, the carrying amount approximates the fair value.

27. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Fair value hierarchy and measurements

The following table categorizes into three levels the inputs used to 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 31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Bahamas reserve tranche	9,069,925	-	-	**9,069,925**
Special Drawing rights - holdings	78,473,884	-	-	**78,473,884**
Available-for-sale financial assets				
Bahamas Government Treasury bills	-	119,657,414	-	**119,657,414**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
Special drawing rights - allocation	180,265,829	-	-	**180,265,829**

	Fair value measurements as at 31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Trading securities	4,517,248	-	-	**4,517,248**
Bahamas reserve tranche	9,640,826	-	-	**9,640,826**
Special Drawing rights - holdings	58,579,218	-	-	**58,579,218**
Available-for-sale financial assets				
Bahamas Government Treasury bills	-	186,585,946	-	**186,585,946**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
Special drawing rights - allocation	191,633,310	-	-	**191,633,310**

27. FINANCIAL INSTRUMENTS AND 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)

Level 1

The fair value of financial instruments traded in an active market is based on quoted market prices at the reporting date.

Level 2

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. The fair value of the financial instrument within this category has been estimated using the present value method.

Level 3

The Bank does not have a level three classification.

There were no transfers between level 1 and 2 during the period.

27. FINANCIAL INSTRUMENTS AND 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

	Fair value measurements as at 31 December 2014			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits	155,210,814	-	-	155,210,814
Loans and receivables				
Bahamas Development Bank bonds	-	4,055,697	-	4,055,697
Advances to Bahamas Government	-	135,235,783	-	135,235,783
Bahamas Government Registered Stocks	-	319,034,785	-	319,034,785
Loans to Bahamas Development Bank	-	3,376,349	-	3,376,349
Bridge Authority bonds	-	504,379	-	504,379
Employee loans and other receivables	-	-	13,481,677	13,481,677
Held-to-maturity investments				
Marketable securities issued or guaranteed by foreign government	565,330,890	-	-	565,330,890
Clifton Heritage Authority bonds	-	668,059	-	668,059
FINANCIAL LIABILITIES				
Other financial liabilities				
Deposits by commercial banks	607,745,338	-	-	607,745,338
Deposits by Bahamas Government and Bahamas Government agencies	74,421,172	-	-	74,421,172
Deposits by international agencies	255,443	-	-	255,443
Accounts payable and other liabilities	5,661,623	-	-	5,661,623
Provision for Investment Currency Market	5,914,733	-	-	5,914,733

27. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Fair value hierarchy and measurements (Continued)

Fair value measurements as at 31 December 2013

	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits	122,439,760	-	-	122,439,760
Loans and receivables				
Bahamas Development Bank bonds	-	4,055,697	-	4,055,697
Advances to Bahamas Government	-	135,162,931	-	135,162,931
Bahamas Government Registered Stocks	-	230,107,829	-	230,107,829
Loans to Bahamas Development Bank	-	3,309,547	-	3,309,547
Bridge Authority bonds	-	1,028,835	-	1,028,835
Employee loans and other receivables	-	-	10,856,481	10,856,481
Held-to-maturity investments				
Marketable securities issued or guaranteed by foreign government	562,929,559	-	-	562,929,559
Clifton Heritage Authority bonds	-	669,940	-	669,940
FINANCIAL LIABILITIES				
Other financial liabilities				
Deposits by commercial banks	572,209,100	-	-	572,209,100
Deposits by Bahamas Government and Bahamas Government agencies	63,763,038	-	-	63,763,038
Deposits by international agencies	434,461	-	-	434,461
Accounts payable and other liabilities	4,542,626	-	-	4,542,626
Provision for Investment Currency Market	4,537,716	-	-	4,537,716

The fair values 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.

28. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks, resulting in 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 minimize 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 analyze 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 currency risk, liquidity risk, interest rate risk and credit risk.

(i) *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 performance 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 either foreign Governments or The Bahamas Government.

Exposure to credit risk	**2014**	**2013**
(a) Governments/Gilt-edged	1,203,887,599	1,164,443,210
(b) Banks with minimum credit-rating of A+	155,210,814	122,439,760
(c) Local Government Institutions	9,373,551	10,289,378
(d) Loans to staff members	9,781,677	9,689,506
	$ 1,378,253,641	**$1,306,861,854**

(ii) *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. The Bank's exposure to market risk arises 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.

28. FINANCIAL RISK MANAGEMENT (Continued)

(a) *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 at par. 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 assets and liabilities by currency.

	BSD	USD	GBP	EUR	SDR
As of 31 December 2014					
Assets					
Cash and deposits	-	155,164,447	2,291	44,076	-
Marketable securities	-	544,913,338	-	-	-
International Monetary Fund:					
Bahamas reserve tranche	-	-	-	-	9,069,925
Special drawing rights - holdings	-	-	-	-	78,473,884
Domestic assets	606,213,817	-	-	-	-
Property, plant and equipment	10,991,951	-	-	-	-
Total assets	**$ 617,205,768**	**$ 700,077,785**	**$ 2,291**	**$ 44,076**	**$ 87,543,809**
Liabilities					
Notes in circulation	354,148,708	-	-	-	-
Coins in circulation	21,301,243	-	-	-	-
Deposits by commercial banks	607,745,338	-	-	-	-
Deposits by Bahamas Government and Bahamas Government agencies	74,421,172	-	-	-	-
Deposits by international agencies	-	255,443	-	-	-
Accounts payable and other liabilities	5,661,623		-		-
Provision for Investment Currency Market	5,914,733	-	-	-	-
Health insurance subsidy benefit	2,841,282	-	-	-	-
Special drawing rights - allocation	-	-	-	-	180,265,829
Total liabilities	**$ 1,072,034,099**	**$ 255,443**	**$ -**	**$ -**	**$ 180,265,829**

28. FINANCIAL RISK MANAGEMENT (Continued)

(a) ***Currency risk*** (Continued)

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

	BSD	USD	GBP	EUR	SDR
As of 31 December 2013					
Assets					
Cash and deposits	-	122,196,555	233,465	9,740	-
Trading securities	-	4,517,248	-	-	-
Marketable securities	-	546,447,500	-	-	-
International Monetary Fund:					
Bahamas reserve tranche	-	-	-	-	9,640,826
Special drawing rights - holdings	-	-	-	-	58,579,218
Domestic assets	578,576,457	-	-	-	-
Property, plant and equipment	12,114,128	-	-	-	-
Total assets	**$590,690,585**	**$673,161,303**	**$ 233,465**	**$ 9,740**	**$ 68,220,044**
Liabilities					
Notes in circulation	332,695,121	-	-	-	-
Coins in circulation	19,988,492	-	-	-	-
Deposits by commercial banks	572,209,100	-	-	-	-
Deposits by Bahamas Government and Bahamas Government agencies	63,763,038	-	-	-	-
Deposits by international agencies	-	434,461	-	-	-
Accounts payable and other liabilities	4,490,576	52,050	-	-	-
Provision for Investment Currency Market	4,537,716	-	-	-	-
Health insurance subsidy benefit	2,470,101	-	-	-	-
Special drawing rights - allocation	-	-	-	-	191,633,310
Total liabilities	**$1,000,154,144**	**$ 486,511**	**$ -**	**$ -**	**$ 191,633,310**

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

	Average Rate		Year-end Spot Rate	
	2014	**2013**	**2014**	**2013**
US$ 1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.6444	1.5732	1.5584	1.6566
EUR 1	1.3214	1.3354	1.2139	1.3769
SDR 1	1.5195	1.5193	1.4488	1.5400

28. FINANCIAL RISK MANAGEMENT (Continued)

(a) *Currency risk* (Continued)

Special Drawing Rights (SDRs), the IMF's unit of account, which is essentially a specified basket of four (4) major international currencies (i.e., the U. S. Dollar, Euro, Japanese Yen, and Pound Sterling). The weightage of each currency, which was consistent in both years, is as follows:

Currency	Weight
US$	41.9%
EURO	37.4%
Japanese Yen	9.4%
GBP	11.3%
	100.0%

(b) *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 also decrease or create losses in the event that unexpected adverse 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.

Certain of the Bank's financial assets and liabilities are exposed to interest rate risk. Marketable securities carry an average yield of 2.95% (2013: 2.90%); however, if these securities had a reduced average yield of 2.73% (2013: 2.67%), 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 $1,149,895 (2013: $1,258,770). Had the yield been tilted towards the higher end of the spectrum, to 3.17% (2013: 3.13%), income for the year and equity at year end would have increased by $1,149,895 (2013: $1,258,770).

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 income and equity for the year would amount to approximately $1,029,418 (2013: $467,083). If interest rates had decreased by 50 basis points, the decrease in equity and net operating results for the year would amount to approximately $1,029,418 (2013: $467,083).

	December 31, 2014 $	December 31, 2013 $
Fixed Rate Instruments		
Financial Assets	977,425,212	1,008,377,654
Financial Liabilities	-	-
Variable Rate Instruments		
Financial Assets	386,149,340	287,766,623
Financial Liabilities	180,265,829	191,633,310

28. FINANCIAL RISK MANAGEMENT (Continued)

(iii) *Liquidity risk*

Liquidity risk is the risk that the Bank maybe 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 fulfil commitments to lend.

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

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 following tables analyse financial assets and liabilities of the Bank into relevant maturity rankings, based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts in the tables are the undiscounted cash flows.

28. FINANCIAL RISK MANAGEMENT (Continued)

	Up to 1 Month $	1 to 3 Months $	3 Months to 1 Year $	1 to 5 Years $	Over 5 Years $	Total $
As of December 31, 2014						
Period of maturity						
Financial Assets						
Cash and deposits	155,210,814	-	-	-	-	155,210,814
Marketable securities issued or guaranteed by foreign governments	9,999,469	19,990,143	70,269,589	156,541,630	288,112,507	544,913,338
International Monetary Fund:						
Bahamas reserve tranche	9,069,925	-	-	-	-	9,069,925
Special drawing rights - holdings	78,473,884	-	-	-	-	78,473,884
Bahamas Development Bank bonds	-	-	-	-	4,055,697	4,055,697
Advances to Bahamas Government	135,235,783	-	-	-	-	135,235,783
Bahamas Government Registered stocks	-	-	3,577,455	40,536,500	272,423,300	316,537,255
Bahamas Government Treasury Bills	-	71,741,799	47,915,615	-	-	119,657,414
Loans to Bahamas Development Bank	-	-	-	582,035	3,625,000	4,207,035
Bridge Authority bonds	-	-	-	450,485	21,900	472,385
Clifton Heritage Authority bonds	-	-	-	-	638,434	638,434
Currency inventory	7,097,251	-	-	-	-	7,097,251
Retirement benefit asset	-	-	-	-	1,556,553	1,556,553
Receivables and other assets	16,756,010	-	-	-	-	16,756,010
Property, plant and equipment	-	-	-	-	10,991,951	10,991,951
Total financial assets	**411,843,136**	**91,731,942**	**121,762,659**	**198,110,650**	**581,425,342**	**1,404,873,729**

28. FINANCIAL RISK MANAGEMENT (Continued)

(iii) *Liquidity risk* (Continued)

	Up to 1 Month $	1 to 3 Months $	3 Months to 1 Year $	1 to 5 Years $	Over 5 Years $	Total $
As of December 31, 2014						
Period of maturity						
Financial Liabilities						
Notes in circulation	354,148,708	-	-	-	-	354,148,708
Coins in circulation	21,301,243	-	-	-	-	21,301,243
Deposits by commercial banks	607,745,338	-	-	-	-	607,745,338
Deposits by Bahamas Government and Bahamas Government agencies	74,421,172	-	-	-	-	74,421,172
Deposits by international agencies	255,443	-	-	-	-	255,443
Accounts payable and other liabilities	5,661,623	-	-	-	-	5,661,623
Provision for Investment Currency Market	5,914,733	-	-	-	-	5,914,733
Health insurance subsidy benefit	-	-	-	-	2,841,282	2,841,282
International Monetary Fund: Special drawing rights - allocation	180,265,829	-	-	-	-	180,265,829
Total financial liabilities	**1,249,714,089**	**-**	**-**	**-**	**2,841,282**	**1,252,555,371**
Net liquidity gap, December 31, 2014	**$(837,870,953)**	**$ 91,731,942**	**$121,762,659**	**$198,110,650**	**$578,584,060**	**$152,318,358**

28. FINANCIAL RISK MANAGEMENT (Continued)

(iii) *Liquidity risk* (Continued)

	Up to 1 Month $	1 to 3 Months $	3 Months to 1 Year $	1 to 5 Years $	Over 5 Years $	Total $
As of December 31, 2013						
Period of maturity						
Financial Assets						
Cash and deposits	122,439,760	-	-	-	-	122,439,760
Trading securities	-	4,517,248	-	-	-	4,517,248
Marketable securities issued or guaranteed by foreign governments	10,069,535	20,298,726	58,071,857	213,137,676	244,869,706	546,447,500
International Monetary Fund:						
Bahamas reserve tranche	9,640,826	-	-	-	-	9,640,826
Special drawing rights - holdings	58,579,218	-	-	-	-	58,579,218
Bahamas Development Bank bonds	-	-	-	-	4,055,697	4,055,697
Advances to Bahamas Government	135,162,931	-	-	-	-	135,162,931
Bahamas Government Registered stocks	-	-	663,059	802,077	222,044,405	223,509,541
Bahamas Government Treasury Bills	-	120,444,213	66,141,733	-	-	186,585,946
Loans to Bahamas Development Bank	-	-	-	684,487	3,927,027	4,611,514
Bridge Authority bonds	-	-	513,920	-	469,813	983,733
Clifton Heritage Authority bonds	-	-	-	-	638,434	638,434
Currency inventory	7,291,897	-	-	-	-	7,291,897
Retirement benefit asset	-	-	-	-	3,924,102	3,924,102
Receivables and other assets	11,812,662	-	-	-	-	11,812,662
Property, plant and equipment	-	-	-	-	12,114,128	12,114,128
Total financial assets	**354,996,829**	**145,260,187**	**125,390,569**	**214,624,240**	**492,043,312**	**1,332,315,137**

28. FINANCIAL RISK MANAGEMENT (Continued)

(iii) *Liquidity risk* (Continued)

	Up to 1 Month $	1 to 3 Months $	3 Months to 1 Year $	1 to 5 Years $	Over 5 Years $	Total $
As of December 31, 2013						
Period of maturity						
Financial Liabilities						
Notes in circulation	332,695,121	-	-	-	-	332,695,121
Coins in circulation	19,988,492	-	-	-	-	19,988,492
Deposits by commercial banks	572,209,100	-	-	-	-	572,209,100
Deposits by Bahamas Government and Bahamas Government agencies	63,763,038	-	-	-	-	63,763,038
Deposits by international agencies	434,461	-	-	-	-	434,461
Accounts payable and other liabilities	4,542,626	-	-	-	-	4,542,626
Provision for Investment Currency Market	4,537,716	-	-	-	-	4,537,716
Health insurance subsidy benefit	-	-	-	-	2,470,101	2,470,101
International Monetary Fund: Special drawing rights - allocation	191,633,310	-	-	-	-	191,633,310
Total financial liabilities	**1,189,803,864**	**-**	**-**	**-**	**2,470,101**	**1,192,273,965**
Net liquidity gap, December 31, 2013	**$(834,807,035)**	**$ 145,260,187**	**$ 125,390,569**	**$214,624,240**	**$ 489,573,211**	**$140,041,172**

(iv) *Operational risk*

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls are ineffective, 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, restricted access, authorization and reconciliation procedures, staff education and assessment processes, which are monitored through the internal audit function.

29. RETIREMENT PENSION BENEFITS

Defined Contribution Plan

	2014	2013
Amount recognized as an expense (Note 21)	$ 51,789	$ -

Defined Benefit Plan

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

	2014	2013
Present value of obligation at start of year	47,597,873	53,478,672
Interest cost	2,316,473	2,620,466
Current service cost	2,158,615	2,301,762
Past service cost - vested benefits	-	(7,707,445)
Benefits paid	(2,536,832)	(2,138,693)
Actuarial loss/(gain) on obligation	763,000	(1,014,789)
Actuarial loss on obligation due to financial assumption changes	1,669,166	57,900
Present value of obligation at end of year	**$ 51,968,295**	**$ 47,597,873**
Fair value of plan assets at start of year	51,521,975	49,152,722
Interest income	2,558,814	2,452,851
Contribution paid - by employer	1,378,717	1,507,967
Contribution paid - by employees	473,119	439,337
Benefits paid	(2,536,832)	(2,138,693)
Administrative cost	(6,400)	-
Return on plan assets, excluding interest income	135,455	107,791
Fair value of plan assets at end of year	**$ 53,524,848**	**$ 51,521,975**

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

	2014	2013
Present value of funded obligations	(51,968,295)	(47,597,873)
Fair value of plan assets	53,524,848	51,521,975
	$ 1,556,553	**$ 3,924,102**

29. RETIREMENT PENSION BENEFITS (Continued)

Defined Benefit Plan (Continued)

Summary of plan investments, in accordance with IAS # 19:

	2014	2013
Cash	16,850	217,837
Interest receivable	604,348	569,438
Bahamas Government Registered Stocks	52,284,900	50,321,100
Other bonds	330,100	326,100
Shares	300,000	100,000
Accounts payable	(11,350)	(12,500)
Total	**$ 53,524,848**	**$ 51,521,975**

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

	2014	2013
Current service cost	1,685,496	1,862,425
Administrative cost	6,400	-
Net interest (income)/expense	(242,341)	167,615
Past service cost - vested benefits	-	(7,707,445)
	$ 1,449,555	**$ (5,677,405)**
Remeasurements recognized in OCI	**$ 2,296,711**	**$ (1,064,680)**

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

	2014	2013
Net (asset)/liability at beginning of year	(3,924,102)	4,325,950
Net expense/(income) recognized in net income	1,449,555	(5,677,405)
Employer contributions	(1,378,717)	(1,507,967)
Remeasurements recognized in OCI	2,296,711	(1,064,680)
Net asset at end of year	**$ (1,556,553)**	**$ (3,924,102)**

29. RETIREMENT PENSION BENEFITS (Continued)

The Bank intends to contribute approximately 14.4% of members' pay to the plan during 2015 (2014: actual 14.4%).

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

	2014	2013
Discount rate	5.00%	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 retirees	1.25%	1.25%

The actual return on plan assets during the year was $2,694,269 (2013: $2,560,642).

Sensitivity & Other Results

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

	2014	2013
Pensioners	12,845,577	12,349,988
Vested actives	36,871,007	32,985,328
Unvested actives	2,251,711	2,262,557
	$ 51,968,295	$ 47,597,873

Of the pensioner liability of $12,845,577 (2013: $12,349,988), $1,246,584 (2013: $1,221,916) relates to assumed cost of living adjustments.

Of the liability for actives of $39,122,718 (2013: $35,247,885), $1,342,689 (2013: $1,211,035) relates to assumed cost of living adjustments while $8,533,991 (2013: $7,211,374) relates to assumed future salary increases.

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

	2014		2013	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(7,670,397)	9,817,303	(7,178,296)	9,210,901
Future salary increases	2,825,241	(2,510,747)	2,241,665	(2,002,615)

If all members lived one year longer than projected, the liability at year-end would be $52,654,232 (2013: $48,244,876).

The weighted average duration of the defined benefit obligation at 31 December 2014 is 16.6 years (2013: 16.8 years).

29. RETIREMENT PENSION BENEFIT (Continued)

Defined Benefit Plan (Continued)

In the year 2013, the Bank adopted the revised IAS # 19, Employee Benefits and amended certain terms of the plan, as follows:

Amendments to the Plan in 2013

1) The number of years over which salaries are averaged for pension calculations was increased from 3 to 5 years.

2) Lump sum pension rate was changed from a maximum of 50% to a minimum of 50%.

3) The annual Cost of Living Allowance (COLA) adjustment to pensions in payment was fixed at 1.25% from the previous provision of awarding actual inflation in the previous calendar year, up to a maximum of 5%.

30. HEALTH INSURANCE SUBSIDY BENEFIT FOR RETIREES

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

	2014	2013
Present value of obligation at start of year	2,470,101	2,373,635
Interest cost	120,812	116,176
Current service cost	88,076	77,318
Benefits paid	(107,723)	(100,233)
Actuarial loss on obligation	270,016	3,205
Present value of obligation at end of year	**$ 2,841,282**	**$ 2,470,101**
Contributions paid by employer	107,723	100,233
Benefits paid	(107,723)	(100,233)
	$ -	$ -

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

	2014	2013
Current service cost	88,076	77,318
Net interest cost	120,812	116,176
	$ 208,888	**$ 193,494**
Remeasurements recognized in OCI	**$ 270,016**	**$ 3,205**

30. HEALTH INSURANCE SUBSIDY BENEFIT FOR RETIREES (Continued)

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

	2014	2013
Net liability at beginning of year	2,470,101	2,373,635
Net expense recognized in net income	208,888	193,494
Employer contributions	(107,723)	(100,233)
Remeasurements recognized in OCI	270,016	3,205
	$ 2,841,282	**$ 2,470,101**

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

	2014	2013
Discount rate	5.00%	5.00%
Rate of Medical Subsidy Increases	0.00%	0.00%

Sensitivity & Other Results

The benefit obligation as at year-end comprises:

	2014	2013
Pensioners	1,297,536	1,129,570
Actives	1,543,746	1,340,531
Total	**$ 2,841,282**	**$ 2,470,101**

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

	2014		2013	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(340,931)	423,951	(302,613)	377,720

If all members lived one year longer than projected, the liability would be $2,915,663 (2013: $2,538,692).

The weighted average duration of the health insurance subsidy benefit obligation at 31 December 2014 is 13.3 years (2013: 14.1 years).

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