THE CENTRAL BANK OF THE BAHAMAS

ANNUAL REPORT
& Statement of Accounts

2013

For the year ended
31 December, 2013

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.

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.

March 22, 2014

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 2013. 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 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 that adequate support is maintained 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 supervisory 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 inspections and market intelligence informs the risk-based assessments that are used to monitor the soundness of licensees, and stress testing is undertaken to gauge their 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 ensure 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 services 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.

Directors and Senior Officials

At December 31, 2013

DIRECTORS

Mrs. Wendy Craigg - Chairman

Mr. Maxwell Gibson

Mr. L. Edgar Moxey

Archdeacon James Palacious

Mr. Felix Stubbs

SENIOR OFFICIALS

Mrs. Wendy M. Craigg	Governor
Mr. Michael F. Lightbourne	Deputy Governor
Mr. Abhilash Bhachech	Inspector, Banks & Trust Companies
Ms. Deborah Ferguson	Manager, Human Resources
Mrs. Cassandra C. Nottage	Manager, Banking Supervision
Ms. Rochelle A. Deleveaux	Legal Counsel & Board Secretary
Mr. Gerard L. Horton	Manager, Exchange Control
Mr. Alwyn Jordan	Sr. Economist, Research
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
Mr. Barry Turnquest	Sr. Deputy Manager, Banking

Contents

Foreword

In the context of a gradual and uneven global recovery, the Bahamian economy maintained a mildly positive growth pace in 2013. Weakness in stopover arrivals dampened the tourism performance, while we continued to observe a stable contribution from foreign investment related activities. Nevertheless, the narrowness of the growth trajectory provided limited opportunities for improving employment conditions; private sector credit contracted for yet another year, and loan arrears remained elevated. The fiscal situation, although registering an increase in the overall deficit for FY2012/13, achieved some improvement in the subsequent six-month period, as a number of significant infrastructure projects were completed and net lending to public entities was curtailed. As the performance of the real sector was below expectations, downward pressure was exerted on the external reserves; however, Government's foreign currency deficit financing activities helped to mitigate the falloff in external reserves over the year.

The Bank continued to focus on a number of strategic activities aimed at strengthening the financial sector architecture, in pursuit of the overarching financial stability objective. Sustained efforts at assessing potential risks to the financial system were enhanced with the production of the first semi-annual financial stability report for The Bahamas. Supervisors kept abreast of international standards, as a means of ensuring that the regulatory framework remains appropriate and competitive. Apart from continuing our risk-based assessments of licensees, and enhanced credit quality surveillance and stress testing exercises, in late 2013, we launched key elements of our Basel II and III Implementation Programme.

Our legislative agenda was quite full, and details of the significant works are included in this report. Next year, the Bank is set to take statutory responsibility for the prudential regulation and supervision of credit unions and, in preparation for this new responsibility, we drafted the Cooperative Credit Union Bill and other accompanying regulations which were disseminated for public consultation. In addition, work on the draft Credit Reporting Bill and regulations were significantly advanced, which we now expect to issue for public consultation in early 2014, with enactment to follow later in the year. We also anticipate issuing, for public consultation within the same time frame, proposed enhancements to the dormant account administration regime, and to the Central Bank Act—all with the objective of achieving operational efficiencies.

In other strategic financial sector initiatives, the working group tasked with implementing the recommendations from the 2012 Financial Sector Assessment Programme (FSAP), made important progress in addressing areas relating to the Deposit Insurance Corporation's (DIC) public awareness responsibilities.

Our commitment to ensure operational efficiency and resilience was reinforced through continued emphasis on capacity building, by exposing our staff to training opportunities in strategic areas; ongoing streamlining of operational processes, through increased use of technology; the build-out of our business continuity processes and full implementation of our succession planning framework.

These achievements in 2013 could not have been realized without the continued hard work and dedication of our staff. I, therefore, wish to thank my colleagues for their cooperation and support, and call for their ongoing commitment as we seek to implement the measures required to achieve our objectives.

Wendy Craigg

Governor

2013 at a Glance

- Domestic economic activity was relatively subdued in 2013, due mainly to the falloff in the high value-added stopover segment of the tourism market; however, foreign investment projects, such as the multi-billion dollar Baha Mar development, supported growth in the construction sector.

- Domestic prices were relatively flat during the year, as housing-related costs contracted and the pace of growth in energy prices slowed.

- Employment conditions remained challenging, with the jobless rate firming by 1.4 percentage points to 15.4% by November 2013.

- The fiscal deficit to GDP ratio deteriorated to an estimated 6.6% in FY2012/13, from 5.6% in FY 2011/12, reflecting a decline in revenues and higher expenditure.

- Given the significant increase in borrowings, the ratio of the National Debt to GDP rose by 5.4 percentage points, year-on-year, to an estimated 66.2% by end-2013.

- The Bank, with assistance from other regulatory agencies, published its first Financial Stability Report for the year ended 2012.

- The Bank formally rolled-out its Basel II and III Implementation Programmes, which are expected to be executed over a three-year period.

- The Bank Supervision Department's Risk Based Supervisory Framework (RBSF) became fully operational in 2013.

- Following the recommendations of the 2012 FSAP, the Bank formally launched the DIC website and also implemented a number of institutional strengthening measures to enhance accountability.

- Drafts of the Cooperative Credit Union Bill and accompanying regulations were prepared and disseminated for public consultation.

Our Operations

GOVERNANCE AND 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. The Bank continues to place significant emphasis on its governance, organizational structure and risk management arrangements in delivering on its mandate.*

Board of Directors

Under the governance structure established in the Act, the Board of Directors provides general oversight of the management and operations of the Bank, inclusive of its strategic planning and risk management practices, financial and accounting operations and human capital management. The Board comprises the Governor (Chair) and four (4) independent Directors, who are appointed by the Governor General, on the advice of the Minister of Finance. Directors, Messrs. Maxwell Gibson, L. Edgar Moxey, Felix Stubbs and Archdeacon James Palacious, were reappointed for one (1) year, with effect from 1st July, 2013.

On appointment to the Board, each Director is required, under the Act, to sign a declaration of secrecy in relation to the affairs of the Bank. Directors are indemnified by the Bank against personal, civil or criminal liability, in respect of any act done in good faith while carrying out, or intending to carry out, their duties under the Act. Recognizing their responsibility for maintaining a reputation for integrity and propriety, Board members also subscribe to a Code of Conduct, which provides guidance on the ethical standards expected of them in the execution of their responsibilities and duties.

Among the statutory provisions governing Board appointments, Directors may not hold more than one percent (1%) of the ordinary paid up share capital of, or have a controlling interest in any financial institution, trust company or money transmission business regulated by the Bank.

The Act provides for the appointment of two (2) Deputy Governors who may attend Board meetings, but are not eligible to vote. However, where a Deputy Governor, in the absence or disability of the Governor, is chairing the Board meeting, he or she is eligible to vote. Currently, only one (1) Deputy Governor has been appointed.

The Board, which is statutorily required to hold monthly meetings, met on twelve (12) occasions in 2013; three (3) Directors form a quorum. The Board's monthly deliberations included a discussion of global and domestic economic and financial conditions and their implications for the evolution of external reserves and the Bank's strategic operations, and Directors kept abreast of the Bank's activities and key decisions through detailed quarterly operational briefings prepared by management. In keeping with the Board's remit, several organizational policies and risk mitigation matters were discussed and approved by Directors—inclusive of the Bank's enterprise business continuity plan, the refreshed succession plan, and revisions to the employee Defined Benefit pension arrangements, aimed at securing greater cost effectiveness.

Legislative Activities

In keeping with its strategic objectives, the Bank completed a comprehensive review of the Act, with a view to modernizing and enhancing the provisions, where deemed necessary. With the assistance of IMF legal experts, under a technical assistance programme requested by the Bank, a working draft of proposed changes to the existing Act was prepared, and submitted to the Ministry of Finance in November, 2013. Generally, the proposed amendments articulate a clearer and more robust governance by, *inter alia*, modernizing provisions for external reserve management, exchange rate matters and prudential policies, and strengthening/clarifying existing provisions relating to the objectives and functions of the Bank and its legal and financial environment. The Bank anticipates that the proposed revisions to the Act will be finalized, issued for public consultation and enacted in 2014.

Audit Committee

In performing its oversight function, the Board is supported by the Audit Committee, whose mandate covers responsibility for the integrity of the financial reporting process, the effectiveness of internal controls, risk management issues, liaising with the external auditors, and making recommendations to the Board on financial reporting and the performance of the internal audit function. The Committee also deliberates on the external and internal audit findings, and monitors the implementation of recommendations to address the risks identified.

The Audit Committee comprises three (3) non-executive Board Members, Messrs. L. Edgar Moxey (Chairman), Maxwell Gibson and Felix Stubbs. The Heads of Internal Audit and the Accounts Department normally attend the meetings of the Committee. In

Box 1: Strategic Focus for 2014

IMPROVE OPERATIONAL FRAMEWORK FOR MONETARY POLICY

- Continue work on improving the predictive capability and sectoral linkages of the economic forecasting model.
- Design, test and introduce market-based auction mechanism for Government bonds, and other initiatives aimed at improving efficiency in the Government securities market.
- Implement the Online Reporting System (ORIMS), an e-filing platform that will streamline the reporting, collection and analysis of data required for supervisory and research processes.
- Move forward with the proposed amendments to the Central Bank of The Bahamas Act, 2000 (the Act), intended to remove archaic provisions which impede the efficiency of the Bank's operations and bring the Act in line with current international best practices for central banks, through the final legislative stage.
- Sustain the development of the payment system oversight functions of the Bank, concluding the framework for supporting the interoperability of banks' ATMs and other retail services across the ACH platform, and undertaking a review of non-systemically important payment providers to ensure proper oversight.

STRENGTHEN REGULATORY AND SUPERVISORY FRAMEWORKS

- Conduct a review of existing banking laws to ensure support for risk-based supervision, and achieve full integration with onsite examinations.
- Complete the implementation of Phase I of the Basel II and III programme, which addresses requirements for capital adequacy, licensees' internal capital adequacy assessments, market disclosure, as well as supervisory expectations relating to credit and operational risk management.
- Continue to review relevant pieces of legislation, regulations and guidelines, to maintain compliance with evolving international standards.
- Enhance the monitoring of credit risks, through regular meetings with commercial banks and the stress testing exercises.

ENHANCE FINANCIAL STABILITY ARRANGEMENTS

- Continue to develop the content of the Bank's semi-annual Financial Stability Report.
- Conclude the ongoing exercise to enact a credit reporting bill and select an appropriate operator to manage the credit bureau.
- Complete the integration of credit unions into the supervisory and regulatory oversight of the Central Bank.
- Progress work on the legislative framework necessary to implement an effective national crisis management plan.

IMPROVE OPERATIONAL EFFICIENCY

- Continue reviews of business processes and develop requisite documentation on policies and procedures.
- Conduct further reviews of the Exchange Control arrangements, with the aim of achieving greater operational efficiencies and determining additional opportunities for liberalization.
- Maintain the resiliency of the Bank's operations, through ongoing testing of the business continuity plan, the identification and establishment of a secondary site, and other redundancy arrangements.
- Sustain efforts to leverage automation and technology in work processes, to achieve greater operational efficiency.
- Ensure continuity of the Bank's operations through appropriate succession planning, effective training and capacity building initiatives, and the availability of the necessary specialist skill sets.

2013, the Committee held twelve (12) meetings, inclusive of three (3) sessions with the external auditors.

Accountability & Transparency

In the conduct of its affairs, the Bank seeks to ensure a high degree of transparency, which facilitates accountability and more informed decision making by the broader public. In accordance with statutory requirements, the Bank prepares a report of its annual activities, which is submitted to the Minister of Finance within four (4) months after the end of each financial year and tabled before Parliament. Monthly balance sheet information is also provided to the Minister and published in the Official Gazette.

The Bank releases information on domestic economic and financial developments in its Monthly Economic and Financial Development (MEFD) reports, Quarterly Economic Reviews (QER), Quarterly Statistical Digests (QSD) and the recently introduced Financial Stability Report, which is published semi-annually. All of these documents are made available to the public on the Bank's website.

As part of the Bank's arrangements to facilitate and maintain coordination between monetary and fiscal policy, the Governor meets with the Minister, or his designee, on a monthly basis. This also provides an opportunity to keep the Minister informed of the Bank's performance in meeting its statutory obligations.

During 2013, the Governor and senior officers of the Bank gave official speeches on various topics, including domestic economic conditions and prospects, financial regulatory and supervisory developments, and updates on other strategic projects.

Strategic Planning

The Board-approved Strategic Plan (2009-2013) establishes the goals, objectives and strategies which continued to define the activities pursued by the Bank in 2013. For this five (5) year period, the Bank identified six (6) strategic goals, which are closely aligned with its statutory duties and functional priorities, namely:

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 Payments System

Goal 5: Prudent Foreign Exchange Management

Goal 6: Operational Efficiency

Ownership of the Plan is promoted through the Bank's performance management system and individual employee performance targets. Progress with agreed strategic activities was assessed throughout the year and communicated to the Board. In this final year of the Plan, the Bank achieved substantial completion on several important initiatives in the area of the safety and soundness of the financial system, and monetary policy implementation—although a number of the legislative solutions will not be enacted until 2014. These include the draft legislation in respect of the credit unions, the credit bureau, the imposition of administrative fines and penalties, and the administration of dormant accounts. Efforts are well underway to finalize strategic activities for the new three-year Strategic Plan.

Bank Management

The Governor, the Deputy Governor and Department/Unit Heads are integrally involved in the governance of the Bank's daily operations, meeting at least weekly, or as frequently as matters dictate, to discuss strategic

Box 2: Management Committees

- **Executive Committee:** meets weekly, to consider the management and day-to-day operations of the Bank;
- **Monetary Policy Committee:** convenes monthly, to discuss economic and monetary developments and decide on issues relating to the formulation of monetary policy;
- **Investment Committee:** meets weekly, and maintains oversight and management of the external reserves and provides input into other Bank-related investment decisions;
- **Policy Advisory Committee:** convenes monthly, to deliberate on supervisory and regulatory policy initiatives;
- **Selection and Appointment Committee:** meets as necessary, to undertake final screening and make appointment recommendations in respect of candidates applying for position vacancies; and
- **Pension Administrative Committee:** convenes quarterly, and considers matters relating to the administration of the Bank's Defined Benefit pension plan.

Box 3: Monetary Policy in 2013

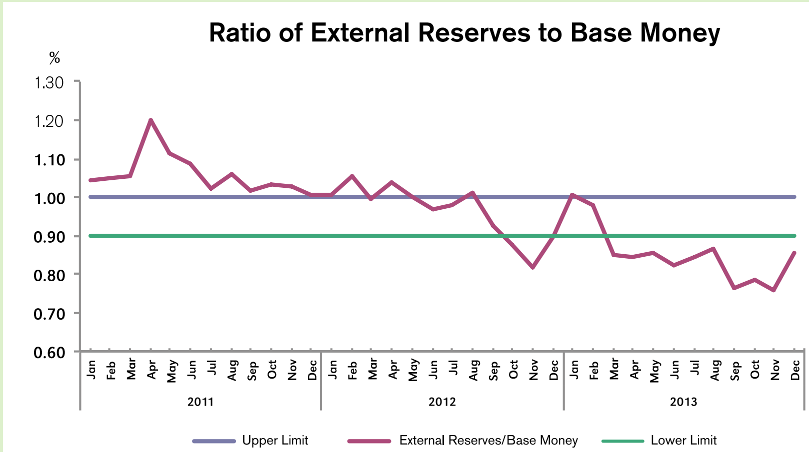
The Central Bank's Monetary Policy Committee (MPC), which is chaired by the Governor and comprises heads of several Departments and other technicians, met monthly to consider developments in the international and domestic environments, and their effect on the key performance indicators tracked by members. Deliberations of the MPC are summarized in a Press Release, issued to the public within five (5) days of the meeting.

In 2013, the stance of monetary policy was driven by the need to ensure external reserve adequacy, commensurate with the fixed exchange rate regime of the country. The Committee's deliberations were conducted against the backdrop of several inter-related trends observed over the past three (3) years.

- Economic growth remained mild, narrow and absent gains in private sector credit.
- The combination of slow recovery fundamentals in key source markets, especially in the main US economy, and increasing regional competition, which continued to constrain growth in tourism activity.
- Foreign investment-led construction activity provided a steady, positive contribution to domestic economic activity.
- The persistence of high unemployment provided little scope for firming in private sector credit demand.
- Banks' loan arrears remained elevated, as borrowers experienced very little improvement in their ability to meet financial obligations.
- High levels of bank liquidity dampened interest rates on deposits, while enhanced borrowing requirements created some tightening in lending rates.
- Sluggish real sector activity, amid sustained demand for foreign currency to cover current payments, including the dominant oil imports and above-trend bank profit remittances, increased pressure on external reserves—especially in the second half of the year.

In assessing the risks to the economy, Committee members identified three (3) main sources of potential headwinds, namely, the ongoing euro zone debt crisis, with implications for global economic growth, the potential unwinding of the Federal Reserve's "quantitative easing" programme and its effects on the United States' economic recovery, and a slowdown in growth in emerging markets, such as China. However, the MPC concluded that the balance of risks to the recovery in the Bahamian economy were relatively modest.

In terms of the key external reserve performance indicator, namely, the ratio of external reserves to base money, the Committee observed that it remained within the 90% to 100% threshold during the first two (2) months of the year, boosted by the earlier receipt of a US$180.0 million loan in December, 2012. Thereafter, the combination of diminished levels of foreign currency inflows during the peak tourism season, sustained import demand and bank profit remittances, resulted in the ratio falling steadily to below the minimum 90% threshold for the balance of the year. Some improvement, however, was achieved in December, following the receipt of proceeds from the Government's US$75 million short-term loan.



The Committee maintained its focus on various indicators of banking sector soundness, and noted that liquidity persisted at historically high levels, owing primarily to the softness in economic activity which constrained private sector demand. Notwithstanding the further deterioration in loan arrears, the MPC concluded that there was no near-term risk to financial stability, given banks' healthy capital levels, which remained in excess of regulatory requirements, and their ongoing increases to provisions to address loan impairments.

Given the observed weakness in net foreign exchange inflows from real sector activities, necessary to sustain a rebuilding of the external reserve buffers, the MPC left its monetary policy stance unchanged.

activities and work programmes. During 2013, emphasis was maintained on ensuring the appropriateness of the Bank's operational policies and procedures, finalizing BCP arrangements, and addressing human resource and skill requirements to satisfy the Bank's ongoing needs.

Decision making on matters pertaining to the Bank's critical functions and overall operational practices and procedures is supported by several strategic internal committees, chaired, either directly by the Governor or under delegated authority to other Bank officers.

RISK MANAGEMENT

Risk management is an integral part of the Bank's governance framework, as it seeks to limit the impact of a range of financial, business and enterprise risks. When any control failure is detected, the Bank reassesses the risk environment and puts in place appropriate mitigants.

In its first line of defence, the Bank assigns primary responsibility for identifying, assessing, controlling and mitigating risk to the management of each operational area. Among the key mechanisms used to control operational risks are: effective budgetary controls; separation of duties; the creation of policies, standard operating procedures and internal controls; extensive monitoring, reconciliation and reporting systems; a sound procurement framework; ongoing training; an internal audit function that continues to play a crucial role in monitoring operational risks, and an institutionalized framework for strategic planning.

To further embed a risk management culture within the Bank, a comprehensive risk-based control self-assessment (CSA) process is being institutionalized for all operational activities. To date, CSAs have been completed for four (4) departments, and will be introduced for the remaining functional units, by end-June, 2014.

Given the heavy reliance on technology for operational activities, an important element of the Bank's enterprise risk management strategy involves a routine evaluation of data security and information management processes, to ensure their appropriateness and robustness. As part of the annual audit exercise, the Bank undertakes a system and process assurance review of key applications and software to ensure, *inter alia*, accuracy in processing of data and logical access controls. To further mitigate risks, specific process enhancements were implemented for various treasury back office operations, achieving straight-through processing objectives, and other operational activities were automated and proper controls implemented.

In 2013, the Bank enhanced its management of risk in the area of data security and information management, through the engagement of an Information Security Officer (ISO), whose task it is to ensure that the institution's records and processes remain as secure as possible. Early efforts have focused on increasing staff awareness and assessing the current environment.

The Bank's risk management arrangements also seek to limit opportunities for fraudulent activities, through strong internal controls comprising a clear decision making hierarchy, well defined limits for staff involvement in financial decisions/transactions, and controls on users' computer access and independent functions. Along with the Fraud Control Policy, staff training in fraud awareness, and arrangements by which suspicious behaviour can be reported anonymously, provide a framework for reinforcing staff's understanding of their responsibilities in this area. The Bank's employee Code of Conduct also outlines the high standards of integrity and propriety that are expected of staff in carrying out their duties.

Yet another plank of the Bank's enterprise risk management is the Business Continuity framework, the importance of which was bolstered with the finalization of the Plan, inclusive of the recovery strategies, various IT Disaster Recovery systems, and progress on the identification of an appropriate secondary site. In moving the exercise from a project to a process, the emphasis is now being placed on ensuring that the recovery teams are knowledgeable about their responsibilities, and that the Plan is tested annually and updated to reflect changes in the environment.

In other risk mitigation strategies, the Bank continues to review its operational processes, incorporate best practices, and put in place well-defined policy frameworks. The Bank's operational resiliency objective is also supported through succession planning activities. In 2013, the Bank refreshed the Succession Plan, which identified various critical positions and a talent pool of staff, from which it may draw to fill vacancies in some of these areas.

INTERNAL AUDIT

Internal Audit (IA) facilitates the work of the Bank's Audit Committee by providing independent and objective evaluation of the adequacy and effectiveness of internal controls, risk management and governance processes. The operations of IA are guided by a Board-approved Internal Audit Charter, which formalizes the mission, authority and responsibilities of this function within the Bank. IA's activities are based on a risk-driven annual Audit Plan, which is approved by the Audit Committee. To maintain independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

Among the specific business processes reviewed in 2013 were information security, procurement, fixed asset management, utility services, group medical insurance, succession planning, risk-based supervision, bank examinations, foreign exchange approvals, and vault management. In complementary activities, IA provided input to various working committees of the Bank, geared towards promoting a robust control and compliance environment.

CURRENCY AND BANKING SERVICES

Apart from its core currency operations, the Bank provides settlement services to its domestic bank licensees, public debt registry services, and limited transactional banking services for the Government and its agencies.

Currency Operations

In its goal to maintain public confidence in Bahamian currency, the Bank ensures that adequate supplies of high quality currency are readily available for issuance to the general public. Careful attention is paid to elements such as the design, selection of substrate, security and cleanliness of banknotes in circulation; and currency stock levels are continuously monitored to ensure timely reordering schedules.

Physical cash remains the primary medium for consumer transactions in The Bahamas. In 2013, the volume and value of currency in circulation increased, by 4.7% and 2.5%, respectively. The Central Bank has a suite of thirteen (13) denominations in active circulation, consisting of five (5) coins (1¢, 5¢, 10¢, 15¢ and 25¢) and eight (8) banknotes ($0.50, $1.00, $3.00, $5.00, $10.00, $20.00, $50.00 and $100.00). At end-2013, the 1¢ coin represented the largest circulation volume, at approximately 492 million pieces, while the $100.00 banknote denomination accounted for the highest value in circulation, at just over $132 million.

Prevention and detection of counterfeiting activities continued to be accorded high priority by the Bank. Through close relationship with banknote printing companies, the Bank's currency team continued to be exposed to new typologies in the area of counterfeiting, as well as the latest in banknote security features. To improve public awareness of, and confidence in, Bahamas banknotes, throughout 2013, the Bank facilitated counterfeit detection seminars to merchants and other members of the public, both in Nassau and Freeport.

In currency procurement activities, the Bank awarded one contract in 2013 for the reprint of its CRISP $1 banknote, originally produced in 2008. Consistent with its commitment to maintain the highest standard of banknote quality, the Bank also commenced plans to produce its next family of banknotes, that will incorporate a number of new design elements and security features. The Bank anticipates launching the first of the newly designed banknotes in 2016, the $10 banknote, with other denominations to be introduced as their stocks require replenishment.

Earlier initiatives to revive the numismatic coin programmes were significantly progressed in 2013, with at least two (2) expected to come to fruition in 2014. In keeping with industry practices, the Bank has discontinued the direct redemption of numismatic coins, which will instead be handled through the market mechanisms and, in this context, has rationalized its stock of redeemed coins. New relationships were formalized with four (4) local souvenir distributors, enabling them to purchase numismatic items directly from the Bank for sale to residents and tourists. As part of its overall promotional strategy, the Bank also undertook a project to photograph and catalogue the inventory of numismatic items, which will be available for viewing on the Bank's website, in early 2014.

Currency in Circulation

Relations with Banks

Following on section 19 of the Act, domestic commercial 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 at the Bank. Consistent with the decline in Bahamian dollar deposits, required reserves fell by 0.5% to $250.5 million, following on a 0.8% contraction in 2012. Banks also maintained balances to facilitate settlement arrangements.

Relations with Public Sector

The Bank provides registry services for various public sector institutions, including the registration and issuance of new debt instruments, ongoing maintenance of ownership records, the distribution of interest payments, and redemption of securities at maturity. Additionally, the Bank acts as Registrar and Transfer Agent on behalf of the Public Treasury and coordinates the issuance and redemption of Treasury bills, as well as Bahamas Government Registered Stocks (long-term bonds). In the absence of an active secondary market, the Bank performs market maker activities, on a discretionary basis.

The value of Bahamas Government Treasury bills outstanding increased by $230.2 million (66%) to $579.3 million at end-2013. The average tender rate (on rollover maturities) decreased by 2.53 basis points for 3-month maturities. The value of Bahamas Government bonds was higher by $84.2 million (2.9%) at $2,956.5 million at end-2013, based on new issuances of $165.0 million and scheduled maturities of $80.8 million. Government securities have a maximum duration of 30 years. Long-term bonds carried fixed rates, ranging from 4% per annum to 6.625% per annum, and variable rates, ranging from Nassau Prime (4.75%) to Nassau Prime plus 1.25%.

Other public sector securities, for which the Central Bank acts as registrar and transfer agent, include the Bridge Authority Bonds, the Clifton Heritage Authority Bonds, Education Loan Authority Bonds, Bahamas Development Bank Bonds and Bahamas Mortgage Corporation Bonds, whose outstanding values at end-2013 totalled $28.0 million, $24.0 million, $67.0 million, $50.0 million and $166.6 million, respectively.

PAYMENT SYSTEMS

During 2013, the Bank pursued a number of activities, consistent with its mandate to promote a safe and efficient payment systems regime. As part of this process, the Bank's on and off-site monitoring of systemically important payment system (SIPS) activities was enhanced, and initiatives were undertaken to keep abreast of payment systems developments, both locally and abroad.

Payments Oversight & Market Developments

In its oversight activities, the Bank held quarterly meetings with senior members of the Bahamas Automated Clearing House (BACH)—the owners of the Automated Clearing House (ACH)—which is used for retail payment transactions under $150,000. Operational issues were reviewed, including activities pursued by the BACH to ensure the security and robustness of the infrastructure. Surveillance activities also covered the operations of the Bank-owned Bahamas Inter-Bank Settlement System (BISS), which delivers real time settlement for large value (>$150,000) payments.

In January 2013, the Bank hosted the inaugural meeting of the National Payments Committee (NPC)—the advisory body charged, *inter alia*, with assisting the Bank in ensuring the availability of efficient and cost effective products and services to the public. The meeting, which brought together senior staff from the commercial banks, Government, the utilities, and other local financial institutions, covered a variety of issues, including the implementation of Consumer Initiated Entries (CIEs), the proposed ATM domestic switch arrangement, and fees charged on electronic transactions.

Real Time Gross Settlements (RTGS)

RTGS transactions, as processed over the BISS by the seven (7) participant clearing banks, were up by 1.4% in volume to 56,000, with the corresponding value slightly lower at $13.0 million. There are seven (7) daily settlement windows, starting at 8:15 a.m. and ending at 4:45 p.m.

Given the critical role of the RTGS, the Bank invests significantly in its technical and business infrastructure, so as to ensure that the BISS operates to appropriate standards of availability and resilience, and services continue to evolve to meet the needs of stakeholders. Plans underway to upgrade the RTGS infrastructure will deliver enhanced operational efficiency, through improved liquidity management features, flexible processing rules, audio and visual monitoring alerts, and greater system resiliency and availability.

Retail Payment Services

Although most payment transactions are still conducted using both cash and cheques, there has been a significant increase in the use of electronic-based payment instruments in recent years. Growth in usage is expected to be further encouraged by the Government's decision, in July 2013, to eliminate the stamp tax on debit card transactions, and by the increase in the number of cards issued.

Cheques

In 2013, cheques remained the dominant non-cash retail payment instrument, notwithstanding the steady downward trend in their usage for transaction purposes, especially for large value items. Following an average annual decline of 23.2% over the three years to 2013, the volume of cheques processed by BACH fell further by 2.6% to 2,891,743, although the value was higher by 1.2% at $6.3 billion, year-on-year.

Automated Teller Machines (ATMs)

At end-2013, there were some 310 ATMs/ABMs installed throughout The Bahamas, an increase of 19.6% over

2012, and of which twenty-six (26) were configured to dispense both local and US currency. Apart from banks' premises, ATMs are strategically located in areas of high customer transit, such as supermarkets and gas stations.

As a result of their convenience and the range of services offered, both the volume and value of ATM transactions grew in 2013, by 14.8% and 53.4% to 12.2 million and $7.8 billion, respectively. Transactions processed across point-of-sale (POS) terminals, which numbered 5,377 at end-2013, were valued at $257.6 million.

Debit Cards

There are currently three (3) internationally branded, locally issued, debit cards in the market, with this number poised to increase by two (2) in 2014. For 2013, the number of debit card transactions rose by 2.8% to 5.2 million, with the corresponding value up by 57.9% to $6.6 billion.

Credit Cards

Credit cards are issued by domestic commercial banks and are affiliated with international payment companies such as Visa, MasterCard and American Express. These instruments function as an immediately accessible line of credit for banks' customers and generally carry limits of either $5,000 or $10,000–although individual customers have some scope to negotiate limits.

For 2013, the number of credit cards issued and the corresponding outstanding debt for cards with limits under $5,000 increased by 4.0% to 97,382 and 11.4% to $117.1 million, respectively. Similar gains were observed for cards issued with limits between $5,000-$10,000–the number being higher by 3.7% at 18,240 and value, by 10.8% at $68.6 million. In contrast, both the number and value of cards carrying limits in excess of $10,000 declined by 4.8% to 9,077 and by 24.2% to $58.1 million, respectively.

NACHA Payments

The BACH manages the development, administration and governance of the ACH network, based on the globally accepted standards established by the National Automated Clearing House Association (NACHA). In 2013, BACH processed a total of 1.66 million NACHA direct debit transactions, valued at $1,132 million–representing increases of 11.4% and 19.5%, respectively. These were predominately payroll payments.

Internet Banking

Domestic commercial banks offer a number of internet banking services to both personal and business customers, inclusive of account balance queries, transfers between personal and third party bank accounts, credit card and bill payments, drafts and wire transfers, cheque reordering and the purchase of foreign currency. Although data on internet transactions are not readily available, indications are that this payment media is continuing to grow significantly each year.

FOREIGN RESERVES MANAGEMENT

The Bank is responsible for the prudent management of the country's foreign reserves, which are held in the form of foreign government securities, deposits in foreign banks, Special Drawing Rights, and the Reserve Position (Reserve Tranche) in the IMF. These balances are held to back the issuance of currency, support the fixed rate peg with the US dollar, ensure that the country remains resilient to external shocks and serve to boost confidence in the country's monetary and economic policies.

The Investment Committee (IC) continued its oversight of activities related to the management of the external reserves portfolio, within parameters established by the Act and further guided by a Board-approved Investment Policy and Guidelines. The IC met weekly during 2013, to consider investment placements, assist Government with the origination of domestic debt instruments, review counterparties, and to discuss, among other things, market trends and developments that could impact foreign currency reserves.

Preservation of capital and liquidity management remained primary objectives of the Bank's reserve management activities, with optimization of returns to be achieved within these two (2) constraints. By investing in high quality assets, having an investment grade rating of A1 or higher, the Bank is able to mitigate portfolio risk and achieve its preservation of capital objective. Restrictions on investment limits to individual financial institutions also serve to diversify credit risk; currency risk is mitigated, as almost 100% of investments are in US dollars; liquidity risk is controlled by having a tranche of investments in short-term instruments–with levels informed through the use of weekly forecasts; and interest rate risk is minimized by having a significant segment of the portfolio in the held-to-maturity bucket.

During the third quarter of 2013, unusually high levels of foreign currency demands placed some strain on the liquidity tranche of the external reserves pool. However, this pressure was partially alleviated by the deployment of proceeds from the Government's net borrowing activities, which totalled $145.0 million in the final quarter of 2013. At end-2013, the Bank's foreign reserves stood at approximately $741.6 million compared to $810.2 million for 2012.

EXCHANGE CONTROL ARRANGEMENTS

The Bank's direct role as the administrator of exchange controls basically involves servicing foreign exchange approval needs not covered under the regime of transactions handled by commercial banks under delegated authority; monitoring current demand for foreign exchange by stakeholders, and processing statistics on foreign currency sales for analytical purposes. Having automated a number of the operational processes, including the reporting of foreign currency client accounts and on-line reporting of foreign currency sales by banks, the Bank maintained efforts to ensure the integrity of these processes, through ongoing training sessions for various stakeholders. The Bank also continued to review exchange control operations, in order to achieve greater efficiency in administrative processes.

Pursuant to the key liberalization efforts introduced in 2006, the Bank facilitated activities under the unsponsored Bahamian Depository Receipt (BDR) programme for broker-dealers, the external portfolio investment programme of the National Insurance Board (NIB) and residents' capital investments through the Investment Currency Market (ICM). Of the $25 million annual availability under the BDR programme, broker/dealers made application for $13.2 million, compared with $15.3 million in 2012, with narrower participation observed among the eligible five (5) entities. Further, the NIB utilized three-quarters of its $25.0 million annual allocation to acquire foreign assets.

Among the other liberalized initiatives, the Bank continued to process residents' requests for capital-related foreign currency purchases, facilitated through the official market by commercial banks. These included employee share purchase transactions, under schemes offered by their offshore employers, residents' time-share property purchases of up to $25,000 and offshore equity investments deemed "special criterion", which promote exports of goods and services and offer additional benefits to the balance of payments. For 2013, activity under this latter arrangement numbered four (4) transactions, valued at approximately $1.6 million, compared with an equivalent number in 2012 which totalled $2.7 million. For the balance of investments, however, foreign currency requirements were partly met

Box 4: Basel II & III Implementation Programme

The formal roll-out of the Basel II and III Implementation Programme (the Programme), at an Industry Briefing, held on 29th October, 2013, represents a major strategic policy objective accomplished by the Bank. The Programme is designed to be both pragmatic and flexible, taking into account the different profiles of locally incorporated banks, unrestricted (public) banks and bank & trust companies.

In summary, the Bank proposes to stage the implementation of the Programme in three (3) phases (see below), within a 30-month timeline, with live implementation expected in the first quarter of 2016. To ensure that the project remains on track, a project charter was developed, with the governance structure comprising a steering committee, project coordinator, an advisory board, and six (6) technical working groups.

High Level Timeline for Programme Implementation

TASKS	2013	2014				2015				2016			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PHASE 1													
Publish Basel Program Road Map	■	■											
Issue Consultative Papers under Pillar 1 - Credit and Operational Risk & Basel III - Capital Structure and Capital Buffers				■									
Conduct QIS for Pillar 1 Requirements				■	■								
PHASE 2													
Issue Consultative Papers for Pillar 3 - Minimum Disclosure				■									
Publish Consultative Papers under Basel III - Capital Buffers, LCR, NSFR and Leverage Ratios					■	■	■	■					
Conduct Parallel Run on Pillar 1 and Partial Basel III Reqs.					■	■	■	■	■				
Conduct onsite Benchmarking Meetings with Licensees (During the Development of the ICAAP)				■	■	■	■	■	■				
Consultative Paper ICAAP and Industry Briefing for ICAAP				■	■	■							
PHASE 3													
Issue Consultative Paper for D-SIBs						■							
Roll-out the LCR, NSFR and Leverage Ratio (Basel III)									■				
Issue final Reporting Forms and Guidelines								■	■				
Conduct Full QIS Exercise								■	■				
Execute live Implementation										■	■	■	■

through the ICM mechanism, at unchanged bid and offer rates, of 12.5% and 10.0%, respectively. Annual ICM activity, at twenty-eight (28) transactions, grew by $3.3 million to $10.7 million, year-on-year.

At end-2013, the number of Authorized Dealers and Agents, important players in the administration of the Exchange Control regime, was unchanged at eight (8) and eleven (11), respectively.

ECONOMIC ANALYSIS, STATISTICS & RESEARCH

Economic research supports the Bank's policy preparation and allows the provision of timely and comprehensive information to the public. In December, the Bank's regular publications were expanded to include the first edition of the Financial Stability Report (FSR), which covered key developments in the financial sector over the five-year period through 2012, and analyzed potential risks to the system. Subsequent FSRs will be produced on a semi-annual basis.

The Bank's analytical activities are also facilitated by various surveys, aimed at ascertaining conditions in several key economic sectors. The annual survey on the Gross Economic Contribution of the Financial Sector to the Economy, for 2012, was published in the March edition of the Quarterly Economic Review (QER), and the results of the survey of pension plans in The Bahamas, which spanned the period 2008 – 2011, were disseminated in the September edition. Two (2) surveys of Business Conditions were also conducted over the year.

Research projects undertaken by staff focused on several topical themes, namely, the Value-Added Tax (VAT), tax systems in the region, the impact of the housing sector on economic growth, sustainable economic development, the usefulness of macroprudential indicators in forecasting an economic crisis, and trends in payment instruments. Staff also participated in the regional annual Monetary Studies Conference, which was held in Jamaica, in October, and presented the paper, *"Are Macroprudential Indicators Leading Indicators of Economic and Financial Soundness?"* Additionally, a previously completed study entitled, *"Assessing the Impact of Non-performing Loans on Economic Growth in The Bahamas"* was accepted by the journal *Monetaria* and published in its July to December issue. In outreach activities, staff made a number of presentations to high school and college students, on the role and functions of the Central Bank, and one targeted presentation was made on the potential impact of the Value Added Tax (VAT).

The Bank actively pursues initiatives to improve the quality and scope of data collected and to ensure consistency with international compilation standards. In 2013, an IMF technical assistance mission provided input in the area of Government Finance Statistics (GFS) for the compilation of public corporations' accounts, and Research staff received specialized training in the areas of statistical compilation for balance of payments, public sector debt and input-output tables, which are used in the calculation of Gross Domestic Product (GDP).

As the leading provider of economic analysis on the Bahamian economy, the Bank, on a regular basis, engaged with various international 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). On the domestic front, the Bank contributed to the Government's efforts to implement prudent debt management strategies, through participation in the Debt and Cash Management Committee (DCMC).

PRUDENTIAL SUPERVISION AND REGULATION

Developments in the domestic supervisory and regulatory space continued to be influenced by global trends and reform initiatives, aimed at securing financial stability, in the aftermath of the recent financial crisis, and enhancing standards in the areas of regulation, transparency and international cooperation. Among the key themes on the global regulatory agenda were measures that address weaknesses and gaps in risk management; the establishment of requirements for increased regulatory capital with improved quality of capital instruments; norms for reduced leverage and higher liquidity and standards for the resolution of troubled financial institutions in the event of a crisis.

While it would appear that the immediate and urgent regulatory response to the recent financial crisis is nearly over, looking forward, the international standard setters' work, based on communications from the Basel Committee on Banking Supervision, will focus on three (3) broad themes:

- Enhancing the monitoring and assessment of the implementation of the agreed reforms;
- Examining the regulatory framework's balance between simplicity, comparability and risk sensitivity; and
- Improving the effectiveness of supervision.

Against this backdrop, the Bank's supervisory and regulatory priorities in 2013 were guided by the overarching goal of reinforcing the resilience of The Bahamas' banking and trust infrastructure. The Bank made important progress on a number of initiatives to strengthen risk management and governance practices, through changes in its supervisory scope, legislative regime and policy frameworks. Correspondingly, licensees have sought to balance the implementation of appropriate risk management and compliance systems against increasing costs posed by these initiatives. In the area of tax information exchange, licensees have been conducting the necessary analysis of their data to facilitate compliance with the Foreign Account Tax Compliance Act (FATCA), the US law which requires all financial institutions outside that country to pass information about financial accounts held by US persons to the Inland Revenue Service (IRS). The Bahamas Government has already announced its intention to execute a Model 1A Inter-Governmental Agreement (IGA), under which information will be exchanged between the Government and US authorities—thereby facilitating financial institutions' compliance with FATCA.

The offshore banking sector continued to respond to structural shifts in the global banking environment, which have impacted their traditional business and operating models. Against the backdrop of public policy and regulatory initiatives in the traditional markets for private banking clients, in Europe and North America, the offshore banking segment continues to experience a significant measure of consolidation and rationalization of operations in The Bahamas. Faced with low transactional fees, and higher calls for capital adequacy both domestically and in home jurisdictions, institutions have responded with initiatives to achieve greater operational efficiency, through the deployment of technology, staff rationalization and increased outsourcing. Recent growth in deposits, originating substantially from external asset managers, has been met with increased regulatory focus on ensuring that institutions keep pace with international reforms in the areas of corporate governance, risk management and client verification processes.

Commercial banking, weighted down by ongoing challenges with asset quality and delinquencies, experienced lower profitability levels compared to the pre-crisis period. As a consequence, banks continued to pursue opportunities towards increasing operational efficiency, through outsourcing to regional centres of excellence, and other cost containment initiatives.

Risk Based Supervision

The supervisory oversight for licensees is based on an ongoing assessment of their risk profiles, through continuous dialogue, information gathering and the compilation and analysis of reports. This approach enables the Bank to prioritize and focus its efforts and resources on areas of significant risks, and encourages banks to develop and continually update internal risk management systems commensurate with the scope and complexity of their operations.

After the four (4) initial rounds of risk assessments, from 2010-2012, the Risk Based Supervisory Framework (RBSF) became fully operational in 2013. Work was facilitated by the successful launch of a workflow application that organizes the process, and facilitates ongoing review and analysis of individual firms, as well as peer group analyses.

The Bank's target of twenty (20) risk assessments for 2013 was substantially achieved, being supplemented by onsite examinations and discovery reviews. In 2014, risk assessments will be informed by individual licensees' risk profiles and firm-specific and/or thematic issues, and will be more closely aligned with the outcomes to support the on-site examination process.

Offsite Supervision

International Firms

The Bank continued efforts to monitor and ensure the safety and soundness of international firms, primarily through on-site examinations, risk assessments and meetings with senior officials of the firms, comprehensive analysis/examination of financial statements and statutory returns and liaising with other local and international regulators. Licensees were encouraged to ensure that robust systems and controls are in place to mitigate the inherent risks associated with their business models.

In 2013, the Bank conducted meetings with Group Internal Auditors of the international firms to discuss annual audit plans, the scope and frequency of audits and audit findings. The main areas of focus for audit reviews were corporate governance, fiduciary/KYC & AML issues, compliance, information technology (IT), human resources, credit and operations.

Commercial Banks

Since the financial crisis, the Bank has maintained an enhanced monitoring regime for commercial banks, with half-yearly prudential meetings to discuss credit, liquidity and operational risks issues, and in-camera sessions with the chief internal auditors. Through ongoing assessment of regulatory data submissions, supervisors were able to ensure that licensees adhered to prudential norms established by the Bank. As part of their risk management process, banks were encouraged to extend the use of their stress testing models to support internal decision making on credit and capital and, following a preliminary survey, supervisory discussions were initiated on banks' crisis management plans.

Credit Risk Reviews

The Bank adopts a two-pronged approach in its oversight of credit risk in the domestic financial system and the controls are in place to mitigate these risks. The analysis of monthly prudential returns, which includes data on the loan portfolio, inclusive of arrears, sectoral and large exposures, provisioning levels and restructured loans, provides the Bank with a view on developments in the sector. In addition, the semi-annual credit risk meetings with senior

Box 5: Supervisory Policy and Guidance

In its continuing effort to ensure that the framework for the supervision and prudential regulation of its licensees remains relevant, current, effective and reflective of applicable international and supervisory standards and best practices, the Bank issued one (1) new and five (5) revisions of existing guidelines.

REVISED GUIDELINES

Large Exposures Guidelines & Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business within and from within The Bahamas (8th May 2013): Revised to underscore and clarify the Bank's expectations for licensees to have appropriate policies in place to address conflicts of interest relating to the approval and write-off of related party exposures.

General Information and Guidelines for Licence Applications for Banking and/or Trust Companies (8th May 2013): Revised to remove the statement that required licensees to have a minimum 25% participation from an acceptable financial institution, in order to qualify for a standalone licence.

General Information and Application Guidelines for Private Trust Companies and their Registered Representatives (8th May 2013): Revised to incorporate amendments to the Banks and Trust Companies (Private Trust Companies) (Amendment) Regulations, 2012. Additionally, the revisions provide further guidance to Registered Representatives on the regulated activities that require approval by the Bank and the various documents that are to be maintained or filed with the Bank.

Guidelines for Licensees on the Prevention of Money Laundering and Countering the Financing of Terrorism (23rd September 2013): Revised to clarify the date when a person ceases to be a facility holder, in a manner that is consistent with the Financial Transactions Reporting Act, 2000.

NEW GUIDELINES

The Guidelines for the Management of Operational Risk (25th November 2013): Provide guidance to licensees on operational risk management. Licensees are expected to have a risk management regime appropriate to the size and complexity of their operations.

LEGISLATIVE INITIATIVES

During March 2013, the Bank released a Consultation Paper on the Draft Banks and Trust Companies Regulation (Amendment) (No. 1) Bill, 2013 and the Draft Banks and Trust Companies (Administrative Monetary Penalties) Regulations, 2013.

The proposed amendments to the principal Act seek to strengthen the regulatory framework for licensees, while giving the Bank more flexibility and wider powers to address supervisory issues, inclusive of imposing regulatory fines. The Bank also seeks to facilitate better understanding of its regulatory requirements—providing clarification on provisions regarding the fit and proper requirements for controllers, directors and officers of licensees; the Bank's power to impose administrative monetary penalties; and the power of the Bank to impose prohibition orders and reporting requirements for directors.

The proposed Regulations impose administrative monetary penalties for breaches of the principal Act or Regulations made there-under, and for non-compliance with any direction, order, condition or limitation issued or imposed by the Bank. They also classify each contravention as minor, serious or very serious and provide for the imposition of a fixed daily penalty. It is anticipated that these drafts will be laid before Parliament in early 2014.

management allow the Bank to assess the qualitative and strategic measures taken by licensees to mitigate risks in their credit portfolios.

Observations of credit trends indicate a continuation of debt consolidation and restructuring activities. As evident from prudential discussions and the monthly returns, residential mortgages and commercial real estate/properties remain the greatest challenge for banks, exacerbated by decreases in selling prices of real estate and protracted time frames for disposing of properties. Given the sustained high level of arrears, banks are continually encouraged to strengthen their loan underwriting policies and procedures and conduct portfolio-wide credit reviews, inclusive of collateral

TABLE 1: ONSITE EXAMINATIONS CONDUCTED

	2011	2012	2013
Examinations			
Domestic Licensees	3	7	5
Other Licensees	17	17	9
Follow-up /Special focus/ Regulator Initiated	17	5	6
Discovery Reviews	-	-	7 *
Financial Credit Unions			3 **
Total	**37**	**29**	**30**
Reports			
Finalized Reports	28	33	22
Reports in Progress	21	8	2
Reports in Progress - DCD	-	-	3 *
Total	**49**	**41**	**27**

Source: Central Bank of The Bahamas

* No report to licensee required; internal report generated for supervisory purposes.

** Report to be completed by the DCD

assessments. As part of the prudential requirements, the Bank closely monitors the 1% minimum regulatory general provision requirement imposed on all licensees, that acts as a mitigant for anticipated losses on the credit exposures and is supplemented by banks' allocation of specific provisions commensurate with the level of loan impairment. Notwithstanding the elevated level of loan arrears, banks continue to remain well above the 17% regulatory minimum capital risk-adjusted ratio, thereby mitigating any financial stability concerns.

Stress Testing

Stress testing is now firmly established in the Bank, with the objective of determining the impact of extreme, but plausible, shocks to various risk factors, such as credit quality, domestic interest rates and liquidity, on the capital adequacy ratios of the commercial banks. In 2013, three (3) annual stress testing exercises were conducted and utilized both top-down and bottom-up approaches. Work also continued on enhancing the framework to consider other credible shocks.

In the area of credit, the model analyzed the level of banks' non-performing loans (NPLs), provisioning levels, earnings and overall compliance with the trigger and target capital adequacy ratios, of 14% and 17%, respectively. From a system wide perspective, where the regulatory capital levels averaged around 30% as at December 2013, the credit risk stress test results indicate that the banks remained resilient and held sufficient capital to withstand further significant deterioration in the level of NPLs in their loan portfolios.

The interest rate and liquidity stress testing models are less significant in the current environment of relatively stable interest rates and high levels of bank liquidity. Nevertheless, the results of these stress tests showed that banks maintain adequate capital levels, in the face of extreme shocks to both interest rates and short-term liquidity funding.

Capital Adequacy

Effective 1st January, 2013, all commercial banks were required to comply with the Basel III minimum capital requirements. In keeping with the requirements, banks with cumulative preference shares (Tier 2 capital), which would no longer qualify as regulatory capital, have begun the process of replacing them with qualifying capital instruments. In 2013, an estimated $54.0 million of such shares were redeemed and replaced with eligible capital such as common equity (Tier 1 capital).

On-site Examinations

As indicated in Table 1, thirty (30) on-site examinations were completed in 2013, compared to twenty-nine (29) in 2012. Among these were four (4) examinations of commercial banks, with special emphasis on reputational, information technology, operational and credit risks; one (1) full scope examination; and nine (9) special focus examinations, focusing on reputation, fiduciary, credit and operational risks and follow-ups of previous examinations' recommendations. There were also six (6) visits to firms—conducted in response to requests from home supervisory authorities in India and Canada (see Table 2).

The examiners found that the banks have generally adhered to the legal, regulatory and supervisory requirements. However, they made a number of recommendations on several thematic issues observed in the areas of the management of reputation risk,

TABLE 2: 2013 REQUESTS FROM FOREIGN REGULATORS

Country	Requests Received	Completed
Argentina	1	1
Barbados	2	2
Belize	1	1
Brazil	2	2
Canada	4	4
Cayman Islands	1	1
Channel Islands	1	1
Curacao	1	-
Cyprus	1	1
Gibraltar	1	1
Guyana	1	-
Hong Kong	1	1
India	2	1
Malta	2	1
Panama	1	1
Peru	2	2
Qatar	1	1
Russia	1	1
Suriname	1	1
Turks & Caicos	1	1
United States	2	-
Total	**30**	**24**

Source: Central Bank of The Bahamas

Box 6: Regulated Entities

During 2013, the number of bank and trust company licensees decreased by one (1) to 267 (see Table 3). For the period, there were eight (8) licences issued [all were for restricted nominee trust companies], and nine (9) licensees [4 public, 3 restricted trust and 2 non-active] ceased operations.

Of the 267 licensed entities, the number operating through physical presence increased by two (2) to 247, with the remaining twenty (20) being from predominantly G-10 countries and operating within approved restricted management arrangements.

Approximately fifty-eight percent (58%) of licensees originate from G-10 countries, with the balance representing locally domiciled entities and various other jurisdictions.

Offshore assets of the banking system contracted by 20.4% to $232.9 billion, following a reduction in market placements held with entities outside The Bahamas and certain licensees' decisions to change their treasury funding models. In contrast, the system's domestic assets were higher by 1.8% at $9.8 billion.

The Bank approved the registration of twenty-seven (27) Private Trust Companies (PTCs), while removing two (2) PTCs from its register, bringing the total to ninety-eight (98) at end-2013.

The number of Financial and Corporate Service Providers (FCSP) that act as Registered Representatives remained at five (5), and one (1) additional licensee advised the Bank of its intention to act as a Registered Representative of PTCs, increasing the number to fifteen (15). Licensed non-bank money transmission service providers totalled two (2), while registered non-bank money transmission agents increased to eight (8).

In keeping with its commitment to ensure appropriate corporate governance structures, as well as 'fit and proper' management of firms within the jurisdiction, the Bank reviewed and recommended approval for the appointment of one hundred and twenty-five (125) directors and one hundred and twelve (112) senior officials/officers.

For 2013, two hundred and thirteen (213) meetings were held with licensees to discuss prudential issues, on-site inspections were conducted, and firms paid numerous courtesy visits to the Bank.

TABLE 3: NUMBER OF CENTRAL BANK LICENSEES

	2012	2013
Bank and Trusts	268	267
Physical Presence	245	247
Restricted Management Arrangements	23	20
Banks & Trusts	70	66
Banks	38	36
Trusts	160	165
Non-Licensee Registered Representatives	73	98
Licensee Registered Representatives	14	15
Private Trust Companies (Registered)	74	98
Non-Bank Money Transmission Business	2	2
Non-Bank Money Transmission Agents	7	8
Memo Items:		
Assets of Domestic Commercial Banks (B$M)	9,602	9,775
% change	1.2%	1.8%
Assets of Offshore Banks (B$M)	292,608	232,878
% change	(43.1%)	(20.4%)

Source: Central Bank of The Bahamas

inclusive of the confirmation of source of wealth for high risk clients, the periodic reviews of high risk clients and the independence of the compliance function.

During 2013, the Bank enhanced its examination toolkit with the introduction of Discovery Review Meetings (DRMs), which allow for examination resources to focus on specific risk areas across the portfolio of licensees. While the process does not result in the issuance of a Report of Examination, DRMs are designed to improve the Bank's understanding of a particular business activity or control process, to inform the on-going risk assessment process and to assess where greater supervisory focus is required. In 2013, a total of seven (7) DRMs was conducted.

Other Examination Activities

Apart from the examination of Bank licensees, in the fourth quarter of 2013, examiners assisted the Department of Co-operative Development with inspections of three (3) credit unions. These opportunities provided the examiners with important exposure to the operations of credit unions, ahead of the planned supervisory shift of these entities to the Bank's remit.

In 2013, the Bank also undertook five (5) joint examinations with the Securities Commission of The Bahamas (the Commission), utilizing the ***Protocol for the Joint On-site Examinations by the Central Bank and the Securities Commission of The Bahamas*** (the Protocol), as was formalized in January, 2012. This initiative serves to further streamline the on-site examination process for the jointly regulated financial institutions, from the perspective of planning, executing, reporting and remediation of the examinations' findings.

Crisis Management

The Bank regards crisis management as an important facet of its overall objective of safeguarding the stability of the financial system. In this context, considerable effort has been focused on building supervisory preparedness to identify emerging risk indicators of a financial crisis, and on developing a national framework for timely containment and mitigation of systemic shocks.

Joint efforts of the financial services regulators to create a National Financial Crisis Management Plan were progressed in 2013. An assessment of crisis resolution powers was undertaken by a technical assistance mission of IMF specialists, in November 2013. The IMF, who held detailed discussions with the authorities and private sector participants, prepared a comprehensive report of its analysis of the legal and policy infrastructure underlying The Bahamas' financial system safety net and a recommended road map for establishing a legal and regulatory framework for bank resolution that aligns with international best practice.

During 2014, the Bank will further engage the regulators in organizing the process for the implementation of the recommended road map.

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. Therefore, the Bank has a framework for cooperation with domestic and foreign supervisors, which is based on legislative or specific agreements and arrangements and 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 towards achieving enhanced compliance with international standards in the area of cross-border transportation of currency and the oversight of non-profit organizations.

The Technical Sub-Committee College of Regulators' Group, which was established in 2010 with membership of the Bank and the Securities and Insurance Commissions, held its bi-annual meetings in February and September, 2013, to discuss ongoing supervisory activities and emerging issues in certain systemically important financial group(s) regulated by the Committee members. Discussions are usually centred around the profile of the institution(s); organizational and governance structures; financial performance; capital; compliance with regulatory capital requirements; strategic market activities (including acquisitions), outstanding regulatory matters, regulatory approvals, etc.

Supervisory colleges continued to be a key mechanism for exchanging information and coordinating supervisory activities involving cross border financial groups. In January and May, 2013, senior supervisory staff participated in regional regulatory colleges for three (3) systemically important domestic banks. Apart from discussions of the key risks and developments facing these institutions, deliberations covered the impact of various national and global regulatory reform initiatives on the business operations of their groups. Supervisory engagement with Home (or Consolidated) Regulators continued to capitalize on 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 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) Memoranda of Understandings (MoUs), with seven (7) countries and one (1) regional group, facilitating the exchange of information with respect to specific regulatory issues or financial, operational and environment risk factors. In 2013, the Bank received thirty (30) information requests from twenty-one (21) foreign regulatory authorities, of which twenty-four (24) were concluded by year-end.

The Bank, represented by senior Bank Supervision and the Legal Unit staff, continued to participate in discussions relating to regional and cross-border bank supervision under programmes convened by the Association of Banks of the Americas (ASBA), the Group of International Financial Centres Supervisors (GIFCS); the Caribbean Group of Banking Supervisors (CGBS) and the Caribbean Financial Action Task Force (CFATF). A number of staff also served on various technical working groups and committees within these organizations.

STRATEGIC FINANCIAL SECTOR INITIATIVES

Credit Union Transition Project

In 2013, considerable progress was achieved in planned activities leading to the eventual transition of credit unions, from the supervisory and regulatory remit of the Department of Cooperatives Development to that of the Bank. The Transition Team (Director of Cooperatives, Technical Advisor, Commonwealth Secretariat, and the Governor, Legal Counsel and Manager, Bank Supervision, Central Bank), held extensive discussions with the Bahamas Credit Union League's Legal Committee on the draft Cooperative Credit Unions Bill and associated regulations. The Transition Team also prepared consequential amendments to the Central Bank of The Bahamas Act and the Cooperative Societies Act.

After incorporating changes to reflect the comments received from the industry, the Bank issued the draft Cooperative Credit Unions Bill, the draft Cooperative Credit Unions Regulations, the draft Central Bank of The Bahamas (Amendment) Bill and the draft Cooperative Societies (Amendment) Bill, in November 2013, for public comment for an abbreviated period of one (1) month. As part of the process of engagement, in November and December 2013, senior officials from the Bank and the Department of Cooperatives Development, along with other stakeholders, held information sessions in Nassau, Grand Bahama and Abaco. It is anticipated that key legislative initiatives to transfer the oversight mandate to the Bank will be enacted in the first half of 2014.

In pursuing the institutional strengthening objective of the Project, the Bank worked closely with the Department of Co-operative Development and The Bahamas Cooperative Credit Union League—the Apex Body of the Credit Unions, to provide training to industry stakeholders. In April, 2013, the Credit Union Technical Advisor held a two-day workshop for credit union board members, covering the role of the Board and other governance matters, and credit and general risk management issues.

The Bank's own in-house preparations for the eventual assumption of responsibility for credit unions were significantly advanced. To reflect its broader remit, the Commercial Banking Unit in the Bank Supervision Department was renamed the "Domestic Financial Institutions Unit", and a draft manual was prepared setting out the broad framework for the Bank's regulatory and supervisory relationship with credit unions.

The Bahamas Credit Bureau Project

Work on The Bahamas Credit Bureau Project (BCBP) progressed further in 2013. With the assistance of the International Finance Corporation (IFC), draft regulations for the credit reporting sector in The Bahamas, together with the more advanced draft Credit Reporting Bill, were reviewed by the BCBP's Legal Working Group and feedback provided to the IFC.

An important feature of the draft Credit Reporting Bill (the Bill) is the requirement for credit providers to obtain borrower consent before transmitting borrower information to the credit bureau. In view of this proposed requirement, credit providers are working towards finalizing a model consent clause, based on drafts previously provided by the IFC, which is designed to facilitate the transmission of borrower data to the credit bureau, following the enactment of the Bill.

The selection of the credit bureau operator is another important step in the process for establishing the credit bureau. The IFC is presently assisting the Central Bank with the development of a Request for Solution (RFS) and a RFS tender evaluation scorecard against which potential credit bureau operators' tenders will be assessed.

The draft Bill and regulations are expected to be finalized in the first quarter of 2014, issued for public consultation and then enacted later in the year. Coincident with the commencement of the consultative period, the Bank, with the assistance of the IFC, intends to organize a series of public information sessions, so as to promote further understanding of this important infrastructure.

OTHER FINANCIAL SECTOR MANAGEMENT ACTIVITIES

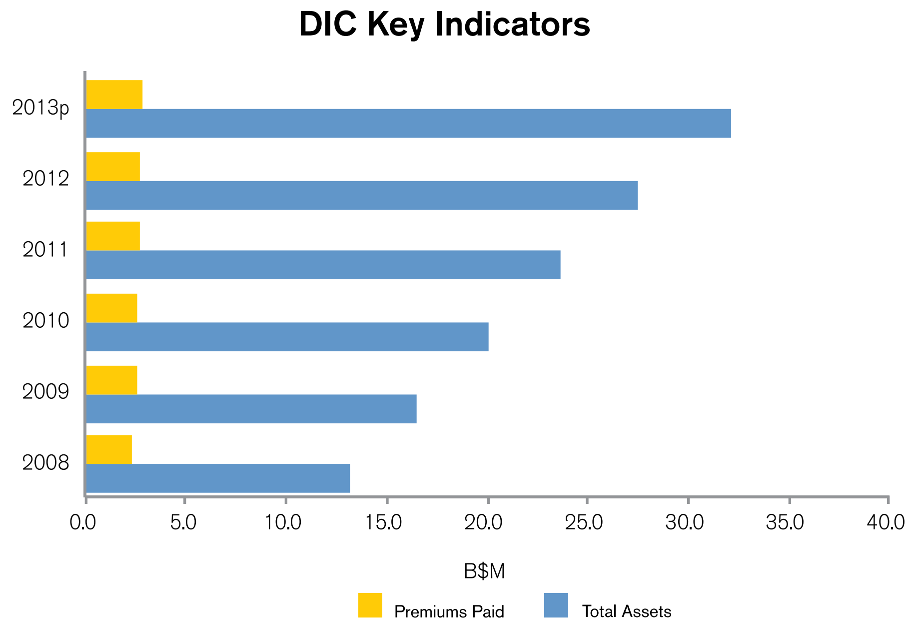
Deposit Insurance Corporation (DIC)

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

The DIC assesses depository institutions at an annual premium equal to one-twentieth of one percent (0.0005%) of deposits, averaged over March 31 and September 30 of the preceding year. Based on average total insurable Bahamian dollar deposits in banks, of $5.57 billion during 2012, relative to $5.52 billion in 2011, premiums levied and collected in 2013 amounted to $2.79 million compared to $2.76 million in the prior period. The accumulated assets of the Fund increased by $4.5 million to $32.1 million at end-2013, of which $30.0 million was held in Government bonds–an increase of $5.5 million over 2012.

During 2013, management of the Bank, tasked with oversight of DIC matters, finalized the first three (3) year Strategic Plan, which was approved by the DIC's Board. In keeping with the DIC's important role in financial stability, the three (3) mutually inclusive goals focused on promoting public confidence in the financial sector and achieving operational readiness and regulatory efficiency. Building an informed stakeholder community was central to the activities of the DIC during 2013, with progress achieved through the issuance of the newly designed DIC decals for installation at members' premises, and the preparation of information brochures on its operations for the public. Plans are underway to increase public awareness activities, through the launch of media advertisements and by conducting public surveys to gauge their effectiveness.

In keeping with observations and recommendations made during The Bahamas' recent Financial Sector Assessment Programme (FSAP) review, the management team undertook two (2) exercises in 2013, with the assistance of experts from the Canadian Deposit Insurance Corporation (CDIC), to assess the target size of the Fund for member-banks, and to examine the requirements for establishing a separate deposit insurance fund and premium rate for credit unions. Work also commenced on a review of the legislative framework for the DIC, within the broader national crisis management exercise, aimed at ensuring the adequacy of the financial safety net arrangements.



Dormant Accounts Administration

Section 20 of the Banks and Trust Companies Regulation Act, 2000 (BTCRA) directs licensees to transfer to the Central Bank, those accounts where ***"no transaction has taken place or no statement of account has been requested, or no written acknowledgement has been received from the customer, during a period of seven years"***. These transfers release licensees from liability for such accounts, and protect the future claims of depositors.

Transfers of dormant accounts to the Bank by licensees are facilitated via the Bank's web-based Dormant Accounts Reporting System (DARS). During 2013, ninety (90) licensees submitted a total of 885 dormant accounts, distributed across five (5) currencies and totalling the equivalent of B$10.8 million. At year-end, the balance of dormant account proceeds, inclusive of investment returns, aggregated the equivalent of B$69.7 million, of which U.S. Dollar and Bahamian dollar denominated accounts accounted for 94% and 5%, respectively.

In 2013, the Central Bank concluded an extensive review of the dormant accounts legislative framework, prompted by a need to address operational issues and concerns raised by banks and account holders, the need to close observed gaps in the governing law related to the administration and regulation of dormant accounts vis-a-vis benchmarked international best practices, and the desire to effect general improvements in the regime. The Bank's proposed changes to the legislative framework and revised industry guidelines are to be issued for public consultation, in early 2014.

INFORMATION TECHNOLOGY

During 2013, the Bank continued its focus on enhancing efficiency through the use of modern and innovative information systems and solutions, and aligning IT delivery governance processes with industry best practices and international standards. Work initiatives included the following:

Regulatory Reporting – Following a comprehensive review and validation of its requirements, and detailed research on vendors and available solutions, the Bank issued a Request for Proposal (RFP) for the delivery of an online reporting solution, to which four (4) vendors responded. A vendor selection committee, comprising key stakeholders within the Bank and the Insurance and Securities Commissions, reviewed and made recommendations on a vendor to assist with the deployment of the solution, by end-2014. The new solution will allow financial institutions and other respondents to securely submit data, filings and documents to the Bank, via multiple delivery channels, and will streamline and improve data analysis and reporting to the Bank's stakeholders.

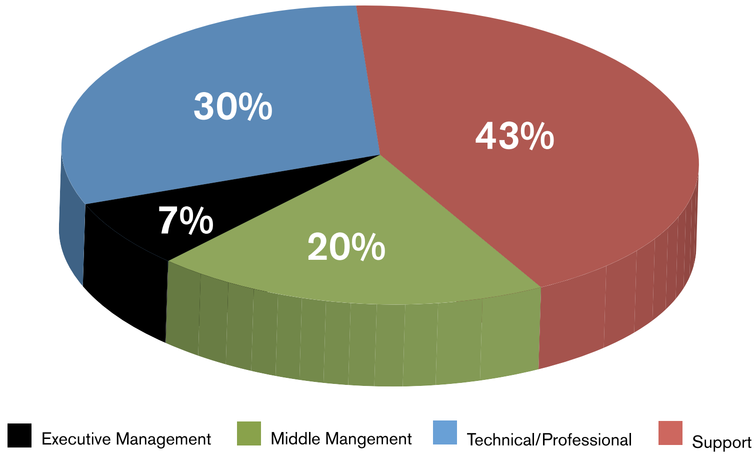
Network Systems – Enhancements were made to the Bank's network, aimed at ensuring resilience and availability, as well as preparing for the upgrade of the current telephone solution to support unified communications and IP Telephony, proposed for 2014. Additionally, work commenced on improved reporting of systems and network availability to management and key stakeholders.

Radio-Frequency Identification Deployment (RFID) – To improve asset management processes, the Bank extended its Asset Tracking solution, through the introduction of RFID asset tags. The Bank also envisages utilizing this type of technology to assist with other areas within the institution, including Records Management and Logistics.

IT Disaster Recovery – The Bank continued to build out its IT resilience and availability capabilities, through upgrades and revisions to documentation in support of the business continuity programme.

Records Management – With the formation of a Records Management Unit (RMU), under the IT Department, the Bank reinforced the importance of and its commitment to ensure protection of its records and compliance with policies, procedures and best practices. The RMU assumed a leadership role in the expansion of the Bank's back-file scanning project, implementation of an enterprise correspondence management solution, and records management awareness.

Total Employees By Category (2013)



Other Projects – The Bank continued to upgrade existing software applications, aimed at process improvements, completed a change and configuration management solution, and enhanced its IT governance framework, through additional policy development and enhancements.

STAFF COMPLEMENT AND RELATIONS

In 2013, the Bank's staff complement increased by 2 to 234 at end-December (see Table 4). New recruits numbered 18 and separations, 16–including: one (1) involuntary, six (6) resignations, one (1) end of contract, seven (7) retirements, and one (1) death. Of the total employee count, 102 were technical/professional; 70 were support staff; and middle and executive management accounted for 46 and 16 persons, respectively. The female to male ratio stood at 2:1.

Almost 64% of the Bank's staff have served for more than eleven (11) years; and 30%, for more than twenty (20) years. At the Annual Long Service Award Ceremony, held on 23rd January to recognize and reward milestone contributions, sixteen (16) staff received awards for ten (9), twenty (1) and thirty (6) years of continuous service to the Bank.

In labour relations, the Bank successfully concluded industrial agreements with both the middle-management (Bahamas Communications and Public Managers Union) and non-management (Union of Central Bankers) unions. Consultations were also resumed with both groups on the Bank's proposed amendments to the Defined Benefit Pension Plan, with the objective of reducing the spiralling costs. After an extensive period of review and engagement with the unions, the Bank implemented amendments to the Plan, with effect from 31st December, 2013.

The Bank continued its employee relations programme designed to encourage team spirit and motivation, and enhance productivity. Among the Bank sponsored activities to foster employee engagement and well-being,

TABLE 4: WORKFORCE METRICS

	2011	2012	2013
Staff Complement	233	232	234
Gender Distribution (%)			
Male	35	34	32
Female	65	66	68
Turnover Rate (%)	5.64	5.64	6.80

Source: Central Bank of The Bahamas

were the employee family fun day, the health and wellness week, employee participation in national sporting club activities, monthly social gatherings organized by departments on a rotation basis, and the annual Christmas Party.

STAFF DEVELOPMENT

In 2013, the Bank continued to provide a robust and comprehensive training and development programme designed to equip its human resources with the skill sets required to meet the evolving demands placed on the institution. Through a combination of in-house, local, and international meetings, forums, courses, workshops, seminars, conferences and e-learning opportunities, Bank staff were able to upgrade their professional and technical skills, and gain exposure to new regulations, methodologies and trends in their respective areas of responsibility.

In the area of bank supervision, staff gained additional exposure in the fields of macroprudential supervision; bank analysis and examination; Basel II and III implementation; supervision of systemically important banks; stress testing and crisis resolution; anti-money laundering and risk-based supervision. The courses and seminars were primarily hosted by the Association of Supervisors of Banks of the Americas (ASBA); the Caribbean Regional Technical Assistance Centre (CARTAC); the Centre for Latin American Monetary Studies (CEMLA); the Caribbean Group of Banking Supervisors (CGBS) and the Financial Stability Institute (FSI).

Given the Bank's key role in the collection and analysis of economic statistics, staff were afforded further training in the areas of balance of payments compilation, debt management and macroeconomic diagnostics. Technical capacity was enhanced in the areas of credit reporting, in preparation for the eventual launch of the credit bureau. The Bank also ensured that its IT staff kept abreast of technological developments and built knowledge in systems being deployed in the area of data storage and communications. Banking staff capitalized on opportunities to enhance their awareness of the life cycle of banknotes, reserve management, and the SWIFT communications platform.

Consistent with the need for operational resilience, the Bank updated its Succession Plan, which seeks to identify and develop a cadre of staff assessed as having the potential, competency and capacity to fill key risk positions in the Bank, as the needs arise. The approved talent pool for 2013/14 consists of seventeen (17) employees, of which fourteen (14) are mid-management and three (3) non-management staff. Individualized development plans for the period were designed for participants of the talent pool, aimed at addressing competency gaps identified during the evaluation phase.

A total of fifteen (15) new staff members participated in the Bank's Annual Induction Training Course, which continued to be a key formal process for ensuring that new employees are well aware of the Bank's operations and its expectations.

PROPERTY MANAGEMENT & HEALTH AND SAFETY IN THE WORKPLACE

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 employee cafeteria; Balcony House, a two-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 a training facility.

Workplace safety is of paramount importance to the Bank and, in 2013, repairs and refurbishment continued to the air-conditioning and electrical control systems to ensure optimum performance levels for the work environment. The Bank also made arrangements for safety wardens to receive the annual refresher training in CPR and First Aid.

The Bank sustained initiatives aimed at enhancing and maintaining the physical infrastructure, and achieving greater administrative efficiencies. For the Main Building, the previous year's upgrading of the electrical plant, and the resurfacing and resealing of the roof, facilitated a reduction in electricity costs by six percent (6%) compared to 2012. Kilowatt Hour (KWh) usage also declined by roughly five percent (5%).

Major structural works were undertaken to reduce potential risk in the workplace, which included replacement of panels under the windows on the Trimark Building, to prevent water intrusion, and installation of anti-slip tiles on the landing and steps at The Great House (Cafeteria). The Bank continued with concrete spalding repairs to the Main Building and also resealed the walkway entrance. Significant steps have also been pursued to install a water detection system for the IT Department and to upgrade the Bank's fire-suppression systems, so as to ensure adequate capacity for the entire building.

COMMUNITY RELATIONS AND OUTREACH

The Bank continued its educational outreach and community relations programme, hosting students from Government and private independent schools to site visits and offering work experience opportunities for students to complete their requirements for graduation. Additionally, summer job offerings were made to students attending local and international colleges and local Government and Independent High Schools. The Bank also hosted four (4) participants in its eight-week Junior Professional Programme, who were exposed to core areas of the Bank's operations.

During 2013, which marked the Bank's 30th year of celebration of the arts in The Bahamas, the Bank hosted a total of nine (9) exhibits, showcasing the works of various new and established Bahamian artists. The Annual Open Category Art Competition & Exhibition entitled "The Independents" was followed by the Annual High School Art Competition awards night, a hallmark event, held under the patronage of His Excellency Sir Arthur Foulkes, Governor General, and attended by over one-hundred and thirty (130) guests.

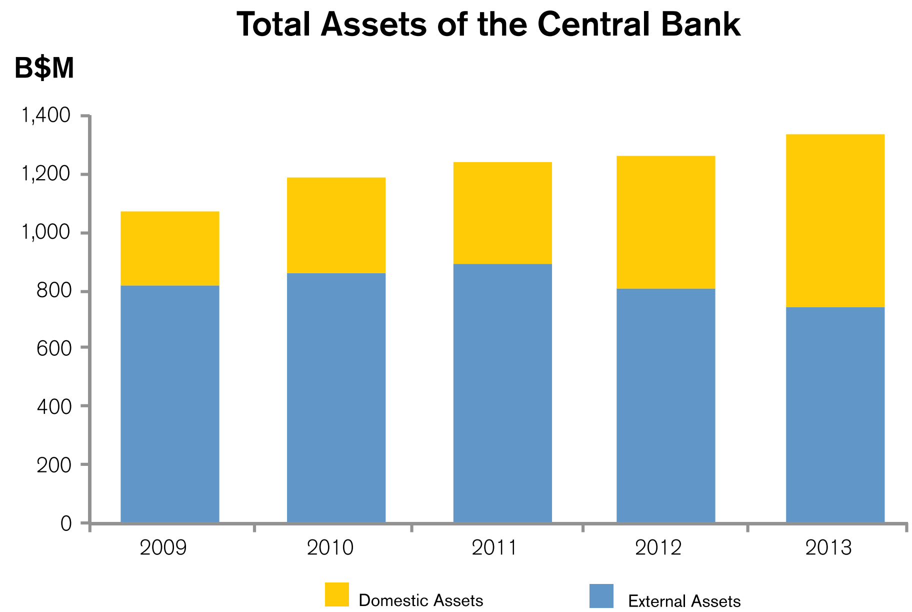
FINANCIAL HIGHLIGHTS

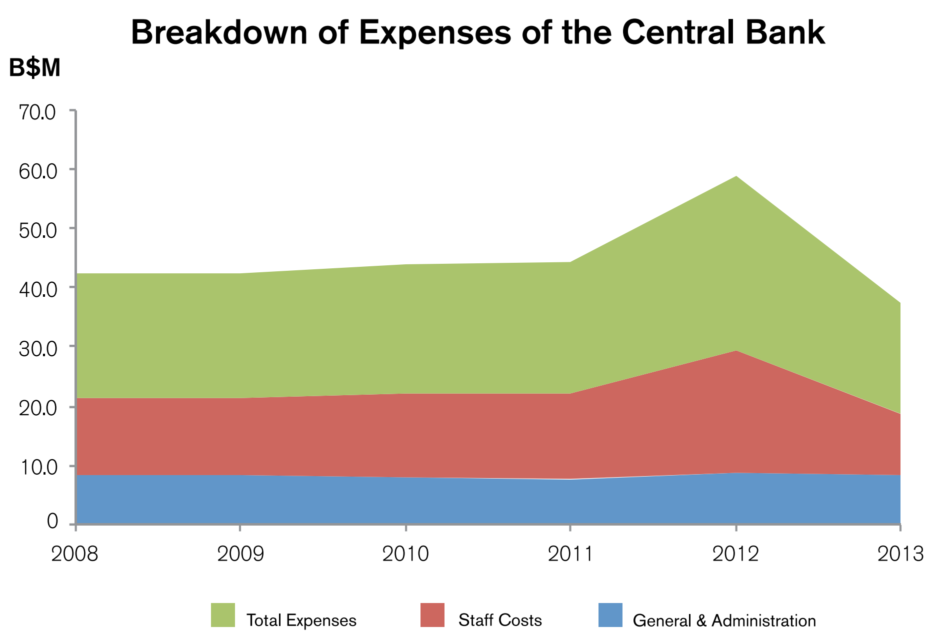
The financial outcome of the Bank is mainly determined by the level and performance of the external reserves, changes in both domestic and foreign interest rates and developments in the real sector. The Bank's financial statements for the year ended 31st December, 2013, along with comparable figures for 2012, are presented on pages 42 to 88 of this report.

During 2013, total assets of the Bank rose by $72.6 million (5.8%) to $1,332.3 million. External assets, which accounted for over half (55.7%) of the total, contracted by $68.5 million to $741.6 million, mainly due to weakness in receipts from the real sector and increased demands for foreign currency to facilitate current payments–including domestic bank profit remittances. Reflecting a return to trend levels, following a spike in December of 2012, when an estimated US$96 million in Special Drawing Rights (SDRs) were converted to support liquidity requirements, cash and deposits contracted by $77 million (38.7%) to $122.4 million. In contrast, allocations from the IMF–inclusive of SDRs and the reserve tranche–increased by $30.2 million to $68.2 million. Similarly, scheduled maturities reduced the Bank's holdings of marketable securities, by $4.7 million, to $551.0 million.

Buoyed mainly by increased holdings of Government debt, the Bank's domestic assets grew by $142.0 million (32.5%) to $578.6 million. In particular, holdings of registered stock advanced by $52.2 million to $223.5 million, while an increase in short-term funding to the Government took the form of gains in Treasury bills ($56.8 million) and short-term advances ($28.9 million) to $186.6 million and $135.2 million, respectively. The remaining domestic assets increased by $4.2 million to $33.3 million.

The Bank's demand liabilities were higher by $63.0 million (6.7%) at $1,000.6 million. Government and





related agency deposits were increased by $38.9 million to $63.8 million—while more muted hikes were noted for notes and coins in circulation, of $7.8 million and $0.9 million, to $332.7 million and $20.0 million, respectively. Deposits held for banks grew by $17.0 million to $572.2 million.

The bulk (95.5%) of the Bank's income is derived from its return on investments. In 2013, the Bank's earnings dipped by $1.0 million (3.6%) to $26.9 million, mainly owing to a falloff in interest earned on foreign investments, by $0.8 million (4.7%) to $15.6 million, as holdings of US Government securities contracted. In addition, interest on loans decreased marginally by $0.15 million to $0.92 million, losses due to changes in exchange rates on SDRs more than doubled to $0.46 million, and a net loss of $0.36 million was recorded on the securities trading portfolio in the first year of its operation. In contrast, other "miscellaneous" income firmed by $0.15 million (13.7%) to $1.3 million, and interest expenses narrowed by one-half to $0.16 million.

Total outlays for 2013 amounted to $18.7 million, a reduction of $10.7 million (36.4%) from the prior year. This outturn reflected a sharp decline in staff costs, by $10.4 million (50.4%) to $10.2 million, in comparison to 2012, when an extraordinary outlay of $4.5 million to cover pension-related costs caused a surge in this category. Further, general and administrative costs decreased by 4.4% to $6.8 million and depreciation expenses, by 1.7% to $1.7 million.

As a result of these developments, the Bank recorded a total comprehensive income of $8.2 million, a reversal from a net loss of $5.4 million in 2012.

Economic and Financial Environment

INTERNATIONAL ECONOMIC DEVELOPMENTS

In 2013, the global recovery experienced yet another year of subdued growth, featuring sustained gains in the United States and Asian markets, and a reduction in the turbulence in euro zone economies. The employment situation, although slightly improved, remained challenging and, together with the persistent weakness in consumer demand served to constrain inflationary pressures. Faced with these outcomes, a few of the major central banks increased their highly accommodative monetary policy measures, which boosted investor confidence and supported advances in most of the major stock markets.

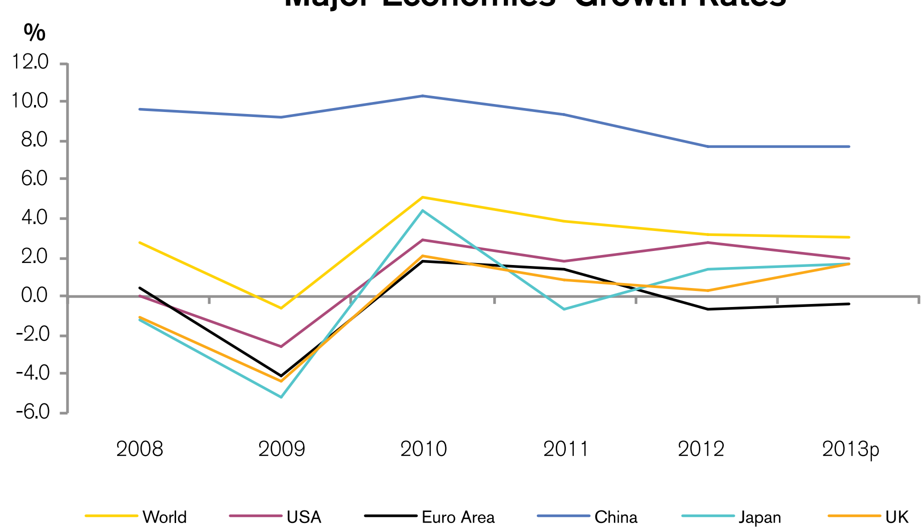
Preliminary data from the IMF's "World Economic Outlook" showed that the global economy grew at a slightly lower estimated rate of 3.0% in 2013, against 3.2% in 2012, as the expansion in emerging markets tapered. Among developed markets, real GDP growth in the United States slackened to 1.9% from 2.8% in 2012, dampened by weak consumer spending and a significant decrease in government expenditures. Buoyed by gains in the production and manufacturing sectors, output growth in the United Kingdom accelerated to 1.8% from 0.3% in 2012—the strongest performance since 2003. Export activity continued to fuel the recovery in the euro area, where the contraction in real GDP eased slightly, to 0.5% from 0.7% in 2012, as a few southern states emerged from recession. Constrained by reduced gains in investment spending and factory output, China's real GDP growth stabilized at 7.7% for 2013, while higher fixed investments contributed to an expansion in real output in Japan, to 1.5% from 1.4% in 2012.

Global employment outcomes among most of the major economies improved, on balance, during 2013. In the United States, the jobless rate narrowed by 75 basis points to 7.4%, benefitting from gains in the professional services, retail sales and construction sectors. A similar outcome was evident in the United Kingdom, where the unemployment rate receded by 0.6 of a percentage point to 7.2%. Despite signs of stabilization in the latter half of 2013, sustained weakness in economic conditions in the southern member states in the euro area pushed the unemployment rate higher by 10 basis points to 12.0%. In Japan, the jobless rate fell by 0.6 of a percentage point to 3.4%, as approximately 910,000 persons were added to company payrolls.

Global inflation remained relatively benign in 2013, given the softening in commodity prices over the year. In the United States, annual inflation eased to 1.5% from 1.7% in 2012, due mainly to lower gains in food prices and a decrease in fuel costs. Declines in the food and non-alcoholic beverage indices also contributed to the 0.7 of a percentage point fall in the United Kingdom's inflation rate, to 2.0% in 2013. The euro area's annual inflation slackened by 1.4 percentage points to a four-year low of 0.8%, as several member states experienced deflation. The Japanese economy emerged from its four year long deflationary cycle, as the Government's stimulus measures buoyed gains in average consumer prices, by 1.6% in 2013. Meanwhile, China's annualized inflation stabilized at 2.6% in 2013, amid higher food and clothing costs.

Commodity prices were generally lower in 2013, reflecting the softness of the economic recovery and higher global supplies. During the year, the average price of crude oil fell by 2.0% to $109.11 per barrel, although the year-end price of $111.59 per barrel was 0.9% above the 2012 level. Precious metal prices generally responded to the US Federal Reserve's tapering expectation and

Major Economies' Growth Rates



the improving economic outlook which prompted some shift into equities. As a consequence, the average prices of gold and silver plunged, by 16.6% and 25.4%, to $1,397.29 and $23.42 per troy ounce, respectively.

Given the softness in the recovery, all major central banks either maintained or enhanced their highly accommodative monetary policy programmes during the year. In the United States, the Federal Reserve held the federal funds rate at an historic low, of between 0 and 0.25%, and announced plans to begin a gradual "tapering" of its Government bond buying programme, amid sustained improvements in key economic sectors. Similarly, the Bank of England kept its official Bank rate at 0.5% and the size of its Asset Purchase Programme at £375 billion. Persistent weakness in a number of member states prompted the European Central Bank to provide further stimulus to the euro zone, through a 25 basis point reduction in each of its benchmark interest rates. To manage temporary fluctuations in liquidity, the Chinese authorities established a Standing Lending Facility (SLF) and Short-term Liquidity Operations (SLO), and also attempted to rein in credit to certain sectors of the economy by removing controls on lending rates for financial institutions. The election of a new Japanese government in December, 2012, ushered in an era of economic stimulus in the country, as the Bank of Japan raised the size of its asset purchase programme to US$520 billion per year, over a two-year period, and set a 2.0% inflation target.

Reflecting the heightened demand for risky assets by investors, amid persistently low interest rates, the US dollar depreciated against most major currencies over the year. The dollar retreated against the euro, by 4.01% to €0.72, vis-a-vis the Swiss Franc, by 2.56% to CHF 0.89 and relative to the British Pound, by 1.86% to £0.60. The dollar also declined against the Chinese Yuan, by 2.82% to CNY 6.06, but firmed relative to the Japanese Yen and Canadian dollar, by 21.39% and 7.07%, to ¥105.31 and CAD$1.06, respectively.

Buoyed by investor confidence over the state of the global economic recovery, and major central banks' monetary stimulus measures, nearly all of the significant indices moved higher in 2013. In the United States, the S&P 500 and the Dow Jones Industrial Average (DIJA) posted the biggest gains since the late 1990's, of 29.1% and 26.5%, respectively. In Europe, solid double-digit advances were also registered for Germany's DAX (25.5%), France's CAC 40 (18.0%), and the United Kingdom's FTSE 100 (14.4%). In Asia, where outcomes were mixed, increased monetary and fiscal stimulus powered Japan's Nikkei 225 to a 56.7% gain—the highest level since 2008. However, China's SE Composite registered a loss of 6.8%, amid concerns over the health of the country's financial institutions.

On the external front, the United States' trade deficit narrowed by $59.8 billion, to $474.9 billion in 2013, owing to a 2.8% increase in exports of mainly industrial supplies, as imports were relatively unchanged. For the United Kingdom, the trade deficit improved to £29.9 billion from £33.6 billion in 2012, as the 1.9% growth in exports eclipsed the 0.3% rise in imports. Indications are that the surplus on the euro zone's trade balance almost doubled to €153.8 billion from €79.7 billion in 2012, occasioned by a 0.8% gain in exports and a 3.3% decline in imports. Japan's goods and services deficit surged nearly two-fold to a record ¥11.5 trillion in 2013, driven by higher costs for imported energy and lower exports, particularly to its major trading partners—China and Europe. In contrast, China's trade surplus firmed by 7.6% year-on-year to US$259.8 billion, as net exports to Europe and the United States recovered.

DOMESTIC ECONOMIC DEVELOPMENTS

Overview

Preliminary indications are that domestic economic activity grew by a mere 0.7% in 2013, as output in the key tourism sector was constrained by a contraction in the high value-added stopover segment of the market (see Table 5). In contrast, foreign investment-led activity—including a major resort development—supported the slight growth and contributed to marginally improved employment conditions, between May and November. Meanwhile, domestic inflation remained relatively benign, benefiting from the pass-through effects of lower international oil prices.

In the fiscal sector, the overall deficit deteriorated for FY2012/13,

TABLE 5: SELECTED DOMESTIC ECONOMIC INDICATORS (% CHANGE)

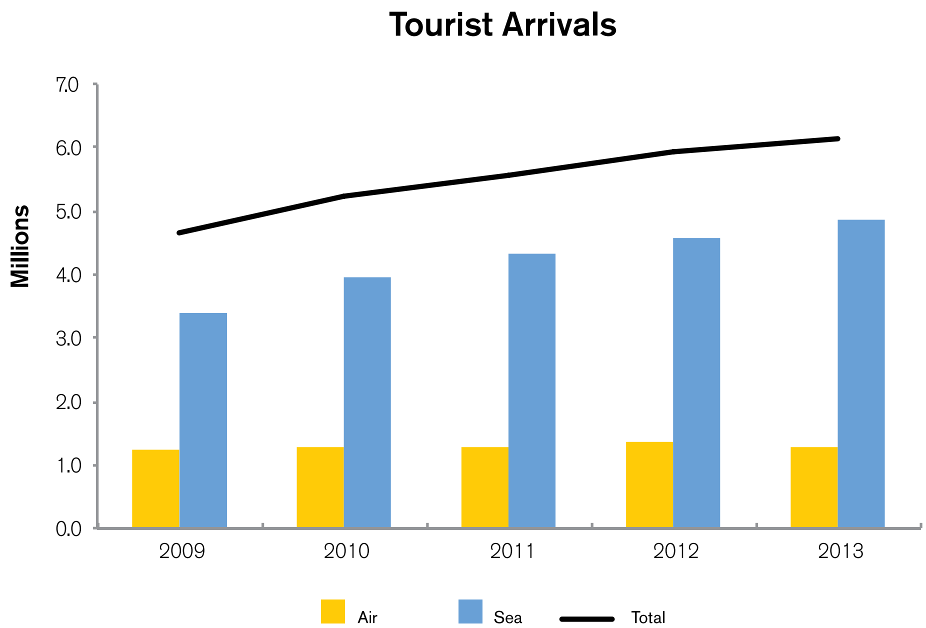
	2010	2011	2012	2013
Real GDP growth (%)	1.5	1.1	1.0	0.7
Unemployment Rate (Nov.)	n/a	15.9	14.0	15.4
Occupied Hotel Room Nights	3.0	0.8	6.8	(9.1)
Hotel Occupancy (%)[1]	51.5	53.7	56.0	55.1[2]
Total Arrivals	13.0	6.3	6.3	3.5
Mortgage Disbursements	(23.2)	(9.3)	(8.4)	(13.7)
Inflation (%)	1.3	3.2	2.0	0.4
National Debt/GDP Ratio	54.3%	55.0%	60.8%	66.2%

SOURCE: Central Bank of The Bahamas
[1] Based on Ministry of Tourism data; [2] Year-to-date September

underpinned by broad-based declines in revenue and higher capital outlays; however, trends were reversed over the first half of FY2013/14, as the reduction in total spending outstripped the marginal decrease in revenue collections. Budgetary financing, totalling $166.0 million, was secured from both domestic and foreign currency sources. At end-December, the National Debt–inclusive of Government's loan guarantees to the public sector–as a percentage of GDP, was higher by 5.4 percentage points, on an annual basis, at an estimated 66.2%.

Monetary sector outcomes were shaped by ongoing weakness in economic activity, and the elevated levels of private sector debt obligations, which sustained liquidity at record levels. In the context of persistent sluggishness in real sector foreign currency inflows and ongoing demand for foreign currency to facilitate current payments–including above-trend bank profit remittances–the external reserves contracted for a second consecutive year. Consequently, balances represented a lower 15.7 weeks of non-oil merchandise imports, compared to 16.0 weeks in 2012. Growth in bank credit was solely on account of Government's financing requirements, as borrowers ongoing difficulties in meeting their debt obligations was evidenced by a deterioration in banks' credit quality indicators, which necessitated increases in loan loss provisioning levels. These higher costs contributed to a reduction in banks' net income over the twelve-months to September, although there was a modest widening in the average interest rate spread, due to a softening in the average deposit rate and an increase in the average loan rate.

On the external account, the estimated current account deficit worsened over the year, primarily associated with increased payments for construction services and lower tourism receipts, which led to a reduction in the services account surplus. The positive balance on the capital and financial account also narrowed, mainly on account of lower net direct investments and public sector borrowing activities.



Real Sector

Tourism

Indicators are that tourism sector output contracted in 2013, due largely to a decline in the high value-added stopover segment of the market. Although the total number of visitors expanded by 3.5%, to approximately 6.2 million, this represented a marked slowdown from the year-earlier gain of 6.3%. The dominant sea component, at 79.2% of the visitor pie, was higher by 6.3% at 4.9 million, maintaining the 6.1% upturn achieved in 2012, whereas, air arrivals fell by 5.7% to 1.3 million, to reverse 2012's 7.1% boost. Key factors influencing this outcome were sustained weakness in several main source markets, increased competition from other regional destinations and a modest decline in room and airlift capacity.

By major ports of entry, growth in visitors to New Providence was tempered to 6.3% for a 3.5 million count, down from 9.3% in 2012. This outturn reflected a 12.2% improvement in the sea component, which outpaced the 6.1% falloff in air visitors. Arrivals to the Family Islands increased at a slightly higher 3.5%, relative to 3.0% in 2012, supported by gains in the air and sea components, of 2.6% and 3.6%, respectively. In contrast, Grand Bahama experienced a 7.3% reduction in total arrivals, following last year's 2.6% rebound, which was linked to declines in both air (16.1%) and sea (6.1%) traffic.

Hotel performance indicators mirrored the trends observed in overall arrivals. Preliminary data from a sample of large hotels in New Providence and Paradise Island signalled a broad-based reduction in total room revenue, of 7.0% over the year, as a 5.1 percentage point decrease in the occupancy rate to 63.2% overshadowed the 2.9% gain in the average daily room rate (ADR) to $235.87.

Preliminary data obtained from the Nassau Airport Development Company (NAD), on the Lynden Pindling International Airport's (LPIA) monthly passenger statistics, indicate a decline in total airlift of 4.8% to approximately 1.6 million in 2013, vis-à-vis a 7.0% hike in 2012. In particular, airlift from the

United States' market receded by 5.9% to 1.0 million, reversing the prior year's 6.9% increase, and the non-US international component also fell, by 3.6% to 0.2 million, in contrast to a year-earlier 7.7% gain.

Construction

In 2013, output growth for the construction sector was sustained by several varied-scale foreign investment projects, including the multi-billion dollar Baha Mar redevelopment, as well as smaller projects in New Providence and the Family Islands. By contrast, domestic private sector activity remained lacklustre, attributed to the continuation of high levels of consumer indebtedness and joblessness, which, together with banks' conservative lending practices, constrained growth in mortgages.

Total mortgage loan disbursements for new construction and repairs—as reported by commercial banks, insurance companies and the Bahamas Mortgage Corporation—contracted by 16.1% to $89.6 million, extending the year-earlier decline of 23.9%. This outturn was primarily explained by a 13.0% contraction in the residential segment to $89.6 million, relative to 2012's 22.4% reduction. Further, no disbursements were recorded for the commercial component, compared to an almost 50% decrease to $3.9 million a year earlier.

It is anticipated that these subdued housing market conditions will persist over the near-term. Domestic mortgage commitments for new buildings and repairs—a forward looking indicator—fell in number by 3.3% to 491, although the corresponding value firmed marginally by 2.4% to $92.9 million.

In terms of interest rates, the average rate on commercial mortgages fell by 30 basis points, year-on-year, to 8.3%, while the corresponding residential rate declined by 10 basis points to 8.1%.

Prices

Amid a general decline in international commodity prices, domestic inflation—as measured by changes in the average Retail Price Index for The Bahamas—decelerated to 0.36% over the twelve-months to December 2013, from 1.97% a year earlier. This outturn mainly reflected a 0.40% decrease in the average cost of housing, water, gas, electricity & other fuels—the most heavily weighted component—a reversal from a 3.21% gain in 2012. In addition, average cost accretions slowed significantly for food & non-alcoholic beverages, by 2.39 percentage points to 0.56%; transportation, by 1.25 percentage points to 0.24%; and furnishing, household equipment & routine maintenance, by 1.88 percentage points to 0.53%. More muted reductions in average inflation were recorded for health (to 1.21% from 1.71%), education (to 1.95% from 2.10%) and clothing & footwear (to 0.39% from 1.02%). In addition, the decline in communication costs steadied at 2.34%. In a modest offset, average consumer prices for alcohol, tobacco & narcotics, restaurant & hotels and miscellaneous goods & services firmed to 3.46%, 3.70% and 1.05% from 1.66%, 1.21% and 0.73%, respectively, and were up by 0.30% for recreation & culture, following a contraction of 0.61% in 2012.

The decline in global oil prices fed through to the domestic energy market, as evidenced by the reduction in the average annual price of gasoline and diesel, by 2.0% and 1.2%, to $5.34 and $5.14 per gallon, respectively. Similarly, the Bahamas Electricity Corporation's fuel charge decreased by 2.8% to 25.92 cents per kilowatt hour (kWh), a reversal from the 15.3% hike of 2012.

Employment

Despite modest signs of improvement in the domestic economy, employment conditions remained challenging throughout 2013. According to the Department of Statistics' Labour Force Survey, the jobless rate increased by 2.2 percentage points to 16.2% in May over November 2012, but then fell marginally by 0.8 of a percentage point to 15.4% in the following six-month period. For the November 2012 to May 2013 period, the rise in the unemployment rate was affected by a decline in discouraged workers, by one-third to 7,970, with the number in New Providence and Grand Bahama narrowing, by 26.5% and 47.4%, to 4,085 and 2,350 persons, respectively. In addition, an estimated 1,260 jobs were lost over the six-month period, reducing the number of employed persons to 163,995. Growth in the unemployment rate reflected increases of 2.3 percentage points in the female component to 16.3%, and 2.0 percentage points for the male category to 16.1%. The subsequent improvement in the jobless situation was explained by a gain in the number of employed persons, of 2,600 to 166,595, as the ranks of the jobless fell by 1,380 (4.4%) persons. In a sign of increasing optimism regarding job prospects, previously discouraged persons contracted by 1,205 (15.1%) individuals.

Based on an examination of trends by major job centres, the unemployment rates in both New Providence and Grand Bahama firmed, by 2.8 and 1.5 percentage points, to 15.9% and 19.5%, respectively, over the November 2012 to May 2013 period. The jobless rate then dipped by 30 basis points to 15.6% in New Providence in the following six-month period, and more sharply in Grand Bahama, by 2.7 percentage points to 16.8%.

Fiscal Operations

FY2012/13 Performance

The Government's overall deficit deteriorated during FY2012/13, relative to the previous year, by 21.0% ($94.5 million) to $545.2 million (see Table 6), but was a slight $2.3 million below budget. Aggregate revenue narrowed by 6.4% ($92.1 million) to

TABLE 6: FISCAL INDICATORS (B$ MILLIONS)	FY2010/11	FY2011/12	FY2012/13	FY2013/14	
	Actual	Actual	Actual	Approved Estimates	Preliminary[1] Estimates
Government Revenue	1,433.0	1,446.7	1,354.6	1,493.2	661.5
% of GDP	18.1	17.9	16.3	17.3	7.6
Government Expenditure	1,803.7	1,897.4	1,899.8	1,928.1	870.5
% of GDP	22.8	23.5	22.8	22.3	10.1
Surplus/(Deficit)	(370.7)	(450.6)	(545.2)	(434.9)	(209.1)
% of GDP	(4.7)	(5.6)	(6.6)	(5.0)	(2.4)

SOURCE: Ministry of Finance

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

$1,354.6 million and was $180.9 million (11.8%) under budget. Although expenditures were up slightly, by 0.1% ($2.4 million) to $1,899.8 million, the tapering in capital spending secured $183.2 million in overall savings, relative to the budget.

Revenue

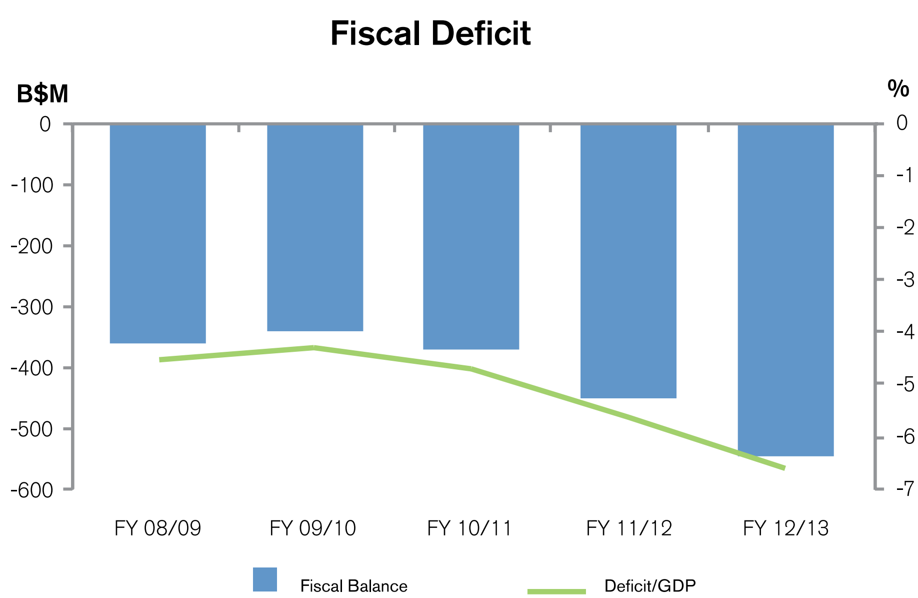
Tax revenue, at 89.7% of total receipts, declined by 4.8% ($61.0 million) to $1,215.5 million—approximately 13.9% below the budget estimate. This outturn was associated with a contraction in taxes on international trade & transactions, by 14.3% ($101.9 million), mainly owing to a 25.7% ($85.1 million) reduction in excise tax receipts back to trend levels, after the surge in the prior year when a public entity made a significant arrears payment. Similarly, import and export tax receipts decreased by 4.6% ($15.9 million) and 5.9% ($0.9 million), respectively. In a partial offset, non-trade tax collections grew by 7.8% ($45.1 million) to $620.1 million, as receipts related to prior period activities boosted departure taxes by 41.5% ($42.3 million), while the amnesty programme supported gains in property taxes of 21.0% ($20.0 million). In contrast, income from non-import related stamp taxes fell by 8.0% ($13.9 million); motor vehicle taxes, by 3.4% ($1.0 million) and selective taxes on services, by 4.4% ($2.4 million).

Non-tax receipts decreased by 7.8% ($11.7 million) to $139.0 million, but stood 14.8% above budget projections. In terms of the components, income from other "miscellaneous" sources contracted by 39.0% ($20.5 million), following the prior period's boost associated with the receipt of deferred interest payments. In a modest offset, income from public enterprises grew almost five-fold ($8.1 million), on account of the receipt of outstanding landing fees. Smaller gains were recorded for income from the sale of government property and fines, forfeits & administrative fees, of $0.4 million and $0.2 million, respectively. Capital revenue was also negligible, when compared to $19.3 million for the prior year, when a Government building was sold.

Expenditure

Current expenditure, which accounted for 81.3% of total spending, declined marginally, by 0.3% ($4.6 million) to $1,545.1 million, and was some 8.0% under the budget projection. Consumption outlays were lower by 1.7% ($16.8 million), based on reductions in both personal emoluments (2.3%) and purchases of goods & services (0.7%). In contrast, transfer payments grew by 2.1% ($12.2 million), inclusive of a 5.9% ($11.0 million) rise in interest payments, given an expanded debt stock. Meanwhile, subsidies & other transfers edged up by 0.3% ($1.2 million), comprising higher outlays for transfers to households ($3.4 million), which overshadowed declines in transfers to public corporations ($0.9 million), non-profit organizations ($0.8 million) and non-financial public enterprises ($0.6 million).

Capital expenditures were higher by 5.3% ($13.0 million) at $258.3 million—although 27.9% less than the budget estimate. Transfers to non-financial public enterprises rose by $15.6 million, earmarked primarily for the acquisition of specialized aviation



equipment, while infrastructure–related outlays firmed by 3.2% ($6.5 million). In a partial offset, asset acquisitions contracted by 22.6% ($9.1 million), largely reflecting a $12.8 million decline in land purchases, following Government's acquisition of its new headquarters in the prior year. Equity investments also receded by $3.6 million (34.5%); however, other "miscellaneous" capital investments firmed by $7.3 million (62.7%), due to increased spending on defence and security equipment. Although net lending to public enterprises was lower by 5.8% ($5.9 million) at $96.4 million, the total was twice as high as the budget allocation.

Financing

Financing for the deficit was sourced primarily from domestic Government bonds ($375.0 million), Treasury bills ($294.1 million) and short-term loans and advances ($123.0 million). An additional $231.8 million was obtained from external loan financing. Debt repayments amounted to $260.5 million, of which 94.8% went towards retiring internal obligations.

First Six Months of FY2013/14

The fiscal outturn improved for the first half of FY2013/14, as the overall deficit contracted by 22.6% ($60.9 million) to $209.1 million. With the tapering-off in infrastructure projects, alongside substantially lower net lending to public entities, total spending fell by 6.9% ($64.2 million) to $870.5 million. This mitigated the mild reduction in aggregate revenue, of 0.5% ($3.3 million) to $661.5 million.

Revenue

Total tax income decreased by $30.0 million (5.1%) to $553.1 million, mainly reflecting a $25.8 million (33.8%) reduction in departure tax receipts back to trend levels, after a large one-off inflow in the prior year. Similarly, taxes on international trade decreased by $19.8 million (6.5%), as excise taxes receded by $11.0 million (9.1%), after being boosted by the payment of arrears in the year earlier period. Declines were also noted for stamp taxes from imports ($7.8 million) and import taxes ($2.1 million); while export taxes firmed by $1.1 million. In addition, property tax payments contracted by $5.6 million (9.1%) to $56.1 million and selected taxes on services were lower by $3.3 million (15.4%) at $18.4 million, due mainly to a $2.9 million (88.2%) decline in gaming taxes. In a partial offset, other "miscellaneous" tax receipts, which included not yet categorized revenue collections, more than doubled to $42.6 million, while smaller accretions were registered for all other stamp taxes, of $2.4 million (3.7%) to $66.8 million and business and professional licence fees, of $0.1 million (0.6%) to $24.4 million.

Non-tax receipts advanced by $26.5 million (32.4%) to $108.2 million, as higher dividend income boosted income from "other" sources by $18.4 million (72.5%) to $43.8 million. In contrast, income from public enterprises fell by $6.9 million (85.1%) to $1.2 million, following an extraordinary inflow during the comparative period last year. Timing-related factors contributed to a hike in fines, forfeits & administrative fees, of $15.9 million (33.6%) to $63.1 million; however, income from the sale of Government property fell by $0.9 million to a mere $0.1 million; and there were no capital related inflows.

Expenditure

Current outlays grew by $14.3 million (1.9%) to $763.9 million, largely attributed to an increase in transfer payments, of $28.1 million (9.7%) to $317.8 million. Subsidies and other transfers were higher by $19.8 million (10.2%) at $215.1 million, reflecting increased subsidies ($20.2 million), transfers to households ($6.6 million) and transfers abroad ($4.0 million), which outpaced reductions in amounts for public corporations ($6.1 million) and non-profit institutions ($5.0 million). The remaining interest component firmed by $8.3 million (8.8%) to $102.8 million. In contrast, consumption spending narrowed by $13.8 million (3.0%) to $446.1 million, owing to a contraction in purchases of goods and services ($18.1 million), which outweighed gains in wages & salaries ($4.3 million).

Capital outlays fell by $38.8 million (33.7%) to $76.5 million, as the completion of a number of large-scale road projects led to infrastructure

TABLE 7: **DEBT INDICATORS (B$ MILLIONS)**

	2010p	2011p	2012p	2013p	Projections 2014[1]
a. External Debt	915.9	1,043.8	1,460.0	1,601.7	1,922.5
% of GDP	11.6	13.2	17.8	19.0	21.7
b. Internal F/C Debt	508.9	417.2	428.8	525.6	350.3
c. Total F/C Debt	1,374.8	1,461.0	1,888.8	2,127.3	2,272.8
% of GDP	17.4	18.4	23.0	25.3	25.6
d. Debt Service Ratio[2]	3.6	7.5	5.5	5.1	4.2
e. Direct Charge	3,721.1	3,805.6	4,395.6	4,971.7	5,068.8
% of GDP	47.0	48.3	53.5	59.0	57.1
f. National Debt	4,296.2	4,363.8	4,998.9	5,572.7	5,659.4
% of GDP	54.3	55.0	60.8	66.2	63.8

SOURCE: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Report

[1]Based on contractual obligations and planned borrowings

[2]Excludes refinancing activities

spending declining by $28.9 million (30.3%). Transfers to non-financial public enterprises also receded by $8.4 million, following a year-earlier similar increase associated with the purchase of aviation equipment. Direct asset acquisitions decreased by $1.5 million (14.8%), as increases in land ($2.3 million) and "other" assets ($0.5 million) were countered by a $4.3 million reduction in equity investments. Further, net lending to public corporations fell by $39.8 million (56.8%) to $30.2 million.

Financing

Budgetary financing for the first six months of FY2013/14 totalled $473.8 million, with local borrowings derived from long-term bonds ($115.0 million), short-term loans and advances ($59.0 million), Treasury bills ($51.0 million) and a short-term US dollar loan ($125.0 million). Added to this was $123.8 million in external loan financing. Total debt service was $192.7 million, of which $185.8 million was utilized to reduce Bahamian dollar obligations.

National Debt

For calendar year 2013, the Government's Direct Charge expanded by $576.0 million (13.1%) to $4,971.7 million. This compared with the prior year's $590.0 million (15.5%) gain, and was 59.0% of GDP, relative to an estimated 53.5% of GDP at end-2012. Bahamian dollar denominated debt, which accounted for 73.8% of the total, advanced by $313.3 million (9.3%) to $3,670.7 million, while foreign currency claims were higher by $262.7 million (25.3%) at $1,301.0 million. The majority of the Bahamian dollar debt continued to be held by commercial banks (36.7%), followed by the private sector (29.6%) and public corporations (18.7%), while the Central Bank and other local financial institutions accounted for smaller shares, of 14.8% and 0.2%, respectively.

Movements in the Direct Charge, combined with a slight reduction in contingent debt liabilities, by $2.3 million (0.4%), to $601.1 million, pushed the National Debt higher by $573.8 million (11.5%) to $5,572.7 million at end-2013. Although this was below the year-earlier increment of $635.1 million (14.6%), the National Debt to GDP ratio firmed to an estimated 66.2%, from 60.8% at end-2012 (see Table 7).

Foreign Currency Debt

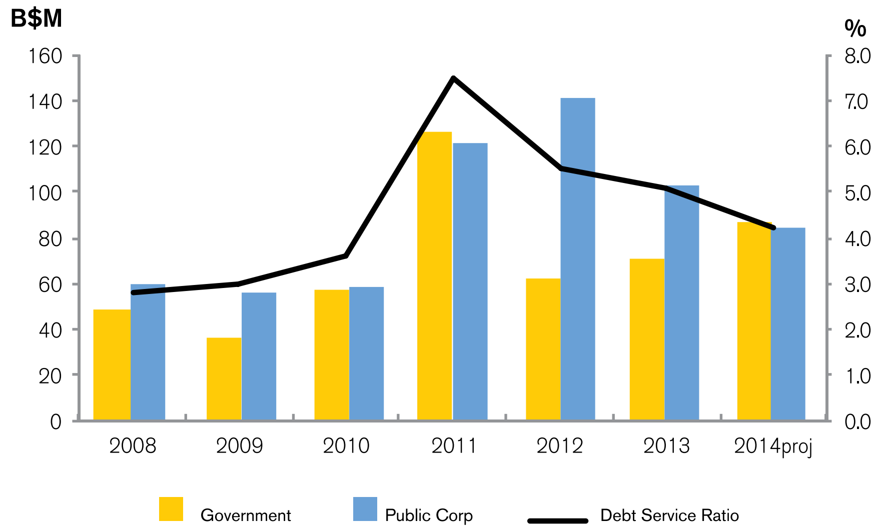
Public sector foreign currency debt increased by $238.5 million (12.6%) to $2,127.3 million in 2013, as new drawings of $303.4 million outweighed amortization payments of $65.1 million. The Government's debt obligations, which accounted for 61.2% of the aggregate, firmed by $262.7 million (25.3%) to $1,301.0 million, with activities largely concentrated in the final quarter of the year. The public corporations' portion narrowed by $24.2 million (2.8%) to $826.3 million, reflecting net repayments by two large corporations. Foreign currency debt service payments contracted by $29.0 million (14.2%) to $175.0 million at end-2013, primarily due to a $38.0 million (26.9%) reduction in the public corporations' segment to $103.5 million, following a significant one-off transaction in 2012; however, Government's debt service payments were higher by $9.0 million (14.5%) at $71.4 million. At end-2013, the ratio of debt service to goods and non-factor payments stood lower at 5.1%, from 5.5% in 2012, and Government's debt service to total revenue ratio advanced to 5.3% from 4.5%.

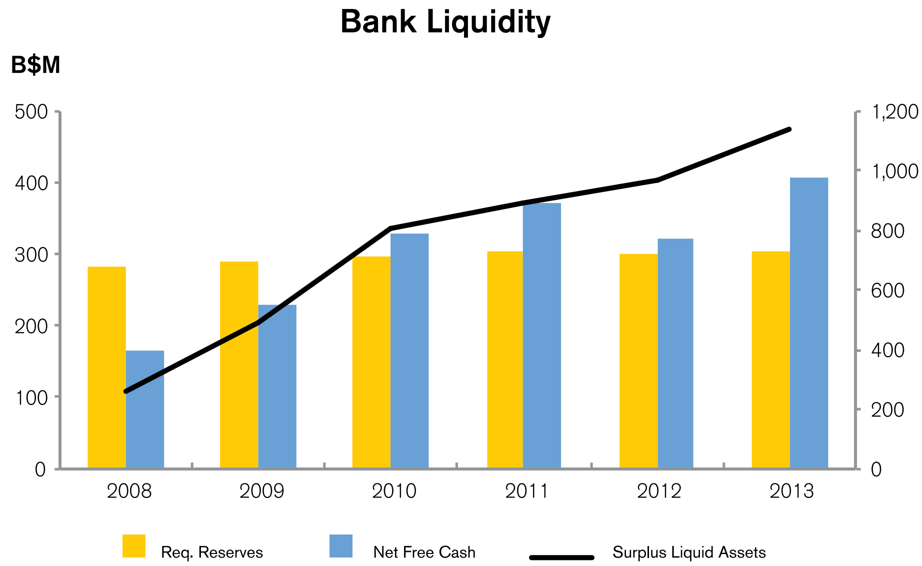
In terms of creditor profile, the majority of the foreign currency debt was held by non-resident investors (such as international financial institutions and insurance firms), private capital markets and commercial banks, at 35.1%, 28.2% and 21.2%, respectively, with the balance owed to multilateral (12.8%) and bilateral (2.7%) agencies. In 2013, the average maturity of the debt fell to 13.4 years, from 15.4 years in 2012, and the majority (92.5%) was denominated in US dollars, with euros and Chinese Yuans accounting for smaller proportions, of 4.8% and 2.7%, respectively.

Monetary Sector

For the third consecutive year, monetary conditions featured above average levels of bank liquidity and weak private sector credit, amid the continuation of mild economic growth, elevated unemployment and private sector debt levels, which constrained domestic demand. Softness in real sector activity

Public Sector F/C Debt Service





was evidenced in the overall decline in external reserves, which accommodated the heightened demand for foreign currency to facilitate current payments—including elevated bank profit remittances. Higher provisioning levels to cover increasing loan arrears contributed to a reduction in banks' profitability over the twelve months to September, 2013, although the spread between deposit and loan rates widened, due to the combined effects of a decline in the average deposit rate and an increase in the corresponding loan rate.

Liquidity

Banks' average net free cash balances—the narrowest measure of liquidity—advanced by 5.3% to $380.3 million, the bulk of which was held in non-interest bearing deposits at the Central Bank. After attaining an average monthly balance of $393.1 million in the first seven months of 2013, net free cash reserves increased to over $400 million in April, and remained above this level until July. Reflecting seasonal utilization, the level was lowered to $407.4 million, at end-December—some 26.2% above the 2012 closing and representing a higher 6.8% of Bahamian dollar deposits.

The broader excess liquid assets—which include holdings of Government securities—averaged $1.09 billion per month, a 17.5% increase from 2012, and peaked at $1.16 billion during May 2013. By year-end, overall liquidity stood at $1.14 billion, a 17.6% gain over 2012, and was 115.1% over the statutory requirement.

Money Supply

Reflecting an increase in foreign currency deposits, the overall money supply (M3) expanded by $46.3 million (0.7%) to $6,350.0 million in 2013—a turnaround from the marginal $6.7 million (0.1%) decrease in 2012. Growth in the narrow money (M1) component slackened to $66.3 million (4.2%) from $140.1 million (9.8%), as the increase in demand deposits softened to $68.4 million (5.0%), while the 10.0% gain for currency in circulation in the prior year, was reversed to a contraction of $2.1 million (1.0%).

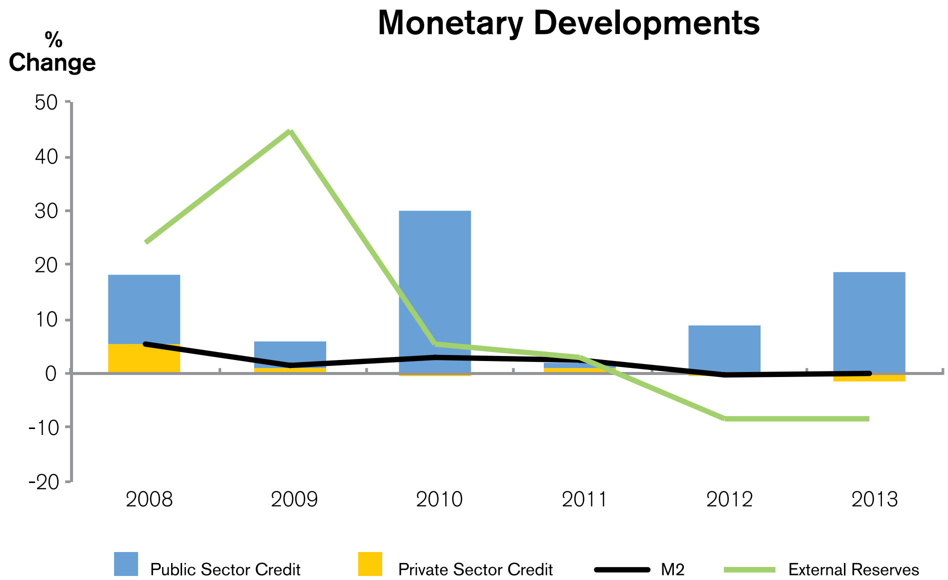
Broad money (M2) declined further, by $12.0 million (0.2%), following a $16.4 million (0.3%) drop in 2012.

TABLE 8: FLOW OF CREDIT IN THE FINANCIAL SYSTEM (B$ MILLIONS)[1]

	Outstanding as at 2011	Absolute Change 2012[R]	2013	Outstanding as at 2013
Destination				
Government (net)	1,439.2	153.0	351.1	1,943.3
Central Bank	289.2	105.5	95.2	489.9
Domestic Banks	1,150.0	47.5	256.0	1,453.5
Rest of Public Sector	450.2	13.3	30.5	494.0
Central Bank	6.0	(0.3)	(0.2)	5.5
Domestic Banks	444.2	13.6	30.7	488.5
Private Sector	6,647.5	(18.2)	(115.1)	6,514.2
Domestic Banks	6,647.5	(18.2)	(115.1)	6,514.2
Consumer	2,164.1	(8.9)	8.8	2,164.0
Mortgages	2,880.4	43.2	6.2	2,929.8
Other Loans	1,603.0	(52.5)	(130.1)	1,420.4
Financing				
Liabilities (Net of Government)	6,310.4	(6.7)	46.3	6,350.0
Currency	196.9	19.6	(2.1)	214.4
Total Deposits	6,113.5	(26.3)	48.4	6,135.6
Demand	1,402.1	139.5	122.2	1,663.8
Savings	1,067.1	7.3	45.5	1,119.9
Fixed	3,644.3	(173.1)	(119.3)	3,351.9
International reserves	884.9	(74.7)	(68.6)	741.6
Other net external liabilities	(604.1)	2.3	(62.2)	(664.0)
Capital and surplus	2,361.5	178.1	52.2	2,591.8
Other (net)	(145.7)	195.9	37.3	87.4

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

The drawdown in fixed deposits tapered to $123.3 million (3.6%) from $161.8 million (4.5%), to contrast with accelerated growth in savings balances of $45.0 million (4.2%) relative to $5.3 million (0.5%) in 2012. Foreign currency deposits, however, firmed by $58.3 million (27.0%)—outpacing the year-earlier $9.7 million (4.7%) gain, due mainly to increased private sector placements.



Domestic Credit

The evolution of bank credit during 2013 was dominated by increased public sector borrowing activities, as the persistent weakness in consumer demand, along with banks' conservative lending posture, resulted in further declines in private sector credit.

Total domestic credit expanded by $266.5 million (3.1%) in 2013, outpacing 2012's upturn of $148.1 million (1.7%), with approximately 58.9% of the gain in the Bahamian dollar segment. Growth in the banking system's net claim on Government more than doubled to $351.1 million (22.1%) from $153.0 million (10.6%) in 2012, as institutions increased their holdings of Government paper (see Table 8). Although not broadly-based, the outstanding liabilities of the rest of the public sector firmed by $30.5 million (6.6%), ahead of the year-earlier $13.3 million (3.0%) gain.

The contraction in private sector credit was markedly higher at $115.1 million (1.7%), compared with $18.2 million (0.3%) in 2012, and was mainly due to significant reductions in claims for "miscellaneous" purposes ($71.2 million)—which included the swap out of a significant commercial credit for equity financing. Declines were also recorded for professional & other services ($23.2 million), construction ($20.6 million) and tourism ($18.1 million). Personal loans, which accounted for the bulk (79.9%) of the total, contracted by $14.4 million (0.3%) in 2013, reversing the year-earlier $16.3 million (0.3%) gain, with smaller declines recorded for transport, distribution and fisheries, of $6.9 million, $1.3 million and $1.4 million, respectively. In contrast, net lending positions were registered for entertainment & catering ($15.6 million), manufacturing ($12.4 million) and private financial institutions ($12.0 million).

The weakness in the dominant personal loan category was primarily associated with an accelerated $26.1 million fall-off in overdrafts, vis-a-vis $0.7 million in 2012. In a partial offset, housing loans grew by $6.2 million, although moderating from a year-earlier $43.2 million advance, meanwhile, consumer loans firmed by $8.8 million, to reverse the preceding year's $8.9 million contraction. Leading the growth were miscellaneous ($10.4 million), travel ($6.4 million) and education ($4.8 million) loans, while lending for debt consolidation and land purchases fell, by $18.5 million and $1.2 million, respectively.

Interest Rates

During 2013, the weighted average interest rate spread on domestic banks' loans and deposits widened by 56 basis points to 9.42%. This reflected, in combination, a 34 basis point reduction in the average deposit rate, to 1.68%, and a 22 basis point increase in the weighted average loan rate, to 11.10%.

The increase in the weighted average loan rate was solely due to a rise in the dominant consumer loan component, by 22 basis points to 13.65%. In contrast, declines were registered for residential and commercial mortgage average rates, of 24 and 8 basis points, to 7.27% and 8.21%, respectively, and for overdrafts, of 49 basis points to 9.32%.

Given the buoyant liquidity conditions, the interest rates paid on all deposit categories moved lower over 2013. Specifically, the average rate on savings and demand deposits declined, by 56 and 14 basis points, to 0.97% and 0.31%, respectively, while the average range on fixed balances narrowed to 1.35%-2.20% from 1.60%-2.65% in 2012.

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 firmed by 10 basis points to 0.30%.

Net Foreign Assets

Reflecting the contraction in external reserves, the domestic banking system's net foreign assets contracted sharply, by $130.8 million (62.8%), to $77.6 million—exceeding 2012's $72.4 million (25.8%) decline to $208.4 million. Banks' net foreign liabilities component increased by $62.2 million (10.3%) to $664.0 million at end-December, 2013, mainly on account of the extension of short-term foreign currency loans to the Government.

Following on 2012's $74.7 million drawdown, external reserves declined further by $68.6 million (8.5%) to $741.6 million, amid ongoing weakness in foreign currency inflows derived from real sector activities, and elevated demand to facilitate current payments—such as fuel imports and dividend repatriations.

Similar to the pattern observed in 2012, external reserves were supported by seasonal tourism-related net foreign currency inflows in the early months of the year, to peak at $825.9 million in April. Over the subsequent seven (7) months, external reserves declined by more than $150 million, until December when the receipt of public sector foreign currency loan proceeds attenuated the contraction. Against this backdrop, the average monthly external reserve balance was lower at $753.3 million from $840.0 million in 2012.

In the underlying foreign currency transactions to external reserves, the Bank's position was reversed, from a net purchase of $53.9 million in 2012, to a net sale of $117.4 million in 2013—with a $59.2 million expansion in sales and a $112.1 million reduction in purchases. In particular, the net purchase from commercial banks contracted more than four-fold, from $110.4 million to $25.0 million, reflecting the reduction in tourism-related inflows and increased levels of banks' profit repatriations. Buoyed by foreign currency borrowings, the net purchase from the Government was higher by $62.6 million at $290.1 million. In other transactions, dominated by the public corporations, the Bank sold a net of $432.4 million—earmarked primarily for fuel purchases—a significant increase from a net sale of $284.0 million in the prior year, when the Bank converted approximately US$148.0 million from SDRs.

At end-December, 2013, the stock of external reserves totalled an estimated 15.7 weeks of non-oil merchandise imports, down from 16.0 weeks in 2012. After accounting for the statutory requirement to maintain external reserves equivalent to 50% of the Bank's demand liabilities, 'useable' reserves declined by $70.9 million to $277.1 million.

Performance of the Banking Sector

Credit Quality

Given the sustained softness in business and employment conditions, banks' credit quality indicators deteriorated at a faster rate than in 2012—although the increase in loan delinquencies was not broad-based. Total private sector loan arrears grew by $101.7 million (8.1%) to $1,352.2 million, outpacing 2012's gain of $42.4 million (3.5%). Reflecting the worsening in loan quality, arrears firmed by 1.9 percentage points to 21.9% of total private sector loans, extending the 75 basis point advance for 2012.

The upswing in delinquencies was concentrated mainly in the non-performing component—arrears in excess of 90 days and for which banks are no longer accruing interest—which firmed by $98.4 million (11.4%) to $966.0 million, nearly doubling the $51.5 million (6.3%) hike registered in the prior period, and representing a 1.8 percentage point rise to 15.7% of total private sector loans. Short-term (31-90 day) arrears grew by $3.2 million (0.8%) to $386.2 million, to reverse the $9.1 million (2.3%) decline of 2012, and account for a higher 6.3% of total private sector loans.

The deterioration in credit quality was attributed mainly to the worsening in the commercial loan component, which surged by $83.1 million (30.7%) to $353.9 million, after declining by $15.9 million (5.5%) in 2012. By end-December, the ratio of commercial arrears to total commercial loans stood at 35.6%, a gain of 10.1 percentage points over the year. Mortgage arrears advanced at a slightly lower $31.4 million (4.5%) to $730.9 million, for 23.6% of total loans. Meanwhile, consumer arrears improved by $12.9 million (4.6%) to $267.4 million, and by 50 basis points to 12.9% of the total consumer loan portfolio.

Capital Adequacy and Provisions

In the context of elevated loan arrears, banks augmented their capital and provisioning levels, by 5.4% to $2.2 billion by end-2013, with the ratio of capital to total risk weighted assets firming by 2.9 percentage points to 32.0%. Bad debt provisions also increased, by $70.0 million to $442.7 million, which was in line with the $72.3 million allocation for 2012. Consequently, the ratio of provisions to total loans was higher by 1.2 percentage points at 7.0%, and firmed as a percentage of both arrears and non-performing loans, by 2.9 percentage points, to 32.7% and to 45.8%, respectively. Banks also wrote-off $130.1 million in bad debts and had recoveries of $41.5 million.

Bank Profitability

Commercial banks' overall profitability declined during the 12 months ended-September, as net income fell by 4.4% ($7.3 million) to $161.1 million, although improving from a 26.5% ($60.8 million) contraction in the same period of 2012. The dominant net interest margin was higher by 3.3% ($17.0 million) at $530.3 million, as lower rates on deposits curtailed interest expense, by 19.4% ($29.6 million) to $122.6 million, and outpaced the 1.9% ($12.6 million) decline in interest income to $652.9 million. Commission and forex income increased marginally, by 0.7% ($0.2 million) to $23.3 million, and contributed to a 3.2% ($17.2 million) rise in the gross earnings margin to $553.6 million, vis-à-vis the prior year's 2.1% ($11.7 million) contraction.

Broad-based gains in operating costs, of 9.7% ($29.1 million) to $329.7 million, were led by "miscellaneous" expenses–inclusive of professional services, Government fees and maintenance–which firmed by $19.6 million. Smaller increases were noted for staff and occupancy costs, of $8.6 million and $0.9 million, respectively. As a result, the net earnings margin fell by 5.1% ($11.9 million) to $223.9 million, to extend the year-earlier 4.4% ($11.0 million) contraction. In a modest offset, the loss from "non-core" operations narrowed by 6.8% ($4.6 million) to $62.7 million, attributed to a $6.0 million reduction in the level of provisioning, which outstripped increases in depreciation expenses ($3.0 million) and fee-based income ($1.6 million).

Corresponding to these trends, the interest margin ratio widened by 14 basis points to 5.48%, while the commission & forex income ratio stabilized at 0.24% for the third consecutive year. The gross earning margin ratio firmed by 14 basis points to 5.72%; however, an increase in the operating cost ratio, by 28 basis points to 3.40%, pushed the net earnings margin 14 basis points lower to 2.31%. After accounting for "non-core" operations, the net income ratio decreased more modestly, by 9 basis points to 1.66%.

Capital Market Developments

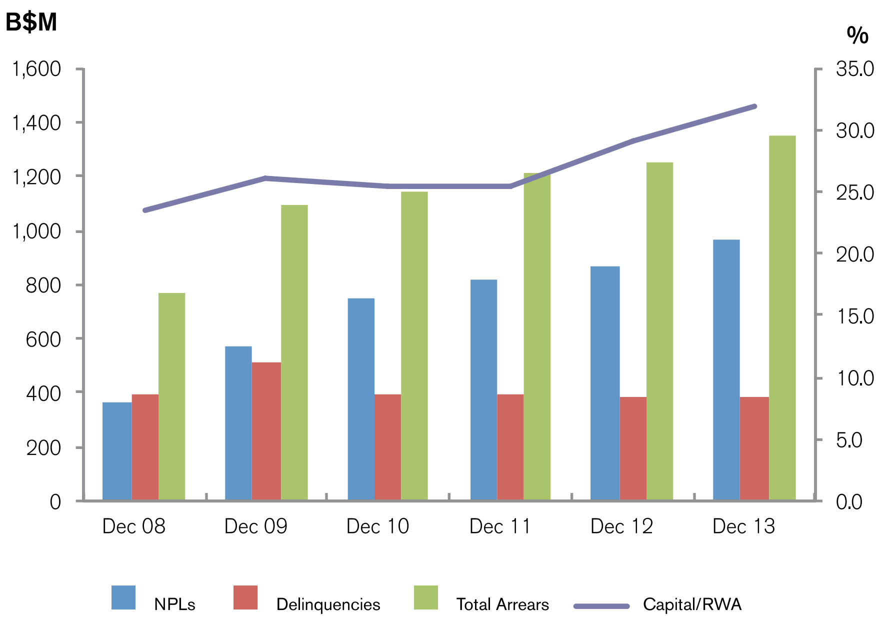
Given the softness in the domestic economy, activity in the local capital markets remained relatively subdued in 2013. Although the volume of shares traded was up marginally, by 0.1% at 4.1 million, the corresponding value contracted by 7.8% to $17.4 million. The number of securities listed on the Bahamas International Securities Exchange (BISX), was unchanged at twenty-seven (27) and consisted of twenty (20) common share listings, three (3) preference share offerings and four (4) debt tranches.

For 2013, market capitalization of the securities advanced by 4.5% to approximately $3.0 billion, a turnaround from the year-earlier 1.2% decline, as the price of several significant listings recorded annual gains. In addition, the BISX All Share Index–a market capitalization weighted index–recovered by 9.1% to 1,468.22, from a 1.4% loss in 2012.

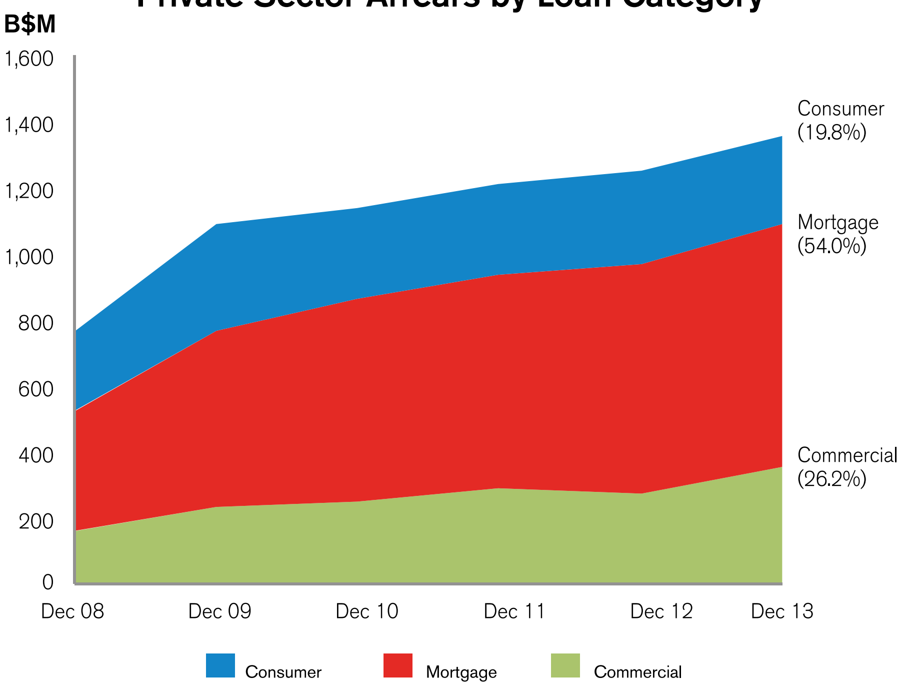
International Trade and Payments

Preliminary external sector data for 2013 showed that the current account deficit deteriorated by an estimated $131.9 million (8.8%) to $1,636.7 million, vis-à-vis 2012, as

Total Private Sector Loan Arrears



Private Sector Arrears by Loan Category



a construction-led narrowing in the services account surplus overshadowed a decrease in the merchandise trade deficit. The combination of lower net direct investment inflows and public sector borrowings underpinned a contraction in the capital and financial account surplus, by $316.3 million (24.2%) to $990.0 million.

The estimated merchandise trade deficit improved by $184.3 million (7.7%) to $2,217.1 million, mainly reflecting a $259.0 million (7.7%) contraction in imports, which exceeded the $74.7 million (7.6%) reduction in exports. In particular, net payments for non-oil merchandise were reduced by $171.6 million (9.1%) to $1,710.3 million, partly explained by lower levels of construction-related imports, and declines in both the volume and average value of oil imports, by $106.0 million (10.9%) to $866.0 million. Average per barrel prices rose for most of the oil products, with propane up by 2.2% to $64.73; aviation gas, by 17.7% to $188.52; jet fuel, by 10.4% to $147.64 and bunker C, by 9.7% to $95.64. In a modest offset, gas oil was reduced by 3.8% to $124.09 and motor gas, by 3.0% to $126.81.

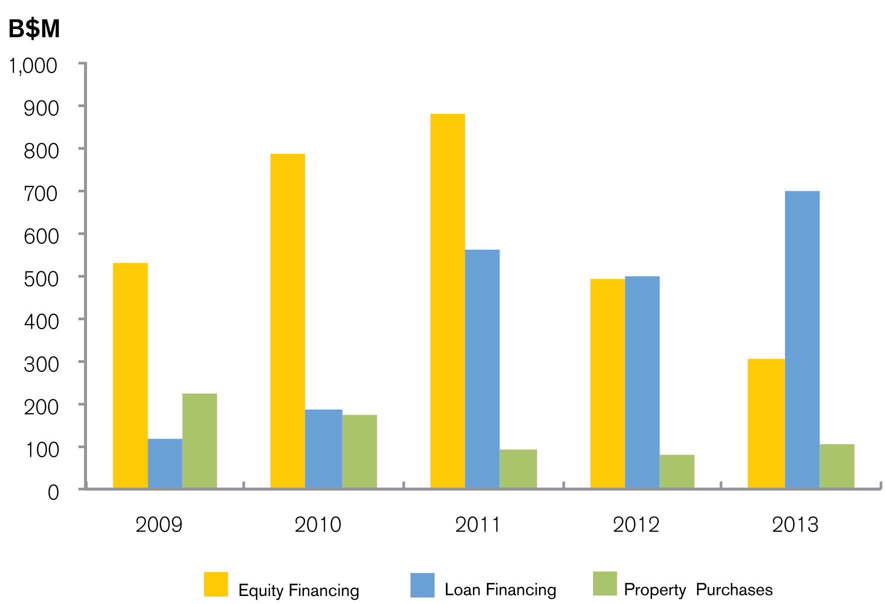
Buoyed mainly by a foreign investment-related surge in construction service payments, the estimated services account surplus contracted by $251.3 million (21.8%) to $902.4 million. Requirements associated with ongoing foreign investment related projects boosted payments for construction services by $216.4 million (81.3%) to $482.6 million, while the reduction in stopover visitors translated into declines in travel-related net inflows, by $126.5 million (6.2%) to $1,899.1 million. Smaller increases were recorded for royalty and license fee outflows, of $2.4 million (14.6%) to $19.2 million, and offshore companies local expenditures were lower by $6.3 million (3.6%) at $170.1 million. Providing some offset, net other "miscellaneous" and insurance services outflows narrowed, by $52.3 million (15.6%) and $36.1 million (18.6%), to $282.6 million and $157.6 million, respectively, meanwhile, the net transportation outflow was reduced by $12.0 million (4.6%) to $252.5 million and the net inflow for Government services steadied at $27.6 million.

The estimated deficit on the income account widened by $61.5 million (23.0%) to $329.0 million, and was mainly associated with a $70.8 million (31.8%) increase in investment income outflows to $293.2 million, as the private sector component grew by $63.5 million (33.8%) to $251.1 million. The latter was primarily explained by the non-bank component, which grew by $73.8 million (40.9%) to $254.3 million and negated a reversal in commercial banks' transactions, from a net outflow of $7.1 million in 2012 to a net inflow of $3.3 million. In addition, the net outflow under official transactions rose by $7.3 million (21.0%) to $42.2 million, linked to a $6.7 million (13.1%) rise in Government's net interest payments to $57.7 million and a $0.6 million (4.0%) reduction in the Central Bank's net investment income inflow to $15.5 million. In contrast, the net outflow under labour income fell by $9.3 million (20.6%) to $35.8 million.

Net current transfer inflows narrowed by $3.4 million to $7.1 million, reflecting gains in both worker remittances and other "miscellaneous" transfers, of $8.3 million and $0.8 million, to $102.9 million and $16.4 million, respectively. In a modest offset, the inflow to the Government firmed by $5.7 million to $126.4 million.

The reduction in the capital and financial account surplus was largely associated with a $143.9 million (27.4%) decline in direct investment inflows to $382.3 million, as equity investments contracted by $208.6 million (40.7%) to $304.1 million, following last year's one-off transaction related to the sale of a major resort to an overseas investor. In contrast, net real estate investments grew almost five-fold, to $78.1 million, amid an increase in high-end property sales. Other "miscellaneous" investment inflows moderated significantly, by $173.0 million to $651.4 million, as the public sector's capital inflows receded to $4.0 million from $172.4 million a year ago, when a port-related entity secured external funding for a major expansion project. Lower levels of external borrowings narrowed the Government's net inflow by $104.9 million (43.9%) to $133.8

Foreign Investment Inflows



million. In a partial offset, "other" private sector transactions—mainly related to loan financing for major foreign investment projects—rose by $35.8 million to $451.4 million, meanwhile, domestic banks' net short-term transactions were reversed, from a net outflow of $2.3 million in 2012 to a net inflow of $62.2 million, amid an increase in foreign currency lending to the Government.

Migrants' net capital transfers firmed by $2.4 million to $9.6 million. In a slight offset, net outward portfolio investments declined by $2.9 million to $34.0 million, as the $6.3 million reduction in securities' investments to $18.8 million, outpaced the $3.3 million gain in the equity component to $15.3 million.

TABLE 9: BALANCE OF PAYMENTS SUMMARY (B$ MILLIONS)[1]

	2011P	2012P	2013P
I. CURRENT ACCOUNT	(1,192.7)	(1,504.8)	(1,636.8)
i) Merchandise Trade (net)	(2,132.2)	(2,401.5)	(2,217.3)
Exports	833.5	984.0	909.3
Imports	2,965.7	3,385.5	3,126.4
of which: Oil	805.6	972.0	866.0
ii) Services (net)	1,201.2	1,153.7	902.4
Travel	1,895.3	2,025.7	1,899.1
Other	(694.1)	(872.0)	(996.7)
iii) Income (net)	(225.6)	(267.6)	(329.1)
iv) Current Transfers (net)	(284.2)	10.5	7.1
II. CAPITAL AND FINANCIAL ACCOUNT	987.6	1,306.3	990.0
i) Capital Account (Transfers)	(5.5)	(7.3)	(9.6)
ii) Financial Account	993.2	1,313.6	999.6
of which: Direct Investment	666.6	526.2	382.3
III. NET ERRORS AND OMISSIONS	229.5	123.8	578.2
IV. CHANGES IN EXTERNAL RESERVES[1]	(24.4)	74.7	68.6

SOURCE: The Central Bank of The Bahamas

[1]( ) = increase.

As a result of these developments, and after adjusting for net errors and omissions, the deficit on the overall balance, which correlates with the change in the Central Bank's external reserves, improved marginally by $6.1 million to $68.6 million.

DOMESTIC ECONOMIC OUTLOOK FOR 2014

Domestic economic activity is expected to gain further impetus in 2014, supported by the recovery in tourism sector output, amid improving global economic conditions—particularly in the key US source market. The outlook also benefits from the anticipated boost in occupancy rates in several refurbished properties, alongside the addition of new room capacity in the latter half of the year, following the completion of a large-scale foreign investment project. Construction sector activity is poised to benefit from ongoing resort related developments, providing additional scope for improvement in employment conditions.

On balance, concerns about domestic inflation are likely to remain muted, given the stable outlook for global crude oil prices—the major source of inflation—although the expected implementation of Government's Value Added Tax (VAT) regime later in the year, will result in some upward pressure on prices for goods and services.

In the fiscal sector, the targeted improvement in the deficit and debt indicators remain dependent on the success of Government's measures to increase the revenue intake by broadening the tax base—the cornerstone of which is the VAT. Additional benefits stand to be realized from efforts aimed at enhancing revenue administration and curtailing expenditure growth.

Near-term monetary conditions are likely to feature a persistence of excessive bank liquidity, as consumers continue to deleverage, and until a broadening in domestic activity secures further job opportunities and improvement in consumers' debt profiles, and supports a rebound in private sector demand. While loan delinquencies are set to remain elevated, these do not create any near-term concerns about financial stability, given the ongoing positive outlook for banks' capital levels.

Foreign investment related developments, alongside the oil import bill and the performance of the tourism sector, will continue to be the key drivers of the external account—although the former provides offsetting project financing. To the extent that the performance of the real sector improves and new foreign investment projects gain traction, there will be positive opportunities for external reserve rebuilding.

Despite the continuation of a stable outlook for 2014, downside risks remain, given the significant influence of global developments on the domestic economy. Potential headwinds include the sustainability of the US' growth momentum, and variability in oil prices, which could feed through to domestic inflation and slow the demand for overseas travel.

The Central Bank of The Bahamas

FINANCIAL STATEMENTS

for the YEAR ENDED DECEMBER 31, 2013
and Independent Auditors' Report

PKF Bahamas
Chartered Accountants
Pannell House
44 Elizabeth Ave
P. O. Box N-8335,
Nassau, Bahamas

INDEPENDENT AUDITORS' REPORT

To the Directors of
The Central Bank of The Bahamas

Report on the financial statements

We have audited the financial statements of the Central Bank of The Bahamas (the "Bank") which comprise the statement of financial position as of December 31, 2013, and the related statements of comprehensive income/(loss), 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 our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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, 2013 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 27, 2014
Nassau, Bahamas

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013

(Expressed in Bahamian dollars)

	Notes	2013	2012 As restated	2011 As restated
ASSETS				
PROPERTY, PLANT AND EQUIPMENT	5	**12,114,128**	**13,019,120**	**13,080,382**
EXTERNAL ASSETS	6			
Cash and deposits		122,439,760	199,860,038	25,054,161
Bank deposits maturing over 3 months		-	16,608,461	90,112,879
Trading securities	7	4,517,248	-	-
Marketable securities issued or guaranteed by foreign governments	7	546,447,500	555,641,104	584,852,339
International Monetary Fund:	8			
Bahamas reserve tranche		9,640,826	9,621,549	9,611,194
Special drawing rights		58,579,218	28,432,220	175,261,663
		741,624,552	**810,163,372**	**884,892,236**
DOMESTIC ASSETS				
Bahamas Development Bank bonds	9	4,055,697	4,055,545	4,055,697
Advances to Bahamas Government	10	135,162,931	106,297,056	111,462,558
Bahamas Government registered stocks	11	223,509,541	171,340,130	165,825,643
Loans to Bahamas Development Bank	12	4,611,514	4,767,347	5,168,815
Bridge Authority bonds	13	983,733	896,326	875,839
Clifton Heritage Authority bonds	14	638,434	638,423	638,434
Bahamas Government Treasury bills	15	186,585,946	129,740,549	26,195,352
Currency inventory		7,291,897	8,033,513	8,380,035
Retirement benefit asset	30	3,924,102	-	4,046,860
Receivables and other assets		11,812,662	10,761,779	10,119,957
		578,576,457	**436,530,668**	**336,769,190**
TOTAL ASSETS		**$ 1,332,315,137**	**$ 1,259,713,160**	**$ 1,234,741,808**

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

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013

(Expressed in Bahamian dollars)

	Notes	2013	2012 As restated	2011 As restated
LIABILITIES, EQUITY AND RESERVES				
DEMAND LIABILITIES				
Notes in circulation	16	332,695,121	324,894,895	305,545,092
Coins in circulation		19,988,492	19,097,761	18,406,307
Deposits by commercial banks	17	572,209,100	555,202,567	557,366,772
Deposits by Bahamas Government and Bahamas Government agencies		63,763,038	24,894,592	18,754,446
Deposits by international agencies	19	434,461	371,514	255,533
Accounts payable and other liabilities		4,542,626	2,945,884	2,473,978
Provision for Investment Currency Market		4,537,716	3,566,710	3,028,781
Retirement benefit liability	30	-	4,325,951	-
Health insurance subsidy benefit for retirees	31	2,470,101	2,373,635	2,257,422
		1,000,640,655	**937,673,509**	**908,088,331**
OTHER LIABILITIES				
International Monetary Fund allocation of special drawing rights	8	**191,633,310**	**191,230,734**	**191,053,969**
EQUITY AND RESERVES				
Authorized and fully paid capital	20	3,000,000	3,000,000	3,000,000
Exchange equalization account	20	2,167,901	2,626,719	(137,034)
Contingency reserve		750,000	750,000	750,000
Other reserves		10,389,415	10,389,415	9,799,944
Building fund	20	6,980,403	6,980,403	6,980,403
General reserve	20	116,753,453	107,062,380	115,206,195
		140,041,172	**130,808,917**	**135,599,508**
TOTAL LIABILITIES, EQUITY AND RESERVES		**$ 1,332,315,137**	**$ 1,259,713,160**	**$ 1,234,741,808**

The financial statements, as approved by the Board of Directors and authorized for issuance on March 27, 2014, 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/(LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2013

(Expressed in Bahamian dollars)

	Notes	2013	2012 As restated
INCOME			
Interest on foreign investments	21	15,556,731	16,323,989
Interest on loans	21	916,580	1,064,935
Interest on domestic investments	21	10,149,073	8,948,814
Unrealized exchange loss	21	(458,818)	(179,276)
Realized exchange gain	8, 21	-	957,673
Unrealized loss on trading securities	7, 21	(383,985)	-
Realized trading gain	21	27,734	-
Interest expense	21	(161,012)	(327,546)
Other income	21	1,258,162	1,106,447
Total income		**26,904,465**	**27,895,036**
EXPENSES			
Staff costs	22, 30	10,221,680	20,597,623
General and administrative	22	6,829,786	7,144,149
Depreciation	5	1,682,219	1,711,613
Total expenses		**18,733,685**	**29,453,385**
PROFIT/(LOSS) FOR THE YEAR		**$ 8,170,780**	**$ (1,558,349)**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/(loss) on defined benefit pension plan	30	1,064,680	(3,791,838)
Actuarial loss on group insurance subsidy	31	(3,205)	(29,875)
Total other comprehensive income/(loss)		**1,061,475**	**(3,821,713)**
NET COMPREHENSIVE INCOME/(LOSS)		**9,232,255**	**(5,380,062)**

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, 2013

(Expressed in Bahamian dollars)

	Authorized and Fully Paid Capital	Exchange Equalization Account	Contingency Reserve	Other Reserves	Building Fund	General Reserve	Total
Balance at January 1, 2012, as previously reported	3,000,000	(137,034)	750,000	9,799,944	6,980,403	116,162,782	136,556,095
Effects of change in accounting policy (Notes 30 & 31)	-	-	-	-	-	(956,587)	(956,587)
Balance at January 1, 2012, as restated	**3,000,000**	**(137,034)**	**750,000**	**9,799,944**	**6,980,403**	**115,206,195**	**135,599,508**
Transfer of realized exchange loss (Note: 8)	-	2,943,029	-	-	-	(2,943,029)	-
Additional SDRs received (Note: 8)	-	-	-	589,471	-	-	589,471
Transfer of unrealized exchange loss	-	(179,276)	-	-	-	179,276	-
Net comprehensive loss	-	-	-	-	-	(5,380,062)	**(5,380,062)**
Balance at December 31, 2012, as restated	**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**

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, 2013

(Expressed in Bahamian dollars)

	Notes	2013	2012 As restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Comprehensive income/(loss) for the year		9,232,255	(5,380,062)
Adjustments for non-cash items:			
Discount earned on marketable securities - net	7	(1,116,362)	(1,067,580)
Realized gain on sale of trading securities	21	(27,734)	-
Unrealized loss on trading securities	7	383,985	-
Depreciation	5	1,682,219	1,711,613
Loss on disposal of property, plant and equipment - net		250,759	-
Interest income		(25,541,649)	(25,459,179)
Interest expense		161,012	327,546
Net cash used in operating activities before changes in operating assets and liabilities		(14,975, 515)	(29,867,662)
Decrease/(Increase) in operating assets:			
Currency inventory		741,616	346,522
International Monetary Fund - net	8	573,893	(1,347,339)
Retirement benefit asset	30	(8,250,053)	8,372,811
Receivables and other assets		115,982	(587,867)
(Decrease)/Increase in operating liabilities:			
Notes in circulation	16	7,800,226	19,349,803
Coins in circulation		890,731	691,454
Deposits by commercial banks	17	17,006,533	(2,164,205)
Deposits by Bahamas Government and Bahamas Government agencies		38,868,446	6,140,146
Deposits by international agencies	19	62,947	115,981
Provision for Investment Currency Market		971,006	537,929
Health insurance subsidy benefit for retirees	31	96,466	116,213
Accounts payable and other liabilities		1,596,742	471,906
Net cash provided by operating activities		45,499,020	2,175,692

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

(Expressed in Bahamian dollars)

	Notes	2013	2012 As restated
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of HTM marketable securities - net	7	(9,817,187)	-
Proceeds from maturities/redemptions of HTM marketable securities	7	20,000,000	30,000,000
Purchase of trading securities	7	(19,592,578)	-
Proceeds from sale of trading securities	7	14,729,687	-
Purchase of property, plant and equipment	5	(1,033,686)	(1,650,351)
Proceeds from sale of property, plant and equipment		5,700	-
Advances made to Bahamas Government	10	(59,000,000)	(50,069,444)
Advances repaid by Bahamas Government	10	30,000,000	55,000,000
Purchase of Bridge Authority bonds	13	(86,000)	(20,200)
Purchases of Bahamas Government Registered Stock	11	(61,272,300)	(78,083,800)
Proceeds from sales and maturities of Bahamas Government Registered Stock	11	9,885,800	72,596,300
Repayments of loans by Bahamas Development Bank	12	200,000	400,000
Purchase of Bahamas Government Treasury bills	15	(878,509,510)	(399,543,734)
Proceeds from the sale and maturities of Bahamas Government Treasury bills	15	821,756,250	296,042,371
Bank deposits maturing over 3 months		16,600,528	73,504,418
Interest received		24,788,769	26,474,843
Net Cash (Used in)/Provided by Investing Activities		**(91,344,527)**	**24,650,403**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of SDRs	8	(30,337,592)	-
Proceeds from sale of SDRs		-	148,343,192
Funds obtained through collateralized financing	18	-	150,000,000
Funds repaid under collateralized financing	18	-	(150,000,000)
Interest paid		(124,159)	(356,569)
Net Cash (Used in)/Provided by Financing Activities		(30,461,751)	147,986,623
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(76,307,258)**	**174,812,718**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		199,913,993	25,101,275
CASH AND CASH EQUIVALENTS AT END OF YEAR		**$ 123,606,735**	**$ 199,913,993**
CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:			
Cash and deposits		122,439,760	199,860,038
Cash on hand (included in receivables and other assets)		1,166,975	53,955
		$ 123,606,735	**$ 199,913,993**

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)

2.1 New and revised IFRSs with material effect on the financial statements

1. IAS # 19 - Employee Benefits (As revised in 2011)

In the current year, the Bank has applied IAS # 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

Significant changes to this standard include removal of corridor approach; immediate recognition of past service costs; presentation of remeasurements on defined benefit plans in other comprehensive income; new recognition criteria on termination benefits; and improved disclosure requirements.

The Bank has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. (Note 30 and Note 31)

2.2 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. IFRS # 13 - Fair Value Measurement

The Standard explains how to measure fair value for financial reporting. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It emphasizes that fair value is market-based not an entity-specific measurement; hence an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. It was developed to eliminate inconsistencies of fair value measurements dispersed in various existing IFRSs. It clarifies the definition of fair value, provides a single framework for measuring fair value and enhances fair value disclosures.

2. Amendments to IAS # 1 - Presentation of Items of Other Comprehensive Income (OCI)

To improve the presentation of items of OCI, the International Accounting Standards Board (IASB) amended IAS 1 to require entities to group items presented in the OCI on the basis of whether they would be reclassified to (recycled to) profit or loss subsequently.

3. Amendments to IAS # 1 - Presentation of Financial Statements (IFRS 2011) – The improvements in this IFRS clarifies that when an entity changes an accounting policy, or makes a retrospective restatement or reclassification:

a) The opening statement of financial position should be presented as at the beginning of the required comparative period; and

b) Related notes are not required to accompany this opening statement of financial position.
The objective of financial reporting was also updated to reflect the conceptual framework.

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

2.3 New and revised IFRSs in issue, and relevant, 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. The standard is effective for years commencing on or after 1 January 2015, with earlier adoption permitted.

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(e) Foreign currency translation (Continued)

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/(loss) 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 benefit plan

The Bank's retirement plan is a contributory defined benefit plan with participants being permanent employees who joined the Bank prior to age 55. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. 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 amounted to 16.90% (2012: 16.90%).

The amount recognized in the statement of financial position represents the present value of the retirement benefit obligation and the current service cost, and 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.

(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 retirement 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 are charged to other operating expenses during the financial period in which they occur.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Depreciation is provided in equal annual installments 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/(loss).

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.

(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 degree 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(m) Financial assets (Continued)

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) investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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 managed together, and 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.

ii. Available-for-sale financial assets

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

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

(b) 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 method less any impairment, with interest income recognized in the statement of comprehensive income/(loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(m) Financial assets (Continued)

The effective interest 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.

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.

Accounts 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

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 23.03% (2012:19.08%) 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, 2013 or 2012.

(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 each year end date 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/(loss). At year end, there were no indicators of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(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.

(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/(loss).

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 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.

(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

Banknotes and coins are recorded at cost upon receipt of stock 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 issued for monetary purposes, are not included in coins in circulation. Any profit or loss arising from the sale of these coins is included in the statement of comprehensive income/(loss).

(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), 8, 24, 30 and 31.

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, 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**
COST							
As of January 1, 2012	2,452,938	14,283,442	10,067,141	7,824,337	6,293,693	283,442	41,204,993
Additions	-	371,212	365,575	754,932	158,632	-	1,650,351
Disposal	-	-	(251,384)	(103,052)	(22,316)	-	(376,752)
Transfers	-	-	(100,228)	100,228	-	-	-
As of December 31, 2012	**2,452,938**	**14,654,654**	**10,081,104**	**8,576,445**	**6,430,009**	**283,442**	**42,478,592**
ACCUMULATED DEPRECIATION							
As of January 1, 2012	-	6,458,014	7,713,768	7,629,011	6,040,376	283,442	28,124,611
Charge for the year	-	466,274	407,455	713,389	124,495	-	1,711,613
Disposals	-	-	(244,158)	(110,278)	(22,316)	-	(376,752)
As of December 31, 2012	**-**	**6,924,288**	**7,877,065**	**8,232,122**	**6,142,555**	**283,442**	**29,459,472**
NET BOOK VALUE							
As of December 31, 2012	**$ 2,452,938**	**$ 7,730,366**	**$ 2,204,039**	**$ 344,323**	**$ 287,454**	**$ -**	**$ 13,019,120**

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 74.11% (2012: 86.82%) 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 2013, marketable securities held by the Bank, which mature after 5 years, constituted 33.02% (2012: 27.21%) 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.

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

	2013	2012
Beginning balance	551,824,816	580,757,236
Purchases at nominal value	10,000,000	-
Discount on purchases	(182,813)	-
Redemptions/maturities	(20,000,000)	(30,000,000)
Discount earned	1,161,867	1,139,626
Amortized premium	(45,505)	(72,046)
Total	542,758,365	551,824,816
Add: Accrued interest	3,689,135	3,816,288
Ending balance	**$ 46,447,500**	**$ 555,641,104**

The fair value of these securities at the year end date was $562,929,559 (2012: $601,269,447). These securities bear interest at rates varying between 1.25% and 4.75% (2012: 1.25% and 4.75%).

The movements in trading marketable securities are as follows:

	2013	2012
Beginning balance	-	-
Purchases	19,592,578	-
Sales	(14,701,953)	-
Unrealized fair value loss	(383,985)	-
	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 IMF reserve tranche represents the amount by which The Bahamas' quota of SDRs with the IMF exceeds subscription payments as noted below:

	2013		**2012**	
	SDR	**$**	**SDR**	**$**
Quota	130,300,000	200,661,892	130,300,000	200,260,662
Subscription payments in prom notes	(119,385,163)	(183,853,052)	(119,509,883)	(183,677,116)
Subscription payments in currency	(4,654,557)	(7,168,014)	(4,529,837)	(6,961,997)
Reserve tranche	**6,260,280**	**9,640,826**	**6,260,280**	**9,621,549**

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 $51,093,226 (2012: $52,693,362). Consequently, this amount is not recognized in the Bank's statement of financial position, nor as a contingent liability.

8. INTERNATIONAL MONETARY FUND (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.

Once allocated, 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

	2013		2012	
	SDR	**$**	**SDR**	**$**
Beginning balance	18,491,399	28,419,799	114,121,104	175,218,628
Purchase of SDRs	19,607,550	30,337,592	-	-
Additional SDRs received	-	-	383,048	589,471
Remuneration & other charges	(68,033)	(104,771)	(12,753)	(19,600)
Sale of SDRs	-	-	(96,000,000)	(147,544,309)
Currency movement	-	(85,041)	-	175,609
	38,030,916	58,567,579	18,491,399	28,419,799
Add: Accrued interest		11,639		12,421
Total		**58,579,218**		**28,432,220**

19,607,550 SDRs were purchased during the year.

96,000,000 SDRs were sold on December 20, 2012 to increase liquidity (Note: 29 - liquidity risk management). This sale was from the last SDR holdings received in 2009.

There were cumulative net unrealized exchange losses being carried in the exchange equalization account (refer to statement of changes in equity and reserves) on the 96,000,000 SDRs between the dates of receiving the holdings (August 28, 2009 and September 9, 2009) and the start of the previous fiscal year (January 1, 2012) of $ 2,943,029, which was realized in 2012, and transferred to general reserve, with no impact in the previous year's statement of comprehensive income/(loss).

8. INTERNATIONAL MONETARY FUND (Continued)

There were cumulative net realized exchange gains on the 96,000,000 SDRs between the start of the previous fiscal year (January 1, 2012) and the date of sale (December 20, 2012) of $ 957,673 which was realized in 2012, and recognized as a realized exchange gain in the previous year's statement of comprehensive income/(loss). This amount was not transferred to the exchange equalization account in the statement of changes in equity and reserves.

SDR Allocation

	2013		2012	
	SDR	**$**	**SDR**	**$**
Beginning balance	124,413,351	191,213,354	124,413,351	191,007,566
Currency movement	-	383,103	-	205,788
Ending balance	124,413,351	191,596,457	124,413,351	191,213,354
Add: Accrued interest		36,853		17,380
Total		**191,633,310**		**191,230,734**

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 Special Drawing Rights allocation bore interest during the year at rates varying between 0.06% and 0.13% (2012: 0.03% and 0.15%).

9. BAHAMAS DEVELOPMENT BANK BONDS

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

	2013	2012
Balance	4,000,000	4,000,000
Add: Accrued interest	55,697	55,545
Total	$ 4,055,697	$ 4,055,545

These bonds bear interest at the Bahamian prime rate of 4.75% (2012: 4.75%) with $2,000,000 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) the estimated ordinary revenue of the Government for the year.

At the year end date, advances to the Government were 9.96% (2012: 7.84%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2013	2012
Beginning balance	105,657,052	110,587,608
Additions	59,000,000	50,069,444
Repayments	(30,000,000)	(55,000,000)
Total	134,657,052	105,657,052
Add: Accrued interest	505,879	640,004
Ending balance	**$ 135,162,931**	**$ 106,297,056**

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

Rate	**2013**	**2012**
0.000%	-	18,608
0.084%	-	969,000
0.097%	22,970,444	22,970,444
0.138%	7,099,000	7,099,000
0.218%	20,000,000	20,000,000
0.353%	20,000,000	-
0.356%	29,000,000	-
0.372%	10,000,000	-
0.638%	20,000,000	20,000,000
0.840%	5,587,608	8,600,000
0.970%	-	26,000,000
	$134,657,052	**$ 105,657,052**

11. BAHAMAS GOVERNMENT REGISTERED STOCKS

The movements in Bahamas Government Registered Stocks are as follows:

	2013	2012
Beginning balance	169,493,000	164,005,500
Purchases	61,272,300	78,083,800
Redemptions/maturities	(9,885,800)	(72,596,300)
Total	220,879,500	169,493,000
Add: Accrued interest	2,630,041	1,847,130
Ending balance	**$ 223,509,541**	**$ 171,340,130**

The fair value of these stocks at year end date was $227,477,788 (2012: $175,124,327). Bahamas Government Registered Stocks bear interest at rates ranging between 4.78% and 6.00% (2012: 4.35% 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:

	2013	2012
Beginning balance	4,750,000	5,150,000
Repayments	(200,000)	(400,000)
Total	4,550,000	4,750,000
Add: Accrued interest	61,514	17,347
Ending balance	**$ 4,611,514**	**$ 4,767,347**

The loans bear interest at 2.00% (2012: 2.00%), with $675,000 and $3,875,000 maturing on October 21, 2018 and October 28, 2024, respectively.

13. BRIDGE AUTHORITY BONDS

The movements in the Bridge Authority bonds are as follows:

	2013	2012
Beginning balance	882,300	862,100
Purchases	86,000	20,200
Total	968,300	882,300
Add: Accrued interest	15,433	14,026
Ending balance	**$ 983,733**	**$ 896,326**

The fair value of these bonds at year end date was $1,013,402 (2012: $931,962). These bonds bear interest at rates ranging from 1.00% to 1.63% (2012: 1.00% to 1.63%) per annum over the Bahamian prime rate. The actual rates ranged between 5.75% to 6.38% during 2013 with $506,000, $442,900, $4,000 and $15,400 maturing on March 24, 2014, 2019, 2024 and 2029, respectively.

14. CLIFTON HERITAGE AUTHORITY BONDS

The Bank is the registrar for the Clifton Heritage Authority bonds guaranteed by The Bahamas Government. The 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:

	2013	2012
Balance	634,600	634,600
Add: Accrued interest	3,834	3,823
Total	**$ 638,434**	**$ 638,423**

The fair value of these bonds at year-end date was $666,106 (2012:$667,902).

15. BAHAMAS GOVERNMENT TREASURY BILLS

Bahamas Government Treasury bills are discounted at rates ranging between 99.53% and 99.91% maturing 30 to 182 days. The Bahamas Government Treasury bills are measured at fair value grouped into Level 3.

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

	2013	2012
Beginning balance	129,685,780	26,184,417
Purchases	878,509,510	399,543,734
Redemptions/maturities	(821,756,250)	(296,042,371)
Total	186,439,040	129,685,780
Add: Discount earned	146,906	54,769
Ending balance	**$ 186,585,946**	**$ 129,740,549**

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	2013	2012
$ 0.50	668,148	653,043
$ 1.00	21,279,807	20,656,956
$ 3.00	1,903,731	1,874,841
$ 5.00	10,451,290	10,018,630
$ 10.00	15,196,250	15,218,100
$ 20.00	54,189,060	51,997,040
$ 50.00	96,746,200	93,668,750
$100.00	132,180,800	130,727,700
Other bank notes	79,835	79,835
	$ 332,695,121	**$ 324,894,895**

17. DEPOSITS BY COMMERCIAL BANKS

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

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

18. COLLATERALIZED FINANCING

Collateralized financing refers to securities sold under agreements to repurchase, which consists of U. S. treasury notes. The Bank enters into this type of transaction in order to meet temporary liquidity requirements. US$ 150,000,000 was borrowed in October 2012 at 0.35% and repaid in December 2012.

19. 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.

20. 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, 2013, and 2012, 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 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.

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 $116,753,453 (2012: $107,062,380) equivalent to 11.66% (2012: 11.42%) of demand liabilities.

21. INCOME

	2013	2012
	$	$
Interest on foreign investments		
Demand deposits	37,892	51,679
Fixed deposits	264,240	344,190
Marketable securities	15,254,599	15,928,120
	15,556,731	16,323,989
Interest on loans		
Loans to Bahamas Development Bank	91,679	99,827
Government advances	500,751	634,875
Staff	324,150	330,233
	916,580	1,064,935
Interest on domestic investments		
Bahamas Development Bank bonds	190,000	190,000
Bahamas Government Registered Stocks	9,265,138	8,441,589
Bridge Authority bonds	54,604	51,625
Bahamas Government Treasury bills	606,014	232,283
Clifton Heritage bonds	33,317	33,317
	10,149,073	8,948,814
Unrealized exchange loss	(458,818)	(179,276)
Realized exchange gain	-	957,673
Unrealized fair value loss	(383,985)	-
Realized trading gain	27,734	-
Interest expense on IMF allocation	(161,012)	(212,340)
Interest expense on repurchase agreement	-	(115,206)
	(161,012)	(327,546)
Other income		
Bank statutory fines	1,194	9,747
Commission on foreign currency sales	865,750	636,400
Premium on Investment Currency Market	301,815	143,157
SDR Interest	35,627	189,021
Other	53,776	128,122
	1,258,162	1,106,447
Total income	**$ 26,904,465**	**$ 27,895,036**

22. EXPENSES

	2013	2012
Staff costs		
Salaries, wages and gratuity	13,108,496	11,742,523
Group insurance plan	1,463,844	1,347,597
Staff pension fund	(5,559,792)	6,146,639
Staff training	389,146	353,373
National insurance	413,542	378,487
Responsibility allowance	191,041	165,000
Other	215,403	464,004
	$ 10,221,680	**$ 20,597,623**
General and administrative		
Currency	1,676,023	1,410,835
Professional fees	1,099,536	1,399,207
Utilities	1,150,773	1,134,496
Repairs and maintenance	882,541	965,270
Rent	539,892	554,143
Insurance	254,323	241,230
Stationery and office supplies	91,707	95,264
Subscription and membership fees	175,756	228,362
Directors' remuneration	49,100	44,375
Other	910,135	1,070,967
	$ 6,829,786	**$ 7,144,149**

23. 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.

24. COMMITMENTS & CONTINGENCIES

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

Leases

The Bank leases office space, by entering into annual lease agreements, and is committed to the following payments for the next three years.

2013	2012
$ 568,317	**$ 455,057**

25. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities:

	2013	2012
EXTERNAL ASSETS		
Geographic Region		
North America	97.64%	99.74%
Europe	2.36%	0.16%
Other	0.00%	0.10%
	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%
OTHER ASSETS		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Government Sector	100.00%	100.00%
DEMAND LIABILITIES		
Geographic Region		
Bahamas	99.96%	99.97%
Other	0.04%	0.03%
	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%

26. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of The Bahamas corporations and agencies. Transactions that the Bank has with such related entities are at amounts and terms established 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.

The following balances and transactions relate to key management personnel:

(a) Compensation:

	2013	2012
Senior officials' salaries and short-term benefits	1,785,804	1,611,585
Directors' remuneration	49,100	44,375
Post-employment benefits	158,001	135,368
	$ 1,992,905	**$ 1,791,328**

(b) Other assets include secured loans to employees totalling $9,689,506 (2012: $9,566,138), of which the following relates to key management personnel:

Loans:

	2013	2012
Beginning of the year	1,146,629	1,178,454
Advances during the year	68,074	123,162
Repayments during the year	(168,138)	(154,987)
End of the year	**$ 1,046,565**	**$ 1,146,629**

(c) Accrued Post-employment pension and medical benefits:

	2013	2012
Pension payments	394,956	345,794
Gratuity	424,038	358,527
End of the year	**$ 818,994**	**$ 704,321**

27. 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, pay interest on money deposited and pay out money to any person entitled thereto. At December 31, 2013 the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $77,242,631 (2012: $70,560,587). These amounts are excluded from the statement of financial position.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

With the exception of Marketable Securities, Bahamas Government Registered Stocks, Bridge Authority Bonds and Clifton Heritage Bonds, the fair values of which are stated in Notes 7, 11, 13 and 14 respectively, the Directors consider that the carrying amounts of all of the other assets and liabilities approximate their fair values. The basis of measurement used to derive the fair value of financial instruments is disclosed below.

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	-	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
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
TOTAL	513,791,837	72,737,292	547,085,934	186,585,946	1,320,201,009

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

December 31, 2013

	Fair Value Through Profit and Loss	Other Financial Liabilities	Total Carrying Amount
	$	$	$
DEMAND 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 for retirees	-	2,470,101	2,470,101
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	191,633,310	-	191,633,310
TOTAL	**544,316,923**	**647,957,042**	**1,192,273,965**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

December 31, 2012

	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	199,860,038	-	-	-	199,860,038
Bank deposits maturing over 3 months	16,608,461	-	-	-	16,608,461
Marketable securities issued or guaranteed by foreign governments	-	-	555,641,104	-	555,641,104
International Monetary Fund: Bahamas reserve tranche	-	9,621,549	-	-	9,621,549
Special drawing rights	-	28,432,220	-	-	28,432,220
DOMESTIC ASSETS					
Bahamas Development Bank bonds	4,055,545	-	-	-	4,055,545
Advances to Bahamas Government	106,297,056	-	-	-	106,297,056
Bahamas Government registered stocks	171,340,130	-	-	-	171,340,130
Loans to Bahamas Development Bank	4,767,347	-	-	-	4,767,347
Bridge Authority bonds	896,326	-	-	-	896,326
Clifton Heritage Authority bonds	-	-	638,423	-	638,423
Bahamas Government Treasury bills	-	-	-	129,740,549	129,740,549
Currency inventory	8,033,513	-	-	-	8,033,513
Receivables and other assets	10,761,779	-	-	-	10,761,779
TOTAL	**522,620,195**	**38,053,769**	**556,279,527**	**129,740,549**	**1,246,694,040**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

December 31, 2012

	Fair Value Through Profit and Loss	Other Financial Liabilities	Total Carrying Amount
	$	$	$
DEMAND LIABILITIES			
Notes in circulation	324,894,895	-	324,894,895
Coins in circulation	19,097,761	-	19,097,761
Deposits by commercial banks	-	555,202,567	555,202,567
Deposits by Bahamas Government and Bahamas Government agencies	-	24,894,592	24,894,592
Deposits by international agencies	-	371,514	371,514
Accounts payable and other liabilities	-	2,945,884	2,945,884
Provision for Investment Currency Market	-	3,566,710	3,566,710
Retirement benefit liability	-	4,325,951	4,325,951
Health insurance subsidy benefit for retirees	-	2,373,635	2,373,635
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	191,230,734	-	191,230,734
TOTAL	**535,223,390**	**593,680,853**	**1,128,904,243**

29. FINANCIAL RISK MANAGEMENT

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

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 foreign exchange risk, interest rate risk, credit risk and financial instruments.

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.

29. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

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

Exposure to credit risk	2013	2012
(a) Governments/Gilt-edged	1,164,443,210	1,001,072,608
(b) Banks with minimum credit-rating of A+	122,439,760	216,468,499
(c) Local Government Institutions	10,289,378	10,357,641
(d) Loans to staff members	9,689,506	9,566,138
	$1,306,861,854	$1,237,464,886

Market risk

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

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

Currency risk

Apart from the assets and liabilities with the IMF, which are denominated in SDRs, the Bank's 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.

29. FINANCIAL RISK MANAGEMENT (Continued)

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	-	-	-
IMF:					
Bahamas reserve tranche	-	-	-	-	9,640,826
Special drawing rights	-	-	-	-	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	4,537,716	-	-	-	-
Health insurance subsidy benefit	2,470,101	-	-	-	-
IMF allocation of SDR	-	-	-	-	191,633,310
Total liabilities	**$ 1,000,154,144**	**$ 486,511**	**$ -**	**$ -**	**$ 191,633,310**

29. FINANCIAL RISK MANAGEMENT (Continued)

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 2012					
Assets					
Cash and deposits	-	199,540,644	245,166	74,228	-
Bank deposits maturing within 3 months	-	16,608,461	-	-	-
Marketable securities	-	555,641,104		-	
IMF:			-	-	
Bahamas reserve tranche	-	-	-	-	9,621,549
Special drawing rights	-	-	-	-	28,432,220
Domestic assets	436,530,668	-	-	-	-
Property, plant and equipment	13,019,120	-	-	-	-
Total assets	**$ 449,549,788**	**$771,790,209**	**$ 245,166**	**$ 74,228**	**$ 38,053,769**
Liabilities					
Notes in circulation	324,894,895	-	-	-	-
Coins in circulation	19,097,761	-	-	-	-
Deposits by commercial banks	555,202,567	-	-	-	-
Deposits by Bahamas Government and Bahamas Government agencies	24,894,592	-	-	-	-
Deposits by international agencies	-	371,514	-	-	-
Accounts payable and other liabilities	2,797,457	140,753	7,674	-	-
Provision for Investment Currency	3,566,710	-	-	-	-
Retirement benefit liability	4,325,951	-	-	-	-
Health insurance subsidy benefit	2,373,635	-	-	-	-
IMF allocation of SDR	-	-	-	-	191,230,734
Total liabilities	$937,153,568	$ 512,267	$ 7,674	$ -	$191,230,734

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

	Average Rate		Year-end Spot Rate	
	2013	**2012**	**2013**	**2012**
US$	1.0053	1.0055	1.0000	1.0000
GBP 1	1.5732	1.5938	1.6566	1.6246
EUR 1	1.3354	1.2931	1.3769	1.3182
SDR 1	1.5193	1.5817	1.5400	1.5369

29. FINANCIAL RISK MANAGEMENT (Continued)

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 is as follows:

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

Interest rate risk

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

Certain of the Bank's financial assets and liabilities are exposed to interest rate risk. Marketable securities carry an average yield of 2.90% (2012: 2.83%); however, if these securities had a reduced average yield of 2.67% (2012: 2.71%), 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 $1,258,770 (2012: $666,769). Had the yield been tilted towards the higher end of the spectrum, to 3.13% (2012: 2.94%), income for the year and equity at year end would have increased by $1,258,770 (2012: $611,205).

As at December 31, 2013, if interest rates had been 50 basis points higher, with all other variables remaining constant, the increase in equity and net operating results for the year would amount to approximately $467,083 (2012: $60,995), arising from variable rate instruments. If interest rates had decreased by 50 basis points, the decrease in equity and net operating results for the year would amount to approximately $467,083 (2012: $60,995).

	December 31, 2013 $	December 31, 2012 $
Fixed Rate Instruments		
Financial Assets	1,008,377,654	1,020,638,335
Financial Liabilities	-	-
Variable Rate Instruments		
Financial Assets	287,766,623	204,555,344
Financial Liabilities	191,633,310	191,230,734

29. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

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

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

An increased demand for foreign currency decreased liquidity towards the end of 2012. To meet temporary liquidity needs, the Bank entered into a repurchase agreement in the amount of US$ 150,000,000 in October 2012, which was subsequently repaid in December 2012 (Note: 18). The Bank also sold 96,000,000 SDRs, the equivalent of US$ 148,343,192 in December 2012, increasing its liquidity level (Note: 8).

Liquidity risk management process

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 table analyses 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 table are the undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

29. 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, 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	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**

29. 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, 2013						
Period of maturity						
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 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**

29. 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, 2012						
Period of maturity						
Financial Assets						
Cash and deposits	199,860,038	-	-	-	-	199,860,038
Bank deposits maturing over 3 months	-	16,608,461	-	-	-	16,608,461
Marketable securities issued or guaranteed by foreign governments	-	10,143,869	10,008,986	301,089,178	234,399,071	555,641,104
International Monetary Fund:						
Bahamas reserve tranche	9,621,549	-	-	-	-	9,621,549
Special drawing rights	28,432,220	-	-	-	-	28,432,220
Bahamas Development Bank bonds	-	-	-	-	4,055,545	4,055,545
Advances to Bahamas Government	106,297,056	-	-	-	-	106,297,056
Bahamas Government registered stocks	-	-	1,023	2,889,690	168,449,417	171,340,130
Bahamas Government Treasury Bills	-	105,212,705	24,527,844	-	-	129,740,549
Loans to Bahamas Development Bank	-	-	-	-	4,767,347	4,767,347
Bridge Authority bonds	-	-	-	466,666	429,660	896,326
Clifton Heritage Authority bonds	-	-	-	-	638,423	638,423
Currency inventory	8,033,513	-	-	-	-	8,033,513
Receivables and other assets	10,761,779	-	-	-	-	10,761,779
Property, plant and equipment	-	-	-	-	13,019,120	13,019,120
Total financial assets	**363,006,155**	**131,965,035**	**34,537,853**	**304,445,534**	**425,758,583**	**1,259,713,160**

29. 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, 2012						
Period of maturity						
Liabilities						
Notes in circulation	324,894,895	-	-	-	-	324,894,895
Coins in circulation	19,097,761	-	-	-	-	19,097,761
Deposits by commercial banks	555,202,567	-	-	-	-	555,202,567
Deposits by Bahamas Government and Bahamas Government agencies	24,894,592	-	-	-	-	24,894,592
Deposits by international agencies	371,514	-	-	-	-	371,514
Accounts payable and other liabilities	2,945,884	-	-	-	-	2,945,884
Provision for Investment Currency Market	3,566,710	-	-	-	-	3,566,710
Retirement benefit liability	-	-	-	-	4,325,951	4,325,951
Health Insurance Subsidy Benefit	-	-	-	-	2,373,635	2,373,635
International Monetary Fund allocation	191,230,734	-	-	-	-	191,230,734
Total financial liabilities	**1,122,204,657**	**-**	**-**	**-**	**6,699,586**	**1,128,904,243**
Net liquidity gap, December 31, 2012	**$(759,198,502)**	**$131,965,035**	**$ 34,537,853**	**$304,445,534**	**$419,058,997**	**$ 130,808,917**

29. FINANCIAL RISK MANAGEMENT (Continued)

Operational risk

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

30. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN

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

	2013	2012 (As restated)
Present value of obligation at start of year	53,478,672	42,581,822
Interest cost	2,620,466	2,082,981
Current service cost	2,301,762	1,728,014
Past service cost - vested benefits	(7,707,445)	4,970,624
Benefits paid	(2,138,693)	(1,844,393)
Actuarial (gain)/loss on obligation	(1,014,789)	867,314
Actuarial loss on obligation due to financial assumption changes	57,900	3,092,311
Present value of obligation at end of year	**$ 47,597,873**	**$ 53,478,673**
Fair value of plan assets at start of year	49,152,722	46,628,682
Interest income	2,452,851	2,332,039
Contribution paid - by employer	1,507,967	1,448,051
Contribution paid - by employees	439,337	420,556
Benefits paid	(2,138,693)	(1,844,393)
Return on plan assets, excluding interest income	107,791	167,787
Fair value of plan assets at end of year	**$ 51,521,975**	**$ 49,152,722**

30. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN (Continued)

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

	2013	2012 (As restated)
Present value of funded obligations	(47,597,873)	(53,478,673)
Fair value of plan assets	51,521,975	49,152,722
	3,924,102	(4,325,951)

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

	2013	2012 (As restated)
Cash	217,837	168,439
Interest receivable	569,438	563,283
Bahamas Government Registered Stocks	50,321,100	47,999,900
Other bonds	326,100	326,100
Shares	100,000	100,000
Accounts payable	(12,500)	(5,000)
Total	**$ 51,521,975**	**$ 49,152,722**

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

	2013	2012 (As restated)
Current service cost	1,862,425	1,307,458
Net interest expense/(income)	167,615	(249,058)
Past service cost - vested benefits	(7,707,445)	4,970,624
	$ (5,677,405)	**$ 6,029,024**
Remeasurements recognized in OCI	(1,064,680)	3,791,838

30. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN (Continued)

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

	2013	2012 (As restated)
Net liability/(asset) at beginning of year	4,325,951	(4,046,860)
Net (income)/expense recognized in net comprehensive income/(loss)	(5,677,406)	6,029,024
Employer contributions	(1,507,967)	(1,448,051)
Remeasurements recognized in OCI	(1,064,680)	3,791,838
	$ (3,924,102)	**$ 4,325,951**

The Bank intends to contribute approximately 14.4% of gross payroll to the plan during 2014 (2013: actual 16.9%).

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

	2013	2012
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 active employees	1.25%	2.50%

The actual return on plan assets during the year was $2,560,642 (2012: $2,499,826).

The expected rate of salary increase has been revised consistent with past experience and future expectations to ensure more realistic actuarial estimates.

Sensitivity & Other Results

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

	2013	2012 (As restated)
Pensioners	12,349,988	12,625,284
Vested actives	32,985,328	38,171,079
Unvested actives	2,262,557	2,682,310
	$ 47,597,873	**$ 53,478,673**

Of the pensioner liability of $12,349,988 (2012: $12,625,284), $1,221,916 (2012: $2,394,045) relates to assumed cost of living adjustments.

Of the liability for actives of $35,247,885 (2012: $40,853,389), $1,211,035 (2012: $6,066,680) relates to assumed cost of living adjustments while $7,211,374 (2012: $9,757,184) relates to assumed future salary increases. The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2013 for 1% changes in discount rate and salary increases.

30. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN (Continued)

Sensitivity & Other Results (Continued)

	2013		2012	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(7,178,296)	9,210,901	(8,598,501)	11,174,755
Future salary increases	2,241,665	(2,002,615)	3,294,177	(2,903,140)

If all members lived one year longer than projected, the liability at year-end would be $48,244,876 (2012: $54,648,060).

The weighted average duration of the defined benefit obligation at 31 December 2013 is 16.8 years (2012: 18.0 years).

During the year, the Bank adopted the revised IAS #19, Employee Benefits, as disclosed in Note 2 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%.

Amendments to the Plan in 2012

In the prior year, the benefits of the retirement plan were changed from 'integrated' to 'non-integrated'. Past service cost arising from plan amendments has been recognized in the same year within staff pension fund cost (Note: 22). The increased obligation as a result of plan amendments has resulted in the pension asset being depleted.

Impact of Revised IAS #19

The adoption of the revised standard was made in accordance with the transitional provisions. The impact of the new policy on the financial statements is as follows:

2011 and all prior years - Restated

A decrease in the pension asset as at January 1, 2012 amounting to $726,936 and a corresponding decrease in the general reserve.

Fiscal year 2012 - Restated

An increase in pension expense amounting to $116,602 and recognition of actuarial loss amounting to $3,791,838 in the statement of comprehensive income/(loss) during the fiscal year 2012.

The retirement benefit asset of $309,425, as previously reported at December 31, 2012, was transformed into a retirement benefit liability of $4,325,951.

31. HEALTH INSURANCE SUBSIDY BENEFIT FOR RETIREES

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

	2013	2012 (As restated)
Present value of obligation at start of year	2,373,635	2,257,422
Interest cost	116,176	110,366
Current service cost	77,318	76,160
Benefits paid	(100,233)	(100,188)
Actuarial loss on obligation	3,205	29,875
Present value of obligation at end of year	**$ 2,470,101**	**$ 2,373,635**
Contribution paid - employees' and employer's contributions	100,233	100,188
Benefits paid	(100,233)	(100,188)
	$ -	**$ -**

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

	2013	2012 (As restated)
Current service cost	77,318	76,160
Net interest cost	116,176	110,366
	$ 193,494	**$ 186,526**
Remeasurements recognized in OCI	**3,205**	**29,875**

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

	2013	2012 (As restated)
Net liability at beginning of year	2,373,635	2,257,422
Net expense recognized in net comprehensive income/(loss)	193,494	186,526
Employer contributions	(100,233)	(100,188)
Amounts recognized in OCI	3,205	29,875
	$ 2,470,101	**$ 2,373,635**

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

	2013	2012
Discount rate	5.00%	5.00%
Rate of Medical Subsidy Increases	0.00%	0.00%

31. HEALTH INSURANCE SUBSIDY BENEFIT FOR RETIREES (Continued)

Sensitivity & Other Results
The benefit obligation as at year-end comprises:

	2013	2012 (As restated)
Pensioners	1,129,570	1,083,624
Actives	1,340,531	1,290,011
Total	**$ 2,470,101**	**$ 2,373,635**

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2013 for 1% changes in discount rate.

	2013		2012	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Discount rate	(302,613)	377,720	(293,710)	367,373

If all members lived one year longer than projected, the liability would be $2,538,692.

The weighted average duration of the defined benefit obligation at December 31, 2013, is 14.1 years (2012: 14.3 years).

Impact of Revised IAS #19

The adoption of the revised standard was made in accordance with the transitional provisions. The impact of the new policy in the health insurance subsidy is as follows:

2011 and all prior years - Restated

An increase in the health insurance subsidy benefit as at January 1, 2012 amounting to $229,651 and a corresponding decrease in the general reserve.

Fiscal year 2012 - Restated

Actuarial loss amounting to $29,875 was recognized in the statement of comprehensive income/(loss) during the fiscal year 2012.

The health insurance subsidy benefit of $2,114,109, as previously reported at December 31, 2012, increased to $2,373,635.

Frederick Street
P.O. Box N4868
Nassau, NP | The Bahamas

Telephone 1.242.302.2600
Fax 1.242.322.4321

Website: www.centralbankbahamas.com
Email: cbob@centralbankbahaams.com