THE CENTRAL BANK OF THE BAHAMAS

2011
ANNUAL REPORT
& Statement of Accounts

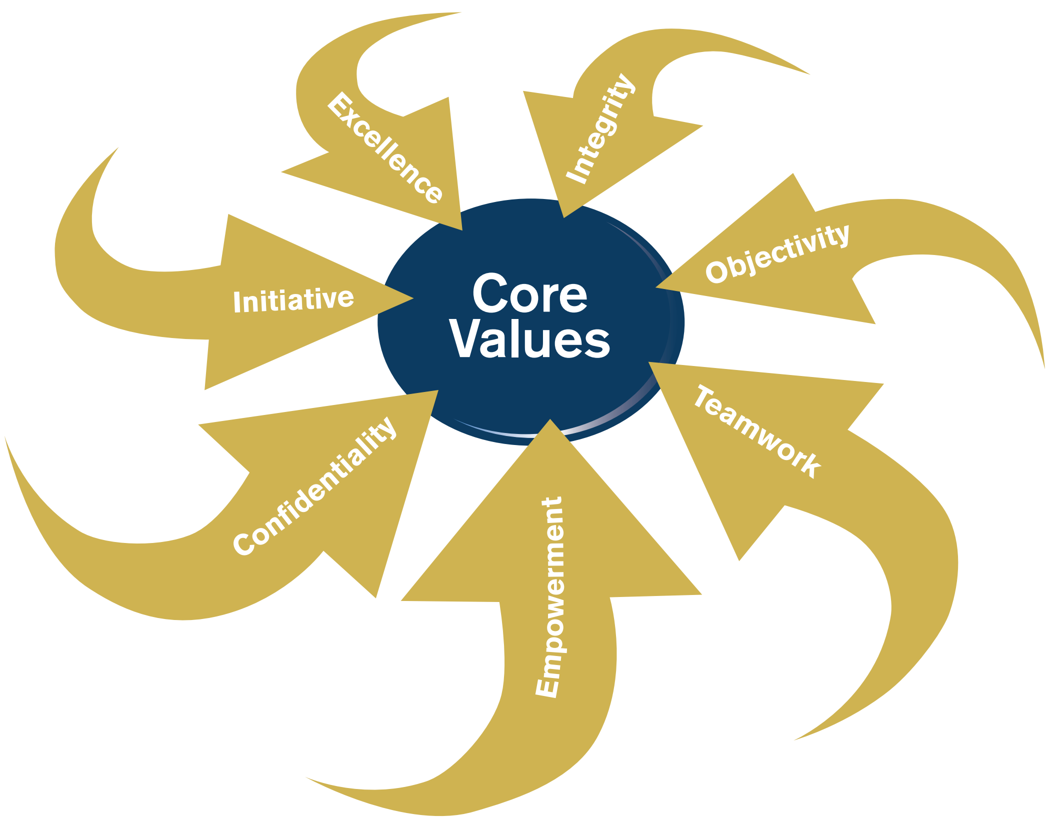
For the year ended 31 December, 2011

Mission

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

Vision

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



16th April, 2012

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 2011. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

Wendy Craigg

Wendy M. Craigg
Governor

The Rt. Hon. Hubert A. Ingraham
Prime Minister and Minister of Finance
Office of the Prime Minister
Sir 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.

In its monetary role, a central objective of the Bank is to ensure that adequate support is provided for the fixed parity arrangement 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 support of 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.

The Bank's supervision regime, through its prudential oversight of regulated entities, is a critical part of the infrastructure to maintain high standards of service, conduct and management in the banking sector. A combination of off-site examinations, on-site 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 resilience to key economic and financial shocks.

The Bank's involvement in the payments system is also an 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.

Other key activities undertaken by the Bank include the issuance and redemption of currency, and public sector debt management.

DIRECTORS AND SENIOR OFFICIALS

At December 31, 2011

DIRECTORS

Mrs. Wendy M. Craigg – Chairman
Mr. Philip Stubbs
Dr. Ronald Knowles
Mr. Wayne Aranha
Mr. Colin Callender, Q.C.

SENIOR OFFICIALS

Mrs. Wendy M. Craigg	Governor
Mr. Michael F. Lightbourne	Deputy Governor
Mr. Bert A. Sherman	Senior Manager
Mrs. Sylvia L. Carey	Manager, Human Resources
Mrs. Cassandra C. Nottage	Manager, Bank Supervision
Ms. Rochelle A. Deleveaux	Legal Counsel & Board Secretary
Mr. Gerard L. Horton	Manager, Exchange Control
Mr. John A. Rolle	Manager, 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

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FOREWORD

The Bahamian economy recorded another year of mild growth in 2011, as the tourism sector built upon the nascent recovery achieved in 2010, and foreign investment activity benefitted from the restart of one of the largest single-phase tourism sector projects in the Western Hemisphere. Despite these improvements, conditions in the job market remained challenging, as evidenced by the firming in the unemployment rate to 15.9% at end-November—the highest level in over a decade. The strong upturn in global energy prices also elevated domestic consumer price inflation from a relatively low level.

The fiscal outcome over the last two years benefitted greatly from a number of extraordinary inflows, which tempered borrowing requirements. These one-off inflows also dominated monetary developments, augmenting the strong liquidity overhang, amid modest private sector demand, and elevating external reserves, which reached historic highs in April. By year-end, however, external reserves fell to $884.9 million, only moderately above the 2010 close.

In light of the weak employment conditions and challenging business environment, banks' credit quality indicators worsened, although the rate of deterioration slowed significantly from the rapid gains posted during 2008 and 2009. The Bank maintained a close watch over the domestic financial system to assess potential risks to financial stability, including conducting stress tests of domestic commercial banks, for credit, liquidity and interest rate risks. In general, banks continued to maintain high levels of capital, with average capital ratios well above the Bank's 17% requirement, implying a robust buffer to absorb possible adverse shocks.

Given the sustained improvement in the international environment and the presence of significant excess capacity in the economy, which limited pressure on external reserves from potential import growth, the Bank relaxed its monetary policy stance by reducing its Discount Rate by 75 basis points to 4.50% in June—the first time in six years. This measure is expected to provide support to the productive sectors, as the corresponding lowering of the Prime rate, by the same magnitude, should reduce financing costs to businesses over an extended period.

Conditions in the external environment, especially the persistence of low interest rates, continued to pose a challenge to the Bank's financial outcome. Although the Bank realized a net income of $5.7 million, this was derived more from higher average external reserves, as the average interest rate was lower.

During 2011, we continued to focus on our key strategic priorities. The Bank strengthened its framework for economic assessment by making technical and operational improvements to its financial programming model. Progress was achieved in ensuring proper supervisory oversight of regulated entities, through the build out of the new risk assessment framework, and the completion of risk assessments for twenty-four (24) high impact firms. The Bank is aiming to complete the full first cycle of assessments by the third quarter of 2012. Plans were also developed towards achieving compliance with various international standards in the areas of market risk and minimum disclosures affecting our regulated firms. Initiatives to strengthen the domestic financial infrastructure, through the implementation of a domestic credit bureau, gained momentum in 2011, with the completion of several market and legislative assessment exercises that will be used to guide the design of the system.

During 2011, the Bank worked closely with other regulators to eliminate or reduce incidences of regulatory overlaps for its licensees, culminating in important adjustments to on-site examination mechanisms for firms jointly regulated by the Bank and the Securities Commission, and the identification of other areas for cooperation. Other collaborative efforts were geared towards strengthening the financial system oversight mechanisms, and ensuring compliance with various international standards.

The Bank's operational space was enhanced by the conclusion of a number of legislative matters which sought to provide clarity on various supervisory issues. Efforts were also ongoing to improve operational efficiency, resilience, and the risk management framework across the Bank; and to ensure that the Bank possesses the appropriate human resources to achieve its goals and objectives.

The Bank's achievement of its strategic activities could not have been reached without the continued hard work and dedication of its staff. I, therefore, thank them for their cooperation and support, and look forward to their continued commitment in the future.

Wendy Craigg

GOVERNANCE & ACCOUNTABILITY

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

Board of Directors

The Board of Directors of the Central Bank of The Bahamas (the Bank) is responsible for the policy and general administration of the institution, and for monitoring the internal financial controls in order to ensure the proper conduct of its financial affairs. The Board comprises the Governor, who is the Chairman, and four (4) independent Directors. Members of the Board are appointed by the Governor General.

On appointment to the Board, each member is required, under the Act, to sign a declaration of secrecy in relation to the affairs of the Bank. By law, Board members must meet the general obligations of directors, which require them to, *inter alia*, discharge their duties with care and diligence; and they 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 probity, Board members have also adopted a Code of Conduct, which provides guidance on the ethical standards expected of them in the execution of their responsibilities and duties.

The Board, which is required by the Act to hold monthly meetings, met on thirteen (13) occasions in 2011. Three (3) members form a quorum. During its meetings, the Board considered regular reports on monetary and financial developments; monthly financial statements and reports comparing actual financial performance against the approved budget, and substantial financial contracts for the procurement of goods and services. The Board was also kept informed of the Bank's activities and decisions through detailed quarterly operational briefings, which included an assessment of management's progress with agreed strategic activities and action plans.

Audit Committee

The Audit Committee of the Board, established since 2009, has been integral to strengthening the corporate governance framework of the Bank, through its review and reporting on the financial reporting process, the adequacy and effectiveness of internal controls and risk management processes, and the Bank's compliance with legal and regulatory requirements. During 2011, the Audit Committee gave extensive attention to the monthly financial reports prepared by management and the annual financial statements, reviewing and monitoring the implementation of recommendations ensuing from both internal and external audit exercises, and assessing the appropriateness of accounting policies.

The Audit Committee comprises three (3) non-executive Board Members, Mr. Philip Stubbs (Chairman), Mr. Wayne Aranha and Mr. Colin Callender, Q.C. The Managers of Internal Audit and the Accounts Department normally attend the meetings of the Committee. During 2011, the Committee held twelve (12) meetings, inclusive of three (3) with the external auditors.

Accountability & Transparency

The Bank seeks to ensure a high degree of transparency in the conduct of its affairs, which facilitates its accountability and, importantly, the general public's understanding of developments and policies affecting the economic and financial sectors. 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 fiscal year. Copies of this report are laid before Parliament. Monthly balance sheet information is also provided to the Minister and published in the Gazette. In addition, the Bank publishes statistics and analysis on domestic economic and financial developments in its Monthly Economic and Financial Development (MEFD) reports, Quarterly Economic Reviews (QER) and Quarterly Statistical Digests (QSD). All of these publications are disseminated to the public in hard copy, and via the Bank's website, and are widely read by the public and reported on by the media.

Various research initiatives undertaken by the Bank's staff are normally presented at internal roundtable sessions, and at external conferences. To further enhance public awareness of the Bank's activities, the Governor and senior officers of the Bank gave official speeches during 2011 on domestic economic conditions and supervisory/regulatory developments and initiatives. The Bank also hosted sessions for various stakeholders to share information pertaining to domestic economic trends.

BOX 1: STRATEGIC FOCUS FOR 2012

STRENGTHEN MONETARY POLICY FRAMEWORK

- Continue work on improving the predictability of the financial programming model.
- Build out payment system oversight function of the Bank.
- Compilation of balance of payments according to revised methodology.

STRENGTHEN AND EXPAND THE ROLE OF BANK SUPERVISION

- Full implementation of Risk Based Supervisory Framework and integration with onsite examinations.
- Preparation for assumption of supervisory responsibility for credit unions.
- Continued review of legislation, regulations and guidelines in light of new international standards.
- Implementation of Basel I (Market Risk); Basel II (Minimum Disclosure Guidelines) and Basel III, with amended and new guidelines, as required.

DEVELOP FINANCIAL STABILITY FRAMEWORK

- Preparations for 2012 Financial Sector Assessment Program (FSAP) for The Bahamas.
- Review of Financial Action Task Force (FATF) recommendations, and assessment of changes required in the domestic regulations/legislation.
- Continue work towards the introduction of a Credit Bureau, with legislation drafted for public consultation and the process commenced to identify service provider.
- Preparation of inaugural Financial Stability Report for The Bahamas.

MODERNIZE CENTRAL BANK LEGISLATION & OPERATIONS

- Complete review of Central Bank Act, with recommendations for changes to ensure the appropriateness of monetary and operational mechanisms.
- Implementation of robust web portal to facilitate online reporting by stakeholders.
- Full implementation and testing of Business Continuity Programme (BCP), including establishment of comprehensive records management unit, to oversee completion of back file scanning.
- Continued review of Exchange Control arrangements, with a view to achieving improved operational efficiencies and providing opportunities for further liberalization.
- Complete implementation of Succession Plan.
- Advance opportunities for recruitment and secondment of staff.
- Implement risk-based control self-assessments for operational areas.
- Continued automation of work processes.

To support the desired level of coordination between monetary and fiscal policy, the Governor met monthly with the Minister, or his designee, to keep him informed of the Bank's performance of its statutory obligations. In 2011, the Bank, in its role as advisor to the Minister, proposed the establishment of a tripartite committee of the heads of the Treasury, the Central Bank and the Ministry of Finance, termed the Debt and Cash Management Committee (DCMC), as a means of strengthening the institutional framework for debt management in The Bahamas. The draft Terms of Reference for the DCMC was agreed by the Minister, and the Committee's work is to be supported by technical assistance from the International Monetary Fund (IMF) and the Inter-American Development Bank (IADB), towards developing a medium-term debt strategy for The Bahamas in 2012.

Strategic Planning

The Board-approved Strategic Plan (2009-2013) sets out the goals, objectives and strategies which continued to underlie the activities pursued by the Bank in 2011. For this five (5) year period, the Bank has 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 Financial system

Goal 3: Effective Contribution to Economic Policy Making

Goal 4: Secure, Efficient and Modern Payment System

Goal 5: Prudent Foreign Exchange Management

Goal 6: Operational Efficiency

Ownership of the Plan is promoted through the Bank's performance management system and individual employee performance targets. Progress with agreed strategic activities were assessed throughout the year, and communicated to the Board. The Bank achieved notable progress on several targets in the area of securing the safety and soundness of the financial system, and monetary policy implementation. Although some adjustments were required to implementation timelines for several projects, due to various exigencies, the Bank still expects to accomplish its specified activities within the life of the Plan.

Bank Management

The Governor, the Deputy Governor and Department/Unit Heads are integrally involved in the governance of the Bank's operations, meeting at least weekly, or as frequently as matters dictate, to discuss ongoing work programmes and strategic activities. During 2011, particular focus was placed on ensuring the appropriateness of the Bank's operational policies and procedures, the completion of the BCP arrangements, the adequacy of staffing levels and capacity building initiatives to meet the Bank's ongoing requirements.

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

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

Monetary Policy 2011

The Monetary Policy Committee (MPC) remained focused on ensuring the conduct of monetary policy in a manner consistent with the Bank's objectives of financial sector stability and the adequacy of the external reserves to sustain the fixed peg of the Bahamian dollar to the United States dollar. The MPC met on thirteen (13) occasions during 2011, including a special session in June, to assess domestic real and financial sector trends. It also continued to keep a close watch on international developments, particularly economic trends in the US economy, global inflation and the euro debt crisis. Policy determination was facilitated by a number of internally produced reports, and the Bank's economic modeling and forecasting initiatives.

In 2011, the MPC's deliberations were set against an improving global economic backdrop, although uncertainty about the pace and durability of the recovery persisted. On the domestic front, the MPC considered available real sector information, which suggested that the recovery continued at a mild, steady pace, aided by a combination of more favourable tourism sector indicators and strengthened foreign and public sector led construction and infrastructure investments. Nevertheless, as these had only a moderate impact on employment conditions, households and businesses exhibited ongoing stress in meeting debt commitments, which further constrained private sector credit demand impulses. To evaluate the potential risks to the domestic sector, the MPC maintained close surveillance of banks' loan arrears and loan restructuring and provisioning activities. Members concluded that, given the lack of a broad-based improvement in the economy, banking system delinquencies and non-performing loans (NPLs) were likely to remain elevated for an extended period. However, the Committee's concerns about the attendant near-term implications for financial stability were muted, as banks' capital ratios averaged approximately 27.0% during 2011, well in excess of the Bank's 17.0% target requirement; and institutions pursued proactive provisioning policies and continued to hold high quality collateral against their mortgage portfolios.

Amid mild economic growth drivers, which also served to limit demand for foreign currency, the Committee was cognizant that the main foreign exchange earning sectors remained relatively weak. The record levels of external reserves attained in 2011 were largely associated with one-off foreign currency receipts. During the year, the ratio of external reserves to base money—which is the primary external reserve indicator—remained above the Bank's target range of 90%-100%. After steadying at 105% of base money over the first quarter of 2011, the ratio peaked at 120% in April, following receipt of US$210 million in net proceeds from the sale of the Government's 51% stake in the Bahamas Telecommunications Company (BTC). The ratio then trended lower, to between 100% and 105% of base money, in line with the traditional, although comparatively tapered, increase in demand for foreign currency in the latter half of the year.

Against the backdrop of an improving—although still soft and limited—economic recovery, record levels of external reserves and mild credit growth, the Committee took the decision to reduce the Discount Rate, by 75 basis points to 4.50%, on 6th June, 2011. This was the first change since February 2005, and was designed to support the ongoing recovery.

In its discussions, the MPC continued to highlight the existence of downside risks to the recovery, taking into consideration the persistent uncertainty over the durability of the economic upturn underway in the US economy, with its possible adverse implication for the sustainability of the domestic tourism rebound; the euro debt crisis, and its adverse consequences for global growth; and the continued volatility in oil prices.

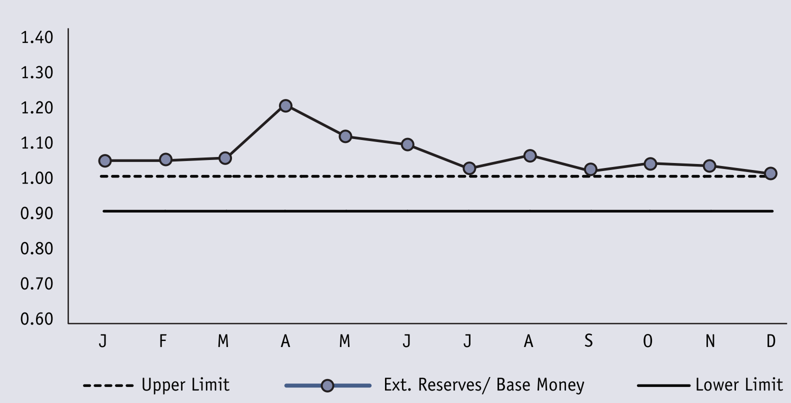
RISK MANAGEMENT

In carrying out its responsibilities, the Bank faces a range of both operational and financial risks, which it seeks to manage carefully in order to attain its strategic objectives. The Bank's risk management framework assigns primary responsibility for identifying, assessing, controlling and mitigating risk to the management of each operational area, and the Board and Audit Committee also contribute to the risk management process. 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 better integrate, coordinate and champion risk identification and management initiatives within the Bank, steps are underway to introduce, in 2012, a comprehensive risk-based control self-assessment process for all operational activities.

Given the heavy reliance on technology in operational activities, an important element of the Bank's overall 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 and achieve straight-through processing objectives, specific process enhancements were implemented for various treasury back office operations, and other activities were automated and proper controls implemented.

The Bank has in place a number of controls to mitigate fraud, inclusive of a clear decision making hierarchy, well defined limits for staff involvement in financial decisions/transactions, controls on users' computer access and independent functions. Along with the Fraud Control Policy, staff training in fraud awareness, and

Ratio of External Reserves to Base Money (2011)



arrangements by which suspicious behaviour can be reported anonymously, provide a framework for maintaining staff awareness 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.

During 2011, efforts were ongoing to strengthen the Bank's readiness and response capabilities to address potential business disruptions. Significant steps were taken towards the identification of a secondary site to ensure continuity of critical business services, the implementation of the selected IT disaster recovery strategy, and finalizing the agreed BCP for testing in early 2012.

Succession planning and talent management remained key facets of the Bank's risk management framework. In its Succession Plan, the Bank has identified various critical positions, and a talent pool of staff from which it may draw to fill vacancies in some of those areas. In 2012, further progress will be made towards implementation of the developmental aspect of the Plan.

INTERNAL AUDIT

Internal Audit (IA) is an essential component of the Bank's internal control framework, through its independent and objective evaluation and reporting on the effectiveness of controls, risk management and the governance process. The operations of the IA Unit are guided by a Board-approved Internal Audit Charter, which formalizes the mission, authority and responsibilities of this function within the Bank. To maintain independence, the Head of Internal Audit reports functionally to the Audit Committee, through monthly meetings, and operationally to the Governor.

Within the framework of the 2011 risk-based annual audit plan, approved by the Board, IA evaluated the reliability of financial records, and recommended improvements towards achieving greater effectiveness and efficiency of the Bank's operations. IA conducted reviews of processes in the Information Technology, Accounts, Banking, Bank Supervision, Exchange Control, Research, Administration and Human Resources Departments; carried out a number of follow-up reviews of management's implementation of audit recommendations, and undertook several ad hoc audits. IA also worked with Departments to assess the controls in new systems and business processes.

CURRENCY, BANKING SERVICES AND PAYMENT SYSTEMS

The Bank provides a range of banking, registry and payment settlement services to participants in the financial sector and the public sector—related to currency issuance, the public debt operations, limited transactional banking services for government agencies, and the operation of the Real Time Gross Settlement (RTGS) system.

Currency Operations

The Bank is responsible for ensuring an adequate supply of high quality Bahamian currency (banknotes and coins) in circulation, to satisfy the public's cash needs and maintain confidence in the currency. The Bank, therefore, takes special care in the design, selection of substrate, minting and printing of currency. To maintain a high quality of banknotes in circulation, the Bank subjects all issues to authentication and sorting into quality categories, leading to the withdrawal of unfit and issuance of new banknotes. Ongoing review of the currency issuance processes, and collaboration with commercial bank and cash transit companies, ensured optimal banknote processing, handling and distribution throughout 2011.

There are thirteen (13) circulated currency denominations, namely, eight (8) banknote denominations ($0.50, $1, $3, $5, $10, $20, $50 and $100) and five (5) coin denominations (1¢, 5¢, 10¢, 15¢ and 25¢). By value, the $100 banknote continues to account for the bulk of currency in circulation, at 40.2%; and the 1¢ coin constitutes the largest share of currency in circulation, by quantity, at 79.7%, as at end-December 2011.

Cash remains an important means of undertaking transactions in The Bahamas. During 2011, the value of the Bank's currency liabilities and amounts held in active circulation by the public rebounded by 5.2% each, to $323.9 million and $323.3 million, respectively, following on year-earlier contractions of 3.8%. Average currency in circulation was also higher by 3.5% at $285.6 million and accounted for an estimated 3.5% of Gross Domestic Product (GDP). Domestic currency measures, however, do not account for the co-circulation of United States currency.

In currency printing activities, the Bank commissioned tenders for reprints, with no design changes, of the CRISP $50 and $5 banknotes, previously released in 2006 and 2007, respectively, for anticipated issuance in late 2012 and 2013. Approved banknote suppliers, qualified to originate designs and manufacture the physical product, were invited to participate in the tender process. Prevention and detection of counterfeiting continues to be accorded high priority. Bank staff liaised with banknote printing companies and participated in seminars and conferences to update their knowledge of emerging technologies in the area of counterfeiting, as well as new banknote security features. The Bank also hosted its annual Counterfeit

Detection Seminars, both in Nassau and Freeport, to assist retailers and cash handlers in verifying the authenticity of Bahamian banknotes, and worked closely with law enforcement agencies.

Daily Exchange Rate Fixing

The Bank's official buying and selling rates for US dollars from/to commercial banks were unchanged at US$1.00 = B$1.00 and US$1.00 = B$1.0025, respectively, and at par for cash transactions. Foreign exchange rates for the quotation of UK Sterling were obtained each business day from the international market, at 9:00 a.m. and 11:30 a.m., and at other appropriate intervals, depending on the dollar value of transactions and market volatility. For Sterling sales, the Bank maintained the policy of adding a commission of one half of one percent to the mid-rate.

During 2011, the highest and lowest Pound Sterling/Bahamian dollar rates employed by the Bank were 1.5438 and 1.5338, respectively—obtained on September 22, 2011.

Relations with Public Sector

The Bank provides registry services for various public sector debt issues, inclusive of the registering of new debt issues, ongoing maintenance of ownership records, distribution of interest payments and redemption of securities at maturity.

Tenders were arranged on behalf of the Government for ninety-one (91) and one hundred and eight one (181) day Treasury bills. For 2011, the outstanding stock was unchanged at $301.6 million, with rediscounts totalling $20.0 million. The average tender rate (on rollover maturities) was higher by 45.7 basis points at 99.9768%, which corresponded to a 182.6 basis point reduction in the average discount rate, to 0.0928% at end-December, 2011.

The value of Bahamas Government Registered Stocks (long-term bonds) outstanding rose by $90.0 million to $2,593.6 million, which comprised two (2) new bond issues totaling $160 million, and scheduled redemptions of $70.0 million. New issues featured a maximum maturity of twenty-seven (27) years, and stable effective coupon rates at spreads of commercial bank Prime (4.75%) to Prime plus 0.125%. The Bank made significant progress towards finalizing the framework and guidelines to facilitate the eventual introduction of an auction mechanism for issuing Government bonds. The framework envisages a competitive phase for the more sophisticated investor and a non-competitive segment for private individuals, with pricing to be determined in the competitive market.

Bonds arranged and administered for public corporations over the years included the Bridge Authority Bonds and the Clifton Heritage Bonds. At end-2011, the stock of Bridge Authority bonds outstanding was unchanged, at $28.0 million, with maturities ranging from 2014–2029 and variable yields of Prime plus 1.000% - 1.625% per annum. Similarly, the value of Clifton Heritage Authority bonds remained at $24.0 million, with a maturity span covering the years 2020 – 2035 and bearing variable yields of Prime plus 0.2500% - 0.7500% per annum.

Relations with Banks

In accordance with 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 growth in Bahamian dollar deposits, required reserves increased by 1.4% to $251.2 million. Institutions also maintained balances to facilitate cheque clearing arrangements.

Payment Developments

Settlement Services

The Bank has oversight for payment systems, and remained committed to the implementation of safe, efficient and cost effective payment arrangements, in a bid to achieve its overall financial stability objective. In this vein, the Bank worked closely with the clearing banks to progress initiatives geared towards the modernization of the system, and securing high standards of availability and resiliency.

The Central Bank owns and operates the Bahamas Inter-bank Settlement System (BISS), which provides real-time payment and settlement for participating clearing banks. Payments between banks, inclusive of time sensitive customer transactions, are settled in BISS across their accounts maintained at the Central Bank. For 2011, the total number and value of transactions settled were 51,920 and $12.2 billion, respectively, which corresponded to a reduction of 13.4% and an increase of 5.1% over 2010. The average daily value of RTGS transactions in 2011 grew by 5.1% to $50.8 million.

The Bahamas' first electronic clearing house, the Bahamas Automated Clearing House (BACH), continues to provide for the electronic processing of paper based instruments, in a T+1 timeframe. The BACH operates in batch processing mode, with transactions received from participants during the day processed in five (5) pre-fixed sessions and settled through a multilateral netting figure on each participating institution's account at the Bank. During 2011, the BACH processed 3.025 million cheques, valued at $6.176 billion—for an increase of 2.05% and 3.98%, respectively over 2010. Electronic funds transfers (EFTs) are a critical component in the modernization of domestic payment services. In 2011, the ACH network commenced the facilitation of direct credit transactions (e.g. payroll and bill processing), processing approximately 1.099 million transactions valued at $573.4 million. Banks are now focused on making operational changes to accommodate, in 2012, the introduction of customer initiated payments (e.g. utility bill payments), which over time are expected to reduce cheque utilization.

To foster the implementation of innovative technology and payments services, the Bank continued its discussions with commercial banks on the introduction of a cost effective national payment switch. This mechanism will serve to facilitate inter-bank electronic payments originating from different delivery channels (e.g. Automated Teller Machine (ATMs), Point-of-Sale (POS), internet and mobile banking transactions) within a common platform, and therefore provide greater convenience and efficiency to the public.

Payment Services

Credit Cards

This category of payment has increased in recent years, due to its convenience and level of acceptance by vendors worldwide. The most popular cards are those issued under international based carriers such as Visa, MasterCard and American Express. There are also a few locally branded cards in circulation.

Preliminary data indicates that credit card activity remained brisk during 2011. The number of cards in circulation rose by an estimated 8.4% to 127,972 at end-December. Of this total, approximately 98,419 cards (76.9%) carried limits of $5,000 or less, with $5000-$10,000 and over $10,000 limit cards accounting for much smaller shares of 15.3% and 7.8%, respectively. The outstanding balances, however, declined by 4.2% to $251.9 million, and were largely concentrated in the higher limit cards, which experienced a contraction of 30.3% to $53.5 million. Loan balances on cards with limits of under $5,000 were higher by 5.5% at $123.9 million, and for those with limits of $5,000 to $10,000, there was an 8.5% gain to $74.5 million.

Debit Cards

In The Bahamas, debit card usage has increased in acceptance over the years, providing bank customers with the convenience and option of making purchases at POS, as well as cash withdrawals at ATMs. One institution launched a new debit card product in October, bringing the total card programmes to four (4). At end-December 2011, there were nearly 5,000 debit card users. Banks also had a total of 217 ATMs installed throughout The Bahamas.

Other Payments Developments

In July, the Government launched a new e-services platform to facilitate, *inter alia*, the online payment of real property tax and traffic fines. Customers are also able to access a variety of online application forms, via this portal, including those for first time passports and renewals, police certificates, driver's license renewals and government employment.

Payments Oversight

During 2011, the Bank took steps to further develop its oversight mechanisms towards ensuring timely, secure and cost-effective transfer of funds between participants. Internal policies and procedures were developed to guide the operations of the Bank's Payment's Unit, which was formally established in 2010 to facilitate monitoring and oversight activities.

Oversight arrangements were instituted for the BACH, under the terms of the Memorandum of Understanding (MoU), executed on 14th April 2011, which generally seeks to ensure its compliance with the Bank's requirements and with internationally recognized standards for payments and settlement. The MoU provides, *inter alia*, for the conduct of regular and special meetings between the Bank and BACH; for the Bank to be informed and consulted on significant operational changes, be provided with key operational and financial information, and for an annual assessment of BACH. In the first quarter of 2012, BACH will undergo, in the context of its annual financial audit, its first payments-related annual assessment, covering its 2011 operations.

In January 2011, the Payments Unit commenced monthly updates to the MPC on payments developments, which included an assessment of the major issues which impacted payment providers, an analysis of general payment conditions and ongoing developments in the area of related systems and services. This function was facilitated by the introduction of an expanded data reporting regime for banks on payments activities.

Formal legislative arrangements, to codify the operations and oversight of payments systems and strengthen the infrastructure in The Bahamas, are expected to be concluded in early 2012. These are the:

- Payments Systems Bill, 2011
- Payments Systems (Oversight) Regulations, 2011
- Payments Systems (National Payments Committee) Byelaws, 2011
- Companies (Amendment) Bill, 2011
- Bills of Exchange (Amendment) Bill, 2011
- Bankruptcy (Amendment) Bill, 2011

After enactment, the Bank intends to move quickly to establish the National Payments Committee (NPC) which, as an advisory body, will provide important input, from an extended body of stakeholders, into the ongoing development of domestic payment services.

THE BAHAMAS CREDIT BUREAU PROJECT

The Bank continues to make steady progress on the initiative to strengthen the financial infrastructure through the introduction of a credit bureau in The Bahamas. In 2011, the International Finance Corporation (IFC) provided the Bank with reports on the results of the Business and Technical Assessment and on the Legal and Regulatory Country Assessment, respectively, carried out in October, 2010. The Business and Technical Assessment involved the analysis of the business practices and technical processes used in the domestic credit market to approve and administer consumer and small and medium-sized enterprise loans. The Legal and Regulatory Assessment sought to analyze whether the existing legal and regulatory framework would support a credit reporting system. The IFC also gave summary presentations of their reports to private and public sector stakeholders, including the Data Protection Commissioner, the Ministry of Labour and Social Development, members of the Clearing Banks Association, credit unions, retailers and public sector utility corporations.

The Bank, in consultation with the IFC, prepared a Vision and Strategic Plan covering the years 2011 – 2013 which was finalized and distributed to various stakeholders in September 2011, and will be posted on the Bank's website in early 2012.

To support project implementation, three (3) working groups, comprising representatives from the Bank and the key credit institutions, were established, namely, the Information Technology (IT)/Operational, the Legal and Consumer Protection Working Groups. Orientation sessions, designed to inform participants about their role in the development of the proposed national credit reporting system, were held with the IT/Operational and Legal Working Groups.

In the months ahead, the focus will be on:

- drafting laws to regulate the credit reporting market;
- developing a protocol among the relevant public agencies for sharing data in the credit reporting system;
- strengthening key public databases and specifying the further use which may be made of such data by credit reporting systems;
- establishing a realistic protocol for data submission by lenders, which would specify the format in which the data will be submitted and timeframes for submission;
- establishing data validation rules, data quality standards and reciprocity rules regarding data access;
- training and developing regulators (including Central Bank, the Data Protection Commissioner and the Consumer Protection Commission) so that they can promote the smooth flow of credit information, encourage competition and protect consumer rights;
- selection of a credit bureau service provider, through an RFP process; and
- implementing consumer and industry education and outreach programmes.

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 of dormant balances release licensees from liability for such accounts and protect the future claims of depositors.

During 2011, ninety-five (95) licensees submitted dormant accounts to the Central Bank, utilizing the Dormant Account Web Reporting System (DARS). Submissions totalled the equivalent of B$3,514,709 and claims processed, B$1,077,599. At end-2011, the outstanding dormant account balances stood at the equivalent of B$68,939,454 and were denominated in eight (8) currencies.

FOREIGN RESERVES MANAGEMENT

The Bahamas' official foreign exchange reserves comprise foreign government securities, deposits in foreign banks, Special Drawing Rights, and the Reserve Position (Reserve Tranche) in the IMF.

Foreign reserves are managed by the Bank, through its Investment Committee (IC), within the parameters established by the Act, and further guided by a Board-approved investment policy and guidelines. The primary objectives of reserve management are the preservation of capital and liquidity management, and then the optimizing of returns within the constraints of the former two principles.

The preservation of capital objective is achieved predominantly through the control of the portfolio's risks, by investing in high quality assets having an investment grade rating of A1 or higher. The Bank also ensures, using weekly forecasts, that it maintains sufficient liquidity to support the country's commitments in the international market.

During 2011, the IC met weekly, and on several ad hoc occasions, to consider investment placements, review counterparties, and to discuss, *inter* *alia*, current market trends and developments that could impact foreign exchange reserves.

EXCHANGE CONTROL ARRANGEMENTS

During 2011, the Bank continued to administer exchange controls and advanced a number of process changes designed to improve operational efficiency in the regime. Training initiatives were sponsored for key stakeholders, commercial banks and money transmission businesses (MTBs), on the recently automated foreign exchange sales reporting system, to ensure the integrity of information being compiled and reported. Efforts also progressed on the exercise aimed at extending the on-line reporting of foreign currency accounts to companies.

Under the more liberalized Bank facilitated arrangements for overseas portfolio investments, introduced in 2006, only two BISX Broker Dealers participated in the non-sponsored Bahamian Depository Receipt (BDR) programme. Of the $25 million allocated for the programme during 2011, some $12.7 million was drawn, compared with $13.0 million in 2010. By contrast, the National Insurance Board (NIB) utilized $21.9 million of its $25.0 million allotment, which more than doubled the $9.4 million applied for in 2010. At end-2011, overseas capital investments (excluding capital gain/losses) under the BDR programme totaled $48.7 million and the NIB's portfolio reached $59.4 million.

Residents continued to make outward capital investments through the Investment Currency Market (ICM), at unchanged premium bid and offer rates, of 12.5% and 10.0%, respectively. Sales activity for 2011 amounted to $12.1 million, of which some four-fifths was accounted for by a single institutional investor; and purchases aggregated a modest $6,088.

Although no new exchange control measures were introduced during 2011, work progressed on a number of initiatives which will allow the Bank to achieve BCP requirements with respect to document archival, increase automation and more streamlined arrangements.

At year-end, Authorized Dealers and Agents, which continued to be important participants in the administration of the Exchange Control regime, stood at eight (8) and twelve (12), respectively.

ECONOMIC ANALYSIS, STATISTICS & RESEARCH

During 2011, the Bank continued to play a strategic role in the collection, analysis and dissemination of domestic economic and financial data, through its various publications. The annual survey of the financial sector was also conducted and the findings published in the first quarter's QER. To ensure the widest possible circulation of its reports, all of the documents were placed on the Bank's website.

Throughout the year, the Bank made a number of enhancements to its statistical forms and databases, geared towards increasing the overall efficiency of its compilation and analysis of data from financial institutions. To expand the analytical coverage of fiscal data, technical assistance was obtained from the IMF, in the form of a workshop held in October, to train compilers from the public corporations in preparing information on their operations in the Government Finance Statistics (GFS) format. Public corporations will commence the compilation of their operations data in the GFS format, on a quarterly basis, beginning with the December 2011 period.

In 2011, the Bank sought to improve its economic forecasting model, which forms the basis for economic assessments on the economy. The technical assistance consultancy sourced from the Caribbean Regional Technical Assistance Centre (CARTAC) provided for a review of the model's framework. Subsequent recommendations for improvements to methodology and administration resulted in the model being transferred to a more dynamic and robust platform.

In promoting a culture of research, the Bank's Research staff continued to host internal roundtable discussions, which provided an opportunity to obtain feedback on their research papers. A total of five (5) papers were presented at these roundtables, which covered topics as diverse as the effectiveness of countercyclical fiscal and monetary policy in The Bahamas and an analysis of the concessions provided to large-scale foreign investment projects.

In keeping with its ongoing efforts to educate the public on the macroeconomic environment, Research staff took part in the World Statistics Day in October and at least five (5) presentations were made to high school students on "*the Role and Functions of the Central Bank*". An additional presentation was made to visiting students from an American university on "The Structure of the Bahamian Economy", while staff met throughout the year with individual high school and college students to answer questions on various economic issues.

The Bank continued to play a leading role in facilitating routine financial and economic data requests of the 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 IADB.

LEGAL ISSUES

During 2011, the Bank concluded several legal and policy matters, and attended to drafting legislation to facilitate the execution of its functions. New legislation included the Banks and Trust Companies Regulations (Amendment) Act, 2011, which was brought into force on 1st January 2011; and the Banks and Trust Companies (Money Transmission Business) (Amendment) Regulations, 2011 (S.I. No. 29 of 2011) and the Banks and Trust Companies (Auditors) (Facts and Matters of Material Significance) Regulations, 2011 (S.I. No. 30 of 2011), which were both brought into force on 2nd May, 2011.

As envisaged in the Strategic Plan, the Bank initiated steps to carry out a comprehensive review of the Central Bank Act 2000, with a view to modernizing its provisions and ensuring its adequacy to deal with the more challenging financial environment. The Bank is being assisted in this review exercise by the IMF.

PRUDENTIAL SUPERVISION AND REGULATION

Overview of Supervisory Developments

The Central Bank is the supervisor and regulator of banks, trust companies, money transmission businesses (MTBs) and private trust companies (PTCs). To promote the safety and soundness of its constituents, the Bank conducts onsite examinations and inspections, off-site surveillance and monitoring, supported by rigorous stress testing of the domestic firms—all within an evolving risk based framework.

Like other regulators, the Bank faced a very challenging operating environment during 2011, as it sought to ensure that its supervisory framework enabled it to properly assess the safety and soundness of banks and other regulated entities.

In reviewing the 2011 global trends, the operating environment for banks, post the global crisis, continued to be marked by low rates of return that engendered ongoing cost cutting measures. Faced with diminishing profitability and strategic decisions linked to the changing dynamics in the offshore environment, a number of licensees have sought to consolidate their multiple offices in The Bahamas, while other groups have transferred some of their business to The Bahamas from other regional locales, such as the Cayman Islands and the Netherlands Antilles. Firms also continued to rationalize operations using, in some cases, outsourcing to hubs or local affiliates to achieve economies of scale; the trend for outsourcing of material functions, which requires regulatory approval, continues to be a preferred operational solution for both international and domestic licensees.

Although the Bahamian banking sector was not impacted by the global events of the past few years to the same extent as many of its international counterparts, the spillover effects of the crisis to the real sector continued to be evidenced in high loan arrears, which have since stabilized. Profitability levels have improved, somewhat, and some institutions have foregone dividend payments, thereby augmenting their loss absorbency cushion. Generally, firms have contended with diminished opportunities to employ vast sums of liquidity, given the sluggishness in domestic demand and the persistent debt servicing difficulties faced by borrowers.

The Bank continued to approach its regulatory challenges through a combination of measures, namely:

- strengthening of ongoing monitoring of commercial banks;
- move towards the full implementation of the risk assessment framework;
- ongoing enhancements to the stress testing model;
- enhancements to the onsite examination programme for commercial banks and international firms; and
- ongoing review and amendments to the regulatory regime and related policies, guidelines, regulations and statutes.

Risk Based Supervision

During 2011, the Bank made substantial progress towards the full implementation of the Risk-based Supervision Framework (RBSF), which was launched in the final quarter of 2010 and now targeted for completion in the third quarter of 2012. The RBSF assists the Bank in developing an understanding of firms' business strategies, risk management and internal control functions. The Bank's implementation efforts, which include capacity building exercises, are being supported by an overseas technical expert. Of the seventy-six (76) licensees identified for the exercise, forty-two (42) will undergo full risk assessments and the remaining thirty-four (34) will be subjected to a simplified regime.

Full risk assessments of the high impact firms selected for the first round of assessments were largely completed in 2011, with the Bank issuing final letters communicating assessment outcomes and corresponding risk mitigation programmes. In the second round of the exercise, that commenced in the final quarter last year, the Bank will aim to complete full assessments for the eight (8) domestic commercial banks, which follow on initial desktop assessments carried out in 2010. So far, assessments have been concluded for two of these firms and their related trust companies and/or subsidiaries.

A key ongoing facet of the project is the review and alignment of current on-site examination templates to the assessment of the risk control and oversight functions in the RBSF, and mapping of assessment criteria to regulations and guidelines. Once completed, these will be consolidated into a common set of core expectations.

Significant progress was achieved in developing and testing a new management information (MIS) module to support the risk assessment process. Once implemented, the MIS will facilitate the organization of the assessment exercise and senior management's analyses of individual firm and peer group risk metrics.

Going forward, other elements of the Bank's RBSF implementation plan will focus on, *inter alia*, utilizing the assessment results to prioritize on-site examination exercises, developing a matrix of country risk and parent bank rating indices to support the assessment of inherent risk across all firms eligible for risk assessment; and organizing training programmes for supervisors to support the risk assessment process.

Market Risk

Substantial progress was realized in developing an appropriate regulatory framework for monitoring market risk in The Bahamas. In June 2011, the Bank engaged the services of a market risk expert to review its proposed approach for consistency with international standards and to assist in developing a roadmap for implementing the market risk amendment in The Bahamas. Building on its earlier assessment efforts, to measure the true size of firms' trading books, the Bank undertook a more comprehensive survey in November 2011, using its specified definition of a trading book, which largely mirrored the definition established by the Basel Committee. The objective was to gain a further understanding of firms' trading books, their level of exposure to the individual components of market risk, and the corresponding effects on capital positions.

Of the ninety-two (92) firms responding to the survey, only sixteen (16) or 17% indicated having an active trading book. Twenty-seven (27) or 29% of the firms reported having on or off-balance-sheet positions pertaining to market risk, with interest rate risk from the trading book (20) and foreign exchange risk (13) being the most prevalent risk exposure. Six (6) firms cited exposure to equity position risk, and no firm reported commodities risk exposure.

In the implementation phase, slated for the first quarter of 2012, the Bank intends to set a *de minimis* threshold, using national discretion allowances established by the Basel Capital Framework.

Capital Adequacy

The Bank continued to ensure that licensed firms operate in a manner consistent with international best practices in the area of capital adequacy. Steps were also taken to enhance firms' awareness of recent international reforms, under Basel III, aimed at increasing the quality, quantity, and international consistency of capital; strengthening liquidity standards; discouraging excessive leverage and risk taking; and reducing procyclicality.

Under the enhanced capital accord, slated for implementation starting 1st January 2013, a new minimum of 3.5% (up from 2.0% in Basel I) is to be established for common equity (ordinary shares) Tier 1 capital to total risk weighted assets (CET1). Thereafter, this ratio is set to increase by 0.5% each subsequent year, to 4.5% by 1st January, 2015. For total Tier 1 capital to total risk-weighted assets (inclusive of CET1 capital), the minimum ratio would increase from 4.0% to 6.0% by 1st January 2015. In view of these revised capital standards issued by the Basel Committee, the Bank has initiated appropriate consultations with the industry, and will be updating its Capital Adequacy Guidelines to reflect these changes and provide appropriate guidance to firms to ensure full compliance.

In anticipation of the 2013 introduction of the new capital requirements and to assess the implications of these changes, the Bank conducted preliminary desktop reviews of commercial banks' capital compositions during 2011. It was determined, in the majority of cases, that the new minimum total capital ratio, of 10.5%, required by 2019 (7.0% - CET1 and 3.5% - additional T1), should pose no challenge for firms, given the existing higher regulatory capital requirements now in place (i.e., aggregate trigger and target capital adequacy ratio of 14% and 17%, respectively). In the short-term, banks have been encouraged to focus on conforming to the proposed new standard requirement for CET1 capital and total Tier 1 capital, to be, at minimum, 75% of total Tier 1 capital and total capital, respectively by 2015. On average, banks' capital levels were slightly above 27% of risk weighted assets as at end-December 2011, up from 25.0% in 2010 and significantly exceeding the existing 8% minimum international capital benchmark. Growth in total capital of 9.5% to $1.989 billion exceeded the 3.2% rise in total risk weighted assets.

The Bank intends to develop, during the course of 2012, an implementation strategy for the incorporation of the enhanced capital and liquidity rules into the regulatory framework. The process will be supplemented and supported by high-level industry dialogue and consultation.

On-site Examination

The Bank's risk-based examinations and inspection activities entail an assessment of licenses' compliance with applicable laws, regulations, prudential guidance and recommendations, the governance framework and the robustness of risk management and internal control processes to identify, manage, monitor and control risks. During 2011, efforts were intensified to fine-tune both the examination process and attendant reports, and ensure integration with the risk assessment process.

TABLE 1: On-site Examinations Conducted

	2009	2010	2011
Examinations			
Domestic Licensees	5	6	3
Other Licensees	15	2	17
Follow-up /Special focus	24	18	17
Total	**44**	**26**	**37**
Reports			
Finalized Reports	30	16	28
Reports in Progress	11	15	21
Total	**41**	**31**	**49**

Source: The Central Bank of The Bahamas

As indicated in Table 1, thirty-seven (37) on-site examinations were completed in 2011, compared to twenty-six (26) in 2010, and included three (3) domestic firms (a commercial bank, a local trust company, and a money transfer business). Full scope examinations were conducted for thirteen (13) firms—inclusive of four (4) managed banks and nine (9) non-complex firms; and special focus examinations, which covered reputation risk, physical presence and recommendations from previous examinations, were carried out for two (2) non-complex firms. In addition, two (2) visits to firms were conducted in response to requests from their home supervisory authorities in Panama and The Philippines.

Seventeen (17) of the thirty-seven (37) examinations conducted were follow-up examinations of various complex and non-complex licensees. Over the year, twenty-eight (28) examination reports (including twelve (12) outstanding from 2010) were completed; eight (8) draft examination reports were forwarded to licensees for review and subsequent discussion, and thirteen (13) reports were in varying stages of being finalized. A total of three (3) examinations were undertaken jointly with the Securities Commission.

Onsite examination findings resulted in recommendations being made for improvements in corporate governance, processes of control and risk management arrangements, covering credit, reputation, fiduciary, IT and HR risks.

Offsite Surveillance and Monitoring Activities

Offsite surveillance remains one of the Bank's key supervisory tools for continuous assessment and monitoring of the financial condition and performance of licensed firms. This process is supported by quarterly financial data submitted by banks and used to generate key quantitative prudential norms on capital adequacy, asset quality, earnings and liquidity. In addition, the Bank achieved monitoring and verification of compliance with its directives, prudential regulations and guidelines through focused meetings with banks' management and board of directors and various annual attestation requirements.

Commercial Banks

In 2011, the Bank held semi-annual meetings with senior management of commercial banks, and continued to focus on thematic issues arising from the risk assessments of firms, credit quality trends, credit governance, provisioning, and risk controls, such as delinquency management and collection policies, as well as liquidity management and stress testing.

Credit Risk Reviews

Critical monthly credit risk assessments, based on prudential returns submitted by the banks, focused on large exposures, loans in arrears, sectoral exposure combined with provisioning levels and restructured loans, as banks continued their efforts to assist customers in financial difficulty.

Amid the prolonged weakness in domestic economic activity and the high unemployment level, banks' total loan arrears approached the $1.2 billion mark, to represent 18.82% of total system loans. Non-performing loans (NPLs), at almost 65% of total arrears, equated to 12.8% of total loans. However, the rate of deterioration in the ratios stabilized at 0.83 and 0.68 percentage points, from 0.56 and 2.59 percentage points in 2010, and significant average gains of 4.16 and 2.45 percentage points respectively in the two years to 2009. Firms' collateralized mortgages constituted approximately 50% of total loans, thereby containing the potential risk of financial loss. From discussions with firms, supervisors also maintained a view of real estate values, which have rebounded for high-end properties while holding steady for medium priced markets, along with the slow movement in the enlarged pool of foreclosures. Given the significant reliance on collateral in the prevailing environment of high levels of NPLs held by banks, the Bank continued to engage in horizontal systemic reviews to assess the impact of deficiencies in collateral documentation on banks' exposures and ensure appropriate provisioning levels.

To militate against expected credit losses, firms increased specific provisioning levels, while also maintaining a minimum regulatory requirement of 1% general provision of their total outstanding credit portfolio. Notwithstanding the ongoing stressed conditions, banks continued to show resilience by maintaining capital adequacy ratios above their regulatory minimum throughout the period.

Stress Testing

During 2011, the Bank took steps to build a more comprehensive framework for the analysis of key risks to the financial soundness of individual commercial banks and the system as a whole; and commenced work on extending the stress-testing framework to the international firms.

The stress testing model, initially developed in 2008 with a credit risk bias, was extended to include liquidity and interest rate risks. Using returns submitted by commercial banks, together with the Bank's economic model, stress tests were conducted to estimate the resilience of individual banks' capital levels and of the system as a whole, to a combination of extreme but plausible stress scenarios.

The credit risk stress test was reviewed quarterly, to take account of any growth in NPL rates and anticipated growth rates for loan types during the period, if deemed necessary. The test utilized mild, moderate and extreme shocks on the NPL rates to assist in forecasting the current anticipated risk-adjusted capital ratio over three (3) years into the future. Results have shown that the system will remain well-capitalized throughout the three-year period, within the range of 29.0% - 31.0%.

The interest rate risk stress test model uses quarterly sensitivity data reported to the Bank. The test aims to determine, as part of an effective risk management regime, the banks' acceptability of interest rate risk by testing the changes to Bahamian dollar (B$) and foreign currency (F/C) interest rates, separately on the net position of the banks' assets and liabilities. The model also uses these net amounts to calculate a proxy measure of the impact on the capital of the bank or the interest rate exposure on its banking book. Results for the system show that the interest rate risk is low, in line with B$ interest rates, which have remained relatively stable over the years in relation to the Prime rate, with limited impact on the yield curve.

Unlike the credit and interest rate risks stress test models, which place focus on a bank's bottom line, the liquidity risk stress test model is geared towards projecting the solvency of a bank, should there be a run on deposits. The test makes various adjustments to the contractual deposit maturities that are reported quarterly to the Bank, placing particular emphasis on the short-term maturities. Through these adjustments, the test assumes that certain long-term inflows can be quickly converted to cash to repay depositors. The results from the initial liquidity risk stress test model suggest that the gap of the system's maturities within the short-term bucket (i.e., less than 1 month) can be covered by long-term highly liquid assets. Throughout 2012, the Bank plans to continue to work on enhancing the stress testing framework, and examining other plausible scenarios to be used in the various models.

To enhance the oversight of systemically important financial institutions in The Bahamas, i.e., the domestic commercial banks, in the context of the broader objective of financial stability, the Bank took steps to establish the Systemic Risk Surveillance Committee (SRSC) in 2011. The SRSC's mandate is to:

- monitor, on a regular basis, the financial stability of the domestic commercial banking sector in The Bahamas, including the financial strength of individual firms;
- deliberate on events, issues, risks and developments (macroeconomic, sectoral and firm specific) with systemic implications, including crisis situations and, where appropriate, formulate and co-ordinate responses/actions;
- analyze the performance of the stress-testing model in relation to macro-prudential data and industry trends; and
- oversee system-wide stress test scenarios.

International Firms

The Bank, using a combination of on-site and off-site mechanisms, continued its rigorous efforts in monitoring the financial safety and soundness of international firms through structured prudential and risk assessment meetings, and comprehensive analyses of quarterly and annual audited financial statements and returns, while ensuring compliance with the operational limits imposed by legislation, regulations and regulatory guidelines.

Full scope risk assessments were undertaken for some twenty-four (24) firms with high risk impact, with forty-two (42) medium impact firms and thirty-four (34) simplified risk assessments for firms having low material impact to the industry, planned for completion by end of third quarter of 2012.

Regulatory Reporting

The Bank requires firms to submit quarterly reports which are the primary source of data for the supervision and regulation of banks and the ongoing assessment of the overall soundness of the system.

During 2011, the Bank implemented further revisions to its prudential reporting systems, intended to streamline data compilation processes and enhance regulatory surveillance. The Excel Reporting System (ERS), which replaced the Quarterly Reporting System (QRS I and QRS II), improves and harmonizes the financial reporting for domestic and international firms into a singular set of report forms, that now meet the regulatory data requirements of the Research and Bank Supervision Departments as well as the Securities Commission, in the case of joint licensees. Sessions were arranged with firms to introduce the new reporting forms, and the Bank prepared a Frequently Asked Question (FAQ) document for data compilers, to facilitate ongoing completion of the report forms.

Regulated Entities

During 2011, the number of bank and trust company licensees increased by four (4) to 278 (see Table 2). Growth was solely in the restricted trust and nominee trust companies licence categories, which rose by eleven (11), as these entities complied with the Bank's arrangements to achieve enhanced consolidated supervision of banks and trust companies activities in The Bahamas.

Of the 278 licensed entities, the number operating through physical presence increased by six (6) to 255, with the remaining twenty-three (23) being from predominantly G-10 countries and operating within approved restricted management arrangements. More than fifty percent (50%) of licensees originate from G-10 countries, with the balance representing locally domiciled entities and various other jurisdictions.

During 2011, the Bank approved the registration of eleven (11) PTCs, bringing the total to sixty-nine (69) at end-December. The number of Financial and Corporate Service Providers (FCSP) that act as Registered Representatives grew by one to four (4), and one additional licensee advised the Bank of its intention to act as a Registered Representatives of PTCs, increasing the number to eleven (11). Licensed non-bank money transmission service providers totalled three (3), while registered non-bank money transmission agents increased to five (5). One (1) non-bank money transmission service provider surrendered its licence during the period.

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 twelve (112) directors and fifty-two (52) senior officers. For 2011, one hundred and fifty three (153) meetings were held with licensees to discuss prudential issues, and firms paid numerous courtesy visits to the Bank.

During the year, the Bank continued to review and evaluate its administrative processes, with a view to achieving greater efficiency. As a step towards enhanced efficiency and accountability, the Bank issued a document entitled "*Timelines for Processing Applications and Other Official Requests"[Issue Date: December 14th, 2011]*. This document provides firms with an indication of the expected processing timelines for standard application/request types submitted for regulatory approval, as well as other reports, communication and notifications.

TABLE 2: Regulated Entities

	2009	2010	2011
Bank and Trusts	272	276	278
Banks & Trusts	72	72	70
Banks	47	41	40
Trusts	153	163	168
Private Trust Companies (Registered)	50	58	69
Non-Bank Money Transmission Business	2	3	3

Source: The Central Bank of The Bahamas

Supervisory Policy and Guidance

The Bank is responsible for ensuring that the framework for the supervision and prudential regulation of licensed banks and trust companies and other licensees of the Bank remains relevant, current and effective. This framework includes the Bank's own internal operational processes as well as its policy positions on regulatory issues affecting licensees, as expressed in guidelines and other documents.

In 2011, the Bank's work in this respect continued, with the issuance of four (4) revised guidelines and two (2) new guidance notes.

The Bank renewed its efforts towards the implementation of Pillar 3 (Market Discipline) of the Basel II framework, with the development of a follow-up survey on the disclosure practices of firms operating in The Bahamas. The results of the survey, to be launched in early 2012, will inform the Bank's approach on areas of national discretion permissible under Pillar 3, as well as the appropriateness of these requirements for firms in The Bahamas.

Regulatory/Legislative Initiatives

The Bank continuously monitors developments relating to G-20 discussions and the press releases, publications and directives issued by the Basel Committee and the Financial Stability Board (FSB), in order to identify possible areas that would necessitate further amendments to the BTCRA and/or the regulations relating to banks and trust companies.

The legal and regulatory framework for the supervision of the Bank's licensees was enhanced by the following pieces of legislation, which were brought into force in 2011:

- **The Banks and Trust Companies (Amendment to the Third Schedule) Regulations, 2011,** reduces the application and annual fees payable by Private Trust Companies, from $5,000 to $3,500 and $2,500, respectively, came into force on the 12th July, 2011. The amendment was made to bring The Bahamas in line with key competitor jurisdictions and facilitate growth in these structures.
- **The Banks and Trust Companies Regulations (Amendment) Act, 2011** amended the Third Schedule of the Banks and Trust Companies Regulation Act, 2000 (the principal Act) by re-inserting paragraph 4 which now authorises the deduction of company registration fees payable under the Companies and International Business Companies Act, respectively, from licensing fees payable under the principal Act.
- **The schedule to the Banks and Trust Companies (Money Transmission Business) Regulations, 2008** was amended to introduce a new fee to be paid by money transmission service providers in respect of each location where a money transmission agent operates on behalf of the service provider.
- **The Banks and Trust Companies (Auditors) (Facts and Matters of Material Significance), 2011** lists the facts and matters of material significance which should be notified to the Inspector of Banks and Trust Companies by an auditor, or where appropriate, a former auditor of a licensee, pursuant to section 12(4) of the Banks and Trust Companies Regulations Act, 2000.

The Bank is also in the process of finalizing, for public consultation in early 2012, a number of proposed amendments to the Banks and Trust Companies Regulation Act, 2000 and supporting draft regulations. These include provisions to enhance fit and proper requirements for shareholders, directors and officers of licensees. Another objective is to establish a comprehensive framework for the Bank to levy administrative penalties, that will allow the Bank to address egregious contraventions of prudential and regulatory norms, tardiness in statutory reporting and support prompt corrective action by licensees to supervisory recommendations.

The Bank also anticipates that the following proposed Regulations and Byelaws, which are in the final approval stage, following public consultation, will become law in early 2012:

- **Banks and Trust Companies (Liquidity Risk Management) Regulations:** require licensees of the Central Bank to establish and maintain liquidity risk management strategies which are appropriate for the nature, scale and complexity of their activities and impose reporting requirements with respect to licensees' liquidity positions.
- **Banks and Trust Companies (Large Exposure) (Amendment) Regulations:** set out the criteria for the Bank to grant exemptions for related party exposures to parent and group entities for treasury management purposes.
- Other amendments to the **Banks and Trust Companies (Private Trust Companies) Regulations, 2007** are being contemplated to: (i) allow for private trust companies to be limited by shares or by guarantee; (ii) remove the requirement for registered representatives to obtain the approval of the Bank on an annual basis in order to continue to provide the services of a registered representative; and (iii) give the Bank the discretion to extend the time, beyond twelve months, for a Registered Representative to certify that a private trust company qualifies for an exemption from the licensing requirements of the Banks and Trust Companies Regulations Act.

Consultation Papers

In 2011, the Bank issued a consultation paper on the proposed ***Guidelines for the Management of Market Risk.*** The draft guidance sets out the principles of best practices for the sound management of market risk, which incorporates effective market risk measurement, monitoring and control functions to enhance the safety and soundness of their institutions, consistent with recommendations issued by the Basel Committee.

Another paper released for public consultation was the draft *Banks and Trust Companies (Liquidity Risk Management) Regulations, 2011*, which provides the legislative framework for the Guidelines for the Management of Liquidity Risk and allows the Bank to monitor the liquidity risk management practices of firms.

Domestic and International Regulatory Cooperation

As part of its supervisory oversight mechanisms, the Bank continued to engage its domestic and international regulatory counterparts. On the local level, the senior supervisory and legal staff represented the Bank at the Group of Financial Services

Regulators' (GFSR) monthly forums, attended by members of the five (5) domestic regulatory agencies with oversight responsibility for banks and trust companies (the Central Bank); securities firms, the domestic securities exchange and financial and corporate service providers (Securities Commission); insurance companies (Insurance Commission); credit unions (Department of Co-operative Development); and non-bank financial institutions (Compliance Commission).

In 2011, the GFSR continued to discuss cross-cutting issues impacting the financial services sector, and took measures and made recommendations to enhance the regulatory framework of the jurisdiction. The GFSR made recommendations to the Government on reforms needed in The Bahamas' anti-money laundering and countering the financing of terrorism legislative and regulatory regime, to enhance the jurisdiction's compliance with international AML/CFT standards. The GFSR's Legal subcommittee also commenced reviewing amendments proposed by the Financial Action Task Force (FATF) to 40 + 9 AML/CFT Recommendations, in order to assess whether the revisions will require any changes to the domestic AML/CFT legal and or regulatory framework.

Further progress was made toward ensuring The Bahamas' readiness for the IMF's Financial Sector Assessment Program (FSAP), planned for mid-2012. Domestic regulators continued to update their respective self-assessment templates, used to measure the jurisdiction's compliance with international standards in the quality of supervision of the banking [the Basel Core Principles for Effective Banking Supervision (BCP)]; insurance [International Association of Insurance Supervisors' (IAIS) Insurance Core Principles] and securities [International Organization of Securities Commissions' (IOSCO) Objectives and Principles of Securities Regulation] sectors. Action Plans, to address gaps in compliance with international standards identified during the self-assessments, were updated during 2011 and provided to the Ministry of Finance, together with the results of the self-assessments.

Domestic Cooperation

The Bank made progress on a number of initiatives aimed at reducing regulatory overlaps and achieving greater rationalization of resources among the various regulators.

1. ***Comprehensive review of the Protocol for the Joint On-site Examinations (Protocol) by the Central Bank and Securities Commission of The Bahamas and Other Integration Initiatives***

The Bank and the Securities Commission undertook a comprehensive review of the Protocol, towards achieving enhanced coordination of on-site examinations of jointly regulated financial institutions. Under the terms of the revised Protocol, the Bank, as the primary regulator/supervisor for banks and trust companies, will continue to coordinate all areas related to these examinations, and be the primary point of contact for all communication with the firms on related matters. The practical effect of this arrangement will be that the Bank and the Commission will present a "single face" to jointly regulated financial institutions. This will include, *inter alia*, issuing one notice of an examination, a single request for advanced information, setting out any additional documents/information required by both agencies, a unified team of examiners led by the Bank, a single Report of Examination (RoE), and a co-ordinated follow-up process for issues identified in the RoE.

Apart from undertaking work towards joint on-site examinations, the Bank and the Securities Commission made significant progress on a complementary project which sought to map out other administrative processes, with the objective of eliminating any regulatory overlaps. Work also commenced on a guideline to harmonize the application processes of the Central Bank's Exchange Control Department and the Inspector, Financial and Corporate Services, for account opening requirements of financial and corporate service providers.

2. ***Development of a framework for conglomerate supervision within the context of supervisory colleges***

The Bank, the Securities Commission and the Insurance Commission, executed a MoU in February 2011, which established a framework for cooperation between the three (3) regulatory agencies in carrying-out quantitative and qualitative consolidated supervision of a domestic financial conglomerate. The arrangement also acknowledges their respective primary supervisory responsibilities for any entity forming a part of the conglomerate. The College met twice during 2011, to review its supervisory programme for the one identified domestic conglomerate.

3. ***Market risk***

The Bank and the Securities Commission agreed a process for the application of the Bank's market risk framework to jointly regulated firms. A decision was taken on the definition of the trading book, as well as the *de minimis* clause, and both agencies cooperated on the latest industry survey of firms' trading books. It was also decided that the Commission's reporting requirements would be incorporated into the Bank's ERS to eliminate duplicate data submissions by joint licensees. Importantly, with respect to the capital charge for market risk, the Commission agreed to defer to the Bank's determination for jointly regulated firms.

Credit Unions

The Bank has now taken definitive steps towards assuming regulatory and supervisory oversight of credit unions. To assist in the transition exercise, the Government secured technical assistance from the Commonwealth Secretariat, in August 2011, under a two-year institutional strengthening project (the Project) for credit unions. The Project, which is being managed by the Central Bank, commenced in September 2011, with the engagement of a Technical Advisor, and is expected to be completed by September 2013, during the course of which the transition to the Bank will take place. In the initial months of the Project, a thorough transition plan was developed and the consultant commenced a comprehensive assessment of the individual credit unions and the Cooperative League, towards making recommendations on governance structures, operating strategy, credit risk, financial reporting and legislative compliance. The objective is to ensure that credit unions are managed to international standards. As part of the Project, training opportunities will be delivered to stakeholders, in areas such as risk management, loan portfolio management and corporate governance, as a means of strengthening management and directors' ability to carry out their functions, and to staff, in undertaking the requisite on-site and off-site surveillance of credit unions within the new framework.

Early in the Project, a review will be undertaken of the legislative arrangements, with the intention of drafting a new governing law for credit unions. Specific emphasis will be placed on the safety and soundness of credit unions, and the incorporation of global standards for oversight of the sector. In framing the new legislation, efforts will also take into consideration those characteristics that set credit unions apart and, in fact, make them unique within the financial sector in The Bahamas. Other features, such as the large size disparities and varying risk profiles among local credit unions, as well as differences in the levels of complexity of their operations, will also be considered. As an important output of this exercise, a series of consultation papers will be issued to the credit union constituency for feedback on the legislative proposals.

For 2012, the Bank and the Department of Cooperatives will host a series of town meetings with stakeholders in various localities in The Bahamas, to make presentations on the Project and to address any questions.

Regional and International Cooperation

On the regional level, representatives of senior banking supervisory management attended the Caribbean Group of Banking Supervisory Meetings and Annual Assembly. The Bank regards supervisory colleges as important vehicles for effective oversight of international banking groups. Senior supervisory staff represented the Bank at two (2) international regulatory colleges hosted by the Office of the Superintendent of Financial Institutions (OSFI), Canada, convened to discuss issues surrounding the operations of Canadian Imperial Bank of Commerce (CIBC), Royal Bank of Canada (RBC) and Bank of Nova Scotia (BNS) Groups. Senior staff also participated in six (6) regional colleges (three in January 2011 and three in June 2011) covering CIBC/FCIB, RBC and BNS, respectively, in the Netherlands Antilles. There were also two (2) teleconferences among regional regulators/RBC Head Office - Canada representatives, to provide briefings on the group's operations and matters of mutual concern.

Senior management of the Department also attended the March 2011 meeting of the Offshore Group of Banking Supervisors (OGBS), held in London, and contributed to discussions on topical issues such as the G-20 offshore initiatives, recent Basel Committee initiatives, and common issues arising out of the FATF working groups. The Association of Supervisors of the Americas held its Plenary in San Francisco, California, USA in November 2011 and two senior supervisors attended on behalf of the Bank.

Regarding information requests, the Bank received and responded to twenty-one (21) requests from seventeen (17) foreign regulatory authorities in 2011. (See Table 3).

Membership in International and Regional Bodies

The Bank has membership in the following international and regional bodies:

- Association of Banks of the Americas (ASBA)
- Offshore Group of Banking Supervisors (OGBS)
- Caribbean Group of Banking Supervisors (CGBS)
- Caribbean Financial Action Task Force (CFATF)

A number of the Department's staff also served on various technical working groups and committees within these organizations. The Department intends to remain an active participant in the initiatives and activities of these bodies in 2012.

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 to any single depositor in each of its thirteen (13) member institutions,

BOX 2: BANK SUPERVISION STRATEGIC FOCUS IN 2012

In fulfilling its supervisory and regulatory tasks, the Bank intends to focus and accelerate the various regulatory initiatives, aimed at increasing resiliency of banks and trust companies, namely:

a. **Completion of the comprehensive roll out of the risk assessment framework across all firms to include:**
   - focusing regulatory resources on finalization of the risk indices to be utilized in the risk assessment process of low impact firms;
   - developing and implementing a consistent and effective monitoring process to track licensees' remediation/mitigation programmes to address material risk issues that have been identified in the risk assessment process; and
   - rolling out of the revised and enhanced risk focused on-site examination templates, which clarify the core expectancies for licensees' control and oversight functions.

b. **Finalization and implementation of a comprehensive operational framework for the management of the risk-based framework, to include:**
   - establishment of a central risk team to act as a secretariat for the risk assessment validation panels;
   - streamlining the on-site examination process for jointly regulated financial licensees through enhanced co-ordination and integration of Securities Commission staff into the risk assessment process;
   - full implementation of the appropriate management information system (MIS); and
   - alignment of staff training programmes to complement existing initiatives.

c. **Concluding the implementation of proposed changes to strengthen the legal framework for banking supervision so as to secure greater flexibility and range of regulatory interventions, to include:**
   - the proposed amendment to allow for explicit legal provisions to review and monitor, on an ongoing basis, licensee shareholders' compliance with fit and proper requirements; and
   - the proposed amendments to support a comprehensive range of fines.

d. **Ongoing refinement of the stress testing model for commercial banks.**

e. **Refining of the reporting framework for banks, to ensure coverage of the full range of financial risks.**

f. **Work on the development of a national bank crisis management plan, key deliverables to include:**
   - devising plausible test scenarios for domestic banks, to identify gaps in supervisory and crisis governance processes, as well as gaps in the legal framework for speedy resolution;
   - benchmarking results of the current legal framework in The Bahamas for problem bank resolution against evolving best practices (e.g. UK/Canada/US) and recommending options for consideration of all stakeholders;
   - consultation and agreement with all relevant authorities on the plan;
   - development of core expectations for The Bahamas' participation in a regional plan;

g. **Ongoing refinement of the 2011 framework for regulatory colleges of conglomerates in The Bahamas; and**

h. **Implementation of Basel II Pillar III – Market Disclosures and Basel II Pillar I – Credit Risk.**

which do not hold any equity position in the Corporation. The DIC assesses the depository institutions at an annual premium equal to one-twentieth of one percentage (0.05%) of deposits, averaged over March 31 and September 30 of the preceding year.

Based on average total insurable Bahamian dollar deposits in banks, of $5.4 billion during 2010 relative to $5.2 billion in 2009, premiums levied and collected in 2011 amounted to $2.7 million compared to $2.6 million in 2010. The accumulated assets of the Fund increased by $3.7 million to $23.7 million at end-2011, of which $20.9 million was held in Government bonds–an increase of $5.8 million over 2010.

The DIC is a founding member of the International Association of Deposit Insurers (IADI).

INFORMATION TECHNOLOGY

During 2011, the Bank continued to ensure the availability of tools and services in line with user requirements and maintain operational support services for the IT infrastructure. Various systems and processes benefitted from upgrades and new deployments, and key developments included work on the following initiatives:

TABLE 3: Requests for Cooperation from Foreign Regulatory Authorities in 2011

Country	Number of Requests	Completed	Outstanding*
Barbados	2	2	
Belize	3	3	
British Virgin Islands	1	1	
Cayman Islands	2	1	1
France	1	1	
Gibraltar	1	1	
Jamaica	1	1	
Mexico	1	1	
Peru	1	1	
Philippines	1	1	
Republic of Azerbaijan	1	1	
Singapore	1	1	
St. Kitts	1	1	
Switzerland	1		1
Trinidad & Tobago	1	1	
Turks & Caicos Islands	1	1	
Uruguay	1	1	
Total Requests	**21**	**19**	**2**

Source: The Central Bank of The Bahamas

*In these cases, data has been provided but additional follow-up is required and requests were still being processed at year end.

Business Continuity – Efforts to improve operational resiliency, in support of the Bank's ongoing business continuity programme, focussed on the identification of upgrade requirements and sourcing of server and storage equipment for the primary and secondary data centres. The BCP is expected to be completed by the first half of 2012.

Online Reporting – The Bank recognizes the benefits to be secured from the implementation of a comprehensive online regulatory reporting and information management solution, and commissioned an internal team to research possible solutions. The revised project scope will be used to acquire and deploy a robust solution for implementation in 2012, using a secure online portal. As an interim measure, the Bank completed enhancements to its existing reporting solution for domestic and international banks, and deployed a rich reporting tool for data and information analysis.

Digital Signature Implementation – Efforts progressed to conclude the deployment of a digital signature solution, aimed at improving operational efficiency, and designed to positively impact the way in which the Bank communicates with its stakeholders. The testing phase was completed in late 2011, for an early 2012 launch.

Document Management – Work continued on the expansion of the Bank's document management solution, in line with business resumption requirements, with the launch of an extensive back-file scanning exercise. The process will also facilitate greater efficiency, through faster access to key documents throughout the institution.

Other Projects – Various initiatives were undertaken to automate operations throughout the Bank, including the treasury back office and currency operations, and to enhance workflow systems. Upgrades were ongoing to the Bank's network and security infrastructure, along with enhancements to existing applications.

STAFF TRAINING AND DEVELOPMENT

The Bank continued to provide training and development opportunities for staff to ensure that they possess the knowledge and skill sets necessary to perform optimally. These opportunities were made available through in-house, local and overseas seminars, workshops and courses, as well as attachments and familiarization visits.

In-house seminars, workshops and courses focused mainly on enhancing management skills and creating an awareness of Bank functions, policies and procedures. Sessions on coaching, conflict resolution, emotional intelligence and personal efficiency were held for members of the management team, and general sessions on the Bank's Code of Conduct and Fraud and Corruption Prevention Policy, and the Role of Internal Audit were hosted by the Legal Unit and Internal Audit, respectively, for the entire staff. Several in-house training sessions were conducted specifically for staff of the Bank Supervision Department, on Capital Adequacy and Basel III, Treasury and Liquidity Management and Risk Based Supervision. Staff of Bank Supervision, along with members of the Accounts Department and Internal Audit Unit, also participated in IFRS baseline training, facilitated by a local accounting firm.

The Bank continues to invest considerable resources in ensuring that its regulatory and supervisory staff obtain relevant exposure and training aligned with current developments, thereby enabling them to progress key work activities being pursued. Overseas training opportunities included seminars/courses on anti-money laundering examination, problem bank supervision, bank analysis and examination, consolidated supervision and risk integration. Two members of the Department also served a short attachment to the Central Bank of Trinidad and Tobago, to assist with the implementation of market risk. As is customary, the Bank was represented at a number of overseas meetings, which included ASBA's Plenary meetings, CEMLA's Meeting on Financial Stability, OSFI's Regulatory College meetings, the Annual Meeting of Central Banks Information Specialists, the Conference of Regional Central Banks Operations Managers, De La Rue's Regional Conference, Canada/CARICOM Trade Meeting and the Annual Meeting of Human Resource Managers of Central Banks in the Caribbean Region.

The Research Department again availed itself of training opportunities offered by the Caribbean Regional Technical Assistance Centre (CARTAC), the Centre for Latin American Monetary Studies (CEMLA) and the International Monetary Fund (IMF), among others. There was participation in sessions on macro prudential policy, direct investment, econometric models for macroeconomic forecasting, debt analysis and fiscal sustainability, external debt statistics and financial programming and policies. With the positioning of a Payments Unit in the Department, training was also undertaken in payment systems policy and oversight. Statistical staff attended two (2) workshops locally, namely, the "Government Finance Statistics Workshop", which was hosted by the IMF for public sector agencies and a "Debt Analysis & Fiscal Sustainability Workshop" hosted by the IADB.

During the year, staff of the Legal Unit, who were actively engaged in work on the development of a Credit Bureau for The Bahamas, gained knowledge and exposure from participation in a course on Credit Reporting held in Kuala Lumpur, Malaysia, and attendance at the Financial Infrastructure Week hosted by the World Bank and the IFC in Brazil.

With a commitment to continuous learning and skills development, staff of the Internal Audit Unit attended several workshops overseas, including a workshop on IT audit and assurance hosted by the Information Systems Audit and Control Association (ISACA), another on financial statement fraud detection and internal audit, hosted by the Institute of Internal Auditors, and a third on auditing the Bank's accounting system within the JDEdwards software solution. The Information Technology Department's staff benefitted from technical training to allow for appropriate support of key systems and the IT environment.

In 2011, the Bank's internal cross-training programme was expanded to include longer-term assignments of staff to other departments for job enrichment and exposure. The Bank also provided leadership training for several members of the Succession Plan Talent Pool and arranged familiarization visits for a combined three (3) security officers to a regional central bank and the Federal Reserve Bank of Atlanta.

STAFF COMPLEMENT AND RELATIONS

The Bank's staff complement decreased slightly in 2011, standing at 233 at year's end (see Table 4). New recruits numbered six (6), voluntary separations nine (9) and retirements, four (4). Of the total employee count, ninety (90) were technical/professional, and eighty-three (83) were support staff, with middle and executive management accounting for forty-eight (48) and twelve (12) persons, respectively.

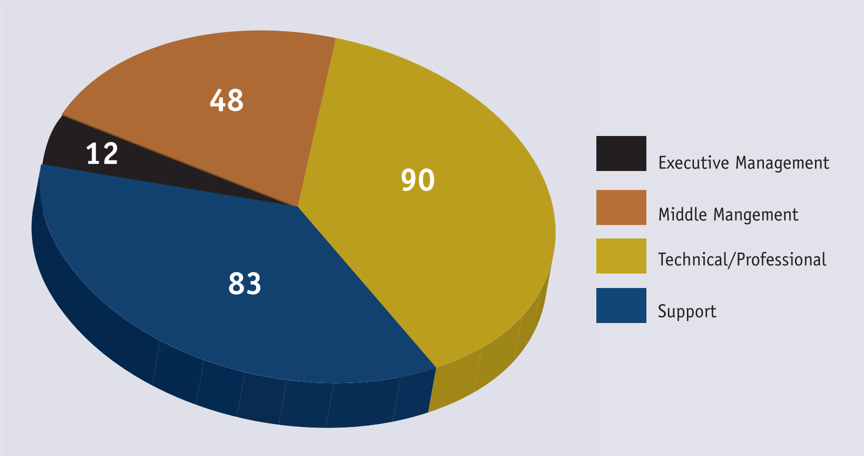
TABLE 4: Total Employees by Department

	2009	2010	2011
Accounts	10	10	10
Administration	29	28	27
Banking	26	25	21
Bank Supervision	54	61	62
Internal Audit	3	4	4
Information Technology	13	13	13
Exchange Control	33	31	31
Governor's Office	8	8	8
Human Resources	9	9	9
Legal Unit	5	5	5
Research	23	24	22
Security	22	22	21
Total	**235**	**240**	**233**

SOURCE: The Central Bank of The Bahamas

Among initiatives undertaken by the Bank in relation to the human resource development objectives in its Strategic Plan, were the introduction of several enhancements to its Performance Management Programme and the commissioning

Total Employees by Category



of a comprehensive compensation survey.

During the Bank's Annual Long Service Awards Presentation Ceremony in January, twenty-six (26) employees were recognized with awards for ten (10), twenty (20), and thirty (30) years of service, respectively.

HEALTH AND SAFETY IN THE WORKPLACE

Workplace safety remained an important focus for the Bank and, in addition to the delivery of CPR and First Aid training, a comprehensive Health and Safety Manual was completed, and the corporate wellness programme reintroduced.

Major structural works completed in 2011 included extensive repairs to the concrete roof and ceiling of the Bank's main building. In addition, there was substantial completion of the overhaul of the electrical infrastructure and the refurbishment of the air-conditioning systems. The Bank continued maintenance and repairs to its historical properties—the Great House, Verandah House and Balcony House, and agreed plans with the Antiquities Monuments & Museums Corporation for interior renovations to the latter.

COMMUNITY RELATIONS AND OUTREACH

As part of its educational outreach and community relations programme, the Bank hosted students from ten (10) Government and Private Independent Schools to site visits, and assisted seven (7) high schools with their Work Experience Programmes. It also once again partnered with the Bahamas Financial Services Board (BFSB) to disseminate information on careers in the financial services, at the Ministry of Education's National Careers Week. As in the past, staff of the Bank rendered community service by assisting with the sale of tickets at the Annual Red Cross Fair.

The Bank celebrated the 28th anniversary of its Annual Art Competitions and Exhibitions—Senior and High School categories. The marquee event continues to attract a strong showing of artists. Additionally, the Bank's gallery was the venue for seven (7) exhibitions by local artists, including the final of a three-year master artists series by the gallery's past curator, Mr. Antonius Roberts.

FINANCIAL HIGHLIGHTS

The Bank's financial performance is primarily impacted by the size and performance of the foreign reserves, changes in both foreign and domestic interest rates and the performance of the real sector. The Central Bank's financial statements for the year ended 31st December 2011, along with comparable figures for 2010, are presented on pages 43 to 82 of this report.

During 2011, the total assets of the Bank firmed by $50.8 million (4.3%) to $1,235.5 million. External assets, which accounted for a slightly smaller 71.6% of total assets, rose by $24.5 million (2.8%)—benefitting from a number of one-off inflows which outpaced the increase in demand for outward payments. In a bid to improve yields, the Bank increased its holdings of marketable securities by $85.2 million (17.1%) to $584.9 million—which represented some two-thirds of the aggregate. Correspondingly, cash and deposit balances were lower by $60.0 million (34.3%) at $115.2 million, and allocations from the IMF, inclusive of Special Drawing Rights (SDRs) and the reserve tranche, fell marginally by $0.7 million (0.4%) to $184.9 million.

Buoyed mainly by increased holdings of Government debt, the Bank's domestic assets firmed by $25.3 million (8.1%) to $337.5 million. Claims on the Government rose by $25.8 million (9.3%) to $303.5 million, largely reflecting a build-up in the Treasury bill portfolio from negligible levels in 2010. Holdings of public corporations' debt fell marginally by $0.4 million to $10.7 million, while other assets were stable at $23.3 million.

The Bank's demand liabilities grew by $45.7 million (5.3%) to $907.9 million. Reflecting the buoyant liquidity conditions, unremunerated deposits of commercial banks—the largest component at 61.4%—increased by $39.5 million (7.6%) to $557.4 million. Gains were also recorded for notes and coins in circulation, of $15.8 million and $0.3 million, to $305.5 million and $18.4 million, respectively. However, deposit liabilities to the public sector fell by $11.2 million (37.3%) to $18.7 million.

The majority (90.8%) of the Bank's income is derived from its returns on investments. In 2011, total income was higher by $3.1 million (12.8%) at $27.8 million, as interest receipts from foreign investments—mainly US Government securities—grew by $3.6 million (27.8%), supported by an increase in the Bank's holdings. Similarly, interest revenues from domestic investments and loans rose by $1.1 million to $10.0 million; however, the smaller other income component, fell by 36.2% to $2.1 million.

Total outlays were relatively flat over the year, at $22.1 million, as the marginal $0.4 million gain in staff costs—the largest segment—was virtually negated by declines in administration and depreciation expenses, of $0.07 million and $0.25 million, respectively.

As a result of these developments, the Bank's total comprehensive income rose more than twofold, to $5.7 million from $2.5 million in 2010.

ECONOMIC AND FINANCIAL ENVIRONMENT

INTERNATIONAL ECONOMIC DEVELOPMENTS

World economic growth slowed considerably in 2011, following two years of an anaemic and uneven recovery from the recent financial crisis. Concerns about the sovereign debt crisis in the euro area limited growth outcomes in Europe, and weakness in external demand exerted a drag on the US and Asian economies' growth momentum. Against this backdrop, high unemployment persisted in most major economies, and inflation firmed—buoyed by higher fuel-related costs. Most major central banks maintained their accommodative monetary policy measures to support the nascent recovery; however, fears over the potential spread of the unfolding economic crisis in Europe to other regions led to significant losses in major stock market indices and contributed to the United States dollar appreciating against most major currencies during the year.

Forecasts from the International Monetary Fund (IMF) indicate that real GDP growth in advanced economies slowed to 3.8% in 2011 from 5.2% in 2010, due to the adverse affects of the European debt crisis on global economic activity. Despite an acceleration in real GDP in the fourth quarter, associated with increased holiday spending, output growth in the United States moderated by 1.3 percentage points to 3.0% in 2011. This outturn reflected a contraction in Government expenditure and inventory investment, combined with a deceleration in export growth which outweighed the modest increase in consumer spending. In the United Kingdom, real output gains slackened to 0.9% in 2011 from 2.1% a year earlier, due to broad-based weakness in the construction, production and service industries. The rate of economic expansion in the euro zone kept pace at 1.5% relative to 1.7% in 2010, featuring recessions in several southern member states, which contrasted with improving conditions in Germany—the region's largest economy. Reflecting a progressive slowdown in the quarterly rates of growth, economic output in China moderated by 1.2 percentage points to 9.2%, as tighter Government measures on lending and investment cooled down activity in the real-estate market, and exports were lowered due to reduced demand from Europe. Japan's export-driven economy contracted by an estimated 0.9% in 2011, following a 3.9% expansion in 2010, owing to the adverse effects of the March earthquake and tsunami, which led to plant closures and disruptions in distribution networks.

In 2011, unemployment remained a key policy concern in most major industrial countries, with the average jobless rate at 8.6%, well in excess of the pre-crisis 5.8% in 2007. Supported by gains in the transportation and retail sectors, the unemployment rate in the United States declined by 0.5 of a percentage point to 8.5%. There was virtually no improvement in unemployment conditions in the United Kingdom and the euro area, where the jobless rate averaged 8.0% and 10.0%, respectively. The unemployment rate in China also steadied at 4.1%, but narrowed for Japan, by 52 basis points to 4.6%.

Consumer inflation firmed in the major economies during 2011, primarily reflecting supply side shocks which elevated fuel and commodity costs. In the United States, the rate of increase in average consumer prices doubled to 3.0%. Firming in household services and transport costs also influenced the modest rise in the rate of inflation for the United Kingdom, by 0.3 of a percentage point to 4.0%; and the 0.5 of a percentage point rise in average prices for the euro area to 2.7%, was partly due to gains in transport, housing and alcohol & tobacco costs. Despite efforts by authorities to ease price pressures, rising food costs pushed inflation in China upwards to 5.4% from 3.3% in 2010. In contrast, anaemic consumer demand caused average consumer prices in Japan to fall further, by 0.3% relative to 0.7% a year earlier.

Commodity prices remained elevated during the year, influenced by a strengthening in demand from emerging economies and ongoing political unrest in the Middle East which caused production disruptions. Oil prices averaged $111 per barrel in the first half of 2011, some 40.5% above the 2010 position. However, prices subsided sharply in the third quarter, amid weakening global demand and more favourable US dollar exchange rate developments. For 2011, the average price of crude oil advanced by 39.1% to $111.75 per barrel and, compared to December 2010, prices firmed by 15.1% to $107.62 at end-2011.

Amid concerns over the European debt crisis, investors increased their holdings of relatively "safe" assets. The average price of gold surged by 27.1%, following a robust 25.7% gain in 2010 to $1,563.70 per troy ounce at end-December—after attaining an all time high of $1,921.15

per troy ounce in September. Silver outperformed gold, with the average price significantly higher by 39.1% to a year-end value of $27.84 per troy ounce, after a 40.1% advance in 2011.

Central Bank monetary policies varied over the year, reflecting the sharp differences between the economic performances of the North American, European and Asia economies. In the United States, the Federal Reserve held its main interest rate in the range of 0.00%-0.25%, in a sustained effort to further promote economic growth. The Bank also announced, in September, the implementation of a programme aimed at reducing long-term rates, by purchasing approximately $400 billion in US Treasury securities, with maturities in excess of six years, over a period of nine months, and selling an equivalent amount of short-term Treasuries to finance the purchases. Similarly, the Bank of England left its official bank rate at 0.5% and kept the size of its asset purchase programme at £275 billion. In contrast, the European Central Bank (ECB) raised its key interest rates twice in the first seven months of 2011, by 0.25 percentage points each, due to inflation concerns. However, as the unfolding debt crisis threatened to engulf other larger states and drive up borrowing costs to unsustainable levels, the Bank lowered each of its policy rates, by 25 basis points in November and December. It also conducted a €498 billion three-year refinancing operation with regional commercial banks to provide liquidity to distressed banks. In Asia, the People's Bank of China implemented monetary policy measures to tackle the countervailing forces of inflationary pressures and relatively sluggish economic growth. During the period January to September, the Bank raised its reserve requirement for deposit taking institutions, on three separate occasions, by a total 1.50 percentage points. However, the slowdown in the economy during the fourth quarter prompted the Bank to partially reverse its initial policy decisions, with a 50 basis point reduction in interest rates in November. By contrast, monetary policy in Japan was focused on supporting the economic recovery following the devastating effects of the earthquake and tsunami in March. The Bank expanded the size of its asset purchase programme, by a total of ¥15 trillion to ¥50 trillion, and kept its key interest rate at between 0.0% and 0.1%. It also provided support to the main export sector, by intervening in the foreign exchange markets to slow the Yen's appreciation, and instituted a US$6.0 billion asset-backed lending scheme to the financial sector.

In 2011, currency market developments reflected heightened investor uncertainty in the face of the European debt crisis. As a consequence, the United States dollar appreciated against the euro, by 3.3% to €0.77, and by 0.4% versus the British Pound to £0.64. Similarly, the dollar advanced relative to the Canadian dollar, by 2.3% to CAD$1.02 and by 0.3% against the Swiss Franc to CHF0.94. In contrast, the Dollar depreciated versus the Japanese Yen, by 5.3% to ¥76.90, and by 4.4% relative to the Chinese Yuan to CNY6.30.

After starting the year on an optimistic note, global stock markets exhibited substantial volatility during most of 2011, influenced by several macroeconomic shocks. Asian equity markets were particularly hard hit, with Japan's Nikkei and China's SE Composite plunging by 17.3% and 21.7%, respectively. Reflecting concerns over the economic crisis in the euro zone, France's CAC 40 and Germany's Dax fell by 17.0% and 14.7%, respectively, and the United Kingdom's FTSE 100 contracted by 5.5%. Buoyed by generally better than expected gains in companies' earnings and improving macroeconomic conditions, the United States' Dow Jones Industrial Average (DIJA) rose by 5.5%, while the S&P 500 finished the year down less than a point from its end-2010 level.

The improving economic conditions and volatility in oil prices had mixed effects on the trade sectors of most major economies during 2011. In the United States, the trade deficit deteriorated to $558.0 billion from $500.0 billion in 2010, as the $91.2 billion expansion in the goods deficit outstripped the increase in the services surplus. The trade deficit narrowed by £8.2 billion to £28.0 billion in the United Kingdom, attributed to a 10.7% upturn in exports, which offset an 8.0% improvement in imports. China's burgeoning trade surplus waned by 14.5% to US$155.0 billion, as the debt crisis in Europe negatively impacted exports and heightened consumer demand led to a 24.9% gain in imports. After 20 consecutive years of surpluses, Japan recorded its first goods & services deficit of ¥2.5 trillion in 2011. This was partly explained by a spike in imports for energy related goods, in the aftermath of the meltdown of a major nuclear power plant, while exports were adversely affected by the temporary closure of large portions of some companies' manufacturing operations.

DOMESTIC ECONOMIC DEVELOPMENTS

Overview

Preliminary indications are that domestic economic activity maintained a positive momentum during 2011. Growth in tourism output—which accounts for some 40% of the economy—benefitted from a resurgence in the key group segment of the market, which yielded a modest improvement in hotel room revenues. Activity in the construction sector was buoyed by the restart of a major foreign investment led project in the tourism sector, and public infrastructure development programmes. While these supported some increase in job opportunities, high unemployment persisted, owing to the limited nature of the economic recovery. The domestic price environment came under upward pressure, amid the pass-through effects of rising international oil prices.

Despite benefitting from a number of one-off receipts, which boosted overall revenues, the fiscal performance deteriorated during FY2010/11, given the significant growth in spending. As a consequence, the overall deficit widened to an estimated 4.7% of GDP, from 4.4% a year earlier. However, the trend was reversed over the first half of FY2011/12, with extraordinary receipts bolstering revenue collections and securing an improvement in the overall deficit, despite higher spending levels. Budgetary financing was largely provided by the privatization proceeds from Government's sale of 51% of its shares in the BTC, with domestic bonds comprising the bulk of the remaining portion. Given these developments, the National Debt—inclusive of Government Guaranteed liabilities—decreased to approximately 54.0% of GDP at end-December 2011, from 55.6% a year earlier (see Table 5).

Monetary sector activity featured modest expansions in both liquidity and external reserves, associated largely with a number of Government-related extraordinary foreign currency inflows. However, external reserves achieved new records in the first half of 2011, before leveling off in the latter half amid seasonal, although still muted, increases in demand. At end-December, external reserves represented an estimated 19.7 weeks of non-oil merchandise imports, a slight contraction from the 21.6 weeks recorded in 2010. The credit situation showed borrowers having to contend with significant strains in meeting their debt obligations. Banks' credit quality indicators deteriorated modestly over the year; however, their capital and provisioning ratios remained at healthy levels. Reflecting a significant reduction in the value of provisions for bad debt expenses, combined with higher interest and commission earnings, banks' net income grew over the twelve-months to September, a turnaround from a decline in the corresponding 2010 period. Lending conditions, particularly in the second half of the year, were mainly influenced by the Central Bank's Discount rate reduction, by 75 basis points to 4.50% in June, which contributed to a general decrease in borrowing costs.

In the external sector, the estimated current account deficit widened over the year, owing to a fuel and construction-led expansion in the goods deficit. The services account surplus stabilized, as increases in construction-related payments negated gains in tourism earnings. On the capital and financial account a lower incidence of public sector borrowings, offset an increase in net foreign investment inflows, to result in a narrowing of the surplus balance.

TABLE 5: Selected Economic Indicators (% Change)

	2008	2009	2010	2011
Real GDP	(1.3)	(5.4)	1.0	2.0[1]
Unemployment Rate (actual mid-year)	8.7	14.2	n/a	15.9[2]
Occupied Hotel Room Nights	(3.3)	(13.3)	3.0	n/a
Hotel Occupancy (%)	54.1	49.5	51.5	54.0
Total Arrivals	(4.5)	5.7	13.0	6.4
Mortgage Disbursements	11.2	(26.9)	(23.2)	(9.3)
Electricity Generation (mwh)	2.1	(5.7)	n/a	n/a
Consumer Price Index[3]	4.7	1.9	1.3	3.2
Debt/GDP Ratio	39.0%	50.1%	55.6%	53.8%

SOURCE: The Central Bank of The Bahamas

[1] IMF forecast [2] November, 2011 [3] Based on Department of Statistics' New Index for The Bahamas (2010 = 100)

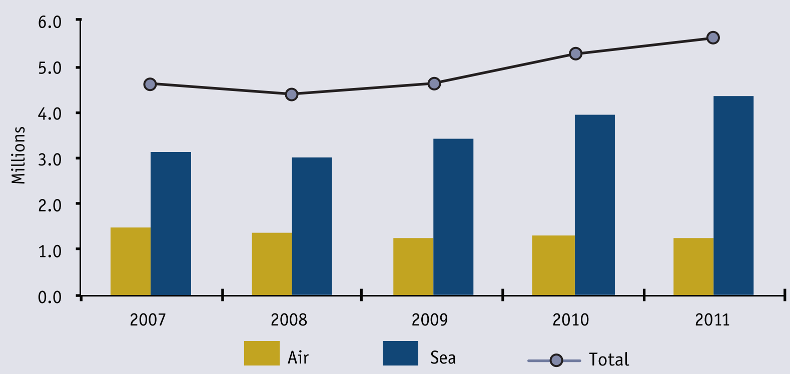
Real Sector

Tourism

Preliminary data suggests that output in the tourism sector was mildly positive in 2011, continuing the recovery trend started over the past two years, but still below the pre-recession performance. Key source markets supported growth in both cruise and stopover visitor expenditure, although weather-related events contributed to the dip in air arrivals over the year.

Total visitor arrivals grew by 6.3% to 5.6 million, nearly halved from the 13.0% boost posted in 2010. This outcome was largely attributed to a 9.1% contraction in sea visitors to 4.3 million, in contrast to the year-earlier 16.7% surge, which was linked to the introduction of some of the world's largest cruise ships to the market. Air traffic declined by 2.1% to 1.3 million, a reversal from 2010's 3.4% expansion, as weather related disruptions in major markets during the first quarter, together with the passage of Hurricane Irene in August,

Tourist Arrivals



negated positive developments in group business and airlift from the South American market.

Visitor gains for 2011 were broad-based across the major ports-of-entry. In New Providence, arrivals grew by 2.8% to 3.0 million, based on a 5.0% rise in sea passengers which offset the 1.6% falloff in air travellers. Despite a double-digit drop of 12.2% in air visitors, Grand Bahama registered a 4.8% hike in total arrivals to 0.8 million, underpinned by a 7.7% boost in the dominant sea traffic segment. The Family Island market—which was most affected by the hurricane—improved by 13.7% to 1.8 million, benefitting from gains in both sea and air visitors, of 15.5% and 1.2%, respectively.

Data on hotel performance indicators reported an increase of 2.8% to $423.3 million in room revenues for 2011, explained by improvements in both the average occupancy rate and average daily room rate, of 2.5 percentage points and 2.7%, to 54.0% and $204.5, respectively. However, compared with 2008, room revenues were lower by 18.0%, due to a significantly reduced average daily rates, while occupancy levels stabilized.

A survey of hotels in New Providence and Paradise Island showed notable variability in earnings during the year, with hotels recording their weakest revenue performance in the first three months, when average room rates were generally below the 2010 levels, although the situation was reversed in the ensuing quarters.

Construction

Construction sector output improved in 2011, benefitting from strengthened foreign and public sector investments rather than private housing developments. The restart of the large-scale Baha Mar hotel project in January, with estimated outlays of $350 million in 2011, combined with some $120 million in public sector infrastructure investments, continued to be the main drivers of output growth.

Domestic private sector activity remained anaemic, reflecting the sustained financial challenges faced by both consumers and businesses. As a proxy indicator of domestic construction output, mortgage loan disbursements for new construction and repairs—as reported by banks, insurance companies and the Bahamas Mortgage Corporation—declined by 17.6% to $140.5 million, although moderating from 2010's 37.4% contraction. Residential financing, which comprised 94.5% of the total, fell by 11.5% to $132.7 million and the commercial component was lower by 62.1% at $7.7 million. Mortgage commitments, a forward looking indicator, were reduced in number and value, by 17.1% and 14.6%, to 899 and $111.4 million, respectively.

Interest rate conditions for mortgages improved slightly during the year, reflecting, in part, the pass-through effects of the reduction in the Prime Rate, by 75 basis points to 4.75%, in June. As such, average rates for residential and commercial mortgages softened by 20 basis points and 50 basis points, to 8.2% and 8.4%, respectively.

Employment

Employment conditions remained challenging throughout 2011, as the mild recovery momentum was insufficient to secure an improvement in the jobless rate. The Department of Statistics labour force survey, which was conducted for the first time in two separate periods of the year—May and November—showed a worsening in the unemployment indicators, particularly in the formal sectors of the economy.

Data from May's survey revealed a modest reduction in the employment rate, to 13.7% from 14.2% in the same period of 2009, due mainly to a 4,410 (32%) increase in the number of persons employed in the informal sector, while gains of 10.3% were registered for the self-employed category. However, this improvement masked the sharp 3,072 (34.8%) increase in the number of persons who withdrew from the labour force for a variety of reasons. By November, the environment had deteriorated, resulting in a 2.2 percentage point hike in the unemployment rate to 15.9%. The number of informal sector workers fell by 19%, and the percentage of self-employed persons to total employment declined by two percentage points to 12.0%. Seasonal factors also impacted employment trends, as high school and college graduates were more prevalent in the November survey than in May's results, reflecting the traditional summer graduation period.

In terms of the major economic centres, the unemployment rate in New Providence, which accounts for an estimated 70% of the labour force, fell by 0.8 of a percentage point between 2009 and May 2011, to 13.2%—although firming to 15.1% over the following six months. In Grand Bahama, where approximately 14.1% of the labour market resides, the jobless rate decreased to 15.4% in May from 17.4% two years earlier, before advancing sharply by 5.8 percentage points to 21.2% by end-November.

Prices

Reflecting the pass-through effects of heightened fuel costs, consumer price inflation—as measured by changes in the Retail Price Index for The Bahamas—firmed to 3.2% in 2011, more than double the 1.3% increase for 2010. The most significant price gain was posted for transportation, which advanced by 9.4%—four times higher than the prior year's 2.4% upturn. Notable average price accelerations were also recorded for furnishing, household equipment & maintenance, by 4.03 percentage points to 4.29%; restaurant & hotels, by 2.04 percentage points to 3.14%; and for food & non-alcoholic beverages and communications, which firmed by 1.89% and 1.30%, respectively, to reverse the year-earlier declines of 1.15% and 0.42%. Other indices posting higher average cost increases were education, recreation & culture, and housing & other utility related items—the largest component in the index, of 1.71, 1.53 and 0.31 percentage points, to 3.14%, 1.62% and 3.14%, respectively. In contrast, average price hikes moderated for miscellaneous goods & services, by 1.39 percentage points to 0.45%, and by 0.64 percentage points to 1.31% for alcohol, tobacco & narcotics; and fell marginally by 0.24% for clothing & footwear prices, to reverse 2010's 0.68% gain.

Domestic fuel prices were significantly affected by events in the international crude oil market over the year, elevating the average monthly prices at the pump for both gasoline and diesel, by 18.9% and 32.3%, to $5.17 and $4.90 per gallon, respectively. Developments also translated into higher electricity prices, as the average fuel charge surged by 35.6% to 23.1¢ per kilowatt-hour (kWh).

Fiscal Operations

FY2010/11 Performance

Recent updates to the central Government's fiscal outturn for the final quarter of FY2011/10 resulted in a less favourable annual outcome, as significant broad-based increases in expenditures outpaced the gains in revenues. The overall deficit widened by 9.2% ($31.2 million) to $370.7 million (see Table 6), and was a significant 53.6% ($129.4 million) over the budget estimates.

Revenue

Tax revenue, which constituted 90.5% of total receipts, increased by 16.9% ($187.9 million) to $1,296.9 million during FY2010/11, although settling 4.4% below the budget forecast of $1,356.9 million. Receipts from non-trade taxes surged by 24.9% ($98.3 million) to $492.6 million, derived mainly from a $95.8 million (59.0%) hike in "other" stamp tax income, which was linked to the sale of a local oil company. Reflecting the $4.0 increase in the levy, departure taxes rose by $32.7 million (46.4%); a more streamlined tax regime for automobiles contributed to the $6.8 million (33.1%) upturn in motor vehicle tax receipts, while property taxes rose by a marginal $0.4 million. Selected taxes on services grew by $23.4 million (65.9%) to $58.8 million, boosted by arrears payments by a tourism sector entity, which specifically supported a $7.6 million (73.4%) hike in gaming tax receipts. The increase in hotel room tax rates, by 4 percentage points to 10% on July 1st, contributed to the $15.8 million (62.8%) expansion in this category. Business and professional license fees rose by $15.3 million (14.9%), supported by growth in general business fees, of 19.8% and a 28.5% upturn in collections from banks & trust licence fees—after fees were raised by 50%. Consistent with the ongoing economic recovery, trade taxes grew by $70.7 million (12.5%) to $636.7 million, although short of budgeted estimates by 10.6%. Specifically, excise and import tax receipts were higher by $65.3 million (34.6%) and $5.6 million (1.6%), respectively, to outpace the $1.1 million (8.1%) falloff in export taxes. In contrast, other "miscellaneous" taxes fell by $37.4 million (75.8%).

Non-tax revenue declined by $57.5 million (29.7%) to $136.0 million, but exceeded budget projections by 10.2%. This outcome was solely attributed to a $65.7 million (63.3%) drop in income from other sources, back to trend levels, following the receipt of extraordinary dividends in the prior period, and lease arrears. In contrast, collections of fines, forfeitures and administration fees rose by $6.9 million (7.9%), and receipts from the sale of Government property edged higher by $0.4 million.

Expenditure

Total spending moved higher by an estimated $161.6 million (9.8%) to $1,803.7 million, as significant increases in current and capital outlays substantially offset a modest falloff in net lending. Current expenditure, at 84.5% of total spending, firmed by $128.6 million (9.2%) to $1,524.5

million, and was 3.9% above budget estimates. Consumption outlays, the largest component, at 58.7% of the total, expanded by $50.3 million (6.0%), led by an 18.4% utilities-related expansion in purchases of goods & services. Further, personal emoluments grew by a more muted $1.5 million (0.3%), on account of discrete measures taken to restrict public service compensation.

Transfer payments rose by $78.3 million (14.2%), as the rising stock of debt led to an 18.1% advance in interest payments and subsidies and other transfers were higher by 12.3%, reflecting mainly increases in transfers to households and non-profit institutions. Capital outlays, at 11.4% of total spending, grew by $49.5 million (31.6%) to $206.3 million, but lagged budget estimates by 9.4%. This outturn, reflected a $28.5 million hike in infrastructure spending, to $171.9 million, largely absorbed by ongoing investments in public roads. In addition, asset acquisition expenditures increased by more than three-fold, to $31.6 million, as property purchased from a local oil company elevated real estate investments by $8.2 million, and indirect payments to support equity investments in small and medium sized business amounted to $8.6 million, following a period of inactivity. In contrast, transfers to public corporations and non-financial public entities fell, by $1.1 million and $0.1 million, respectively. Net lending to public entities declined by $16.6 million (18.5%) to $72.9 million, as their borrowings normalized after an increase in the prior period.

Financing

During FY2010/11, the overall deficit was financed almost exclusively from domestic sources. Bahamian dollar borrowings amounted to $293.6 million, of which four-fifths was in the form of long-term bonds and the balance in short-term loans and advances. Some $70.0 million in foreign currency loans was obtained from commercial banks, and a further $57.6 million from external sources—mainly international institutions. Of the $269.3 million in debt repayments, $260.5 million went towards domestic liabilities.

First Six Months of FY2011/2012

Government's fiscal position improved over the first six months of FY2011/12, as the deficit narrowed by 23.6% ($50.6 million) to $163.6 million. Underlying this outcome was a 23.9% ($138.1 million) increase in total revenue to $716.7 million, which was mainly supported by extraordinary inflows, which outpaced a broad-based $87.6 million (11.0%) expansion in total expenditure.

Revenue

Over the review period, tax revenue firmed by $108.2 million (21.1%) to $620.2 million. Receipts from taxes on international trade—which accounted for more than half of the total—grew by $95.8 million (32.6%) to $390.1 million, as the repayment of outstanding taxes by a public corporation at the end of the period, buoyed the over three-fold increase in excise taxes to $207.3 million. The modest recovery in the tourism sector translated into a $2.7 million (14.9%) rise in selected taxes on services to $20.9 million; and collections of business & professional fees advanced by $7.3 million (56.4%) to $20.3 million, due mainly to higher yields from general business fees. Among the smaller components, gains were registered for property (17.7%) and non-trade stamp (17.2%) taxes, with the latter supported by high-end real estate sales. However, other "unclassified" tax collections fell by almost one-half to $17.2 million, reflecting a more timely classification of receipts.

Non-tax revenue strengthened by $12.3 million (18.4%) to $78.8 million, as the receipt of deferred interest payments on bond investments boosted income from other sources, by $12.6 million to $32.8 million; and income from the sale of Government property was marginally higher at $0.6 million. In a modest offset, the intake from public enterprises and fines, forfeits and administrative fees fell, by $0.5 million and $0.2 million, to $0.9 million and $44.4 million, respectively. In contrast to the prior fiscal year, when no capital revenues were recorded, the intake totalled $17.7 million, owing to property sales.

TABLE 6: Fiscal Indicators (B$ Millions)

	FY2008/09	FY2009/10	FY2010/11	FY2011/12	
	Actual	Actual	Actual	Approved Estimates	Preliminary[1] Estimates
Government Revenue	1,324.2	1,302.5	1,433.0	1,520.2	716.7
as % of GDP	16.5	16.8	18.2	18.3	8.6
Government Expenditure	1,685.5	1,642.1	1,803.7	1,879.6	880.3
as % of GDP	21.0	21.2	22.9	22.6	10.6
Surplus/(Deficit)	(361.3)	(339.5)	(370.7)	(359.4)	(163.6)
as % of GDP	(4.5)	(4.4)	(4.7)	(4.3)	(2.0)

SOURCE: Ministry of Finance Compiled according to the IMF's Government Finance Statistics Format. [1] July - December, 2011

Expenditure

Current spending was higher by $25.2 million (3.7%) at $712.2 million. Consumption outlays, grew by $37.0 million (9.1%) to $443.7 million, based on a 22.4% hike in purchases of contractual services—relating to deferred insurance payments, and a 20.5% rise in costs for rent, communication and utilities. Personal emoluments also grew, by 3.0%, as Government removed previously imposed restrictions on the compensation of public servants. Transfer payments contracted by $11.8 million (4.2%) to $268.5 million, mainly attributed to a 5.2% falloff in subsidies & other transfers—as reductions in subsidies to public entities and transfers abroad, outpaced increases in transfers to public entities, non-profit institutions and households. Similarly, interest payments moderated by $2.2 million, (2.3%), behind a $3.1 million decline in the domestic component, which negated the $0.8 million rise in external payments.

Capital outlays increased by $16.7 million (20.0%) to $99.9 million, due primarily to a 17.0% hike in infrastructure expenditures to $77.3 million. Similarly, higher investments for land ($3.3 million), financial ($1.9 million) and other "miscellaneous" ($0.2 million) assets led to a rise in asset acquisitions of $5.5 million (34.5%) to $21.5 million. Net lending to public entities firmed by $45.8 million, more than double the $22.5 million gain in the previous period.

Financing

Budgetary financing for the first half of FY2011/12 totalled $322.7 million, of which $274.6 million was in Bahamian dollars. By instrument, the majority comprised long-term bonds ($160.0 million), followed by loans and advances ($66.6 million) and Treasury bills ($48.0 million). Government also secured $48.1 million by way of external loan financing. Over the period, debt repayments totalled $70.1 million, with $65.0 million absorbed by Bahamian dollar obligations.

National Debt

The Direct Charge on the Government grew by 2.3% ($85.2 million) to $3,805.5 million at end-December 2011, to constitute an estimated 47.1% of GDP—slowing from the previous year's 12.0% rise and 48.3% share of GDP (see Table 7). Bahamian dollar claims represented the bulk of the total (79.0%), and firmed by $83.6 million (2.9%) to $3,006.1 million, while claims in foreign currency rose marginally by $1.6 million (0.2%) to $799.4 million. A disaggregation by holder showed that the majority of Bahamian dollar debt was held by commercial banks (37.2%), followed by the private sector (30.0%) and public corporations (22.8%), with the Central Bank and other local financial institutions accounting for much smaller shares, of 9.7% and 0.3%, respectively.

The Government's contingent liabilities, at $550.8 million, declined by $13.8 million (2.4%) from 2010, of which 60% was associated with activity of a single public entity. Guaranteed obligations, when combined with the Direct Charge, brought the National Debt to $4,356.4 million. This represented a marked slowing of the incremental gain, to $71.4 million (1.7%) from a surge of $375.6 million (9.6%) in 2010. Correspondingly, the National Debt as a percentage of GDP fell by an estimated 1.6 percentage points to 54.0%, a reversal from 2010's 5.5 percentage point gain.

Table 7: Debt Indicators (B$ Millions)

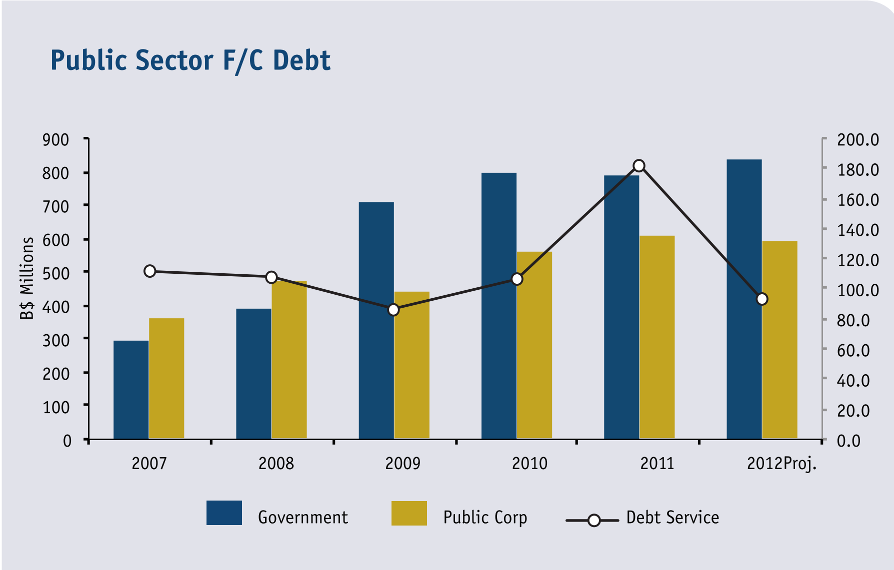
	2008p	2009p	2010p	2011p	Projections 2012[1]
A. EXTERNAL DEBT	443.1	766.7	915.1	1,006.7	1,037.7
as % of GDP	5.4	9.8	11.9	12.5	12.1
B. INTERNAL F/C DEBT	416.8	422.9	492.5	397.5	385.3
C. TOTAL F/C DEBT	859.9	1,139.6	1,357.7	1,404.2	1,422.9
as % of GDP	10.4	14.6	17.6	17.4	16.6
D. DEBT SERVICE RATIO[2]	2.8	2.8	3.3	5.3	2.9
E. DIRECT CHARGE	2,766.6	3,320.4	3,720.4	3,805.5	3,915.3
as % of GDP	33.6	42.5	48.3	47.1	45.8
F. NATIONAL DEBT	3,213.1	3,909.4	4,285.0	4,356.4	4,455.8
as % of GDP	39.0	50.1	55.6	54.0	52.1

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

[1] Based on contractual obligations and planned borrowings [2] Excludes refinancing activities

Foreign Currency Debt

Public sector foreign currency debt was higher by $46.6 million (3.4%) at $1,404.2 million in 2011, as new drawings of $137.1 million, combined with a $16.2 million net upward adjustment in the debt stock (BTC's debt of $33.8 million was converted to private sector foreign currency debt and the Nassau Airport Development



Company's debt of $50.0 million, previously held by the Government, was now part of the debt stock) outstripped amortization payments of $106.7 million. Government's obligations—at 56.9% of the total—rose slightly by 0.2% ($1.6 million) to $799.4 million, while public corporations, with a 43.1% share, recorded growth in their commitments of 8.0% ($45.0 million) to $604.8 million.

In 2011, total public sector debt service was reduced by $55.4 million (23.3%) to $182.3 million, largely owing to refinancing activity which caused the public corporations' component, at 30% of the total, to be considerably lower at $54.6 million from $180.8 million in 2010. Conversely, Government's debt service payments more than doubled, to $127.8 million from $56.9 million a year earlier, due in part to the repayment of outstanding short-term internal foreign currency debt obligations. As a result, the debt service to goods and non-factor payments ratio (inclusive of refinancing inflows) fell by 2.1 percentage points to 5.3%, while the Government's debt service as a proportion of revenue rose by 3.8 percentage points to 8.1%.

By creditor profile, the majority of foreign currency debt was held by private capital markets (42.7%), followed by commercial banks (23.6%), other "miscellaneous" institutions (17.3%) and multilateral institutions (13.3%), with the lowest proportion accounted for by bilateral agencies (3.2%). The average maturity of the debt decreased marginally, to 14.7 years from 14.8 years in 2010.

Monetary Sector

Overview

Monetary developments during 2011 featured a significant slowdown in the growth of both liquidity and external reserves, amid tempered foreign currency receipts from real sector activities and the incidence of lower net inflows derived from a combination of external borrowing and extraordinary inflows. As fragilities in the business and labor markets persisted, credit growth remained subdued, and banks' credit quality indicators continued to deteriorate. Following on the reduction in the Prime Rate, in June by 75 basis points to 4.75%, the weighted average loan rate fell over the year. However, with the larger downward adjustment in deposit rates, because of the liquidity overhang, the interest rate spread widened.

Liquidity

Average monthly liquidity for 2011, as measured by banks' net free cash balances, strengthened by 69.2% to $446.2 million, up from the preceding year's 11.7% gain. In the context of increased net foreign currency conversions from real sector activities and one-off Government transactions, and aided by reduced private sector demand, net free cash reserves peaked above $500 million in the months of July and August. Thereafter, liquidity declined over the remainder of the year, due partly to dividend remittances by commercial banks in September and the seasonal, although milder, pick-up in credit growth.

At end-December, bank liquidity stood at $370.6 million, some 12.1% above the 2010 level, and constituted a higher percentage of Bahamian dollar deposit liabilities at 6.2% vis-à-vis 5.6%. Similarly, the average monthly surplus liquid assets, a broader measure of liquidity, grew by 47.3% to $920.1 million, up from the year-earlier 39.7% advance, while the year-end balance was higher by 10.9% at $896.4 million. As a result, liquid assets were in excess of the statutory minimum requirement by 92.5%, relative to 85.4% in 2010.

Money Supply

Money supply (M3) growth decelerated in 2011, owing to reductions in the longer-term contractual liabilities and foreign currency balances. Narrow money (M1), at 22.7% of the overall stock, advanced at a stronger pace of $100.2 million (7.5%) to $1,434.8 million, up from $51.1 million (4.0%) in 2010. Currency in circulation, which contracted by 6.4% in 2010, rebounded by 1.2%, and growth in demand deposits was higher at 8.6% from 6.0%.

Following a year-earlier gain of $165.4 million (2.9%), broad money expansion (M2) slackened to $138.6 million (2.3%), for an outstanding stock of $6,104.4 million. Fixed deposits, which accounted for some 57.1% of the total, declined by $9.4 million (0.3%)—to reverse the $94.0 million (2.7%) advance in 2010, and were linked to slower gains in private sector balances and drawdowns of public sector deposits. In contrast, accretions to savings deposits more than doubled, to $47.9 million (4.7%), from 2010's $20.3 million (2.0%) gain, benefitting from a build-up in private sector balances.

Resident foreign currency deposits fell by $18.5 million (8.2%), extending the $7.4 million (3.2%) decline of 2010. As a result of these combined developments, overall money (M3) expanded by $120.1 million (1.9%) to $6,310.4 million, a slowdown from the $158.0 million (2.6%) gain a year ago.

Domestic Credit

Given the mildness of the economic recovery, as well as the prevailing debt profile and employment situation of the private sector, domestic credit expansion was a modest 1.0% ($88.7 million) in 2011, a significant slowdown from the Government-led 5.1% ($408.5 million) gain a year earlier. However, over the review period, the increase in banks' net claims on the Government slackened to 1.8% ($25.5 million) from 38.1% ($389.8 million), as the receipt of BTC's privatization proceeds lessened the need for recourse to bank financing. Public corporations also experienced a reduction in their liabilities to the system, which fell by 2.5% ($11.6 million), after a gain of 10.0% ($41.9 million) in 2010. By currency composition, Bahamian dollar credit grew at a lower rate of 1.0% ($88.7 million), compared to a 5.0% ($364.5 million) expansion in 2010; however, the foreign currency segment contracted by 12.4% ($100.7 million), vis-à-vis the previous year's increase of 5.7% ($44.0 million).

Bolstered by modest gains in domestic demand, credit to the private sector recovered by 1.1% ($74.8 million) in 2011 (see Table 8), from a 0.4% ($23.2 million) fall-off in 2010, and suggested a bottoming out of the weakness observed since the peak of the recent economic crisis. Disaggregated by sector, growth was largely driven by the dominant personal loans, at 73.1% of the total, which registered a relatively stable expansion of 1.5% ($73.9 million), following a 1.4% ($70.7 million) gain in 2010. Reflecting ongoing debt consolidation initiatives, miscellaneous loans expanded by 18.1% ($72.0 million), to reverse last year's $14.4 million contraction. A comparatively larger gain was noted for entertainment & catering ($16.5 million), while loans for manufacturing, private financial institutions and fisheries firmed by $6.2 million, $3.0 million and $2.4 million, respectively, reversing declines registered in the previous year. In contrast, smaller loan accretions were recorded for distribution ($9.1 million) and transportation ($2.1 million). Further, net repayments occurred for tourism ($67.1 million), professional & other services ($25.8 million), construction ($14.2 million), agriculture ($1.6 million) and mining & quarrying ($0.7 million) loans.

A further breakdown of the personal loan category showed that gains were

TABLE 8: Flow of Credit in The Financial System (B$ Millions)

	Outstanding as at 2009	Absolute Changes 2010	Absolute Changes 2011	Outstanding as at 2011
Destination				
Government (net)	1,023.9	389.8	25.5	1,439.2
Central Bank	180.9	80.5	27.8	289.2
Domestic Banks	843.0	309.3	(2.3)	1,150.0
Rest of Public Sector	419.9	41.9	(11.6)	450.2
Central Bank	7.0	(0.6)	(0.4)	6.0
Domestic Banks	412.9	42.5	(11.2)	444.2
Private Sector	6,595.9	(23.2)	74.8	6,647.5
Domestic Banks	6,595.9	(23.2)	74.8	6,647.5
Consumer	2,193.4	(52.5)	23.2	2,164.1
Mortgages	2,834.4	14.3	26.9	2,875.6
Other Loans	1,568.1	15.0	24.7	1,607.8
Financing				
Liabilities (Net of Government)	6,032.3	158.7	119.4	6,310.4
Currency	207.8	(13.3)	2.4	196.9
Total Deposit liabilities	5,824.5	172.0	117.0	6,113.5
Demand deposits	1,276.7	64.3	61.1	1,402.1
Savings deposits	1,004.4	13.4	49.3	1,067.1
Fixed Deposits	3,543.4	94.3	6.6	3,644.3
International reserves	815.9	44.5	24.5	884.9
*Other net external liabilities	(681.9)	(23.9)	101.7	(604.1)
Capital and surplus	2,042.6	242.8	76.1	2,361.5
Other (net)	(98.8)	(27.6)	(19.3)	(145.7)

SOURCE: The Central Bank of The Bahamas
* ( ) = increase

broad-based. Both consumer credit and overdrafts rebounded by 1.1% ($23.2 million) and 27.0% ($20.1 million), in contrast to respective reductions of 2.4% ($52.4 million) and 30.0% ($32.0 million) in 2010. However, growth in housing loans abated to 1.4% ($40.3 million) from a year-earlier 4.4% ($120.2 million). Consumer credit trends continued to show firming in debt consolidation loans, of 16.0% ($114.0 million) in 2011, relative to 10.3% ($66.6 million) in 2010, signalling banks' ongoing initiatives to assist borrowers in managing their debts. All other consumer credit categories contracted, with the largest declines registered for "miscellaneous" purposes ($39.4 million), education ($15.1 million), private cars ($13.3 million) and credit cards ($10.9 million). The remaining categories posted declines of under $5.0 million.

Interest Rates

Interest rate developments were dominated by the Central Bank's decision to reduce the Discount Rate, by 75 basis points on 6th June to 4.50%, which led to a similar decrease in the commercial banks' Prime rate to 4.75% on 8th June. Consequently, the weighted average spread on commercial banks' loan and deposit rates, which averaged 8.0 percentage points during the first six months, widened to 8.60 percentage points over the balance of 2011, as the decrease in deposit rates outpaced the contraction in loan rates. For the year, the spread increased by 73 basis points to 8.34%, due to the 80 basis point decline in the weighted average deposit rate to 2.64%, which eclipsed the 7 basis point reduction in the corresponding loan rate to 10.98%.

On the lending side, the average cost of residential and commercial mortgages fell, by 38 basis points to 7.77% and by 42 basis points to 8.37%, respectively. For overdraft facilities, the average rate softened by 84 basis points to 10.03%, which contrasted with the 14 basis points firming in the consumer loan rate to 13.35%.

The buoyancy in liquidity conditions dampened interest rates across the various deposit maturities. The average rate on savings balances declined by 19 basis points to 1.75%, and trended lower with a widening of spreads for fixed deposit rates, to 2.33% - 3.24% from 3.19% - 4.04% in 2010.

Amid the persistent liquidity overhang, the 90-day Treasury bill rate fell steadily throughout the year, resulting in the average rate receding by 1.03 percentage points to 1.25%.

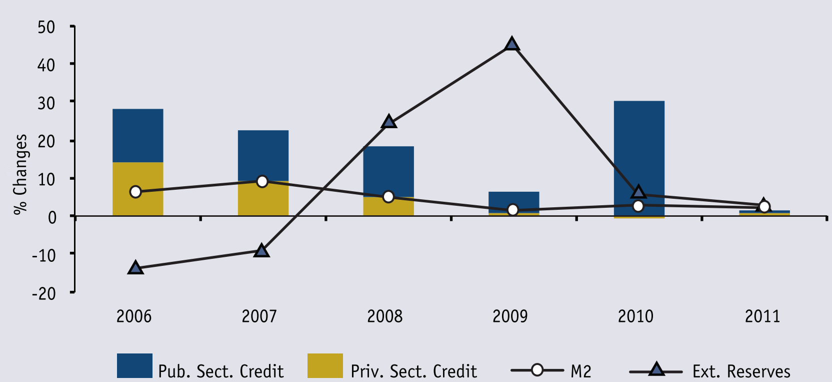
Net Foreign Assets

Despite the slowdown in external reserve growth, the net foreign asset position of the financial system expanded by $126.1 million (81.6%) to $280.7 million in 2011, outpacing the $20.6 million (15.4%) for the preceding year. In a counterbalance, Government's repayment of a domestic foreign currency debt translated into a reduction in the net foreign liability position of the banks, by $101.7 million (14.4%) to $604.1 million by end–December, reversing the prior year's $23.9 million (3.5%) gain.

External reserves increased by $24.5 million (2.8%) to $884.9 million by end-December, 2011, a little more than half of the $44.5 million (5.5%) gain posted in 2010. Boosted by foreign currency proceeds associated with the public sector divestment exercise, alongside other extraordinary inflows, external reserves rose steadily to an historic high of over $1.0 billion in April. The stock remained at this elevated level for five consecutive months, before tapering in the remaining months of the year. As a consequence, the average monthly external reserve balance for 2011, strengthened by approximately $178.3 million to $998.2 million.

An examination of the underlying transactions showed the net foreign currency purchase lower, at $9.2 million from $20.7 million in 2010, as the 18.6% increase in sales outstripped the 17.0% rise in purchases. In particular, the Central Bank's net purchase from commercial banks fell sharply to $90.1 million from $237.3 million, partially owing to remittances relating to a business' initial public offering and a commercial bank's repatriation of excess capital. Reflecting the adverse effects of rising crude oil prices on fuel-related imports, the net sale to public corporations grew by $80.3 million to $413.4 million, which

Monetary Developments



contrasted with an almost three-fold hike in the net purchase from the Government to $332.5 million, on account of one-off receipts.

As a result of these developments, external reserves represented an estimated 19.7 weeks of non-oil merchandise imports at end-December 2011, slightly below the 21.6 weeks for 2010. By law, the Bank is required to maintain external balances at a minimum of 50.0% of its demand liabilities. After fulfilling this statutory requirement, "useable reserves" were only $2.2 million higher at $434.7 million by end-2011.

Performance Of The Banking Sector

During 2011, conditions in the commercial banking system remained stable, as institutions sustained their efforts to address the situation of elevated levels of loan delinquencies and NPLs. In line with prudent credit risk practices, banks further augmented their capital resources by increasing provisions against loan losses, and providing loan restructuring and debt consolidation options to clients.

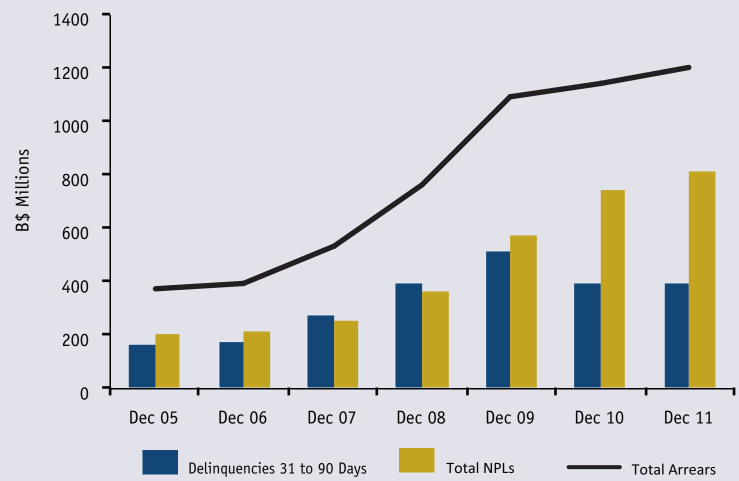
Credit Quality

Despite the modest improvement in domestic economic conditions, commercial banks' total arrears continued to deteriorate, reflecting the ongoing challenges faced by consumers in servicing their debt obligations. Given a return to more seasonal patterns, loan arrears moved lower during the first seven months of the year, varying between $1.1 billion and $1.2 billion, thereafter firming and remaining above $1.2 billion between August and December. At year end, total arrears stood at $1,208.1 million, an increase of $69.1 million (6.1%) which extended the $49.0 million (4.5%) gain of 2010. As a result, the ratio of total arrears to the loan portfolio firmed by 70 basis points to 19.3%, which was comparable to the year-earlier 73 basis point increase to 18.6%.

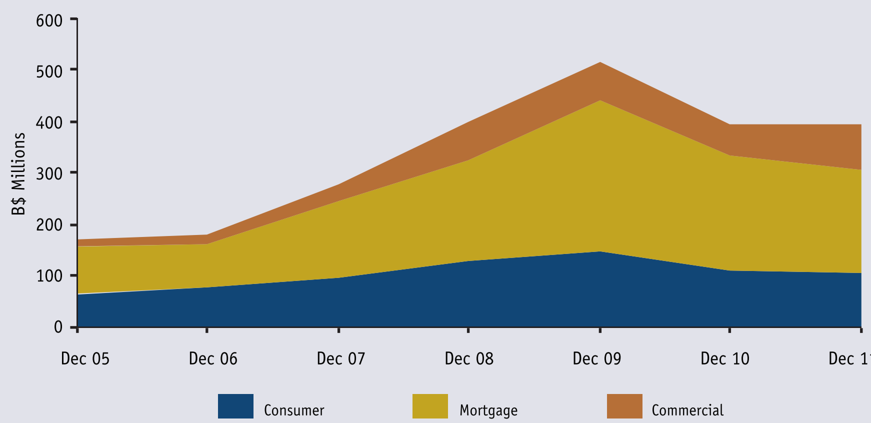
By maturity profile, the growth in total arrears was fuelled by a $70.2 million (9.4%) upturn in NPLs to $816.1 million. NPLs, as a percentage of total private sector loans—a measurement of the net credit risk exposure—rose by 86 basis points to 13.0%. However, loans 31-90 days past due contracted by 0.3% ($1.1 million) to $392.0 million, leading to a 16 basis point decrease in this component to 6.3% of the total.

Disaggregated by type of loan, mortgage arrears, which accounted for the bulk (53.8%) of the total, rose by $36.4 million (5.9%) to $650.0 million, a slowdown from the previous year's $82.2 million (15.5%) expansion. Hence, at end-2011, delinquencies represented 21.2% of overall mortgages, a gain of 61 basis points. Commercial arrears, at 23.7% of the aggregate, advanced at an accelerated $34.2 million (13.5%), compared to $16.9 million (7.2%) in 2010, which pushed the corresponding arrears ratio higher by 2.2 percentage points to 26.6%. In contrast, the smaller consumer arrears category (22.5% of the total), decreased

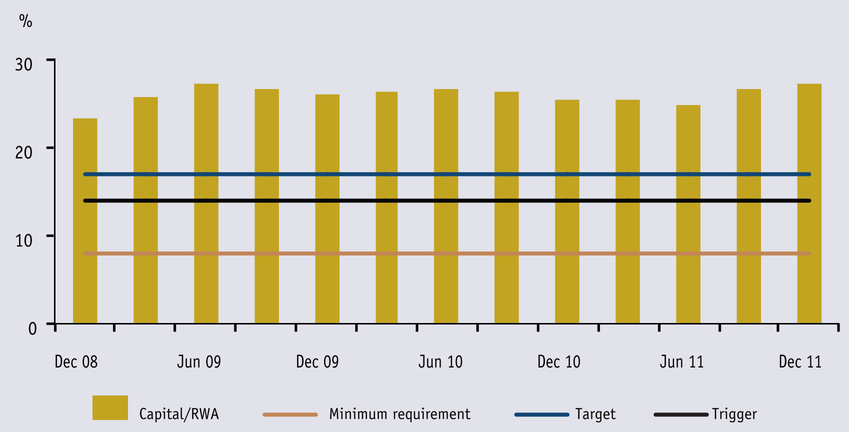
Total Private Sector Arrears in the Banking System



Private Sector Arrears by Category (2005 - 2011)



Banks Capital/Risk Weighted Assets



marginally by $1.5 million (0.6%) to $271.4 million, compared to a $50.1 million (15.5%) contraction a year earlier. This outturn resulted in a slight narrowing in the ratio of arrears to total consumer loans, by 11 basis points to 12.80%.

Capital Adequacy & Provisions

In an effort to mitigate risks arising from their credit exposures, commercial banks continued to increase the level of loan loss provisioning, which expanded by $27.8 million (10.2%) to $300.5 million, to represent 4.7% of total loans. Correspondingly, the key ratios of provisions to arrears and NPLs also moved higher, by 93 basis points and 26 basis points, to 24.9% and 36.8%, respectively, over the year. Further, banks wrote-off approximately $181.2 million and recovered an estimated $34.7 million in delinquencies in 2011.

Banks maintained robust levels of capital during 2011, with the average ratio of capital to risk weighted assets firming to 27.2% from 25.5% at the close of 2010. This indicator remained well above the Bank's 17.0% target and 14.0% trigger ratios.

Bank Profitability

Amid a significant reduction in the value of provisions charged against revenues over the twelve months to September 2011, banks' net income expanded by nearly 10.0% to $229.3 million, a turnaround from a 2.3% provisions-led fall-off in 2010. The improved earnings performance also reflected growth in interest income, which rose by 4.8% ($24.3 million) to $525.3 million, as the reduction in interest rates on deposits led to a 13.1% ($30.4 million) contraction in interest expense and outpaced a 0.8% ($6.1 million) decline in the corresponding revenue component. Commission and foreign exchange income grew by 4.2% ($0.9 million) to $22.9 million, a turnaround from the preceding year's 10.1% ($2.5 million) contraction. In contrast, the net earnings margin narrowed by $3.6 million (1.4%) to $246.8 million, reflecting broad-based gains in operating outlays, by 10.6% to $301.4 million. In a modest offset, losses from non-core activities were slashed by $24.2 million to $17.5 million, owing to declines in both depreciation costs and bad debt provisions, which outpaced the reduction in 'miscellaneous' income. As a consequence of these developments, the net earnings margin rose by 10.0% ($20.6 million) to $229.3 million, vis-à-vis a contraction of 2.3% ($5.0 million) in 2010.

Gains in profitability were also reflected across banks' key performance indicators. The gross earnings margin increased by 8 basis points to 5.81%, underpinned mainly by a 7 basis point advance in the interest margin to 5.56%, while the commission and forex income ratio stabilized at 0.24%. The net earnings margin fell by 14 basis points to 2.61%, as the operating cost ratio moved higher by 20 basis points to 3.19%. However, supported by an improvement in non-core activities, the net income ratio widened, by 14 basis points over the year, to 2.43% of average assets by end-September, 2011.

Capital Market Developments

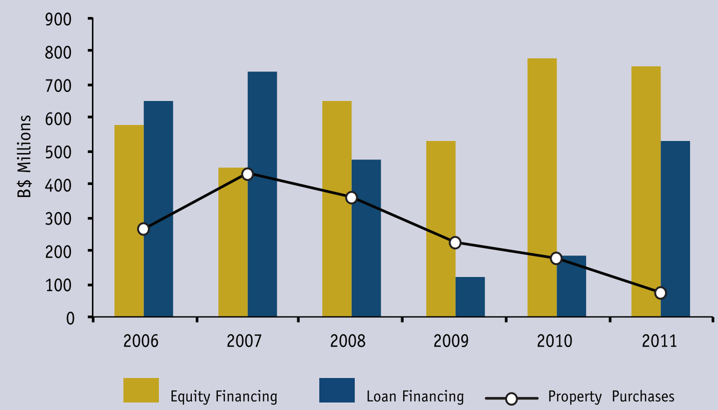
Capital market activities were subdued throughout 2011, as investors maintained a relatively cautious posture. Following two significant transactions, which boosted market activity in 2010, the volume of securities traded on the Bahamas International Securities Exchange (BISX) decreased by 75.8% to 2.6 million shares, with a corresponding 85.6% reduction in value to $12.5 million. Reflecting the general decline in share values, the benchmark BISX All-Share Index decreased by 8.9% to 1,364.99 points, extending 2010's 4.2% decline; while market capitalization fell by 1.0% to $2.875 billion by end-2011.

In other developments, the total number of publicly traded securities on BISX expanded by 2 to 25, due to the listing of Commonwealth Brewery Limited's common shares and Fidelity Bank's Class A Preference shares in March and December, respectively. At end-2011, the securities listed on BISX consisted of 19 common shares, 2 preference shares and 4 debt tranches.

International Trade and Payments

Preliminary external sector data for 2011 showed a significant deterioration in the current account deficit, by

Foreign Investment Inflows



$276.9 million (34.1%) to $1,090.0 million (see Table 9), reflecting the import intensive nature of ongoing construction sector projects and increased payments for fuel imports. These combined to cause a widening of the merchandise trade deficit, while the surplus on the services account stabilized. On the financing side, there were higher net foreign investment inflows, associated with various projects, although the estimated surplus on the capital and financial account surplus narrowed, by $188.2 million (16.5%) to $953.2 million, owing to lower public sector external borrowings.

The estimated merchandise trade deficit widened by $318.0 million (15.0%), based on gains in the dominant imports component, of $374.2 million (14.4%), which surpassed the $132.5 million (18.9%) improvement in export proceeds. As is typical with a surge in construction investments, net non-oil imports firmed by an estimated $209.1 million (14.7%) to $1,629.4 million, and fuel payments increased by $108.9 million (15.7%) to $804.7 million, buoyed by a combination of higher international oil prices and payments related to previous purchases. According to product categories, the largest per barrel cost increases were registered for motor gas (52.4% to $127.36) and gas oil (36.5% to $127.19), with more modest average cost gains for jet fuel and propane gas, of 34.8% and 21.0%, to $122.97 and $74.31, respectively. In contrast, aviation fuel costs softened, on average, by 4.7% to $141.03.

The surplus on the services account steadied at $1,312.4 million for 2011. Travel receipts—which comprise some 86.5% of the total service inflows—firmed on a net basis, by $88.6 million (4.6%) to $2,007.9 million, supported by higher average tourist expenditures. A positive contribution was also secured via reductions in net outflows for transportation and other "miscellaneous" services, by $28.0 million (12.5%) to $195.8 million and $19.7 million (6.4%) to $286.5 million, respectively. Further, Government services registered a net receipt of $13.9 million, following a year-earlier net outflow of $43.1 million. Amid the revival in construction activity, net payments for construction services surged almost ten-fold, to $163.0 million, and net insurance payments and royalty and licence fee outflows grew by $19.0 million and $4.6 million to $184.2 million and $15.2 million, respectively. In addition, net inflows from offshore companies' local expenses weakened by 12.9% to $137.5 million.

The deficit on the income account fell by $12.9 million to $236.3 million, as lower dividend and interest outflows negated gains in employee compensation. In particular, net interest and dividend payments by commercial banks narrowed by $64.8 million to $13.7 million, reflecting a significant decline in profit remittances and a modest increase in receipts. Net interest and dividend payments by non-bank entities rose, however, by $45.7 million to $143.1 million, while employee compensation remittances advanced by $20.5 million to $47.9 million.

Net current transfer payments grew by $33.6 million to $36.2 million, owing to combined increases in both workers' remittances and other transfers, by $59.7 million to $149.6 million, as captured in the "miscellaneous", category. In a modest offset, net Government inflows advanced by $26.1 million to $113.4 million.

The reduction in the capital and financial account surplus was primarily attributed to a decline in public sector borrowings, by $54.9million to $93.5 million. In addition, the Government's loan repayment contributed to a reversal in domestic banks' short-term financing transactions, from a net inflow of $23.6 million to a net outflow of $101.4 million. The net portfolio investment outflow rose by $18.8 million to $44.2 million, almost equally split between residents' debt and equity investments. Direct investments fell to $666.1 million from $872.0 million in the prior year, when some $200 million was related to a bank's capitalization exercise. Net inflows for equity and land purchases decreased by $80.8 million and $125.1 million, respectively.

However, a significant upturn in project loan financing elevated the net "other" private investment inflows, by $295.4 million to $420.1 million. As a consequence, overall net foreign

TABLE 9: Balance of Payments Summary (B$ Millions)

	2009p	2010p	2011p
I. CURRENT ACCOUNT	(808.5)	(813.1)	(1,090.0)
i) Merchandise Trade (net)	(1,824.7)	(1,888.2)	(2,129.9)
Exports	710.7	702.4	834.9
Imports	2,535.3	2,590.6	2,964.8
of which: Oil	668.0	695.8	756.3
ii) Services (net)	1,154.8	1,312.5	1,312.4
Travel	1,773.7	1,919.2	2,007.9
Other	(618.9)	(606.8)	(695.5)
iii) Income (net)	(152.2)	(234.9)	(236.3)
iv) Current Transfers (net)	13.5	(2.6)	(36.2)
II. CAPITAL AND FINANCIAL ACCOUNT	1,114.6	1,141.4	953.2
i) Capital Account (Transfers)	(7.2)	3.6	(5.5)
ii) Financial Account	1,121.8	1,144.9	958.7
of which: Direct Investment	664.0	872.0	666.1
III. NET ERRORS AND OMISSIONS	(53.1)	(283.7)	161.2
IV. CHANGES IN EXTERNAL RESERVES[1]	(253.0)	(44.5)	(24.5)

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

investments—inclusive of equity and loan financing, was some $12.8 million higher at $1,010.9 million.

After adjusting for net errors and omissions, the surplus on the overall balance, which is equivalent to the change in the Central Bank's external reserves, stood lower at $24.5 million from the $44.5 million in 2010.

DOMESTIC ECONOMIC OUTLOOK FOR 2012

The expansion in the domestic economy is expected to be sustained in 2012, fuelled by construction activity related to several significant foreign investment projects and the public sector's infrastructure development programmes. In addition, the ongoing recovery in the tourism sector, which is heavily linked to international developments, is poised to be supported by further gains in the key group segment of the market, while cruise arrivals should continue to benefit from the increased port calls by several high capacity ships. However, conditions in the job market are expected to remain challenging, until the economic expansion filters down to other sectors, such as personal services and wholesale & retail, which account for the largest share of employment. Inflation rates, which rose steadily in 2011, are likely to persist at current levels, although continuing tensions in the crude oil market could place further upward pressure on fuel costs.

In the fiscal sector, the potential for improvement in the overall deficit and the corresponding debt indicators over the near-term, will depend, to a large extent on the pace of economic growth—given the significant reliance on indirect taxes. The outcome will also depend upon Government's efforts to both enhance revenue administration and restrain expenditure growth, amid the likelihood of lower extraordinary receipts.

On the external side, the evolution of the current account will continue to be dominated by transactions relating to foreign direct investment projects, which require the significant importation of goods and labour-related services. As a consequence, further widening in the trade deficit is anticipated in 2012—to be largely financed, however, by foreign investment inflows.

Amid a mild outlook for private sector credit growth, the liquidity overhang will persist throughout 2012, and external reserve conditions are projected to stay relatively healthy over the year, supported more by recovering net inflows from real sector activities and less from one-off transactions. Banks' credit quality indicators, which rose steadily during the recession, are likely to remain elevated until the economic recovery becomes more broad-based and employment conditions improve significantly. Nevertheless, commercial bank's capital levels are expected to remain above both the international and the Bank's own benchmarks, mitigating any potential risks to financial stability.

Given the interconnectedness of the Bahamian economy with the global economy and, in particular, the economic outcome in the United States economy, several downside risks persist for the largely favourable domestic economic outlook. While real output for the US is projected at a stable 1.8% for 2012, despite the euro debt crisis, any adverse change in this outlook could have implications for the sustainability of the Bahamian recovery underway. The other key variable is the continued volatility in oil prices, and the potential for higher domestic energy costs.

THE CENTRAL BANK OF THE BAHAMAS

Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2011
AND INDEPENDENT AUDITORS' REPORT

DELOITTE & TOUCHE
Chartered Accountants and
Management Consultants
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BDO
Chartered Accountants &
Advisors
Gresham House
Charlotte Street South
P.O. Box N-10144
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, 2011, and the related statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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, 2011, 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.

BDO

Chartered Accountants
Nassau, Bahamas
April 16, 2012

Deloitte & Touche

Chartered Accountants
Nassau, Bahamas
April 16, 2012

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2011
(Expressed in Bahamian dollars)

	Notes	2011	2010
ASSETS			
PROPERTY, PLANT AND EQUIPMENT	5	$ 13,080,382	$ 12,081,505
EXTERNAL ASSETS	6		
Cash and deposits		25,054,161	65,131,136
Bank deposits maturing over 3 months		90,112,879	110,078,500
Marketable securities issued or guaranteed			
by foreign governments	7	584,852,339	499,675,042
International Monetary Fund:	8		
Bahamas reserve tranche		9,611,194	9,641,049
Special drawing rights		175,261,663	175,914,618
		884,892,236	860,440,345
DOMESTIC ASSETS			
Bahamas Development Bank bonds	9	4,055,697	4,065,096
Advances to Bahamas Government	10	111,462,558	113,344,229
Bahamas Government registered stock	11	165,825,643	164,374,766
Loans to Bahamas Development Bank	12	5,168,815	5,570,192
Bridge Authority bonds	13	875,839	853,377
Clifton Heritage Authority bonds	14	638,434	638,981
Bahamas Government Treasury bills	15	26,195,352	-
Currency inventory		8,380,035	9,674,466
Retirement benefit asset	30	4,773,796	4,189,362
Receivables and other assets		10,119,957	9,477,735
		337,496,126	312,188,204
TOTAL ASSETS		$ 1,235,468,744	$ 1,184,710,054

(Continued)

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2011
(Expressed in Bahamian dollars)

	Notes	2011	2010
LIABILITIES, EQUITY AND RESERVES			
DEMAND LIABILITIES			
Notes in circulation	16	$ 305,545,092	$ 289,766,556
Coins in circulation		18,406,307	18,084,623
Deposits by commercial banks	17	557,366,772	517,824,735
Deposits by Bahamas Government and Bahamas Government agencies		18,754,446	29,922,481
Deposits by international agencies	18	255,533	255,393
Accounts payable and other liabilities		2,473,978	2,527,609
Provision for Investment Currency Market		3,028,781	1,817,630
Health insurance subsidy benefit for retirees	31	2,027,771	1,933,998
		907,858,680	862,133,025
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	19	191,053,969	191,710,685
EQUITY AND RESERVES			
Authorized and fully paid capital	20	3,000,000	3,000,000
Exchange equalization account	20	(137,034)	(136,428)
Contingency reserve		750,000	750,000
Other reserves		9,799,944	9,799,944
Building fund	20	6,980,403	6,980,403
General reserve	20	116,162,782	110,472,425
		136,556,095	130,866,344
TOTAL LIABILITIES, EQUITY AND RESERVES		$1,235,468,744	$1,184,710,054

(Concluded)

See notes to financial statements.

The financial statements, as approved by the Board of Directors and authorized for issuance on April 16, 2012, are signed on its behalf by:

Wendy Craigg

Governor

Director

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2011
(Expressed in Bahamian dollars)

	Notes	2011	2010
INCOME			
Interest on foreign investments	21	$ 16,457,523	$ 12,873,035
Interest on loans	21	1,282,421	1,758,134
Interest on domestic investments	21	8,765,794	7,212,595
Unrealized exchange (loss) gain	21	(606)	101,917
Interest expense	21	(792,601)	(557,766)
Other income	21	2,080,700	3,260,423
Total income		27,793,231	24,648,338
EXPENSES			
Staff costs	22	14,387,965	14,037,353
General and administrative	22	6,297,656	6,367,079
Depreciation	5	1,417,859	1,664,580
Total expenses		22,103,480	22,069,012
NET AND COMPREHENSIVE INCOME		$ 5,689,751	$ 2,579,326

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CHANGES IN EQUITY AND RESERVES

YEAR ENDED DECEMBER 31, 2011
(Expressed in Bahamian dollars)

	Authorized and Fully Paid Capital	Exchange Equalization Account	Contingency Reserve	Other Reserve	Building Fund	General Reserve	Total
Balance at January 1, 2010	3,000,000	(238,345)	750,000	9,799,944	6,980,403	107,995,016	128,287,018
Transfer of unrealized exchange gain	-	101,917	-	-	-	(101,917)	-
Net income	-	-	-	-	-	2,579,326	2,579,326
Balance at December 31, 2010	3,000,000	(136,428)	750,000	9,799,944	6,980,403	110,472,425	130,866,344
Transfer of unrealized exchange loss	-	(606)	-	-	-	606	-
Net income	-	-	-	-	-	5,689,751	5,689,751
Balance at December 31, 2011	$ 3,000,000	$ (137,034)	$ 750,000	$ 9,799,944	$ 6,980,403	$116,162,782	$136,556,095

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011
(Expressed in Bahamian dollars)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		$ 5,689,751	$ 2,579,326
Adjustments for non-cash items:			
Discount earned on marketable securities	7	(791,919)	(523,462)
Depreciation	5	1,417,859	1,664,580
Loss on disposal of property, plant and equipment		1,907	-
Interest income		(27,435,909)	(25,604,004)
Interest expense		792,601	557,766
Net cash used in operating activities before changes in operating assets and liabilities		(20,325,710)	(21,325,794)
Decrease (Increase) in operating assets:			
Currency inventory		1,294,431	580,180
International Monetary Fund - special drawing rights	8	30,662	(68,383)
Retirement benefit asset	30	(584,434)	(455,068)
Receivables and other assets		(704,672)	(1,424,675)
(Decrease) increase in operating liabilities:			
Notes in circulation	16	15,778,536	(12,230,338)
Coins in circulation		321,684	253,520
Deposits by commercial banks	17	39,542,037	143,151,270
Deposits by Bahamas Government and Bahamas Government agencies		(11,168,035)	(6,644,465)
Deposits by international agencies	18	140	8,116
Provision for Investment Currency Market		1,211,151	561,934
Health insurance subsidy benefit for retirees	31	93,773	84,415
Accounts payable and other liabilities		(53,631)	97,132
Net cash from operating activities		25,435,932	102,587,844

(Continued)

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011
(Expressed in Bahamian dollars)

	Notes	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	7	$ (114,304,297)	$ (202,210,075)
Proceeds from maturities/redemptions of marketable securities	7	30,000,000	60,000,000
Purchase of property, plant and equipment	5	(2,418,643)	(900,038)
Advances made to Bahamas Government	10	(76,600,000)	(48,600,000)
Advances repaid by Bahamas Government	10	78,000,000	33,600,000
Purchase of Bridge Authority bonds	13	(23,800)	(43,300)
Purchases of Bahamas Government registered stock	11	(23,106,900)	(141,086,245)
Proceeds from sales and maturities of Bahamas Government registered stock	11	21,388,900	83,319,800
Repayments of loans by Bahamas Development Bank	12	400,000	600,000
Purchase of Bahamas Government Treasury bills	15	(73,972,494)	(53,912,766)
Proceeds from the sale and maturities of Bahamas Government Treasury bills	15	47,788,077	53,912,766
Maturing Bank deposits maturing over 3 months		19,965,621	(65,038,631)
Interest received		28,105,347	23,714,179
Net cash used in investing activities		(64,778,189)	(256,644,310)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment to the Consolidated Fund		-	(6,118,113)
Interest paid		(855,999)	(519,168)
Net cash used in financing activities		(855,999)	(6,637,281)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(40,198,256)	(160,693,747)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		65,299,531	225,993,278
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 25,101,275	$ 65,299,531
CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:			
Cash and deposits		$ 25,054,161	$ 65,131,136
Cash on hand (included in receivables and other accounts)		47,114	168,395
		$ 25,101,275	$ 65,299,531

(Concluded)

See notes to financial statements.

(Expressed in Bahamian dollars)

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 The following new and revised IFRSs have been applied in the current year.

New and revised IFRSs affecting presentation and disclosure only

Amendments to IAS1 Presentation of Financial Statements (as part of Improvements to IFRSs issues in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The Bank has chosen to present such an analysis by item in the statement of changes in equity.
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised in the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The Bank is only related in terms of common ownership to all Government of The Bahamas corporations and agencies.

2.2 New and revised IFRSs in issue but not yet effective

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9, amended in October 2010, includes new requirements for the classification and measurement of financial liabilities and for derecognition. IFRS 9 requires all recognized assets that fall within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. The most significant effect of IFRS 9 regarding classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit and loss) attributable to changes in the credit risk of that liability. The amendment is effective for annual periods beginning on or after 1st January 2013, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning 1st January 2013 and the application of IFRS 9 will not have a significant impact on the amounts reported in respect of the Bank's financial assets and financial liabilities.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required by the current standards. IFRS 13 is effective for annual periods beginning or after 1 January 2015, with earlier application permitted. The

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

directors anticipate that IFRS 13 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and the new standard will not affect the amounts reported in the financial statements but will result in more extensive disclosures.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor' approach. The amendments are effective for annual periods beginning on or after 1 January 2013, and require retrospective application with certain exceptions. The directors anticipate that IAS 19 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments of IAS 19 may impact on amounts reported in respect of the Bank's benefit plan. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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, 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)

ii. Transactions and balances

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

The net change in the Bank's assets and liabilities arising from movements in currency exchange rates is included in the statement of comprehensive income and, in accordance with Sections 32(2)(a) and 32(2)(b) of the Act, the unrealized portion is transferred from general reserve to an exchange equalization account within equity.

f. Borrowing costs

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

g. Retirement 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. Actuarial gains and losses which exceed 10% of the greater of the present value of the Bank's pension obligations and the fair value of the plan's assets are amortized over the expected average remaining working lives of the participating employees. Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested. Contributions are made by employees at 5% of basic salary and the difference by the Bank, which amounted to 11.60% (2010: 11.50%).

The amount recognized in the statement of financial position represents the present value of the retirement benefit obligation as adjusted for the unrecognized actuarial gains and losses and unrecognized past service costs, and reduced by the fair value of plan assets. Any asset arising as a result of this calculation is limited to the unrecognized actuarial losses and past service cost plus the present value of available refunds and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 either included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits 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.

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.

The Bank reviewed the estimated useful lives of property, plant and equipment at the end of the reporting period. Management's expectations did not differ from previous estimates; therefore, no changes were made to the estimated useful lives of property, plant and equipment. There were no indicators of impairment.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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: loans and receivables, available-for-sale and held-to-maturity investments. 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. 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.

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 stock
- 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 years after their date of issue, shall

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

not exceed 20% of the demand liabilities of the Bank. At the financial position date, such securities held by the Bank, which matured beyond five years after their date of issue, was 19.18% (2010 20.00%) of demand liabilities.

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, 2011 or 2010.

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 profit or loss. Other changes in the carrying amount of available-for sale financial assets are recognized in other comprehensive income.

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:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- 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 revenue recognized in the statement of comprehensive income.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. 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 the date of acquisition and demand deposits.

o. 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. At year end, there were no indicators of impairment.

p. 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.

q. 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.

r. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s. Financial liabilities

Financial liabilities are any liabilities that are contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or a contract that will or may be settled in the Bank's own equity instrument.

Financial liabilities are 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 either 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.

t. Derecognition of financial liabilities

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

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) and (o), 8 and 24.

(Expressed in Bahamian dollars)

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, 2011	2,452,938	13,095,216	9,034,781	7,730,300	6,265,439	283,442	38,862,116
Additions	-	1,188,226	1,105,744	94,037	30,636	-	2,418,643
Disposals	-	-	(73,384)	-	(2,382)	-	(75,766)
As of December 31, 2011	2,452,938	14,283,442	10,067,141	7,824,337	6,293,693	283,442	41,204,993
ACCUMULATED DEPRECIATION							
As of January 1, 2011	-	6,004,438	7,155,222	7,428,495	5,909,014	283,442	26,780,611
Charge for the year	-	453,576	630,023	200,516	133,744	-	1,417,859
Disposals	-	-	(71,477)	-	(2,382)	-	(73,859)
As of December 31, 2011	-	6,458,014	7,713,768	7,629,011	6,040,376	283,442	28,124,611
NET BOOK VALUE							
As of December 31, 2011	2,452,938	7,825,428	2,353,373	195,326	253,317	-	13,080,382
COST							
As of January 1, 2010	2,452,938	12,765,340	8,758,302	7,693,954	6,038,342	326,454	38,035,330
Additions	-	329,876	276,479	66,586	227,097	-	900,038
Disposals	-	-	-	(30,240)	-	(43,012)	(73,252)
As of December 31, 2010	2,452,938	13,095,216	9,034,781	7,730,300	6,265,439	283,442	38,862,116
ACCUMULATED DEPRECIATION							
As of January 1, 2010	-	5,536,092	6,586,628	6,995,864	5,755,169	315,530	25,189,283
Charge for the year	-	468,346	568,594	462,871	153,845	10,924	1,664,580
Disposals	-	-	-	(30,240)	-	(43,012)	(73,252)
As of December 31, 2010	-	6,004,438	7,155,222	7,428,495	5,909,014	283,442	26,780,611
NET BOOK VALUE							
As of December 31, 2010	2,452,938	7,090,778	1,879,559	301,805	356,425	-	12,081,505

(Expressed in Bahamian dollars)

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 97.43% (2010: 99.80%) of such liabilities. Accrued interest totalling $112,879 is included in bank deposits maturing over three months.

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 2011, marketable securities held by the Bank, which mature after 5 years, constituted 27.21% (2010: 27.35%) of the Bank's external assets.

The movements in marketable securities are as follows:

	2011	2010
Beginning balance	$ 495,661,020	$ 352,927,483
Purchases at nominal value	120,000,000	203,373,000
Discount on purchases	(5,695,703)	(1,162,925)
Redemptions/maturities	(30,000,000)	(60,000,000)
Discount earned	990,046	921,362
Amortized premium	(198,127)	(397,900)
Total	580,757,236	495,661,020
Add: Accrued interest	4,095,103	4,014,022
Ending balance	$ 584,852,339	$ 499,675,042

The fair value of these securities at the year end date was $629,049,801 (2010: $503,751,975). These securities bear interest at rates varying between 1.12% and 4.88% (2010: 1.12% and 5.00%).

(Expressed in Bahamian dollars)

8. INTERNATIONAL MONETARY FUND

Bahamas Tranche

The International Monetary Fund (IMF) reserve tranche represents the amount by which The Bahamas' quota of Special Drawing Rights (SDR) with the IMF exceeds subscription payments as noted below:

	2011		2010	
	SDR	**$**	**SDR**	**$**
Quota	130,300,000	200,045,137	130,300,000	200,666,527
Subscription payments in promissory notes	(119,706,653)	(183,781,533)	(119,391,688)	(183,867,348)
Subscription payments in currency	(4,333,067)	(6,652,410)	(4,648,032)	(7,158,130)
Reserve tranche	6,260,280	9,611,194	6,260,280	9,641,049

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 $55,405,184 (2010: $51,174,812). Consequently, this amount is not recognized in the Bank's statement of financial position.

SDR Holdings

	2011		2010	
	SDR	**$**	**SDR**	**$**
Beginning balance	114,161,549	175,812,752	114,186,847	179,009,638
Additional holdings from:				
Remuneration & other charges	(40,445)	(62,094)	(25,298)	(38,954)
Currency movement	-	(532,030)	-	(3,157,932)
Ending balance	114,121,104	175,218,628	114,161,549	175,812,752
Add: Accrued interest		43,035		101,866
Total		175,261,663		175,914,618

The SDR is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. The IMF may allocate SDRs to members in proportion to their IMF quotas. Such an allocation provides each member with an asset (SDR holding) and an equivalent liability (SDR allocation). See also Note 19.

(Expressed in Bahamian dollars)

9. BAHAMAS DEVELOPMENT BANK BONDS

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

	2011	2010
Balance	$ 4,000,000	$ 4,000,000
Add: Accrued interest	55,697	65,096
Total	$ 4,055,697	$ 4,065,096

These bonds bear interest at the Bahamian Prime rate of 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 9.17% (2010: 9.40%) of the lesser of such revenues.

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

Rate	2011	2010
0.00%	$ 37,018,608	$ 37,018,608
0.08%	4,969,000	4,969,000
0.64%	20,000,000	-
0.84%	8,600,000	-
0.97%	38,000,000	-
1.08%	2,000,000	-
2.04%	-	20,000,000
2.21%	-	20,000,000
2.25%	-	10,000,000
2.69%	-	20,000,000
	$ 110,587,608	$ 111,987,608

(Continued)

(Expressed in Bahamian dollars)

10. ADVANCES TO BAHAMAS GOVERNMENT (Continued)

The movements in advances for the year are as follows:

	2011	2010
Beginning balance	$ 111,987,608	$ 96,987,608
Additions	76,600,000	48,600,000
Redemptions/maturities	(78,000,000)	(33,600,000)
Total	110,587,608	111,987,608
Add: Accrued interest	874,950	1,356,621
Ending balance	$ 111,462,558	$ 113,344,229

11. BAHAMAS GOVERNMENT REGISTERED STOCKS

The movements in Bahamas Government registered stocks are as follows:

	2011	2010
Beginning balance	$ 162,287,500	$ 104,521,055
Purchases	23,106,900	141,086,245
Redemptions/maturities	(21,388,900)	(83,319,800)
Total	164,005,500	162,287,500
Add: Accrued interest	1,820,143	2,087,266
Ending balance	$ 165,825,643	$ 164,374,766

Bahamas Government registered stocks bear interest at rates ranging between 4.75% and 8.75% (2010: 5.53% and 8.75%).

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:

	2011	2010
Beginning balance	$ 5,550,000	$ 6,150,000
Repayments	(400,000)	(600,000)
Total	5,150,000	5,550,000
Add: Accrued interest	18,815	20,192
Ending balance	$ 5,168,815	$ 5,570,192

The loans bear interest at 2.00% (2010: 2.00%), with $1,050,000 and $4,500,000 maturing on October 21, 2018 and October 28, 2024, respectively.

(Expressed in Bahamian dollars)

13. BRIDGE AUTHORITY BONDS

The movements in the Bridge Authority bonds are as follows:

	2011	2010
Beginning balance	$ 838,300	$ 795,000
Purchases	23,800	43,300
Total	862,100	838,300
Add: Accrued interest	13,739	15,077
Ending balance	$ 875,839	$ 853,377

These bonds bear interest at rates ranging from 1.00% to 1.63% (2010: 1.00% to 1.63%) per annum over the Bahamian Prime rate. The actual rates ranged between 5.75% to 6.38% at December 31, 2011 with $439,900, $403,900, $4,000 and $14,300 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:

	2011	2010
Balance	$ 634,600	$ 634,600
Add: Accrued interest	3,834	4,381
Total	$ 638,434	$ 638,981

15. BAHAMAS GOVERNMENT TREASURY BILLS

Bahamas Government Treasury bills are discounted at rates ranging between 0.1490% and 0.5928% maturing sixty days to one year.

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

	2011	2010
Beginning balance	$ -	$ -
Purchases	73,972,494	53,912,766
Redemptions/maturities	(47,788,077)	(53,912,766)
Total	26,184,417	-
Add: Discount earned	10,935	-
Ending balance	$ 26,195,352	$ -

The Bahamas Government Treasury bills are measured at fair value grouped into Level 3.

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	2011	2010
$0.50	$ 642,186	$ 636,204
$1.00	20,023,349	19,635,544
$3.00	1,862,907	1,826,199
$5.00	9,720,605	9,452,500
$10.00	14,593,160	13,394,830
$20.00	49,018,100	46,138,940
$50.00	86,798,550	81,997,900
$100.00	122,806,400	116,602,400
Other banknotes	79,835	82,039
	$ 305,545,092	$ 289,766,556

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. 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, the Inter-American Development Bank, the Caribbean Development Bank and the Commission of the European Development Fund. These deposits are interest free and are repayable on demand.

(Expressed in Bahamian dollars)

19. INTERNATIONAL MONETARY FUND ALLOCATIONS OF SPECIAL DRAWING RIGHTS

	2011		2010	
	SDR	$	SDR	$
Beginning balance	124,413,351	191,600,883	124,413,351	195,041,632
Currency movement	-	(593,317)	-	(3,440,749)
Ending balance	124,413,351	191,007,566	124,413,351	191,600,883
Add: Accrued interest		46,403		109,802
Total		191,053,969		191,710,685

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 0.11% and 0.58% (2010: 0.22% and 0.37%).

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, 2011, 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 $116,162,782 (2010: $110,472,425) equivalent to 12.80% (2010: 12.81%) of demand liabilities.

(Expressed in Bahamian dollars)

21. INCOME

	2011	2010
Interest on foreign investments		
Demand deposits	$ 75,627	$ 46,293
Fixed deposits	685,374	658,021
Marketable securities	15,696,522	12,168,721
	16,457,523	12,873,035
Interest on loans		
Loans to Bahamas Development Bank	107,888	125,087
Government advances	869,821	1,352,231
Staff	304,712	280,816
	1,282,421	1,758,134
Interest on domestic investments		
Bahamas Development Bank bonds	202,219	220,603
Bahamas Government Registered Stocks	8,306,161	6,716,524
Bridge Authority bonds	52,727	54,610
Bahamas Government Treasury bills	169,336	182,782
Clifton Heritage bonds	35,351	38,076
	8,765,794	7,212,595
Unrealized exchange gain (loss)	(606)	101,917
Interest expense on IMF allocation	(792,601)	(557,766)
Other income		
Bank statutory fines	944	59
Commission on foreign currency sales	905,749	900,271
Premium on Investment Currency Market	311,816	152,292
SDR Interest	724,692	510,978
Gain on sale of marketable securities	-	1,508,273
Other	137,499	188,550
	2,080,700	3,260,423
Total income	$ 27,793,231	$ 24,648,338

(Expressed in Bahamian dollars)

22. EXPENSES

	2011	2010
Staff costs		
Salaries, wages and gratuity	$ 11,373,344	$ 11,043,910
Group insurance plan	1,286,683	1,310,474
Staff pension fund	520,058	614,934
Staff training	306,008	244,234
National Insurance	351,264	279,418
Responsibility allowance	113,541	195,000
Other	437,067	349,383
	$ 14,387,965	$ 14,037,353
General and administrative		
Currency	$ 1,301,191	$ 1,141,155
Professional fees	1,093,254	1,559,668
Utilities	1,095,679	955,217
Repairs and maintenance	772,184	729,629
Rent	528,660	529,416
Insurance	231,053	217,942
Stationery and office supplies	70,470	90,360
Subscription and membership fees	171,487	174,715
Directors' remuneration	45,000	40,000
Other	988,678	928,977
	$ 6,297,656	$ 6,367,079

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 the 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 DIC is not treated as a subsidiary in these financial statements.

Additionally, the Directors do not consider that the investment in the DIC is recoverable, and, consequently the Bank has made a full provision against this investment.

24. COMMITMENTS & CONTINGENCIES

The Bank is committed to rent office space under a non-cancellable operating lease. The Bank is committed to the following future payments under the lease agreement:

2012	44,028

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.

The Bank's retirement benefit plan (the Plan) provides for integration of the benefits payable under the Plan with the benefits payable to participants pursuant to the scheme of the National Insurance Board ("NIB"). However, benefits have been paid to retirees on the basis that the Plan benefits were not integrated with those of NIB (that is, reduced to take account of the integration provision). For the purposes of determining the costs and obligations of the Plan as reflected in the financial statements (see Notes 3(g) and 31), the present value of the defined benefit obligation for retirees is based on the benefits actually paid (without the integration provisions applied), and for active employees, it is based on the benefits payable taking into account the integration provision. The defined benefit obligation resulting in the calculation of the retirement benefit asset does not reflect the present value of future accrued benefits to current employees on a non-integrated basis (only on the assumption that the integration provision will be applied). The resulting additional obligation based on non-integration could be material. The Bank is presently in discussions with the two unions that represent its employees in order to resolve the issue of integration of benefits for future retirees. As these discussions are in an early stage, it is not practicable to reasonably estimate the financial effect, amount or timing of any possible future outflow.

(Expressed in Bahamian dollars)

25. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities:

EXTERNAL ASSETS	**2011**	**2010**
Geographic Region		
North America	88.44%	86.89%
Europe	10.13%	7.02%
Other	1.43%	6.09%
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	99.97%	99.97%
Other	0.03%	0.03%
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.

(Expressed in Bahamian dollars)

26. RELATED-PARTY TRANSACTIONS (Continued)

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:

		2011		2010
Senior officials' salaries and short-term benefits	$	1,675,658	$	1,773,831
Directors' remuneration	$	45,000	$	40,000

b. Loans:

Other assets include secured loans to employees totalling $9,147,785 (2010: $8,056,469), of which the following relate to key management personnel:

		2011		2010
Beginning of the year	$	950,863	$	680,771
Advances during the year		422,850		407,191
Repayments during the year		(195,259)		(137,099)
End of the year	$	1,178,454	$	950,863

c. Post-employment pension and medical benefits

		2011		2010
Pension payments	$	455,707	$	654,379
Gratuity		75,695		73,782
End of the year	$	531,402	$	728,161

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, 2011 the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $68,938,454 (2010: $64,195,177); these amounts are excluded from the statement of financial position.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

With the exception of marketable securities, whose fair value is as stated in Note 7, the Directors consider that all of the Bank's financial assets (including loans and receivables, with an aggregate carrying value of $314,189,316 (2010: $288,142,598) and financial liabilities are carried at amounts approximating their fair value.

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.

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.

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.

(Expressed in Bahamian dollars)

29. FINANCIAL RISK MANAGEMENT (Continued)

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

The Bank's exposure to foreign currency risk is limited because the net foreign currency exposure excluding US dollars is not material. The Bahamian dollar and the US dollar are at par. The Bank manages other currency positions by matching assets and liabilities wherever possible.

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

	BSD	USD	GBP	EUR	SDR
As 31 December 2011					
Assets					
Cash and deposits	-	24,415,628	565,409	73,124	-
Bank deposits maturing					
over 3 months	-	90,112,879	-	-	-
Marketable securities	-	584,852,339	-	-	-
IMF:					
Bahamas reserve tranche	-	-	-	-	9,611,194
Special drawing rights	-	-	-	-	175,261,663
Domestic assets	337,496,126	-	-	-	-
Fixed Assets	13,080,382	-	-	-	-
Total Assets	350,576,508	699,380,846	565,409	73,124	184,872,857
Liabilities					
Notes in circulation	305,545,092	-	-	-	-
Coins in circulation	18,406,307	-	-	-	-
Deposits by commercial banks	557,366,772	-	-	-	-
Deposits by Bahamas Government					
and Bahamas Government agen.	18,754,446	-	-	-	-
Deposits by international agen.	-	255,533	-	-	-
Accounts payable and other liab.	2,387,589	69,282	17,107	-	-
Provision for Investment Currency	3,028,781	-	-	-	-
Group insurance subsidy benefit	2,027,771	-	-	-	-
IMF allocation of SDR	-	-	-	-	191,053,969
Total liabilities	907,516,758	324,815	17,107	-	191,053,969
Net on-balance sheet position	(556,940,250)	699,056,031	548,302	73,124	(6,181,112)

29. FINANCIAL RISK MANAGEMENT (Continued)

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 2.81% (2010: 2.84%); however, if these securities had a reduced average yield of 2.77% (2010: 2.67%), derived from their varying yields at the lower end of the spectrum, income for the year and equity at year end would have been reduced by $257,113 (2010: $847,324). Had the yield been tilted towards the higher end of the spectrum, to 2.84% (2010: 3.26%), income for the year and equity at year end would have increased by $151,431 (2010: $2,093,167).

As at December 31, 2011, if interest rates had been 50 basis points higher, with all other variables remaining constant, the increase in equity and net income for the year would amount to approximately $575,835 (2010: $867,701), arising from cash and deposits. If interest rates had decreased by 50 basis points, the decrease in equity and net income for the year would amount to approximately $575,835 (2010: $867,701).

Liquidity risk

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

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

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 table below 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.

(Expressed in Bahamian dollars)

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, 2011						
Period of maturity						
Financial Assets						
Cash and deposits	$ 25,054,161	$ -	$ -	$ -	$ -	$ 25,054,161
Bank deposits maturing over 3 months	-	-	90,112,879	-	-	90,112,879
Marketable securities issued or guaranteed by foreign governments	-	5,099,439	25,192,641	313,754,791	240,805,468	584,852,339
International Monetary Fund:						
Bahamas reserve tranche	9,611,194	-	-	-	-	9,611,194
Special drawing rights	175,261,663	-	-	-	-	175,261,663
Bahamas Development Bank bonds	-	-	-	-	4,055,697	4,055,697
Advances to Bahamas Government	111,462,558	-	-	-	-	111,462,558
Bahamas Government registered stock	-	-	17,345	1,319,125	164,489,173	165,825,643
Bahamas Government Treasury Bills	-	26,195,352	-	-	-	26,195,352
Loans to Bahamas Development Bank	-	-	-	-	5,168,815	5,168,815
Bridge Authority bonds	-	-	-	446,761	429,078	875,839
Clifton Heritage Authority bonds	-	-	-	-	638,434	638,434
Currency inventory	8,380,035	-	-	-	-	8,380,035
Staff pension fund	-	-	-	-	4,773,796	4,773,796
Receivables and other accounts	10,119,957	-	-	-	-	10,119,957
Property, plant & equipment	2,452,938	-	195,326	2,606,690	7,825,428	13,080,382
Total financial assets	342,342,506	31,294,791	115,518,191	318,127,367	428,185,889	1,235,468,744

(Expressed in Bahamian dollars)

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, 2011						
Period of maturity						
Liabilities						
Notes in circulation	$ 305,545,092	$ -	$ -	$ -	$ -	$ 305,545,092
Coins in circulation	18,406,307	-	-	-	-	18,406,307
Deposits by commercial banks	557,366,772	-	-	-	-	557,366,772
Deposits by Bahamas Government and Bahamas Government agencies	18,754,446	-	-	-	-	18,754,446
Deposits by international agencies	255,533	-	-	-	-	255,533
Accounts payable and other liabilities	2,473,978	-	-	-	-	2,473,978
Provision for Investment Currency Market	3,028,781	-	-	-	-	3,028,781
Group Insurance Subsidy Benefit	-	-	-	-	2,027,771	2,027,771
International Monetary Fund allocation	191,053,969	-	-	-	-	191,053,969
Total financial liabilities	1,096,884,878	-	-	-	2,027,771	1,098,912,649
Net liquidity gap, December 31, 2011	$(754,542,372)	$31,294,791	$115,518,191	$ 318,127,367	$ 426,158,118	$ 136,556,095

(Expressed in Bahamian dollars)

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, 2010						
Period of maturity						
Financial Assets						
Cash and deposits	$ 65,131,136	$ -	$ -	$ -	$ -	$ 65,131,136
Bank deposits						
maturing over 3 months	-	-	110,078,500	-	-	110,078,500
Marketable securities						
issued or guaranteed			-			
by foreign governments	-	15,214,502	15,307,055	233,780,313	235,373,172	499,675,042
International Monetary Fund:						
Bahamas reserve tranche	9,641,049	-	-	-	-	9,641,049
Special drawing rights	175,914,618	-	-	-	-	175,914,618
Bahamas Development						
Bank bonds	-	-	-	-	4,065,096	4,065,096
Advances to Bahamas						
Government	113,344,229	-	-	-	-	113,344,229
Bahamas Government						
registered stock	-		209,527	1,439,042	162,726,197	164,374,766
Loans to Bahamas						
Development Bank	-	-	-	-	5,570,192	5,570,192
Bridge Authority bonds	-	-	-	430,051	423,326	853,377
Clifton Heritage						
Authority bonds	-	-	-	-	638,981	638,981
Currency inventory	9,674,466	-	-	-	-	9,674,466
Staff pension fund	-	-	-	-	4,189,362	4,189,362
Receivables and						
other accounts	7,912,886	-	-	-	1,564,849	9,477,735
Property, plant &						
equipment	2,452,938	-	301,805	2,235,984	7,090,778	12,081,505
Total financial assets	$ 384,071,322	$ 15,214,502	$125,896,887	$ 237,885,390	$ 421,641,953	$ 1,184,710,054

(Expressed in Bahamian dollars)

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, 2010						
Period of maturity						
Liabilities						
Notes in circulation	$ 289,766,556	$ -	$ -	$ -	$ -	$ 289,766,556
Coins in circulation	18,084,623	-	-	-	-	18,084,623
Deposits by commercial banks	517,824,735	-	-	-	-	517,824,735
Deposits by Bahamas Government and Bahamas Government agencies	29,922,481	-	-	-	-	29,922,481
Deposits by international agencies	255,393	-	-	-	-	255,393
Accounts payable and other liabilities	2,527,609	-	-	-	-	2,527,609
Provision for Investment Currency Market	1,817,630	-	-	-	-	1,817,630
Group Insurance Subsidy Benefit	-	-	-	-	1,933,998	1,933,998
International Monetary Fund allocation	191,710,685	-	-	-	-	191,710,685
Total financial liabilities	1,051,909,712	-	-	-	1,933,998	1,053,843,710
Net liquidity gap, December 31, 2010	$(667,838,390)	$15,214,502	$125,896,887	$237,885,390	$419,707,955	$ 130,866,344

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 audits.

(Expressed in Bahamian dollars)

30. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN

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

	2011	2010
Present value of obligation at start of year	$ 36,267,721	$ 36,468,841
Interest cost	2,102,793	2,142,719
Current service cost	1,265,796	1,384,810
Benefits paid	(1,926,408)	(1,177,958)
Actuarial loss (gain) on obligation	4,871,920	(2,550,691)
Present value of obligation at end of year	$ 42,581,822	$ 36,267,721
Fair value of plan assets at start of year	$ 44,557,097	$ 41,925,136
Expected return on plan assets	2,547,070	2,625,906
Contribution paid - by employer	986,879	952,390
Contribution paid - by employees	419,074	404,300
Benefits paid	(1,926,408)	(1,177,958)
Actuarial gain (loss) on plan assets	44,970	(172,677)
Fair value of plan assets at end of year	$ 46,628,682	$ 44,557,097

The actuarial loss at December 31, 2011 represented 11.44% (2010 gain: 7.03%) of the plan liabilities; and the actuarial gain was 0.10% (2010 loss: 0.39%) of the plan assets.

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

	2011	2010
Present value of funded obligations	$ (42,581,822)	$ (36,267,721)
Fair value of plan assets	46,628,682	44,557,097
	4,046,860	8,289,376
Unrecognized actuarial gains (losses)	726,936	(4,100,014)
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	$ 4,773,796	$ 4,189,362

Summary of plan investments, in accordance with IAS19:

	2011	2010
Cash	$ 36,290	$ 37,588
Interest receivable	582,374	617,509
Other receivable	1,918	-
Bahamas Government registered stocks	45,504,000	43,350,900
Other bonds	326,100	326,100
Shares	185,000	235,000
Accounts payable	(7,000)	(10,000)
Total	$ 46,628,682	$ 44,557,097

(Expressed in Bahamian dollars)

30. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN (Continued)

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

	2011	2010
Current service cost	$ 846,722	$ 980,509
Interest cost	2,102,793	2,142,719
Expected return on plan assets	(2,547,070)	(2,625,906)
	$ 402,445	$ 497,322

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

	2011	2010
Net assets at beginning of year	$ 4,189,362	$ 3,734,294
Net expense recognized in net income	(402,445)	(497,322)
Employer contributions	986,879	952,390
	$ 4,773,796	$ 4,189,362

The Bank intends to contribute approximately 16.9% of gross payroll to the plan during 2012 (2011: actual 11.60%).

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

	2011	2010
Discount rate	5.00%	5.75%
Expected return on plan assets	5.25%	5.75%
Expected rate of salary increase at age 18	6.50%	6.50%
Expected rate of salary increase at age 59	2.50%	2.50%
Average expected remaining working lives of employees (years)	14.7	14.9

The actual return on plan assets during the year was $2,592,040 (2010: $2,453,229). The expected return on plan assets has been arrived at using a weighted average return approach.

(Expressed in Bahamian dollars)

31. HEALTH INSURANCE SUBSIDY BENEFIT FOR RETIREES

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

	2011	2010
Present value of obligation at start of year	$ 1,992,358	$ 1,948,795
Interest cost	115,976	112,890
Current service cost	71,431	57,489
Benefits paid	(93,634)	(85,964)
Actuarial loss (gain) on obligation	171,291	(40,852)
Present value of obligation at end of year	$ 2,257,422	$ 1,992,358

Contribution paid - employees' and employer's contributions	93,634	85,964
Benefits paid	(93,634)	(85,964)
	$ -	$ -

The actuarial loss at December 31, 2011 represented 7.59% (2010 gain: 2.05%) of the plan liabilities.

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

	2011	2010
Current service cost	$ 71,431	$ 57,489
Interest cost	115,976	112,890
	$ 187,407	$ 170,379

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

	2011	2010
Net liability at beginning of year	$ 1,933,998	$ 1,849,583
Net expense recognized in net income	187,407	170,379
Employer contributions	(93,634)	(85,964)
	$ 2,027,771	$ 1,933,998

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

	2011	2010
Discount rate	5.00%	5.75%
Expected return on plan assets	0.00%	0.00%

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