2020
Annual Report

Statement of Accounts
For the Year Ended December 31, 2020

CENTRAL BANK OF THE BAHAMAS

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

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

VALUES
Our commitment to fulfilling our Mission is embodied in our Core Values of:
- Objectivity
- Confidentiality
- Integrity
- Excellence
- Teamwork
- Empowerment
- Initiative

April 26, 2021

Dear Prime Minister:

In accordance with Section 35(1) of the Central Bank of The Bahamas Act, 2020, I have the honour of forwarding to you, on behalf of the Board of Directors, the Annual Report of the Bank for the year 2020. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

John A. Rolle
Governor

The Most Hon. Dr. Hubert A. Minnis
Prime Minister & Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

ABOUT THE BANK

Under the Central Bank of The Bahamas Act, 2020 (the Act), the Bank is mandated to promote stable monetary, credit and balance of payment conditions which protect the exchange rate regime and facilitate orderly and balanced economic growth; contribute to the stability of the financial system, through collaboration with other domestic and foreign regulatory authorities; and support the general economic policy of the Government through sound economic, financial and monetary advice.

MONETARY POLICY

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

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

PUBLIC DEBT & SINKING FUND MANAGEMENT

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

PAYMENTS

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

CURRENCY

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

FINANCIAL STABILITY

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

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FOREWORD

The Bahamian economy contracted sharply in 2020, largely attributed to the Novel Coronavirus (COVID-19) pandemic and the global lockdown to contain the spread. In particular, there was a notable reduction in tourism output. Consequently, with widespread hotel and retail sector layoffs, labour market conditions deteriorated considerably. Nevertheless, the resumption of a number of varied-scaled foreign investment projects provided positive impetus to the construction sector. Monetary and credit trends were dominated by the receipt of proceeds from the Government's external borrowing activities, which resulted in a significant buildup in both bank liquidity and external reserves. However, commercial banks' credit quality indicators deteriorated, reflective of the contraction in the domestic economy and the conclusion of loan deferral schemes that were implemented to assist persons and businesses impacted by the pandemic.

On the fiscal side, the deficit widened significantly for FY2019/20, owing primarily to revenue losses and a rise in spending for health and social welfare programs related to COVID-19, combined with outlays for post-hurricane reconstruction work. These trends were further entrenched in the first half of FY2020/21, with the continued deterioration in the deficit, as the pandemic's effect became more pervasive.

External reserves, the key target of monetary policy, registered healthy growth in 2020. In particular, the Central Bank's Monetary Policy Committee (MPC) identified interventions to conserve foreign exchange use for essential external payments, and formulated advice to the Government on a sustainable deficit financing strategy, that incorporated consideration for the impact of fiscal support on the demand for foreign exchange. Consequently, a substantial fraction of the financing was secured in foreign currency. The Central Bank also undertook direct foreign exchange conservation measures. These included a suspension of approvals for dividend payments abroad by commercial banks; suspension of residents' access to foreign exchange for external portfolio investments and a request to the National Insurance Board to repatriate most of its external assets.

The Bank continued to follow a risk-based approach to financial supervision, ensuring that the system remained stable, amidst the shock of the pandemic. As such, stress testing affirmed that domestic banks maintained healthy capital buffers to absorb anticipated credit losses; and that enrolment in the Deposit Insurance Scheme bolstered confidence in the credit unions. Meanwhile, surveillance increased for both domestic and international supervised financial institutions (SFIs), with regard to their adjustments to the financial and business continuity risks posed by the pandemic. The Central Bank also released COVID-19 Guidance Notes to help inform SFIs' risk management practices and to delineate areas in which regulatory forbearance was forthcoming on prudential matters.

On a national level of accomplishment, The Bahamas was removed from the Financial Action Task Force's (FATF) list of Jurisdictions under enhanced monitoring, to which the jurisdiction had been subject since the 2017 Mutual Evaluation Report of effectiveness in anti-money laundering (AML) and counter-financing of terrorists (CFT) measures. The Bank, other financial services regulators and Bahamian law enforcement agencies collaborated closely with the Attorney General's Office to achieve further strengthening of the effectiveness of the Bahamian AML/CFT and anti-proliferation regime.

On October 20, 2020, the Central Bank commenced a gradual national roll out of the Sand Dollar digital currency through six approved authorized financial institutions. This initiative is expected to provide the country with a modernized, interoperable payments infrastructure, accessible to all residents. As the platform especially targets the inclusion of micro to medium-sized businesses, it will promote universal access to banking services; help to reduce unrecorded economic activities; and help suppress money laundering and other illicit activities, which are more easily perpetrated with cash.

With regard to the credit bureau, the official kick-off of CRIF Information Services Bahamas Limited (CRIF Bahamas) was launched in January, 2020. Despite the challenges brought on by the pandemic, the CRIF Bahamas project team worked persistently to assist the 35 identified credit information providers prepare to satisfy the technical reporting requirements for the bureau. Once operational, the credit bureau will offer significant benefits to both lenders and borrowers. In the months ahead, greater public awareness efforts will be mobilized to sensitize the public of the existence and purpose of the credit bureau.

Other notable milestones in 2020 included the demonetization of the one-cent coin and commenced removal of the coins from circulation. The Bank also continued with the release of robust banknotes, with enhanced security features. Further, as it relates to information dissemination, the newly upgraded Central Bank website, with increased search functionality and user friendliness, was launched successfully in 2020. The Bank also expanded its collection of eBooks and other digital resources, which allow for easier access by internal and external users alike.

The Central Bank's strategic objectives could not have been realized without the continued hard work and dedication of our staff. In 2020, COVID-19 forced the Bank to test its technological infrastructure and facilitate work from home arrangements for the majority of its staff. Accordingly, the Bank was able to consistently deliver key products and services to its stakeholders. I, therefore, wish to express my gratitude to my colleagues and the Board of Directors, for their cooperation and support. I also look forward to their continued commitment in the future.

Governor

DIRECTORS

Mr. John A. Rolle
Chairman

Mr. Derek Rolle
Deputy Governor

Mr. Robert Adams
Board Member

Mr. Russell Miller
Board Member

Mr. Thomas Dean
Board Member

Mrs. Lynda Gibson
Board Member

SENIOR OFFICIALS

Mr. John A. Rolle
Governor

Mr. Derek S. Rolle
Deputy Governor

Mr. Charles W. Littrell
Inspector,
Banking Supervision

Ms. Karen V. Rolle
Deputy Inspector,
Banking Supervision

Mrs. Andrea A. Adderley-McQuay
Board Secretary
Manager, Corporate Strategy, Risk & Governance

Mrs. Cleopatra B. Davis
Manager, Banking

Mr. Jermaine H. Campbell
Manager, Currency

Mrs. Rochelle A. Deleveaux-McKinney
Legal Counsel

Mr. Allan S. Wright
Manager, Research

Mrs. Tamieka V. Watson
Manager,
Exchange Control

Mr. Derrick M. Burrows
Manager, Finance

Mrs. Nakeisha S. Burrows
Manager, Internal Audit

Mr. Gevon R. Moss
Manager,
Human Resources

Mr. Errol L. Bodie
Manager, IT

Mr. Ian B. Fernander
Manager,
Capital Development

Mr. Ricardo H. Barry
Manager,
Facilities Services

2020 AT A GLANCE

- The domestic economy contracted sharply in 2020, vis-à-vis a modest growth of 1.2% in 2019, with developments dominated by the spread of the Novel Coronavirus (COVID-19) and containment measures. Globally imposed travel restrictions impeded tourism output, with considerably reduced high value-added air arrivals and the dominant sea component virtually eliminated. However, the resumption of a number of varied-scaled foreign investment-led projects and to a lesser extent continued post-hurricane rebuilding works, provided positive impulses to the construction sector.
- Domestic inflationary pressures remained relatively subdued, attributed to lower global oil prices.
- Employment conditions deteriorated sharply, because of furloughs and layoffs resulting from the widespread closure of COVID-19 impacted businesses.
- The fiscal deficit to GDP ratio increased to an estimated 6.4% in FY2019/20 from 1.6% in FY2018/19. The combined shocks of Hurricane Dorian and COVID-19 caused a notable reduction in revenue collections. Both necessitated higher social welfare spending, with escalated health sector costs also associated with the pandemic.
- The Government's Direct Debt Charge to GDP ratio rose to an estimated 83.8% from 62.3% in 2019. The National Debt to GDP ratio increased by 25.5 percentage to an estimated 87.7%. Escalation in both ratios were also partly due to the large reduction in nominal GDP.
- External reserves grew by $624.1 million to $2,382.2 million, buoyed by Government's external borrowing activities. The import cover ratio rose to 43.7 weeks from 27.7 weeks in 2019—exceeding the 12 weeks benchmark.
- The Central Bank successfully concluded the demonetization of the one-cent coin and commenced the redemption process for the public.
- On 20th October, 2020 the Bank transitioned to a gradual nationwide release of the Bahamian central bank digital currency, the Sand Dollar.
- In response to the COVID-19 pandemic, commercial banks deployed a 3 to 6 month program of debt service payment deferrals to assist adversely impacted borrowers. Credit unions also offered forbearance arrangements.
- In 2020, a compendium of legislation was enacted, introducing significant reforms to enhance the Central Bank's governance structure, sustain ongoing payment systems modernization initiatives, establish a more comprehensive bank resolution and crisis management framework and strengthen the financial stability framework.
- Credit unions formally enrolled in the Deposit Insurance Corporation, in September, 2020.
- The official kick-off for the credit bureau, CRIF Information Services Bahamas Limited (CRIF Bahamas) was launched in January, 2020.

BOX 1: Overview of the Strategic Plan for 2021-2025

The Board approved a new Strategic Plan for 2021-2025 for the Central Bank in February 2021. The Plan sustains initiatives to strengthen the Bank's effectiveness around core legislative mandates, addressing the needs of both internal and external stakeholders. This is happening within the context of a significantly revamped legal framework, accelerated changes within the financial sector and heightened transformative challenges for the economy. The Plan also emphasises undertakings intended to be beneficial for the Bahamian economy and financial sector, as well as targets human resources capacity building that is adequate to deliver upon the Bank's mandate.

The main pillars of the 2021-2025 Strategic Plan that will guide the work programmes of the Bank are:

i. Increasing the effectiveness and transparency of the frameworks for monetary policy, financial stability and Exchange Control

ii. Enhancing the financial sector supervisory and regulatory framework, in line with international benchmarks

iii. Strengthening capacity to deliver policy advice to the government

iv. Deepening payments systems development

v. Strengthening external relations and communications

vi. Enhancing operational efficiency and risk management systems

Supporting Growth, Recovery and Resilience

For context, the Bahamian economy faces increased pressures for change from both domestic and international forces, having necessary impact on the priorities which the Central Bank continues to establish. In particular, The Bahamas is beset by the fallout from the COVID-19 pandemic, from which it is forecasted to emerge with a significantly increased public debt burden and a likely eroded position for the external reserves. Given the medium-term fiscal consolidation framework which the government has adopted, as well as measures to strengthen fiscal transparency and accountability, increased effort is expected to be required to stabilise public finances and place the debt burden on a declining path. The urgency of reforms to strengthen government finances is further underscored by mounting climate change risks that could impose new structural costs on public finances. These have implications for the advisory support the Central Bank provides to the government. They also require an appreciation for the deepened impact that public finance reforms will have on public debt management systems and on monetary and financial sector policies.

Boosting growth potential is a stated priority of the government, which is also dependent on reforms that would be pursued by the authorities and supported, in many instances, by technical advice provided by the Bank. Bank-led initiatives can also directly contribute, including those which promote increased ease of doing business and stimulate increased efficiency and inclusiveness of financial services. Meanwhile, adapting to climate change will mandate further prudential regulations to bolster financial stability and justify incentive mechanisms to promote improved resilience at the level of Bahamian households and firms.

Strengthening Policy and Supervisory Frameworks

There is modernised scope under the Central Bank of The Bahamas Act, 2020 to develop new monetary policy instruments. In particular, the Bank will continue to strengthen its tools and approaches to absorbing excess liquidity from the system, so that financial stability risks can be effectively managed. The ongoing developments in the public debt management space will also have relevance for progress in this area, particularly, to broaden the participation of non-banks in debt issuance and pricing.

Both the new Banks and Trust Companies Regulations Act, 2020 and the 2020 amendments to the Protection of Depositors Act, Chapter 317, provide more scope to strengthen the Bahamian crisis management framework. Some required frameworks however, still affect financial institutions that are supervised by other Bahamian regulators. Hence, effective multi-agency coordination will remain important to avoid gaps in frameworks that impact macro-prudential policy, financial stability or other systemic outcomes. Progress around strengthened data frameworks for macro and micro prudential polices also remain relevant for the Bank, in addition to follow through on external communications.

Meanwhile, the Exchange Control regime will remain subject to gradual reforms that promote improvements to the business environment, and provide options to improve the domestic savings culture. This includes continued streamlining of administrative processes, increased delegation of approval authority to commercial banks and gradual adjustment to the capital flow regime to facilitate expanded access of residents to cross-border transactions.

In the supervisory space, it is anticipated that domestic financial institutions will have to contend with some reescalation of credit risks because of the COVID-19 pandemic. The pandemic has stalled the reduction in non-performing loan ratios which was a high priority in the years leading up to 2020. The necessary medium-term adjustments in asset quality is anticipated to take shape as the credit bureau begins operation. This could impose some transitional slowdown in lending growth potential, even as the bureau and the prospective establishment of a collateral registry begin to improve access to credit.

The supervisory priorities will remain focused on continuous evolution of Bahamian regulatory standards, in step with changes at the international level—most notably, those of the Bank for International Settlements' (BIS) Basel Committee on Banking Supervision. The regulatory setting will also remain impacted by increasing Bahamian obligations in the areas of international tax transparency and cooperation; and evolving anti-money-laundering (AML) and related standards, which promote the integrity of domestic and international transactions. In this regard, the Bank will continue to contribute to the government's efforts to respond effectively and proactively to international stakeholder needs.

The Bank will also place further emphasis on developing best-fit regulations that minimise the negative outcomes, among others, for domestic financial inclusion. Focus will also continue on outcomes that preserve or promote competitiveness and efficiency of the financial sector; limit compliance cost burden placed on supervised financial institutions (SFIs); and safeguard the quality and cost of correspondent banking relationships.

Strengthening Operations and Governance

Within the Bank's operations, emphasis will remain on achieving increased cost efficiencies, including through effective use of technology. Continued strengthening of the investment management framework for external reserves is being targeted, in order to enhance earnings potential and strengthen liquidity management processes. The Bank will also strive to remain competitive in attracting and retaining people.

The Strategic Plan maintains heightened focus on transparency and corporate governance. The Bank will position itself to meet or exceed its statutory obligations under both freedom of information requirements and public sector procurement standards. Governance will also take on increased importance in the enhanced enterprise risk management frameworks that would impact operations and oversight responsibilities of the Board. The Bank's culture and value system are also expected to adjust, as such changes take hold.

Selected High-level Goals

I. Monetary Policy, Financial Stability & Exchange Control

Continue to increase the effectiveness and transparency of policy frameworks.

- Introduce indirect monetary policy instruments, leveraging the modernisation of the government securities market and infrastructure
- Increase staff recruitment emphasis on training model, to enhance financial forecasting and modelling techniques
- Develop an active toolkit for macro and micro-prudential supervision and policies
- Pursue strengthening of the financial sector crisis management framework, including, through formal engagement with the Ministry of Finance
- Develop interest-based liquidity management instruments for digital payment services providers
- Pursue development of enhanced disaster and climate resilience mechanisms for Bahamian households
- Develop proposals on the establishment of a moveable collateral registry
- Continue to develop targeted proposals for liberalisation of residents' access to inward foreign currency financing, as well as strengthened access for financing of outwards portfolio investments
- Deepen stakeholder engagement on capital account liberalisation and capital flow management policies

II. Financial Supervisions and Regulations

Further enhance the supervisory framework in line with international benchmarks and domestic development goals.

- Complete implementation of the Basel II and Basel III risk-based supervision frameworks
- Identify and propose legal reforms to strengthen supervisory arrangements for credit unions
- Support the establishment of a moveable collateral registry
- Introduce an articulated, documented framework for macro-prudential and micro-prudential supervision
- Deepen financial inclusion frameworks for persons and legal activities and develop proposals on legal reforms to strengthen consumer financial protection
- Sustain reforms to strengthen the AML/CFT regime
- Continue to pursue, strengthened mechanisms for cooperation among the Bahamian Group of Financial Services Regulators
- Continue to support and equip the government to develop offensive and counter responses to initiatives which target supplier jurisdictions of international financial services
- Develop a work plan to strengthen The Bahamas' Financial Market Infrastructures

III. Banking, Currency and Foreign Reserves

Ensure the efficient, smooth functioning of the domestic payments activities, strengthening of the Bank's income model and efficient, and sustained modernisation of public sector debt operations.

- Continue to enhance the investment strategy and policy frameworks for external reserves, to bolster earnings potential and improve liquidity management frameworks
- Continue to modernize the issuance and management frameworks for public debt
- Introduce a government savings bond instrument for retail investors
- Promote widespread adoption of the digital domestic currency
- Sustain counterfeit prevention and detection outreach activities

IV. External Relations and Transparency

Promote more transparency and understanding of the Bank's policies and operations.

- Benchmark and seek further alignment of transparency and governance practices with the IMF's endorsed international standards
- Give more visibility and promotion to the quality of the regulatory regime
- Strengthen public relations capacity in the policy and technical work streams of the Central Bank
- Maintain financial literacy initiatives
- Further entrench internal adherence to the Board-approved Communications Policy
- Deepen public engagement on Exchange Control policies and reforms

V. Operations and Governance

Strengthen the management and administration of business functions to support the enhanced supervisory framework in line with international benchmarks.

- Strengthen the internal audit and corporate governance functions
- Strengthen enterprise-level risk management systems
- Conclude the modernisation and upgrade of core information technology systems and further strengthen the information security framework
- Complete the digitization of corporate records and adopt a modernised governance system for records and information management
- Reform the performance management systems to better anchor compensation, against competitive, merit-based criteria; and ensure continuous focus on career path directed training plans for employees

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

The Bank's corporate governance framework, as outlined in the Central Bank of The Bahamas Act, 2020 (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 has overall responsibility for policy and oversight of the Bank's management and operations, including strategic planning, financial and accounting practices and procedures, enterprise risk management and succession planning. The Board approves policies that govern these activities.

Appointed by the Governor General, on the advice of the Minister of Finance, the Board is comprised of the Governor (Chairman), two Deputy Governors and six independent directors. Under the Act, each director is required to maintain the confidentiality of information acquired, while exercising their functions and each must sign a declaration of confidentiality in relation to the affairs of the Bank. Directors are indemnified by the Bank against personal, civil or criminal liability, in respect of their actions done in good faith, while carrying out their statutory duties.

During 2020, the Bank welcomed two new directors. Director Mrs. Schell Stubbs and Director Mrs. Lynda Gibson were appointed to the Board, with effect from 1st July, 2020. However, Director Stubbs resigned on 11th November, 2020. The Bank is grateful for her valuable contribution to the deliberations of the Board over the period. Mr. Robert Adams, Mr. Thomas Dean and Mr. Russell Miller were all re-appointed to serve as Directors from 1st July, 2020 to 30th June, 2021.

The Board met on twelve occasions in 2020. In addition to the oversight of ongoing procurement activities and operations policies, the Board held discussions on the impact of the COVID-19 pandemic on domestic and international economic and financial conditions, and the repercussions for The Bahamas' external reserves and exchange rate regime. Other matters discussed included Management's progress on the Bank's Strategic Plan for 2016- 2020 and the development of a new Strategic Plan, financial sector supervision and the progression of the country's anti-money laundering and counter-financing of terrorism frameworks. Further, the Board monitored progress on the implementation of new legislation governing the Bank's operations.

ACCOUNTABILITY & TRANSPARENCY

The Bank is mandated by statute and best business practices to ensure a high degree of transparency, which facilitates accountability. In compliance with these responsibilities, the Bank furnished the Minister of Finance with a report of its activities for 2020, which was subsequently laid before Parliament. Monthly balance sheet information was also provided to the Minister and published in the Gazette.

During the year, the Governor maintained scheduled monthly meetings with the Minister of Finance and provided the Minister with special periodic communications, both written and verbal, on industry related matters, as they emerged. These meetings helped to facilitate and maintain coordination between monetary and fiscal policy, and kept the Government informed of the Bank's performance in meeting its statutory obligations.

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

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

CORPORATE STRATEGY, RISK AND GOVERNANCE

The Bank's approach to risk management is based on sound central banking principles and a robust governance structure. In this context, the Bank established the Corporate Strategy, Risk and Governance Unit in 2020. The Unit's core functions are related to enterprise risk management, information assets management and business continuity. The Unit represents the second line of defence model, intended to assist departments across the organisation in self-identifying and controlling risks in their business operations.

Enterprise Risk Management (ERM)

In 2020, the Bank developed an ERM framework, in which it defined its risk appetite statement; the roles and responsibilities with respect to risk management; the process for risk and control self-assessments, as well as risk monitoring and review. As a part of the first line of defence, each department was given responsibility to identify and manage its own risks. Departmental assessment was consolidated to distil the key enterprise-wide exposures faced by the Bank.

[1] www.centralbankbahamas.com

The ERM framework includes explicit attention to AML/CFT and anti-proliferation financing policies and procedures. These policies and procedures were aligned with Bahamian legislative requirements, international best practices and the Bank's risk appetite. The framework also outlines the governance structure, inclusive of a money laundering reporting and compliance function, as well as the standards that the Bank's employees must adhere to protect the institution.

Information Assets Management

The Information Assets Management Unit (IAMU) is responsible for the management of corporate information, through the dissemination of information via the Bank's corporate intranet and website. IAMU also oversees the Bank's records management programme.

In 2020, IAMU continued to focus on the digitization of the Bank's corporate records, as the Bank continued to transition to paperless systems. The Unit also continued to develop policies to govern information management, the security of information resources, and strengthen record-keeping practices.

Significant to strengthening public information dissemination practices, was the upgrade of the Bank's website. This improved site navigation; provided for compatibility with smart phones, computer tablets and other mobile devices; and enhanced the administrative controls of the platform. In addition, IAMU further expanded the Bank's collection of eBooks and other digital resources.

Business Continuity

The Bank maintained emphasis on strengthening disaster recovery and business continuity systems, to safeguard the availability of core stakeholder services. The Bank focused on ensuring that documented plans existed for critical operations; and where necessary, updating existing policies and procedures to bolster its preparedness to recover from business disruptions. In 2020, the consequential impacts of COVID-19 prompted the Bank to fortify its IT infrastructure to facilitate work from home arrangements for the majority of staff. The Bank was able to consistently deliver key products and services to its stakeholders.

Internal Audit

The Internal Audit Unit (IA) serves as the third line of defence in the Bank's risk management structure. IA supports both the Audit Committee of the Board of Directors and Management in evaluating the adequacy and effectiveness of systems of internal control, risk management and governance. The operations of IA are steered by a Board-approved Internal Audit Charter and a risk-driven Annual Audit Plan. To maintain independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

Even in the virtual work environment, IA successfully completed its 2020 work plan and issued assessments, focused on strengthening several of the Bank's critical processes. The Unit examined the Bank's core operations, support activities, as well as its internal programmes, aimed at supporting and sustaining sound governance. The core aim of these reviews is to mitigate risk inherent in the business, enhance existing internal controls and strengthen operational effectiveness and efficiency.

During 2020, the IA Unit also continued to support various working committees of the Bank, which were geared towards encouraging and sustaining a stronger internal control and compliance environment.

Information Security

The Information Security Unit (ISU) continued to promote proactive strengthening of the Bank's security posture for digital and physical assets. The Bank places heavy emphasis on cybersecurity resilience and IT Governance. ISU organized its work projects in compliance with ISO 27001 standards, continuing to assess the Bank's information security program maturity, cybersecurity risks. Further appropriate remediation controls were implemented to ensure that the security needs of the Bank were satisfied. Within the work plan, the Corporate Information Security Policy remained under continuous review.

Activities around the annual Information Security Awareness Month in June were also delivered virtually, in light of the pandemic related remote work arrangements. ISU also placed greater emphasis on bolstering a defensive employee-level stance against malicious attacks.

The Bank further improved its threat intelligence and vulnerability management processes. The vulnerability management tool was replaced with a more robust solution to comprehensively identify, manage, and patch critical exposures. Also, a next generation threat detection solution was implemented to add layers of defence, particularly to counter email-based compromises.

The Bank also maintained proactive cyber risk management practices for key business-led projects, in the areas of IT Modernization and Payments System Modernization. In the latter, the resilience of the Bank's digital currency environment was rigorously assessed, including the robustness of the interfacing systems of participating financial institutions.

CURRENCY OPERATIONS

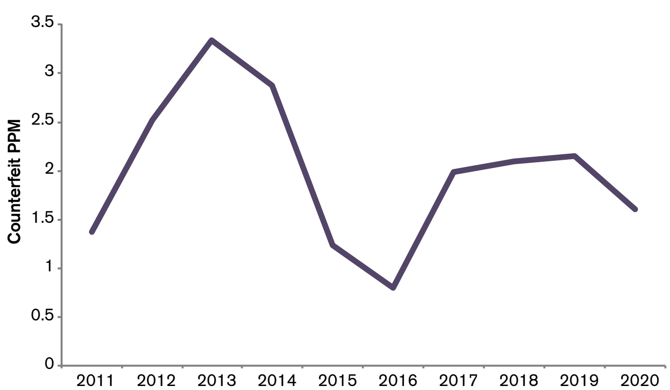
Through the Currency Department, the Bank noted several key strategic milestones in 2020. These included the demonetization of the one-cent coin and the start of the public redemption process for the coins; continued with the release of secure and robust banknotes; and sustenance of the numismatic items programme. Also, noteworthy, was additional headway with the digital currency initiative, Project Sand Dollar.

Update of the suite of circulation banknotes proceeded with the release of the CRISP Evolution $5 on September 23, 2020 (See Table 1). This was the seventh bill issued under this series. It precedes the CRISP Evolution $100 bill, the eighth and final denomination that is expected to be released in the fourth quarter of 2021. Much like CRISP Evolution $1 released in 2017, the $5 note was also produced using the durable Hybrid™ substrate. The Bank also released the second iteration of its educational mobile banknote app, CBB Banknote MAP, which trains the public to distinguish genuine banknotes from counterfeits.

During November 2020, the Central Bank facilitated the first virtual anti-counterfeit detection training workshop, targeting bankers, law enforcement agents, merchants and retailers. The session exposed participants to the mobile banknote and other online support tools.

Over the last 10-year period, detected incidences of counterfeits notes, in parts per million, continued to decrease, closing the year at 1.59 parts per million. These numbers are evidence of an effective banknote strategy, combined with targeted public education efforts to assist in distinguishing genuine from counterfeit banknotes.

Counterfeit Parts per Million (PPM) Notes in Circulation 2011-2020



In June 2020, the Bank awarded Crane Currency, USA, the contract to reprint the CRISP Evolution $10 banknote. The reprint is consistent with the strategy that tiers banknote redesign and production once every 10 years, and reprints bills every 5 years. This reprint also incorporated security feature enhancements, including installation of Crane's RAPID® HD Detect thread, and the Durasafe® substrate. In addition, colour adjustments were made to reduce the similarity in appearance to the CRISP Evolution $1 banknote released in 2017.

The Bank maintained an aggressive public awareness campaign towards the December 31, 2020 demonetization of the one-cent coin and subsequent rounding process. The last coins were issued to commercial banks on January 31, 2020; and the final day that the coin was legally used as a form of payment was December 31, 2020. In the lead-up to demonetization, the Bank initiated its redemption by weight programme, at predetermined locations throughout the New Providence. During October – December 2020, an estimated 26.6 million coins were collected, the majority from the redemption by weight exercise (22.1 million) and the remainder through deposits at commercial banks (4.5 million).

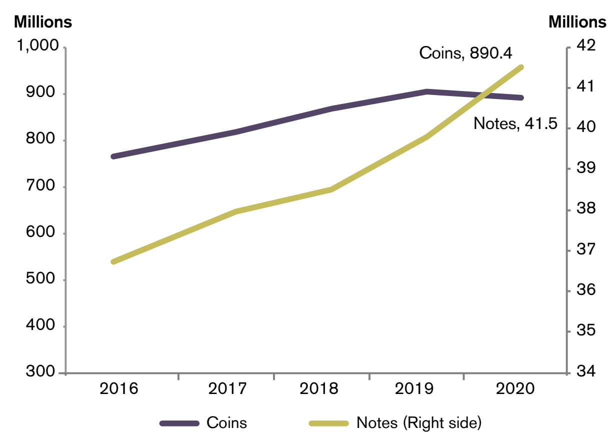
Table 1: Bank Note Security Tiers

Denomination	Public Consumption
$1/2, $3	Novelty
$1, $5	Low Value
$10, $20	Transactional
$50, $100	Value Storage

Source: Central Bank of The Bahamas

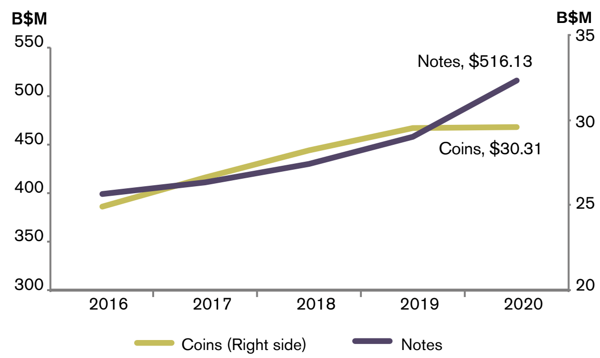
As at December 31, 2020, the quantity and value of banknotes in circulation stood at 41.5 million and $516.2 million, respectively, representing a year-on-year increase in respective quantity and value of 4.3% and 12.7%. The quantity of coins in circulation fell by 2.0%, year-on-year to 890.4 million, while the value of coins in circulation increased marginally, by 0.1% to $30.3 million. The latter included an estimated $7.04 million in 1¢ coins.

Quantity of Notes and Coins in Circulation



During the year, the Bank issue limited amounts of Sand Dollars to the Authorized Financial Institutions (AFIs) and closed the year with a total value of $130,000 Sand Dollars in circulation. With pilot activities constrained by the pandemic, resources were concentrated on further testing and development of the technology platform. Issuance is expected to expand in 2021, as AFIs complete the integration of their mobile wallet platforms, with the Sand Dollar platform.

Value of Notes and Coins in Circulation



The Bank's numismatic programme introduced three new coins to collectors in 2020. This included limited edition releases of the $10, 1.1 ounce Eleuthera Pineapple silver proof coin, in October 2020; followed by the $250, 1.1 ounce Flamingo and $100, ¼ ounce Conch Shell gold proof coins in December 2020. These coins, produced by Osborne Coinage, USA, and The Royal Mint, UK, continued to display the beauty and vibrancy of Bahamian culture and heritage.

The Royal Mint, UK, was also awarded the contract to produce new gold proof coins, scheduled for fourth quarter 2021 and 2022 releases. Osborne Coinage was selected to produce the 2021 - 2024 series of silver proof coins.

BANKING OPERATIONS

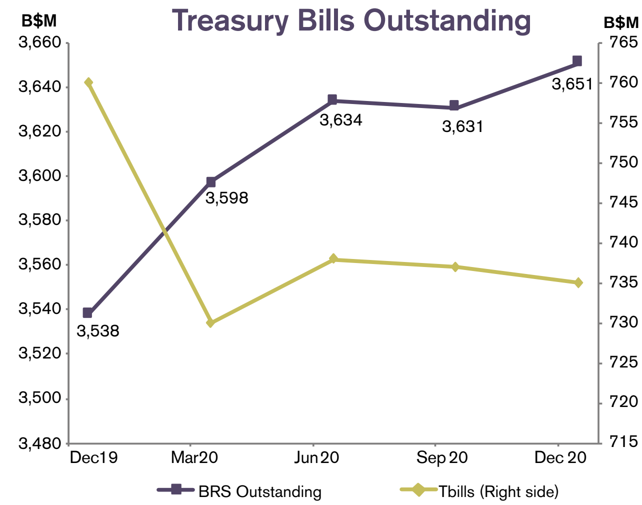
Public Debt Administration (Domestic)

The Central Bank functions as Registrar and Transfer Agent for the government and government agencies' domestic debt securities. Government agencies outstanding debt balances, with the exception of the Education Loan Authority (ELA) and The Bahamas Development Bank (BDB), remained constant during 2020, with no maturities. The ELA's outstanding debt securities decreased from $62.0 million to $47.0 million, following a $15.0 million conversion; and BDB's, from $41.0 million to $4.0 million, after $37.0 million in outstanding holdings were called. Year-end debt balances closed at $22.0 million, for the Bridge Authority (TBA), $24.0 million for the Clifton Heritage Authority and $160.0 million for the Bahamas Mortgage Corporation.

The Central Bank and the Ministry of Finance continued to coordinate on refinancing of government debt obligations, and market taps for new net financing. During 2020, the Bank facilitated 14 Bahamas Registered Stock (BRS) offerings (IPOs) totalling $499.6 million. Proceeds of these offerings were applied to $386.6 million in BRS refinancing; $70.0 million to the conversion of Treasury bill and other short-term instruments to long-term BRS; and $43.0 million was raised as new debt. As a result, the end-2020 outstanding stock of government domestic bonds stood at $3.7 billion.

Treasury bills (T-Bills), ended the year 2020 at an outstanding balance of $734.7 million, representing a net decrease of $25.0 million—a contrast to the $100.0 million net increase observed in 2019. In addition, Central Bank advances to government decreased by $34.9 million to just $4.9 million at end-2020.

Bahamas Registered Stock and Treasury Bills Outstanding



Digital Currency Initiative

During 2020, the momentum of the launch of the Project Sand Dollar pilots in the Exuma and Abaco was interrupted by the COVID-19 global pandemic. In particular, the pandemic severed direct physical contacts with the

BOX 2: Monetary Policy in 2020

The Bank's Monetary Policy Committee (MPC), which meets on a monthly basis, is chaired by the Governor and comprises several Heads of Departments and other technicians. The MPC advises and supports the Governor in articulating policies that support monetary and financial stability, as well as the sustainability of the fixed exchange rate regime. The monthly surveillance analysis of the MPC is summarized in reports which are published within five days of each meeting.

During 2020, the MPC monthly deliberations were conducted against the backdrop of the Novel Coronavirus (COVID-19) pandemic, which dominated international and domestic developments. Discussions were predominately related to:

- The sharp contraction in the domestic economy, as the pandemic and measures to contain the spread, resulted in tourism sector activity grinding to a halt.
- The deterioration in the labour market, following widespread layoffs of hotel sector workers.
- A significant contraction in private sector foreign exchange inflows, with the adverse impact on the external reserves offset by the Government's external borrowing activities.
- The foreign exchange conservation measures adopted to limit foreign currency usage to payments for essential imports, other current transactions and debt service obligations.
- An incremental firming in commercial banks' non-performing loans rate, alongside significant accommodation of displaced borrowers through COVID-19-related loan payment deferral schemes.
- The persistent high levels of bank liquidity, in an environment of continued weakness in credit demand and cautious attitudes toward lending to the private sector.

In evaluating the external risks to the domestic economy, the MPC identified several important trends. The Committee noted the headwinds faced with the outbreak of COVID-19 and the introduction of measures to contain the spread of the virus, which led to a contraction in the global economy. The MPC also took into consideration the falloff in foreign currency inflows from real sector activities, which had the potential to place downward pressure on external reserves, in the absence of the front loading of Government's external financing operations. It was noted that several developments with COVID-19, such as the pace of progress on the international health front, the effectiveness and availability of vaccines and the subsequent restart of global travel, could curtail global growth.

In the context of the Bank's mission to maintain adequate levels of external reserves to support the fixed exchange rate regime, the Committee sustained its close monitoring of two key external reserve adequacy indicators; namely the ratio of external reserves to base money and the import cover ratio. Buoyed by Government's external borrowing activities, along with several measures implemented by the Central Bank, reserves trends featured a considerable growth in balances in 2020. Consequently, the ratio of reserves to base money trended upwards, exceeding the higher end of its 90% - 100% benchmark range for the entire 2020. The indicator reached its lowest level of 103.4% in May and peaked at 113.1% in October, before moving slightly lower to 112.5% at the close of 2020.

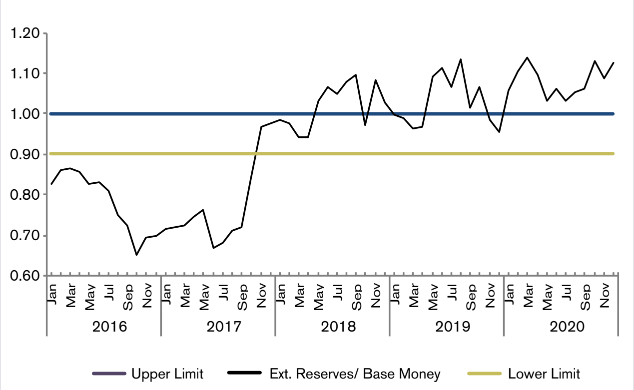
In terms of the more broadly tracked total external reserve coverage in weeks of annual current year's merchandise imports indicator, the ratio rose from 27.7 weeks at end-2019, to 31.1 weeks in the first quarter of 2020. The ratio continued to trend upwards in 2020, exceeding 35.0 weeks in the subsequent quarters, before peaking at 43.7 weeks at the end of the year.

The MPC also maintained its monitoring of banking sector soundness and stability indicators. Members noted the persistent high levels of liquidity in the system, underpinned by banks' conservative lending stance and the Government's external borrowings. However, financial stability concerns were muted, as banks' average capital levels remained well in excess of the regulatory target and trigger ratios of 17.0% and 14.0%, respectively. In addition, in an effort to stabilize their balance sheets, by curtailing the rise in non-performing loans (NPLs) during the COVID-19 pandemic, banks implemented loan deferral schemes ranging between 3-6 months to assist customers whose debt servicing capacity had been adversely impacted.

The Committee's deliberations also led to the introduction of several policy measures to conserve foreign exchange usage. In March 2020, Central Bank suspended approvals for dividend payments abroad by all commercial banks; while in May, 2020, access to foreign exchange for investment currency purchases and financing of Bahamas Depository Receipts (BDRs) for external portfolio investments was suspended. In addition, the ceiling on the Bahamian Open Position on short sales of foreign exchange by commercial banks was relaxed from the maximum of $5.0 million to the binding gap that obtained at up to 5.0% of each entity's Tier I capital. This has the one time effect of delaying recourse to the Central Bank for foreign currency purchases against the external reserves. These measures saved potentially up to an estimated $400 million in claims on the reserves. The Central Bank also requested the National Insurance Board (NIB) to repatriate most of its external assets. In addition, given the external financing strategy informed by the Central Bank's advice, the public sector's external debt transactions contributed to net inflows of $1.0 billion. This more than cushioned the private sector's net outflows.

Given the sharp contraction in domestic economic activity, subdued credit demand and robust levels of external reserves, the MPC determined that the Bank would retain its accommodative policy stance throughout 2020.

Ratio of External Reserves to Base Money



pilot communities. In this context, the Central Bank shifted its focus to further development of the core infrastructures and the security posture of both the Sand Dollar system and the participating financial institutions. This permitted the Bank to transition to gradual nationwide launch on October 20, 2020. An initial six authorized financial institutions (AFIs) were approved, having satisfactorily completed the security assessments–four money transmission businesses (MTBs) and two payment service institutions (PSPs). Subsequently, the AFIs engaged in further development of their technology platforms to achieve the interoperability standards for digital payments across their respective mobile applications.

The Bank also worked to define the regulatory framework for the digital currency addressing key policy priorities, *inter alia*, for financial inclusion, interoperability, cyber security resilience and financial stability. Key stakeholders, in the National Payments Council, received regular updates on both the policy and technical preparation for the national roll out. Overlap with the government's digitization and cashless transactions initiative gained focus, as the Bank deepened its collaboration and preparation for the government to use the Sand Dollar as its method for collections and disbursement of payments, especially in Family Island cash districts, where commercial banking services were absent or on a decline.

Payments and Business Innovation

In 2020, the Central Bank increased its reliance on electronic communications, and electronic settlements. This included a shift to all digital processes for Bahamas Registered Stock (BRS) offering and settlements. Coincidentally, in July 2020, the government amended the Bahamas Registered Stock Act to allow for dematerialisation of bond certificates; listing of all BRS commenced on the Bahamas Internal Securities Exchange (BISX) in July 2020. The BISX trading platform and dematerialised holdings also integrates with the Bahamas Government Securities Depository (BGSD) for more efficient record keeping around securities ownership, and transfers of ownership. Around the IPOs, the Central Bank engaged with commercial banking partners to enhance access to online and mobile banking for wire transfers, particularly for increase in daily transactional limits to settle government security purchases. Further enhancements are planned for 2021.

Within the payments environment emphasis also remained on maintaining compliance mandatory controls within the SWIFT Customer Security Programme (CSP). Further, the Bank continued to test the robustness of business continuity and disaster recovery systems for the real time gross settlement (RTGS) system.

PAYMENTS & SETTLEMENT SYSTEMS

Oversight

In its regulatory oversight of the domestic payments systems, the Bank, through its Payments Unit, sustained efforts to strengthen its surveillance activities, while ensuring the efficiency, reliability and security of the infrastructure. To this end, quarterly meetings were held with members of the Bahamas Automated Clearing House (BACH), centred on collateral and settlement issues of the commercial banks, internal audits and significant developments that emerged during the course of the year. Meetings were also held with these same stakeholders on their participation in the Bahamas Inter-Bank Settlement System (BISS), focusing on matters regarding operational efficiencies and on-going developments and upgrades of the system. While the BACH is owned by the Clearing Banks Association, and processes small value transactions of less than $150,000; the BISS is the Central Bank-owned real time gross settlement (RTGS) equivalent for inter-bank payments above this value. BACH has been requested to amend its governance arrangements to permit non-owners, also supervised by the Central Bank, to participate directly in the settlement process. In line with direct access to the ACH, arrangements were concluded for non-banks to participate in the RTGS system, through the enacted Central Bank of The Bahamas Act, 2020. The Act allows all supervised entities to maintain balances for settlement and other purposes with the Central Bank.

Payments Settlements Trends

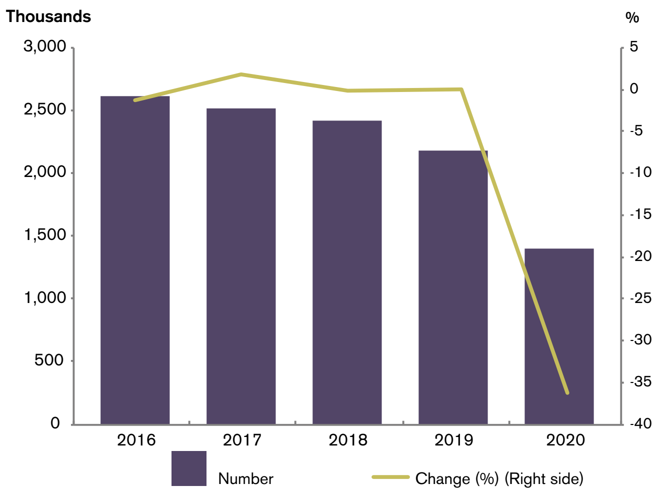
Data continue to reflect increasing volumes of domestic electronic payment transactions in The Bahamas, despite some recent annual fluctuations. The outcome is reflective of the supporting role of the ACH and the RTGS in settlements, and ongoing efforts by commercial banks to advance greater use of online banking and ATMs, in place of in-branch services.

During 2020, transactions cleared through the BISS-RTGS system rose further in volume, by 55.7% to 213,025 transactions. Similarly, the attendant value expanded by 41.4% to $45.5 billion, extending 2019's 7.2% upturn. RTGS participants comprised seven clearing banks that process direct interbank transactions, X9 (cheques) and NACHA (direct credits) payments. On a normal basis, operations facilitate seven daily settlement windows, commencing at 8:15 a.m. and ending at 4:45 p.m.

In 2020, BACH payments, which are processed in accordance with the globally accepted National Automated Clearing House Association (NACHA) format, also trended upward. More specifically, the volume of these transactions rose modestly by 0.7% to 3.2 million, while the corresponding value increased by 13.6% to $4.2 billion.

Declining use of cheques—with the exception of large value transactions—continued, with the number of instruments contracted by 35.9% to 1.4 million, extending a 9.8% falloff in the previous year. Likewise, the related value fell by 36.3% to $4.6 billion, in contrast to the prior year's slight uptick of 0.2% to $7.2 billion.

Cheques Cleared



Retail Payments Services

While global trends and heightened preferences for less use of cash brought on by the COVID-19 pandemic continued to underscore more longer-term shift to retail electronic payments and instruments, recorded activity softened in 2020. This coincided with reduced spending capacity of Bahamian households.

During 2020, the number of automated teller machines (ATMs) decreased by 1.0% to 381. Meanwhile, the value of transactions through ATMs declined by 2.9% to $2.0 billion, and the corresponding volume fell by 28.0% to 8.0 billion. ATMs facilitate shift from over the counter banking services, but still summarize cash handling transactions needs. These machines are installed throughout the country, with locations extending from inside bank branches, to outside areas of high customer transit, such as supermarkets and gas stations. A number of machines—particularly those that are placed in high tourist traffic areas—are configured to dispense both Bahamian and US currency.

Debit cards are issued locally by all commercial banks, with international branding, such as Visa and Master Card, which allow for both domestic and foreign transactions. During 2020, the number of such transactions reduced by 17.1% to 12.4 million, while the associated value was lower, by 7.7% at $1.8 billion.

On net, credit card balances were repaid in 2020. New credit, an indicator of gross spending rose by 7.3% to $1.6 billion, but total repayments increased by 10.8% to $1.7 billion. The number of cards issued or renewed by commercial banks declined further by 2.7% to 90,093, following a 3.4% reduction the previous year, while the corresponding balances owed fell by 10.1% to $245.4 million. In terms of the breakdown, the number of issued cards with spending limits of under $5,000 declined by 6.5% to 58,327, while the aggregate debts on these accounts fell by 8.8% to $92.5 million. By contrast, the number of cards with limits between $5,000-$10,000 grew by 4.4% to 18,830, however, the value of unpaid balances decreased by 9.4% to $66.4 million. In a similar trend, accounts with limits of over $10,000 rose by 6.7% to 12,936, still with a related value decrease of 11.9% to $86.5 million.

Internet Banking

Commercial banks continued to deliver various internet-banking services to customers, which afford them the ability to, *inter alia*, check their account balances, make transfers between personal and third party bank accounts, pay utility bills and purchase foreign currency. Among institutions, the range of internet services vary and some banks assess a fee for the facilities. The number of internet banking users rose by 30.9% to 103,379 accounts.

Instances of Payment Fraud

Given the rise in technology to execute various payments transactions, instances of fraud have the potential to emerge. The Central Bank began collecting data on the number of fraud cases in 2017, as part of a heightened focus on consumer protection.

The Central Bank's 2020 payments survey illustrated that the total number of reported fraud cases processed by commercial banks for cheques, debit and credit cards totalled 3,317, with a value of $5.2 million. Disaggregated by type, cases involving debit cards accounted for 68.6% of the total at 2,276, with an associated value of $0.9 million (17.9% of the total value). Credit card fraud represented 29.8% of the total cases, for a corresponding value of $1.0 million (19.9% of the total value). As the usage continue to diminish, the cheque fraud cases represented a marginal 1.6% of all reported instances; but the associated value was almost two-thirds of the corresponding total ($3.2 million). The survey revealed that 95.9% of fraudulent cases were reported in New Providence, where the majority of bank customers also reside.

FOREIGN RESERVES MANAGEMENT

External reserve balances ended the year at $2.4 billion versus $1.7 billion in the previous year, representing a 35.5% increase. This was largely due to net public sector debt proceeds, over the mid-point and second half of the year, and re-insurance receipts from Hurricane Dorian claims that continued to materialize in the first quarter of

2020. Otherwise, the private sector was a significant net user of foreign exchange. Over the course of the year, the government recorded gross borrowing proceeds of $1.6 billion. While this included refinancing of $239.2 million in commercial loans secured around the middle of the year, funding was also sourced from the IMF's Rapid Financing Instrument ($250.1 million), various IDB facilities ($215.4 million), the Caribbean Development Bank ($90.0 million) and external bond issues ($826.0 million) in two successive taps. On the other hand, the Central Bank was a net supplier of foreign exchange to commercial banks in the amount of $358.9 million. Nevertheless, with financing outpacing the anticipated fiscal stimulus to private sector imports of goods and services, the average external balances remained considerably elevated over the course of 2020. The Central Bank managed these increased balances, with emphasis on investments in short-term US dollar securities and deposits, which enhanced the liquidity profile of the external reserves.

Table 2: Dormant Account Balances

Currency	Account Balances 2019	Account Balances 2020	No. of Accounts 2020	% of Total Balances 2020
	($'000)			
Australian $	70.2	77.5	2	0.1
Bahamian $	20,230.4	20,827.9	36,052	22.4
Canadian $	6,376.3	6,502.9	467	7.0
Swiss Franc	1,604.3	1,760.2	19	1.9
Euro	3,256.2	3,646.5	48	3.9
UK (Sterling)	615.9	638.5	130	0.7
Hong Kong $	908.7	913.2	1	1.0
US$	58,765.3	58,443.3	7,561	63.0
TOTALS	**91,827.3**	**92,810.0**	**44,280**	**100.0**

Source: Central Bank of The Bahamas

DORMANT ACCOUNT ADMINISTRATION

The Bank administered dormant accounts in accordance with provisions in the Banks and Trust Companies Regulation Act, 2020. The new Act maintained the amendments from the Banks and Trust Companies Regulations (Amendment) Act, 2018, brought into force in February 2019, which defined additional assets as dormant, including custody accounts, contents of safety deposit boxes, money orders and credit card balances. The maintained reforms also expanded the dormant account treatment to credit balance on loans, collateral held on loans, funds paid for shares or other interest in a licensee, deposits of precious metals and gemstones, and securities. In accordance with the Act, dormant balances on which no customer activity has occurred for at least seven years must be transferred from the institutions to the Central Bank. Unless subsequently claimed, the assets may be lodged with the Central Bank for a further 10-year custodial period, before they are escheated to the government. Dormant balances of $500 or less are escheated to the government on immediate transfer to the Central Bank.

As at 31st December 2020, the Bank maintained custody of 44,280 dormant facilities, with balances totalling $92.80 million, denominated in eight currencies (See Table 2). Assets transferred to the Government in 2020 were estimated at $3.9 million, as compared to the initially escheated $40.5 million in 2019.

EXCHANGE CONTROL ARRANGEMENTS

The Central Bank administers the Exchange Control arrangements to ensure adequacy between inflows of foreign exchange and domestic requirements for external payments. The Bank has the statutory mandate to maintain adequate external reserves to support the fixed parity of the Bahamian dollar against the United States' currency. While continuing to improve the efficiency of administrative processes, the Bank took measures to conserve on foreign currency usage, given sharp curtailment in tourism receipts with the onset of the pandemic. In May 2020, the Bank suspended residents' access to foreign exchange for portfolio purchases in Investment Currency Market (ICM) and the Bahamas Depository Receipts (BDR) Programme[2]. Further approvals were suspended for commercial banks' remittance of dividend payments abroad, and the National Insurance Board was requested to repatriate portions of its foreign currency investments back onshore. While the moratorium on dividend remittances was lifted in March 2021, the suspension on portfolio outflows was not scheduled for reassessment until the second half of 2021.

As to portfolio investment outflows, during 2020, there was no activity by Broker Dealers, while resident investments via the ICM totalled $28.4 million compared to $49.5 million in 2019. The premium bid and offer rates for investment currency remained at 5.0% and 2.5%, respectively.

Central Bank direct approvals for foreign currency purchases amounted to $3.0 billion in 2020, and were in addition to transactions delegated directly to commercial banks (authorised dealers). The approvals by the Bank normally cover few higher value for oil and non-oil

2 The Central Bank Governor's statement in the above regard may be accessed here: https://www.centralbankbahamas.com/download/069279600.pdf

merchandise; dividends and profit remittances by financial institutions and large private enterprises; insurance company flows and public sector debt servicing.

During 2020, reported foreign currency sales by the Central Bank, commercial banks (authorised dealers) and MTB's, decreased by 10.5% to $5.7 billion. Of significance, sales contracted for oil and non-oil merchandise payments, and external services; but firmed for interest payments given increased public sector obligations. Meanwhile, capital transactions also rose significantly due to public sector refinancing operations.

At end-2020, there remained eight authorized dealers (commercial banks) and 14 authorized agents (resident designated trust companies) active in providing foreign currency services to residents. A continued five money transmission business (MTBs) are also permitted to buy and sell foreign exchange for cross-border remittances, through clearing arrangements with authorized dealers.

Projects

In addition, sustained training and outreach with commercial banks and MTBs on exchange control policies and guidelines, the Central Bank continued to strengthen the surveillance and reporting systems for foreign exchange transactions. This included maintenance to support the performance and reliability of the web reporting portal. Moreover, the Bank commissioned development of a new regulatory reporting portal for all electronic applications for Exchange Control approvals, while also providing online interface for other public regulatory services.

ECONOMIC ANALYSIS, STATISTICS AND RESEARCH

Through its regular publications and surveys, the Bank, via its Research Department, fulfilled its mandate of providing the public with comprehensive, accurate and timely information on domestic economic and financial developments. In line with this objective, during the year, the Department sustained its publication of the Monthly Economic and Financial Developments (MEFD) report, Quarterly Economic Review (QER), Quarterly Statistical Digest (QSD), the Annual Report and the Financial Stability Report (FSR). The March 2020 edition of the QER, featured the latest annual survey on the "Gross Economic Contribution of the Financial Sector to the Economy" for 2019. In addition, the information compiled for the quarterly Bank Lending Conditions Survey (BLCS), was disseminated to the public via the Quarterly Monetary Policy Committee presentations.

The analytical work of the Department remained aligned with policy formulation needs of the Bank, and in strengthening the technical capacity of the staff. Workshops and seminars, which transitioned to virtual format in 2020, continued to provide constructive forums for exposing research projects and improving the technical rigour of policy advice. Of significance, staff authored a study on The Bahamian Current Account Deficit: An Intertemporal Benchmark Analysis, which was presented at the Barbados Research Review Seminar, held virtually. Several other research projects were undertaken by staff and focused on an array of topics, which were presented at the Department's internal roundtable forums. In light of the COVID-19 pandemic, staff, in collaboration with the Ministry of Finance, conducted extensive work on forecasting the monetary and fiscal environment and assessing the economic impact of alternative policy interventions. These contributed to consensus building on the impact of the pandemic on sensitive variables, such as the external reserves, and informed recommendations on the currency profile of the government's deficit financing strategy.

Towards the strengthening of technical expertise, during the year staff participated in a myriad of external virtual training events. These included workshops on the compilation of the Balance of Payments using the sixth edition Manual and the International Investment Position (IIP), hosted by the Caribbean Centre for Latin American and Monetary Studies (CEMLA) onsite during the first quarter and by the Caribbean Regional Technical Assistance Centre (CARTAC) virtually during the third quarter of the year. Research staff also participated in a number of online courses hosted by the IMF.

Furthermore, in line with its mandate, the Department provided economic and financial statistics to a number of multilateral organizations, including the IMF, the Bank for International Settlement (BIS), the Caribbean Economic Research Team (CERT), the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB). Technical input was also provided to support the government's outreach to external private capital markets and commercial creditors.

The Department continued to play a pivotal role in the Bank's outreach programme, with staff facilitating virtual presentations to schools from the primary to the tertiary levels, on the role and functions of the Central Bank and its monetary policy instruments. Further, staff actioned numerous requests from members of the public to provide information and facilitate presentations on various economic themes.

PRUDENTIAL SUPERVISION & REGULATION

Profile of Regulated Activities and Entities

The Central Bank's supervisory responsibilities cover a range of regulated activities under the Banks and

Trust Companies Regulations Act, 2020 and various subsequent amendments, the Credit Union Act, 2015, Payments System Act, 2012, and the Credit Reporting Regulations Act, 2018. Licensed banks and trust companies and related activities continue to decrease marginally, amid ongoing retrenchment in the international sector, whereas, most other entity groupings were stable.

In 2020, the number of banks and trust companies declined by four to 217 (See Table 3); while three new licenses were issued, and seven operations ceased. This included the domestic operations of a continued eight commercial banks: three locally-owned, one US bank and four Canadian-controlled entities. Further, 14 resident banks and trust companies had domestic operations, mostly alongside international operations as well. The remaining 195 banks and trust companies operated exclusively in the international sector.

The number of private trust companies (PTCs) also fell by six to 136. Financial and corporate service providers that act as registered representatives (RRs) of PTCs remained at six, although the other supervised financial institutions (SFIs) acting as RRs of PTCs, reduced by two to 23.

Table 3: Regulated Entities

	2018	2019	2020
Banks and Trusts	231	221	217
Banks & Trusts	54	50	50
Banks	29	24	24
Trusts	148	147	143
Non-Licensee Reg. Representatives	5	6	6
Licensee Registered Representatives	23	25	23
PTC (Registered)	136	142	136
Non-Bank MTB	5	5	5
Non-Bank MTA	20	21	22
MTB Branches	79	116	116
Cooperative Credit Unions	10	10	10
Payment Services Providers	1	3	3
Payment Services Agents	0	0	1
Memo Items:			
Assets of Domestic Banks (B$Bil)	17.43	18.44	19.57
% change	-8.6%	5.8%	6.1%
Assets of International Banks (B$Bil)	166.00	167.85	153.25
% change	-1.5%	1.1%	-8.7%

Source: Central Bank of The Bahamas

Non-bank money transmission businesses (MTBs) remained at five, while related agents increased by one to 22. Also, financial co-operative credit unions stayed at 10, inclusive of the Bahamas Cooperative League Limited; and standalone retail payment service institutions continued at three.

In the domestic sector, assets of commercial banks and trust companies increased by $0.2 billion (2.0%) to $10.9 billion. The four Canadian banks accounted for approximately two-thirds of the total domestic banking assets. Commercial banks' branch networks stood at 68 in 2020.

Licensed international banks and trust companies decreased by two to 195. Meanwhile, on balance sheet assets declined by approximately $14.6 billion (8.7%) to $153.3 billion, while fiduciary assets fell by approximately $39.4 billion (15.0%) to $223.2 billion.

In the virtual working arrangements of 2020, the Bank prioritized oversight of the safety and soundness of international firms. Supervisory engagement comprised enhanced monitoring of institutions at increased vulnerability to the economic and market risks brought on by the pandemic. International SFIs reported some degree of business continuity challenges in the wake of some of the operational restrictions stemming from the Government's Emergency Orders. Over time, these challenges were remedied to allow a degree of normalcy in the new operating environment. Notwithstanding, business to COVID-19, SFIs continued efforts to comply with the most recent legislative requirements embodied in the Beneficial Ownership Registry and the Commercial Entities (Substance Requirement) Act.

Supervisory and Regulatory Developments

While the pandemic did not pose unmanageable financial stability challenges, SFIs still had to adjust operations to comply with the Emergency Powers (COVID-19) Order, 2020 and regulations issued under the Order. In the midst of this process, the Central Bank remained focused on safeguarding and strengthening the resilience of the sector. The Bank released the COVID-19 Guidance Notes, which provided certain temporary relaxed accommodations to SFIs to alleviate some of the difficulties presented by the pandemic—particularly endorsing prudentially sound credit risk management policies, alongside a policy of leniency for domestic borrowers who were displaced from their jobs.

The Bank also surveyed domestic SFIs to assess the impact of COVID-19 on operations and finance. While it is likely that the domestic banking system will continue to face strains in the near-term, entities were not assessed at material risk of distress. Most deployed a 3 to 6 month program of debt service payment deferrals. Credit unions, similarly, offered forbearance arrangements, but operated with minimal capital buffers. This sector, however, pose no macro systemic risk, given the relatively narrow consolidated balance sheet of entities, and the protection offered by deposits insurance, that was extended to credit unions under the Protection of Depositors (Amendment) Act , 2020.

Table 4: Applications for Approved Persons

	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020
Total Applications	9	23	12	25	18	20	15
Incomplete Packages - Requiring Follow up	78%	78%	67%	80%	56%	80%	87%
Average Days from Receipt to Final - if Followed up	27.1	29.9	20.8	32.7	22.1	40.9	29.9
Average Days from Receipt to Final - if Complete	6.0	8.0	9.3	19.2	7.4	6.0	16.5

Source: Central Bank of The Bahamas

The Central Bank's AML/CFT initiatives were sustained as critical strategic priorities in 2020. In January 2020, the Central Bank, in collaboration with the Inter-American Development Bank and the Association of Supervisors of Banks of The Americas, hosted an inaugural global research conference focusing on empirical approaches to anti-money laundering and financial crime suppression. The conference brought together scholars and practitioners from across the globe to discuss research papers related to the topic of anti-money laundering. It established The Bahamas as the first jurisdiction to hold a global conference on empirical approaches to AML and financial crime. Due to the impact of the COVID-19 pandemic, the AML/CFT Risk Management conference scheduled to take place during the summer of 2020 was postponed.

On the prudential front, the Central Bank commenced work around plausible options for a resolution strategy in the event of a failure of a SFI. It is envisaged that more concrete deliverables will be achieved in 2021. The Bank also progressed the consultative process around its Basel III framework, with the timeline for implementation set for 2022.

Supervisory Effectiveness

The Bank continued to focus upon more effective supervisory interventions and refining its administrative processes for supervision.

The Central Bank's supervisory actions are defined in three categories:

- **Directives**, which address the most urgent and serious matters;
- **Requirements**, which are not as serious or urgent as Directives, but which are sufficiently serious that the Central Bank is prepared to deploy its statutory powers in an effort to achieve the required result; and
- **Expectations,** which cover matters where a SFI should consider improving some aspect of its risk management.

The core determinant on whether or not the Central Bank is effective in achieving its prudential mission is its ability, through SFIs, to achieve swift and effective resolution of directives and requirements. During the twelve-month period ending September 2020, the number of outstanding directives issued to SFI increased from four to 12. Some 15 new directives were issued during the year, seven of which were also resolved, leaving 12 actionable items outstanding. Of the remaining 12 directives as of September 2020, three were classified as progressing satisfactorily, five were progressing slowly and four were not progressing satisfactorily by comparison. Further, the number of added requirements remained at a relatively steady state. However, the SFIs did not generate a substantial rate of closed requirements in relation to previous periods due mainly to the pandemic, which impacted both the Central Bank and the SFIs' focus and resources.

AML/CFT and Other Oversight

As part of its continuous supervision of money laundering (ML) and terrorist financing (TF) risks, the Bank received the first round of annual AML data returns from banks and trust companies, credit unions and money transmission businesses. These submissions provided more improved basis on which to enhance the AML/CFT oversight, through identification of trends and emerging risks. The Bank also continued to gain an understanding of SFIs' self-assessments ML/TF risks and related control environments and through interviews conducted with Money Laundering Reporting and Compliance Officers.

The Central Bank also laid the groundwork to implement automated tools to monitor SWIFT wire transfers departing or entering The Bahamas annually. The tools will provide new insights on the characteristic of Bahamian cross-border payments, identifying patterns of relevance, among others, in the sectors, jurisdictions and institutions of counterparties and intermediaries.

In March 2020, the second edition of the newsletter to correspondent banks was issued. This outreach seeks to improve external stakeholders' understanding of the quality of AML/CFT supervision within the jurisdiction and is intended to inform better assessment of ML/TF risk and related risk management practices within The Bahamas.

While safeguarding the integrity of the Bahamian financial sector, AML/CFT initiatives are also crafted to have favourable impact on Bahamian international relations and obligations. To this end, representatives from the Bank continued to participate in The Bahamas' Identified Risk Framework Steering Committee (IRFSC), which meets weekly to discuss related work within the jurisdiction. The IRFSC also spearheaded the official efforts to remediate deficiencies cited in the AML/CFT Mutual Evaluation Report of The Bahamas, which was issued by the Caribbean Financial Action Task Force (CFATF) in July 2017. Through the Attorney General's Office, this culminated in a series of legislative reforms and framework enhancements. As a result of these efforts and a follow-up assessment of The Bahamas in November, 2020, the FATF removed The Bahamas from its list of Jurisdictions under Increased Monitoring. This has subsequently led to the removal of The Bahamas from several blacklists within the European Union.

Data Analytics

The Bank collects data through the Online Reporting and Information Management System (ORIMS), to allow for surveillance that informs the risk-based supervision of SFIs. Development of on-line reporting forms for the new electronic money service providers is expected to be completed during the first half of 2021.

In addition to such regular reporting, the Bank also conducts periodic surveys themed to emergent issues or shocks facing the financial sector. In 2020, these included assessments of the impact of the COVID-19 pandemic on internationally active banks and trust companies, and Hurricane Preparedness and Disaster Recovery of all SFIs. The COVID-19 survey results, published in July 2020, indicated that international SFIs were able to maintain effective operations in the new environment and that financial impacts at the time were minimal. The Hurricane Preparedness Survey reflected a high confidence from SFIs in their ability to recover and operate in the aftermath of a catastrophic storm. However, the results also acknowledged the need for the strengthening of elements of business continuity plans and preparation. The Bank also initiated enhanced surveys to monitor credit risk trends and corresponding risk management practices within domestic banks and credit unions.

Compliance and Timeliness of SFI Reporting

During 2020, the Bank placed added emphasis on reviewing and improving SFI regulatory reporting compliance. Given the 70%-75% on-time compliance in reporting by SFIs over the past years, the Bank commenced focused industry engagement in this area, including contacting individual SFIs and publishing in the Bank Supervision Department's Quarterly Letter its expectation of on-time and compliant reporting. Enhanced monitoring and analysis of regulatory submissions will continue to ensure improvement and compliance.

Examination Programme

In 2020, the Bank conducted 11 on-site examinations, 9 of which were done remotely, due to social distancing requirements (See Table 5). These focused primarily on credit risk, money laundering, terrorist financing and proliferation risks, and corporate governance. The Bank issued 12 Examination Reports including three that were outstanding from 2019. As at end-2020, there were two reports in the process of being finalized for examinations that began in December.

Table 5: On-site Examinations Conducted

	2018	2019	2020
Examinations			
Domestic Licensees	6	2	2
Other Licensees	16	27	7
Follow-up/Special Focus	11	17**	7
Regulator Initiated	5*	3*	0
Discovery Reviews	0	7*	0
Financial Credit Unions	0	3	2
Total	**22**	**32**	**11**
Reports			
Finalized Reports	18	19	12
Reports in Progress	2	3	2
Total	**20**	**22**	**14**

Source: Central Bank of The Bahamas
* No report to SFI required.
** Internal report generated for supervisory purposes for one examination.

Domestic SFIs Risks

Credit Risk Review

During 2020, much of the supervisory focus was on ensuring that the domestic banks were forward looking and strategic in their approach to dealing with the potential medium to long-term business impact of COVID-19. In this regard, half yearly and ad-hoc meetings were held remotely with senior bank executives to discuss the strategies deployed. In addition, the domestic banking sector received guidance on the accounting, provisioning and write-off approaches for COVID-19 impacted loans. The sector opted to continue with pre-existing IFRS9 provisioning methodologies, which reflects underlying financial strength.

The Bank also implemented additional reporting requirements for domestic banks, which included monthly reporting on the level of loan deferrals and non-performing loans (NPLs), due to the pandemic. This enabled enhanced monitoring of governance and risk management practices on the stressed credit portfolios. Surveillance also continued of credit risk management practices, beyond the impact of the pandemic.

With deferrals on debt serving extending for most lenders into the third and fourth quarters of 2020, the pandemic's impact on delinquency ratios was delayed, expected to become more observed during 2021. The industry's NPLs grew by just $20.6 million (4.5%) to $474.6 million in 2020; and the NPL rate reached 8.5%, which was 48 basis points higher at end-December. In June, 2020, early in the pandemic, domestic banks reported that approximately one-third of credit facilities were given deferred payment arrangements, however, this ratio reduced to less than one-tenth or 6.7% by end December. Loans on deferral were not included in the NPL figures.

Stress Testing

Stress tests continued to be conducted semi-annually and remained the primary tool to assess the resilience of banks, including capital adequacy or credit loss absorbing capacity. Credit risk assessments consider varying levels of NPL, which might be precipitated by economic or financial shocks. Interest rate shocks also consider loss absorbing capacity from market rate shifts, while liquidity shocks examine failure risks from potential surges in deposit withdrawals.

Broad observations from consolidated results indicate the domestic systemically important banks (DSIBs) remain resilient, despite the challenges posed by COVID-19. Although the Central Bank anticipates a rise in NPLs and reduced earnings during 2021, there are no immediate financial stability concerns, given the commercial banks' capital and provisioning levels. Interest rate risks remained low, given the infrequent movement in the Bahamian dollar Prime lending rate. Meanwhile, risks to near-term depletion of liquidity were negligible, in view of the high surplus of resources, a sustained cautious lending posture, and limited investment opportunities for surpluses.

With regard to credit stress tests scenarios, these continued to consider NPL shocks of 100%, 150% and 200% for forecasted years 2020 and 2021. Simulated impacts on profits were modelled through foregone interest income and increased provisions for impaired loans. The consolidated results consistently showed that at all magnitudes of shocks no capital injection requirement was assessed against the regulatory trigger ratio of 14.0%. However, there was some capital injection requirement triggered at the 200% NPL shock, when assessed against the regulatory target ratio of 17.0%.

Capital Adequacy

Commercial banks' capital levels remained robust. At end-2020, the capital to risk-weighted assets ratio stood at 28.4% and the common equity tier 1 capital to risk-weighted assets ratio at 26.7%. These were well above the established regulatory target and trigger ratios of 17.0% and 14.0%, respectively. While the Central Bank's foreign exchange conservation policy placed a moratorium on dividend remittances outside The Bahamas, it was not influenced by capital adequacy considerations of the foreign-owned banks. However, the indigenous banks were requested to voluntarily suspend dividend pay-out policies, due to some higher COVID-19 impacted loans to total capital ratio levels.

Credit Unions

Supervision of credit unions also remained risk-based in approach, inclusive of AML/KYC, corporate governance and credit risk management. Strengthening the average capital and liquidity position of the sector is a priority for the Central Bank. At all plausible shock levels, the industry would be challenged to maintain adequate capital, should borrowers who were granted loan payment deferrals default on contractual obligations. Notwithstanding the consolidated position, the individual results of stress testing varied.

However, credit unions do not pose systemic financial stability risks. At end-December 2020, total credit union assets stood at $482.2 million, higher by $6.3 million (1.3%) since end-2019. This was still less than 5.0% of the asset base of domestic banks. In addition, the sector received increased protection from enrolment in the Deposit Insurance Corporation in September, 2020. The total credit union membership increased by 4.5% to 45,386 persons.

Money Transmission Businesses and Agents (MTAs) & Payment Service Institutions (PSPs)

The heightened supervisory focus on reputational, inclusive of AML/CFT, and operational risk management continued for MTBs during the year. Meanwhile, an enhanced regulatory and supervisory regime commenced for payment services institutions (PSPs) during 2020. This regime sought to ensure that similar key risks are effectively identified, measured and managed.

Given the impact of the pandemic and the ongoing adjustments in the sector, the Central Bank determined that the moratorium on new licenses would remain in force until the end of 2021. However, other regulatory applications affecting the scale or ownership of existing operations would be considered.

Basel II and III Implementation Programme

The Bank maintained its focus on implementing the remaining elements of the Basel III supervisory framework. To

BOX 3: Legislative Initiatives in 2020

In 2020, a compendium of legislation was enacted introducing significant reforms, among other reasons, to enhance the Central Bank's governance structure, sustain ongoing payment systems modernization initiatives, establish a more comprehensive bank resolution and crisis management framework and strengthen the financial stability framework. The legislation brought into force on 1st September, 2020 the following: the Central Bank of The Bahamas Act, 2020 (which repealed and replaced the Central Bank of The Bahamas Act, 2000); the Banks and Trust Companies Regulation Act, 2020 (which repealed and replaced the Banks and Trust Companies Regulation Act, 2000); and the Protection of Depositors (Amendment) Act, 2020 (which amended the Protection of Depositors Act, 1999). Some key highlights of the enhanced framework are as follows:

Central Bank of The Bahamas Act, 2020

Key changes brought about by the Central Bank of The Bahamas Act, 2020, are as follows:

• An augmented financial crisis management framework was established, identifying the Central Bank as the sole Resolution Authority for problem banks; clarifying the Bank's role as lender of last resort; and giving the Bank power to establish bridge institutions and assets management vehicles to manage, temporarily, the assets of failed banks in the midst of resolution.

• Toward payments system development, the Act authorises the Central Bank to issue digital currency as legal tender and to issue regulations for digital currency. The Act also allows the expanded list of all Central Bank supervised financial institutions—not just banks and trust companies—to maintain settlement accounts (statutory reserves) with the Bank. The Bank has the discretion to determine, by notice, the level of such reserves.

• The Act imposes comprehensive limits on lending to the public sector. The Bank is now constrained from making direct or indirect advances to the Government or public corporations, except in the case of intra-day credits guaranteed by negotiable Government securities and specified categories of temporary loans. It also limits the Bank's subscription to Treasury bills, Government and other public securities in primary markets to a maximum 30% of the average revenue of the Government, based on the lowest of either the latest 3 years' audited or forecasted estimates. The Bank can only participate at higher levels in secondary market operations for monetary policy purposes.

• The Bank's internal governance arrangements have been strengthened. The number of external Directors who may be appointed to the Central Bank's Board of Directors increased from four to six and the Act provides for Directors' tenure to be staggered over multiple years. Explicit limits have been placed on the number of terms for which the Governor may be appointed.

• The CBBA limits the scope of judicial review or arbitration proceedings instituted against the Bank, to whether the Bank acted unlawfully, or in an arbitrary or capricious manner.

Banks and Trust Companies Regulation Act, 2020

• The Banks and Trust Companies Regulation Act, 2020 (BCTRA), updates the crisis management framework for banks in The Bahamas, in line with best international practices and empowers the Central Bank to resolve troubled banks. The Act authorises the regulator to require banks to prepare recovery plans detailing what steps they would take in the event of financial distress or failure. The Central Bank has also been empowered to prepare its own resolution plan, in consultation with a bank, to identify options for the use of its resolution powers and tools; and to direct a bank to remove significant impediments to resolution.

• The regulator is empowered to appoint a statutory administrator, without a court order, in prescribed circumstances to resolve troubled institutions. During resolution, statutory administrators may carry out a merger of the affected banks or transfer all or some of the bank's assets and liabilities to a bridge institution or to an asset management vehicle, on a temporary basis. Creditors and shareholders of a bank placed under statutory administration may seek compensation through the courts following a resolution, if it is proven that they have been placed in a worse financial position than if the institution had been liquidated.

• The Central Bank is also empowered to appoint a liquidator for the compulsory winding up of a bank under administration and to consider applications for the voluntary liquidation of distressed banks. Application of the Companies Act to the new bank resolution framework is expressly limited giving precedence to the provisions of the BTCRA.

Protection of Depositors (Amendment) Act, 2020

• The Protection of Depositors (Amendment) Act, 2020 streamlined the powers of the Deposit

Insurance Corporation (DIC) and enhanced the corporate governance framework of the Corporation. The amendments removed the Corporation's powers to resolve troubled institutions, as these powers are now vested in the Central Bank.

• Compulsory membership of the Deposit Insurance Fund was expanded to co-operative credit unions. The amendment also provides for higher first-year premiums for new members of the Fund at one tenth of one percent (0.1%) of insured deposits, compared to the current rate in subsequent years of one twentieth of one percent (0.05%).

• The DIC may also vary the annual premium rate charged to members, in order to meet the target funding level of the scheme.

• The amendment mandates that over a prescribed period, the Corporation reduce the target number of days within which it makes insurance payouts to depositors from 20 to 7, following the failure of a member institution. Also, the netting of insured payments is only now permitted against loans that are in default to member institutions at the time of failure.

• The Minister of Finance may vary deposit insurance coverage by Order, following consultation with member institutions. The Minister may also lend funds to the DIC out of the Consolidated Fund, to assist the Corporation to settle claims.

• The DIC is authorised to share information with any government agency or body that regulates or supervises financial institutions in The Bahamas, for purposes connected with that regulation or supervision. The same also applies to information sharing with the Apex Body of a co-operative credit union for the purpose of that Body's oversight of that sector; and with the Minister of Finance for purposes relating to resolving a member institution.

• The size of the DIC board has been increased from six to nine, following an increase in the number of external directors from two to five.

this end, the industry was further engaged with the release of its draft Capital Regulations and Guidelines in November 2020. This second round of consultation was for a 90-day period, ending in January 2021. Given delays caused by the pandemic, the Central Bank extended full implementation of the framework by one year to January 2022.

Guidance Notes and Policies

Recognizing that outsourcing is no longer an unusual risk requiring an unusually high level of supervisory intervention, the Bank, in 2020, moved away from an approval regime to one of notification. This followed a 30-day consultation period in first quarter of 2020. Revised Guidelines on Minimum Standards for the Outsourcing of Material Functions were subsequently released in November 2020.

Crisis Management

A major step towards formalizing the financial sector crisis management framework was the passage of revamped legislation. These were the Central Bank of The Bahamas Act, 2020, the Banks and Trust Companies Regulation Act, 2020 and the Protection of Depositors (Amendment) Act, 2020. The legislation address governance around the resolution of distressed banks and trust companies, requirements for self-drafted resolution plans by banks and the authority and powers of the Central Bank in the midst of interventions in troubled banks. The Bahamian frameworks authorizes an administrative rather than court-intervene process from resolution, but with judicial recourse for aggrieved shareholders of financial institutions, in the event that the Central Bank acts with insufficient care during the resolution process. The Deposit Insurance Corporation also conferred rights to intervene in its member institutions in the event of crises. With the legal framework in place, the Bank is currently working towards operationalizing the framework to produce both internal policies and external guidance notes for SFIs.

Administrative Monetary Penalties

Administrative penalties imposed under existing regulations totalled $0.3 million in 2020, bringing the total fines levied since inception of the regime to $1.4 million. Breaches since 2016 have commonly been classified under 29 different categories—the most active being late or erroneous filing of the Daily Foreign Exchange (B$) Position, the Weekly Interim (Financial) Reports, and the Quarterly Unaudited Financial Statements.

Credit Bureau

The credit bureau moved closer to operations phase in 2020. The official kick-off of CRIF Information Services Bahamas Limited (CRIF Bahamas) was in January 2020. The CRIF Bahamas project team worked with the 35 identified credit information providers to achieve live data reporting by the end of 2020. These providers include supervised entities of the Central Bank, Insurance Commission of The Bahamas and the Securities Commission of The Bahamas. The constrained logistic of the pandemic shifted the reporting transition to the first quarter of 2021.

In addition to the regulated financial institutions, the Central Bank intended to designate the utilities companies and certain non-financial providers of credit information providers in 2021. The Ministry of Finance has also been engaged, so that information from certain tax registries can also be supplied into the credit information system.

Once operational, the credit bureau will offer significant benefits to both lenders and borrowers. Lending institutions will be able to better assess the creditworthiness of borrowers and to establish both pricing and supply of credit by risk profiles. Greater public awareness efforts will be advanced by the service provider throughout 2021, to sensitize the public of the existence and purpose of the credit bureau.

Regulatory Cooperation

In 2020, the Bank received and responded to 10 information requests from nine foreign regulatory authorities (See Table 6).

Table 6: 2020 Requests for Cooperation

Country	Requests Received From Foreign Regulators
Barbados	2
British Virgin Islands	1
Canada	1
Cayman Islands	1
Curacao	1
Ecuador	1
Ireland	1
Jamaica	1
Singapore	1
Total Requests	**10**

Source: Central Bank of The Bahamas

DEPOSIT INSURANCE CORPORATION

The Central Bank provides supervisory and administrative support to the operations of the Deposit Insurance Corporation (DIC). Under the Protection of Depositors Act, 1999 the Corporation is mandated to provide deposit insurance protection and support for Bahamian dollar depositors, in member institutions, while contributing to the stability of the domestic financial sector by minimizing the risk of loss to depositors. The Central Bank has the responsibility to oversee the Deposit Insurance Fund, providing technical resources for its regulatory mandate, and administrative support for its operations. The DIC provided protection coverage of up to a maximum of $50,000 for any single depositor in each of its 18 member institutions.

During 2020, the DIC achieved important reform milestones, which strengthened and expanded the insurance mechanism and governance arrangements. In particular, the Protection of Depositors (Amendment) Act, 2020 ("the Act") came into force on 1st September, 2020. In addition to enhanced crisis preparedness and management frameworks for the DIC, the reforms extended compulsory membership to credit unions. Bahamian dollar deposits held in credit unions are insured up to the same level as in domestic banks.

Approximately 80.7% of Bahamian dollar denominated accounts held with banks, consisted of balances of less than $5,000, with 12.0% of accounts ranging in value between $5,000 and $25,000, and 2.9% of deposit accounts ranging between $25,000 and $50,000. For the credit unions, approximately 83.4% of the Bahamian dollar deposit accounts comprised of balances of less than $5,000, with 13.0% of deposit accounts ranging between $5,000 and $25,000 and 2.1% of deposit accounts ranging between $25,000 and $50,000. The coverage ratio, which represents the share of insured deposits out of insurable/eligible deposits, amounted to 29.5% for banks and 81.0% for credit unions.

As to funding during 2020, the DIC collected premiums increased by 5.3% to $3.3 million. Banks paid $3.1 million, continuing to be assessed at the rate of one twentieth of one per cent (0.05%) of deposits, averaged over liabilities as at 31st March and 30th September of the prior year. Under their initial enrolment in 2020, credit unions were assessed a prorated premium of $142,000, which represented on insured deposits of 0.1%.

Total assets of the DIC increased by approximately $4.5 million to $66.0 million, representing both premium and net investment income inflows.

INFORMATION TECHNOLOGY

The Bank leveraged its Information Technology (IT) resources to successfully transition to a remote work environment during 2020. Along with email, the integrated telephony system allowed the operations to maintain communications with the public. Automated workflow process, for human resources, procurement and payment, regulatory reporting and Exchange Control administration, also eased the transition.

The IT Department proactively supported users' transition to the new work environment and then executed the reprioritized projects to support the Bank's strategic goals and objectives. The Department executed an aggressive schedule of upgrades to its server and networking platforms.

In the meantime, the IT modernisation process deepened. The Bank commenced the deployment of a new enterprise resource planning solution, and a new singular portal for external stakeholders to submit forms and queries to the institution. In addition, the IT Department made significant strides in improving its governance, risk and compliance posture through revisions and enhancement to its policies and procedures library, improvements to systems monitoring and capacity planning and strengthened reporting to stakeholders.

FACILITIES MANAGEMENT AND HEALTH & SAFETY IN THE WORKPLACE

The Bank strives to effectively manage occupied facilities, enhance workplace safety and increase energy efficiency. The Bank conducts business from its Main Building situated between Market Street on the west and Frederick Street on the east, and the leased Trimark building, located to the north of the main building. The Bank also owns three protected historical buildings. They include the Great House, a limestone structure, which serves as the employees' cafeteria; Balcony House, a two-storied building, believed to be the oldest existing wooden residential building in The Bahamas, presently managed by the Antiquities, Monuments and Museums Corporation (AMMC) as a museum; and Verandah House, which has been converted into a small gym for employees. An Exchange Control Representative Office is located in Freeport, Grand Bahama, in the Grand Bahama Office of The Prime Minister, in the Harold DeGregory Complex.

Investments in physical security addressed ongoing enhancements to the Premises Access Control System (PACS), to screen the movement of staff and the general public. This comprised the installation of entrance door vestibules, magnetometers and x-ray machines, biometric (fingerprint) readers, and security gate automation. Security policies and procedures were also revised to accommodate new systems; and the Bank dedicated increased resources to train security personnel.

Reducing energy consumption remains paramount to the Bank's green initiative programme. Overall, total utility costs—including water & sewerage, electricity, cable and telecommunications—fell by 10.3% in 2020, when compared to the prior year. In this process, electricity usage decreased by 6.4%.

In 2020, the Central Bank New Premises project, at the Royal Victoria Gardens, progressed through two of its three major design phases. The engaged architect, Architekton Design Studio Bahamas Limited (ADSBL), completed the Schematic Design Phase for the new project in July 2020. By the end of December 2020, the architects largely completed the next phase, Design Development, which was scheduled for completion by February 2021, ahead of the Construction Documents phase. The project's final two phases, Procurement and Construction, are expected to begin in late 2021, with occupancy due in 2023 to 2024.

The Bank engaged over 30 industry specialists to assist with the architect's design process and facilitate the project through construction. These include various engineering disciplines and a range of consultants for services, including, but not limited to, energy efficient design, historical preservation and façade and waterproofing. During the review year, the demolition works contractor removed buildings on the Royal Victoria Gardens site, with the exception of the historic Curry House and the Little House. Plans are in place to restore Curry House, and to reclaim the historic construction material of the Little House. In fulfilment of the Bank's commitment to the Government, the demolition works contractor also removed the old Main Post Office building, located immediately south of the Royal Victoria Gardens, and levelled its site.

In 2020, further improvements were made to protect the security, safety and functionality of the Bank's properties. These included completion of additional parking facilities on a track of leased property from the Anglican Diocese situated on Market Street north of Gaol Alley; installations of automated window shutters and lightning protection system; air-quality improvements through the replacement and upgrade of air-conditioning infrastructure and machinery; refurbishment and entrance modifications for the Market and Frederick Street security vestibules; and completion of renovation works to Poinciana House, the leased space for the Bank's Business Continuity Planning operations. Further, the roofing replacement and underdeck rehabilitation project progressed nearer to completion, with a virtual warranty inspection scheduled for the first quarter of 2021.

STAFF COMPLEMENT AND RELATIONS

Through the Human Resources (HR) Department, the Bank maintained its focus on talent recruitment, retention, employee benefits and training. In particular, work centred on critical issues related to revisiting education equivalencies for hiring selection, signing bonuses, developing proposals for reviewing and adjusting future salary scales, and a new approach to performance management. The Department steered the workforce assessment and capacity-building consultancy to completion, with recommendations presented to Executive Management on how to further improve the culture and human resource development system. The Department also coordinated critical employee engagement efforts and worked to improve overall health and well-being with the continuation of its Zest Wellness program. As a result of COVID-19, all HR operations were conducted remotely, and virtual platforms provide sustained access to both local and international training.

In 2020, the staff complement increased by 10 to 274, with the turnover rate decreasing by 2.3 percentage points to 6.6% (See Table 7). There were 18 employee separations, including 8 resignations, 2 terminations and 8 retirements. The Bank engaged 37 new hires, with 30 internal placements among existing staff, inclusive of 21 promotions, 7 reclassifications and 2 lateral transfers. At year-end, there were 32 vacancies existing at the Bank.

The employee complement comprised 193 non-management, 66 middle management and 15 in executive management. The female to male ratio remained at almost 2:1. During the annual Employee Recognition and Awards Ceremony, held on 20th January, 2021, the Bank recognized 38 employees attaining 5, 10, 15, 20, 25, 30, 35 and 40 years of continuous service.

Annually, the Bank awards an employee for exemplary performance and for their exceptional contribution to the strategic goals of the organization. Nominations were invited from all employees on behalf of their colleagues. A Blue Ribbon Committee reviewed the nominations and presented a recommendation to Governor for approval. The 2020 winner of the Governor's Award and nominees were announced at the Employee Recognition and Awards ceremony.

Table 7: Workforce Metrics

	2018	2019	2020
Staff Complement	247	264	274
Gender Distribution (%)			
Male	34.0	37.1	39.1
Female	66.0	62.9	60.9
Turnover Rate (%)*	11.3	8.9	6.6

Source: Central Bank of The Bahamas

* Includes staff who retired during the period.

Employee Relations

In 2020, the HR Department continued to engage employees through team-building sessions on "Navigating through Unprecedented Times" and "Allowing Humanity in the Room" by encouraging empathy, in the wake of the pandemic. To complement this effort, the Department offered Health Week virtual seminars on Managing Stress and Finding Work-Life Balance, Ergonomics: Physical Impact of the Workplace on Employees and Wellness Principles for a Healthy Life.

More than 80.0% of the staff worked remotely during the pandemic, continuing to do so in 2021. The only essential operations strictly confined to the building were Facilities Services, Currency Department and subsets of the IT operations. Nevertheless, organization-wide communications were maintained through virtual departmental meetings, the monthly Open Management Meetings for all managers, and weekly meetings with Department Heads.

In early 2020, Human Resources arranged for each Department to have strategic meetings with the Governor in preparation for the 2021-2025 Strategic Plan. During the meetings, the Governor outlined Department specific strategic goals for the upcoming five-year plan. The Bank also engaged in open and constructive communications with both unions on various matters and discussed noted concerns during the year. Of note, almost 92.0% of employees form the non-management and the mid-management bargaining units. The Industrial Agreement with the mid-management staff, represented by the Bahamas Communications and Public Managers Union (BCPMU), and the Industrial Agreement with the staff, represented by the Union of Central Bankers (UCB), concluded on the 31st December 2020. The Bank and both unions commence negotiations on new agreements in January 2021.

Wellness Programmes

Emphasis on employee health and wellness remained intense in 2020. The Zest Wellness Programme continued with a participation rate of 79.4%, albeit with a slight decrease in engagement. The Bank hosted virtual wellness sessions, mainly focused on coping with the pandemic, eating healthy, staying active, being productive and finding balance between work and family. In addition, the Employee Assistance Program (EAP) continued to offer confidential support for staff's mental wellbeing. However, because of the pandemic, the Bank suspended key engagement activities; including, the annual Family Fun Day, Christmas Party for employees and the children of employees, sporting events, Cultural Arts Festival and monthly social gatherings. The Bank donated the budgetary savings from these suspensions to various charities, which provided pandemic related assistance to Bahamian households.

Staff Development and Training

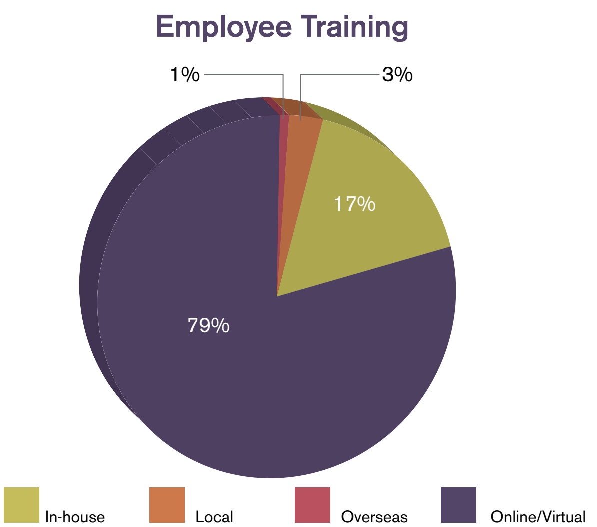
In 2020, there was sustained offerings of training and development activities, most of which was conducted on virtual platforms. Training activities continued to focus on building technical capacity, including topics on Anti-Money Laundering, Balance of Payments, Banknote and Coin Production Techniques,

Table 8: Summary of Training Developments (2020)

	In- House	Local	Overseas	Virtual/ Online	Total
First Quarter	121	21	11	1	154
Second Quarter	--	--	--	104	104
Third Quarter	--	--	--	267	267
Fourth Quarter	--	--	--	203	203
TOTAL PARTICIPANTS	**121**	**21**	**11**	**575**	**728**

Source: Central Bank of The Bahamas

CompTIA Certification, Fintech, Human Resources, Information Security, Information Technology, Internal Audit, Macroeconomic Forecasting and Statistics Compilation, Monetary Policy, and Financial Inclusion. Bank-initiated training focused on Customer Service Essentials, such as the Induction Training workshops for new staff, Performance Management System and enterprise-wide offerings of word processing and spreadsheet proficiency. These activities were conducted through in-house, local, virtual/on-line and overseas training as summarized in Table 8.



The Bank maintained relationship with both local and overseas partners for access to training. While in some cases, these relied on contacts or referrals from suppliers of specialized goods and services procured by the Bank, established affiliations with training institutes, professional bodies, official agencies and international organizations remain most pivotal.

The Bank's partners, international agencies and other providers of technical assistance included the following: the Association of Certified Anti-Money Laundering Specialists (ACAMS), the Global Alliance for Financial Inclusion (AFI), the Association of Supervisors of Banks of the Americas (ASBA), the and the International Monetary Fund (IMF) & the IMF's Caribbean Regional Technical Assistance Centre (CARTAC), the Center for Latin American Monetary Studies (CEMLA), the Caribbean Financial Action Task Force (CFATF), the Financial Action Task Force (FATF), the Florida International Bankers Association (FIBA) and the Institute of Internal Auditors (IIA).

Inside The Bahamas, significant training was also achieved through courses seminars and workshops provided by the Bahamas Institute of Financial Services, the Bahamas Institute of Chartered Accountants (BICA), and various tertiary level institutions.

During 2020, 24 employees enrolled in Continuing Education programmes, pursuing higher level education and/or professional certifications. Approvals were given for certification studies related to Anti Money Laundering, Credit, Project Management, Trust law and compliance, and for pursuit of degrees in Business Administration, Data Analytics, Finance, and Human Resources.

Workforce Assessment and Capacity Building Consultancy

The Workforce Assessment and Capacity Building Consultancy conducted by KPMG, was a critical project on which the Bank received draft recommendations in April. The report was developed following extensive consultation and surveys over a wide cross-section of staff, and senior management. KPMG, also conducted a comprehensive skills assessment, against the Bank's future needs and made recommendations to widen/streamline the Bank's salary bands. The KPMG report also highlighted some of the critical areas for development of the culture and performance of the Bank. The Bank has made follow-up requests, for refined recommendations on projected staffing needs.

Executive Professionals and Apprentice Programmes

In September 2020, seven interns commenced employment under the Bank's Executive Professionals and Apprentice Programmes. Two Executive Professional interns were assigned first year rotation in Banking and Bank Supervision Departments, respectively. Five Apprentice interns commenced rotation assignments in Banking, Finance, Information Technology and Research Departments, and the digital currency project. Interns were assigned mentors of similar areas of study, from among the Bank's senior employees.

Corporate Development Programme

In July 2020, the Bank entered into a corporate education arrangement with Cornell University to offer online professional development courses for select high-potential employees, participating in succession planning and individual development. The goal of the programme is to build technical capacity and augment strength in critical areas. Eighteen participants were enrolled in courses of business analytics, critical thinking, human resources, leadership, operations, and project management.

Summer Internship Programme

Given the work remote environment, the traditional summer employment and Junior Professionals Summer Programme were suspended. The Bank adapted its Summer Internship programme to a virtual format. The six-week programme, commenced in July 2020, with six interns, with interests in economics and finance. Facilitated by two senior staff and mentored by peer collaborators, the interns were guided in completing an economic research paper, which was presented at a roundtable forum. They also received various lectures on central banking policy and operations; and were afforded Master Class sessions that complemented their learning experience.

Work Experience

During February 2020, the Bank accommodated seven work experience students from Anatol Rodgers High School in various departments. Amid the work remote environment, during Fall 2020, the Bank accommodated one student from University of The Bahamas.

Career Fair

Three representatives of Human Resources participated in the Career Fair held at the University of The Bahamas in March 2020. Students were informed of the various technical and subject matter career opportunities at the Bank.

COMMUNITY INVOLVEMENT AND OUTREACH

The Bank continued to support outreach to local schools. In December, a virtual presentation on the Role and Functions of Central Bank was delivered to eight students and an administrator of Etienne Dupuch Law School. The HR Team also provides contributions on the Education Committee at the Bahamas Institute for Financial Services.

The art program started, with the anniversary show of the Bahamas Historical Society in January 2020, followed by a highly acclaimed solo exhibition with paintings by Wendall Jones in February. However, a long prepared show for March, exhibiting political newspaper cartoons from the 1970s and 1980s by Eddie Minnis, had to be postponed. Planned exhibitions by Bahamian artists Alistair Stevenson (based in Beijing) and Gio Swaby (based in Toronto) were also suspended due to the pandemic.

Given the temporary closure of the Bank's gallery space, the Open Call in October focused on "The Bigger Picture—Murals and Public Art". Over 30 proposals were submitted, from which the jury selected projects for Grand Bahama, Abaco, Andros, Eleuthera and New Providence. The first prize winner was Abby Smith, selected to produce a Stapledon School (New Providence) mural of over 300 feet.

The 37th High School Competition was held during November and December, 2020 under the theme "A Penny for Your Thoughts". The competition highlighted the history and importance of the Bahamian One-Cent coin. Students introduced their entries digitally, each with a short video statement.

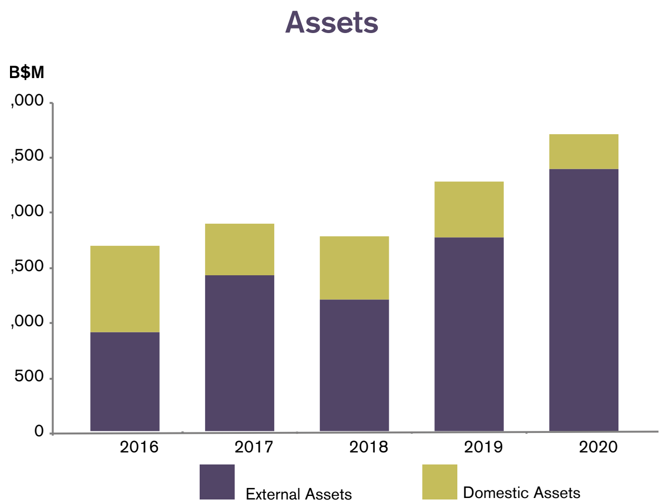
In October 2020, the Bank launched its annual financial literacy video essay competition. The competition, under the Get Money Smart Bahamas branding, invited primary, junior and senior school students to produce video essays of three to five minutes on the importance of savings. Winners and prizes were announced for entries in three age groups. In the Primary School category, first prize was awarded to Miss Tiana Swann, age 9, of St. John's College, New Providence; in the Junior High category Miss Elyse Hanna, age 12, of Windsor Academy, New Providence; and among Senior High School entries Miss Angel Percentie age 16, of the Bishop Michael Eldon School, Grand Bahama.

2020 FINANCIAL PERFORMANCE

The Bank's financial statements for the year ended 31st December 2020, along with comparable figures for 2019, are presented on pages 49 to 129 of this report.

The Bank's financial outcome is mainly influenced by external reserves developments, which are impacted by real sector performance, global interest rates (largely the US) and the Government's financing activities.

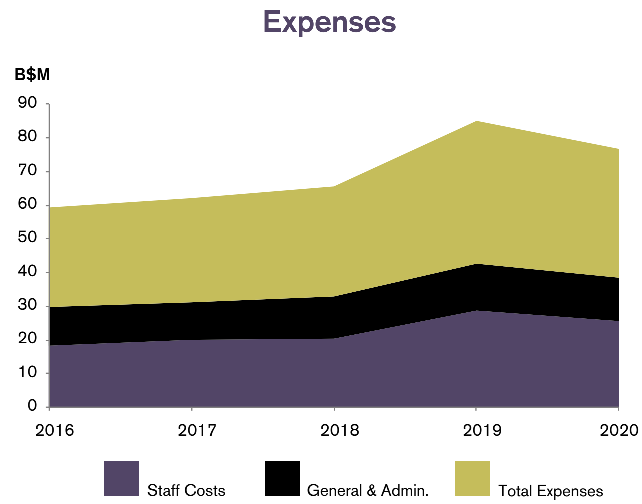
During 2020, the Bank's total assets grew by $427.7 million (18.9%) to $2,693.5 million. External assets—which constituted 88.4% of the total—expanded by $624.1 million (35.5%) to $2,382.2 million, bolstered primarily by proceeds from the Government's foreign currency borrowing activities. In the components, holdings of marketable securities increased more than two-fold to $1,867.6 million from $779.8 million in 2019. Further, IMF Special Drawing Rights (SDRs) and the Reserve Tranche assets rose by $22.1 million (14.1%) and by $1.1 million (4.2%) to $179.2 million and $27.8 million, respectively. However, cash and deposit balances decreased sharply to $307.6 million, from $794.5 million in 2019.



Total domestic assets contracted by $196.4 million (38.7%) to $311.3 million in 2020. This was led by a marked decline in Treasury bill holdings to $13.8 million from $135.3 million in 2019, largely attributed to the conversion of bills into bonds and sales to the private sector. Further, advances to the Government fell to $5.8 million from $75.2 million; and Bahamas Registered Stock holdings decreased by $17.0 million (6.8%) to $232.9 million. Also of note, claims represented as Bahamas Development Bank bonds stabilized at $4.0 million. However, property, plant & equipment grew by $5.6 million (42.0%) to $18.8 million and currency inventory, by $2.2 million (22.8%) to $11.7 million. In addition, intangible assets totalled $5.9 million, after recording nil in 2019.

The Bank's total demand liabilities increased by $409.4 million (21.9%) to $2,277.1 million. Underlying this outturn, unremunerated deposits of commercial banks advanced by $328.4 million (26.4%) to $1,571.2 million, influenced by proceeds from a net repayment of Government's short-term debt held by banks. Further, currency in circulation grew by $58.0 million (11.9%) to $546.5 million, while Government and related agency deposits rose by $20.1 million (17.6%) to $134.5 million. In addition, actuarially projected health insurance subsidies more than doubled to $7.6 million from $3.2 million in 2019, while Investment Currency Market liabilities edged up by $0.3 million (7.0%) to $3.8 million. Providing some offset, accounts payable decreased by $3.8 million (27.5%) to $9.9 million.

During the year, gross income generated by the Bank declined by $7.2 million (11.9%) to $53.0 million. In particular, interest income from investment sources—which accounted for a combined 76.3% of the total—reduced by $4.2 million (9.4%) to $40.4 million. Specifically, earnings on foreign investments fell by $5.1 million (15.4%); and on domestic investments, by $1.1 million (8.5%). However, interest on loans more than doubled to $1.1 million. Further, income from other miscellaneous sources decreased by $3.0 million (19.1%) to $12.6 million.



The Bank's total expenses contracted by $4.1 million (9.7%) to $38.4 million. Specifically, staff costs fell by $3.0 million (10.4%) to $25.7 million, following extraordinary expenses in 2019 to unwind the Defined Benefit Pension Plan. Further, general and administrative costs declined by $1.2 million (11.1%) and depreciation expenses by $0.2 million (7.9%).

As a result of these developments, the Bank recorded a total comprehensive net income of $11.3 million, a decrease of $5.3 million (31.8%) relative to 2019.

OUR ENVIRONMENT

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that the domestic economy contracted sharply in 2020, following a 1.2% growth in 2019, with developments dominated by the spread of the Novel Coronavirus (COVID-19) and containment measures. Against this backdrop, internationally imposed travel restrictions adversely impacted tourism output, with the high value-added stopover segment and the dominant sea component largely offline for the majority of the year. However, the restart of foreign investment projects, and to a lesser extent, ongoing hurricane reconstruction works, provided some support to the construction sector. In this environment, indications are that employment conditions deteriorated sharply during the year, owing to a general rise in the number of unemployed persons. Domestic inflationary pressures remained relatively subdued, attributed to lower global oil prices.

In the fiscal sector, the overall deficit widened significantly in FY2019/20, underpinned by two major economic shocks. These related to the passage of Hurricane Dorian and COVID-19, which contributed to a considerable falloff in revenue collections and an increase in spending, primarily for health and social welfare associated with the pandemic. These trends were further entrenched in the first half of FY2020/21. Financing for the deficit for the six-month period was largely dominated by external borrowings.

At end-December, the ratio of the Direct Charge on the Government to GDP increased by 26.9 percentage points to 83.8%, in comparison to the previous year, reflective of the estimated sharp contraction in GDP in 2020. Similarly, the National Debt—inclusive of Government loan guarantees to public corporations—stood at an estimated 87.7% of GDP, higher than the 62.3% at end-December 2019. However, barring the COVID-19 shock and assuming a GDP level similar to 2019, a National Debt to GDP ratio of 72.6% would have been realized.

Developments in the monetary sector reflected the Government's external borrowing activities, which contributed to robust growth in bank liquidity and external reserves, as the contraction in domestic credit outweighed the decline in the deposit base. External inflows to the banking sector were dominated by proceeds from international bond issues. In this environment, at end-2020 the stock of external reserves was equivalent to an estimated 43.7 weeks of the current year's total merchandise imports, relative to 27.7 weeks in 2019; remaining well above the 12.0 weeks international benchmark.

Reflective of the contraction in the economy and the conclusion of loan deferral schemes that were implemented to assist persons and businesses impacted by the COVID-19 pandemic, banks' credit quality indicators deteriorated during the year. Banks also reported a net loss for the year, owing to a rise in provisioning for loan losses and higher operating costs. Meanwhile, the weighted average interest rate spread narrowed in 2020, as the reduction in the average loan rate overshadowed the decline in the associated average deposit rate.

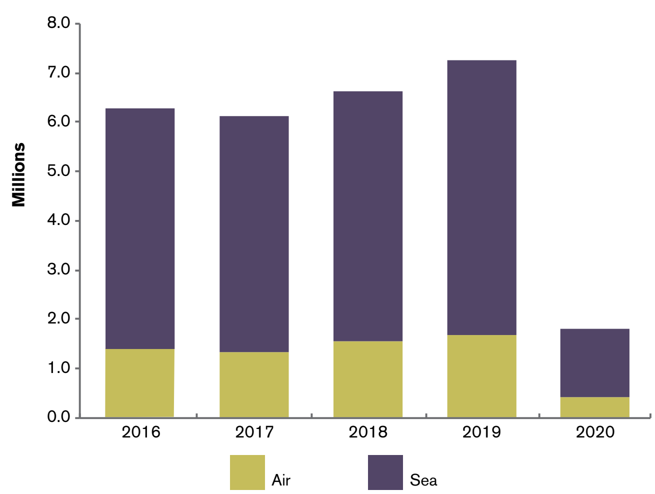
In the external sector, the estimated current account position switched to a deficit in 2020, from a surplus in the previous year, as globally imposed travel restrictions to contain the spread of the virus negatively impacted travel receipts, resulting in a reversal in the services account balance to a deficit, vis-à-vis a surplus in the prior year. In contrast, the surplus on the capital and financial account increased considerably, owing, primarily, to a marked expansion in net debt-financed inflows to the Government.

REAL SECTOR

Tourism

Tourism output contracted in 2020, impeded by global travel restrictions, in response to the COVID-19 pandemic, which largely eliminated both the high value-added

Tourist Arrivals



air segment and sea traffic. Most realized inflows were recorded in the first quarter, before the mid-March closure of The Bahamas to international travel. An attempted reopening of the travel sector in the third quarter was abbreviated, after a resurgence of domestic COVID-19 infections led to resumed domestic restrictions on non-essential economic activities and postponed resumption of hotel sector operations. Moreover, COVID-19 risks stayed elevated in the primary international source markets.

Based on data provided by the Ministry of Tourism, total visitor arrivals reduced sharply by 75.2% to 1.8 million in 2020, following a 9.5% growth to 7.2 million visitors in 2019. Sea passengers totalled just 1.4 million (most registered in the first quarter) vis-à-vis a 10.3% increase to 5.6 million last year. Further, air traffic contracted to 418,329 relative to a 6.7% expansion to 1.7 million in the prior year.

Disaggregated by first port of entry, overall arrivals to New Providence corresponded to just 21.8% (912,793) of the 2019 volumes, compared to an 11.0% gain to 4.2 million the previous year. Reflective of this outturn, sea arrivals amounted to only 590,416, following a 10.8% growth in the prior year. In addition, air arrivals declined to just 322,377, contrasting with an 11.6% increase a year earlier. Similarly, Family Island visitor arrivals reached 30.4% (768,806) of the preceding year's volume, vis-à-vis a 16.4% expansion to 2.5 million in 2019, as sea passengers reduced by 69.2% to 684,564, after a 19.7% growth last year, while air traffic fell by 72.5% to 84,242, deepening the 2.7% retrenchment in 2019. Likewise, visitors to Grand Bahama matched only 21.5% (112,923) of the prior year's outturn, extending the 21.7% reduction to 0.5 million visitors in the previous year, on account of respective declines in sea (78.6%) and air (77.4%) arrivals.

Similar trends were observed in the private vacation rental market, as data provided by AirDNA showed reductions in off-resort business, amid limited international travel, as a result of the pandemic. Vacation rental total room nights sold declined by 46.9% during 2020, as bookings for entire place and private room listings fell by 47.8% and by 38.6%, respectively. In terms of the components, occupancy levels for hotel comparable listings reduced by 12.2%, while the average daily rate (ADR) decreased by 1.0% to $152.88. However, indicators varied for entire place listings, as the occupancy rate lessened by 11.7%, while the ADR rose by 4.6% to $412.07.

Construction

During 2020, construction sector activity was fuelled by ongoing foreign investment projects. However, domestic-financed activity remained relatively subdued, as banks upheld their conservative lending stance.

Indicative of domestic activity, total mortgage disbursements for new construction and repairs—as reported by commercial banks, insurance companies and the Bahamas Mortgage Corporation—contracted by $32.5 million (26.7%) to $80.9 million, extending the 7.4% decline in 2019. In particular, residential disbursements—which accounted for 97.2% of the total—fell by $27.2 million (24.3%) to $78.6 million, exceeding the 5.9% decline last year. Moreover, commercial disbursements decreased by $5.3 million (55.2%) to $2.3 million, following a 31.9% reduction in the prior year.

Forward looking indicators of domestic activity were also subdued. Total mortgage commitments—for new construction and repairs—reduced in number by 71 to 400, with the associated value lower by 3.9% at $83.4 million. A breakdown by loan category revealed that residential approvals fell in number by 84 to 377, but the respective value edged up by $0.3 million (0.4%) to $66.4 million. Further, commercial commitments grew in number by 13 to 23, however, the corresponding value decreased by 17.5% to $17.0 million.

With regard to interest rates, the average financing cost for residential mortgages declined by 42 basis points to 6.46%. Similarly, the average rate for commercial mortgages fell by 38 basis points to 6.18%.

Prices

Domestic inflation slowed to a muted 0.04% in 2020, from 2.5% in 2019, attributed to lower global oil prices. Underlying this development, average prices for transport and clothing & footwear reduced by 4.4% and by 1.3%, respectively, vis-à-vis increases of 11.8% and 1.1% in the prior period. Similarly, average costs for housing, water, gas, electricity & other fuels, and recreation & culture decreased by 0.7% each, following respective gains of 0.8% and 0.1% last year. In addition, the decline in the average price for communications extended to 5.5% from 0.5% in the previous year. Further, inflation moderated for furnishing, household equipment & routine household maintenance (1.9%), restaurant & hotels (4.1%), alcohol beverages, tobacco & narcotics (3.2%) and health (5.0%). Providing some offset, inflation rates quickened for miscellaneous goods & services and food & non-alcoholic beverages to 2.8% and 1.6%, respectively, from 0.9% and 0.1% a year earlier. Meanwhile, the decrease in education cost slowed to 3.4% from 3.8% in 2019 (See Table 9).

Table 9: Selected Economic Indicators

	2018	2019	2020
		(% Change)	
Real GDP*	3.0	1.2	(16.2)
Unemployment Rate (May)	10.0	9.5	n.a.
Hotel Occupancy (%)**	61.7	67.1	n.a.
Total Arrivals	7.9	9.5	(75.2)
Mortgage Disbursements	11.6	(7.4)	(26.7)
Inflation	2.3	2.5	0.04
National Debt/GDP Ratio (%)*	63.4	62.3	87.7

Source: Central Bank of The Bahamas
* 2020 GDP estimates derived from IMF's data.
** Data from The Bahamas Hotel and Tourism Association and The Ministry of Tourism of Nassau and Paradise Island properties.

FISCAL OPERATIONS

FY2019/20 Performance

During FY2019/20, the Government's overall fiscal deficit increased significantly to $788.2 million from $219.3 million in FY2018/19 (See Table 10). This was considerably higher than the targeted deficit of $136.9 million. The outturn was largely attributed to the shocks of Hurricane Dorian and COVID-19, which contributed to a notable decline in revenue collections and a rise in spending, mainly for health and social welfare related to the pandemic. Specifically, total revenue reduced by $337.1 million (13.9%) to $2,089.2 million, approximately $539.0 million (20.5%) below the original budgeted amount. In addition, aggregate expenditure rose by $231.8 million (8.8%) to $2,887.4 million—exceeding original projected outflows by $112.3 million (4.1%).

Table 10: Fiscal Indicators (B$ Millions)

	FY2017/18 Actual	FY2018/19 Actual	FY2019/20 Actual	FY2020/21 Approved Estimates	FY2020/21 Preliminary[1] Estimates
Government Revenue	2,042.4	2,426.3	2,089.2	1,762.5	671.4
as % of GDP	16.0	18.2	16.8	15.4	5.9
Government Expenditure	2,457.3	2,645.6	2,877.4	3,089.6	1,407.5
as % of GDP	19.3	19.9	23.2	26.9	12.3
Surplus/(Deficit)	(414.9)	(219.3)	(788.2)	(1,327.1)	(736.1)
as % of GDP	(3.3)	(1.6)	(6.4)	(11.6)	(6.4)

Source: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1] July - December, 2020

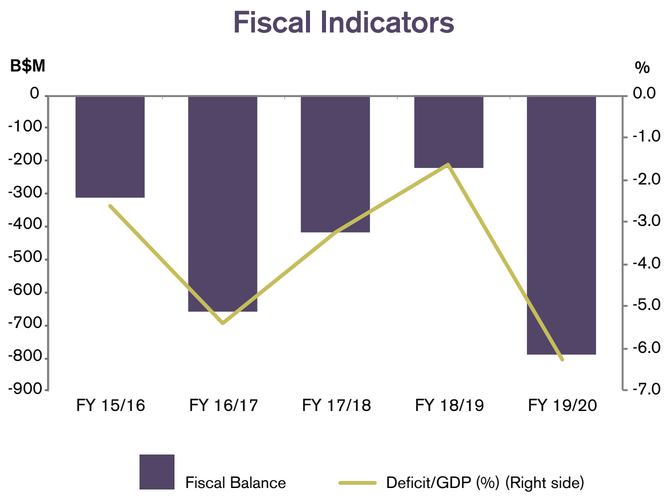
Revenue

Tax revenue—at 88.5% of total collections—decreased by $349.0 million (15.9%) to $1,849.7 million, as taxable economic activities contracted, resulting in a $490.6 million (26.5%) shortfall when compared to budget estimates. An analysis of the sub-components showed that stamp taxes on financial and realty transactions reduced sharply by $158.5 million (70.3%) to $66.9 million, explained by the reclassification in VAT payments on these transactions. Further, VAT receipts fell by $19.2 million (2.1%) to $877.4 million, outweighed by the overall narrowing of the tax base. In addition, receipts from excise taxes declined by $11.6 million (4.8%) to $230.3 million. Taxes on the use or supply of goods and services also decreased by $82.4 million (35.7%) to $148.4 million, led by a falloff in collections from licenses to conduct business activity by $45.1 million (31.1%). Likewise, receipts from taxes on international trade & transactions contracted by $63.9 million (14.4%) to $381.1 million. This largely reflected the reduction in proceeds from customs and import duties, by $58.9 million (20.7%), owing in part to tax exemptions to stimulate the economy following the 2019 storm; and a decrease in departure taxes, by $22.0 million (14.9%), explained by the tourism sector contraction. Property taxes also reduced by $10.2 million (9.3%) to $99.1 million and general stamp taxes, by $3.5 million (34.3%) to $6.7 million.

In contrast, non-tax revenue rose by $11.8 million (5.2%) to $239.4 million over the prior year, but still $46.3 million (16.2%) below the original forecast. Largely contributing to this development was expanded reimbursements and repayments, at $39.6 million from $0.2 million in the preceding year, related to the reclassification of bank and trust companies license fees. In addition, "other" miscellaneous revenue sources advanced to $15.4 million from $2.4 million, partly on account of proceeds from the Caribbean Catastrophic Risk Insurance Facility (CCRIF), following Hurricane Dorian. Further, income from property grew by $10.7 million (54.7%) to $30.3 million. Providing some offset, income from sales of goods & services reduced by $46.8 million (23.9%) to $149.2 million, led by a decrease in collections from customs and immigration fees, while receipts from fines, penalties, & forfeits fell by $2.0 million (29.7%) to $4.7 million, and no intake from sales of other non-financial assets. Meanwhile, capital revenue remained at negligible levels over the review period.

Expenditure

Current expenditure—at 87.2% of total outlays—rose by $86.3 million (3.6%) to $2,508.6 million; but was approximately $21.5 million (0.8%) lower than original budget estimates. In term of the components, outlays for compensation of employees increased by $47.6 million (6.7%) to $759.9 million. Similarly, general subsidies were higher by $34.8 million (8.9%) at $427.5 million, largely attributed to a rise in support to public corporations. In addition, other "miscellaneous" payments—inclusive of current transfers and insurance premiums—grew by $31.6 million (15.5%) to $234.9



million. Further, interest payments on debt advanced by $10.6 million (3.2%) to $339.1 million, as the $16.5 million (9.0%) growth in internal debt obligations to $199.2 million, overshadowed the $5.9 million (4.0%) decline in external payments. More muted gains were registered for social assistance benefits, by $1.6 million (0.8%) to $187.7 million and grants, by $0.4 million (5.4%) to $8.6 million. In a slight offset, outlays for the use of goods & services decreased by $40.3 million (6.8%) to $551.0 million.

Capital outlays expanded by $145.5 million (65.1%) to $368.8 million—overshooting the original allocation by $133.8 million (57.0%). Contributing to this outturn was a surge in infrastructure-related capital transfers to $155.7 million from a mere $30.6 million, on account of post-hurricane for rebuilding efforts. In addition, asset acquisitions rose by $20.4 million (10.6%) to $213.2 million, explained by a notable rise in spending on fixed assets.

Financing

Financing for the deficit during FY2019/20 was obtained largely from internal sources, which included long-term bonds ($562.6 million), loans & advances ($305.0 million), net Treasury bills/notes ($233.6 million) and foreign currency loans ($50.0 million). In addition, external borrowings, primarily in the form of policy-related disaster recovery loans, amounted to $395.7 million. Debt repayments for the period totalled $879.0 million, the majority of which ($835.1 million) went towards retiring Bahamian dollar obligations.

First Six Months of 2020/2021

With the pandemic's effect more pervasive over the entire first half of FY2020/21, the Government's overall deficit rose to $736.1 million from $194.1 million, vis-à-vis the same period of last year. The outcome continued to reflect sharp revenue collection decline and higher disbursements, primarily for health and social welfare. In addition, recovery spending still associated with Hurricane Dorian were ongoing. Specifically, total revenue decreased markedly by $430.0 million to $671.4 million, while aggregate expenditure grew by $111.9 million to $1,407.5 million.

Over the review period, tax receipts contracted broadly by $425.1 million (42.7%) to $569.4 million, reflective of reduced economic activity, most concentrated in VAT and levies on international trade. Other tax revenue components also fell on average. Meanwhile, non-tax receipts declined by $4.9 million (4.6%) to $102.0 million.

On the expenditure side, the expansion corresponded mostly to a $119.4 million (10.1%) rise in current outlays to $1,298.2 million. Upward pressures remained from disbursements for social benefits, subsidy allocations for public health facilities and interest payments on public debt. In contrast, personal emoluments costs declined during the half-year. Capital expenditure also contracted by $7.5 million (6.4%) to $109.3 million, largely attributed to a sharp reduction in current transfers to state-owned enterprises. Providing some offset, outlays for the acquisition of non-financial assets firmed, on account of increased spending for other structures, other fixed assets, land improvements, other machinery & equipment and transport equipment.

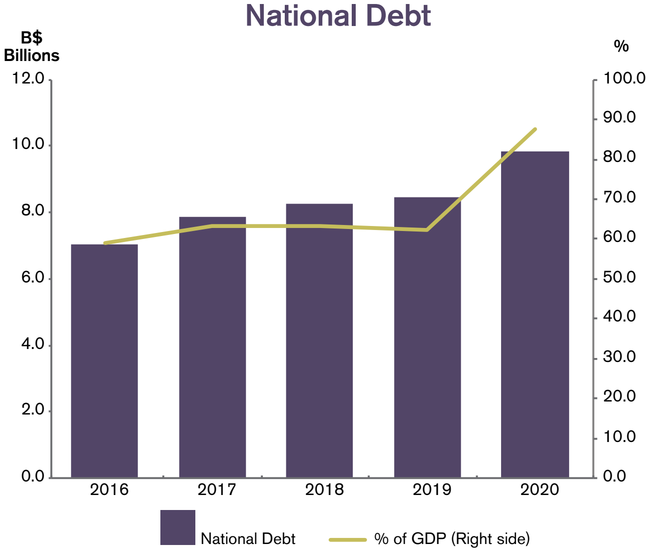
Budgetary financing for the six-month period was dominated by external borrowings, which totalled $1,459.4 million, inclusive of issues of international bonds proceeds of $825.0 million and $634.4 million in project and policy-based loans. In addition, $660.8 million was sourced from the domestic market, in the form of long-term bonds ($272.9 million), loans & advances ($365.3 million) and net Treasury bills/notes ($22.5 million). Debt repayments for the period totalled $951.3 million, the majority of which ($564.1 million) was utilized to repay Bahamian dollar obligations.

National Debt

During 2020, the Government's Direct Charge expanded by $1,684.7 million (21.8%) to $9,417.9 million, significantly higher than the previous year's growth of $234.3 million (3.1%). Also factoring the significant contraction in output, the ratio of the Direct Charge to GDP consequently increased by 26.9 percentage points to approximately 83.8% (See Table 11). Bahamian Dollar denominated debt—at 55.3% of the total—grew by $90.6 million (1.8%) to $5,206.1 million. Further, foreign currency claims increased sharply by $1,595.1 million (60.9%) to $4,211.8 million. An analysis by holder classification showed that banks held the largest share of Bahamian dollar debt (42.4%), followed by the private sector (41.6%), public corporations (11.1%) and he Central Bank (4.9%).

Table 11: Debt Indicators	2018p	2019p	2020p*	2020p
		(B$M)		
A. External Debt	3,171.8	3,123.1	4,477.8	4,477.8
B. Internal F/C Debt	338.4	352.9	306.0	306.0
C. Total F/C Debt	3,510.1	3,476.0	4,783.8	4,783.8
D. Direct Charge	7,498.9	7,733.2	9,417.9	9,417.9
E. National Debt	8,251.3	8,457.3	9,856.7	9,856.7
F. Debt Service Ratio (%)**	8.3	6.3	21.4	21.4
		Percent of GDP		
A. External Debt	24.4	23.0	33.0	39.9
B. Internal F/C Debt	2.6	2.6	2.3	2.7
C. Total F/C Debt	27.0	25.6	35.2	42.6
D. Direct Charge	57.6	57.0	69.4	83.8
E. National Debt	63.4	62.3	72.6	87.7

Source: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Report
* Ratios calculated using base of 2019 GDP
** Net of refinancing activities
2020 GDP estimates derived from the IMF's data



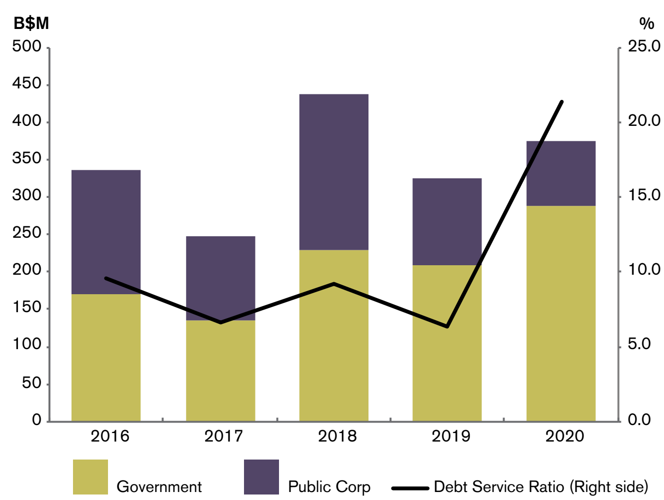
For the year, Government's contingent liabilities decreased by $285.3 million (39.4%) to $438.7 million. As a result, the National Debt, which includes these liabilities, rose by $1,399.4 million (16.6%) to $9,856.7 million at end-December, considerably higher than the $206.0 million (2.5%) growth in the prior year. Similarly, the National Debt to GDP ratio grew by 25.4 percentage points to an estimated 87.7%, following a 1.1 percentage point decrease to 62.3% in 2019. However, barring the COVID-19 shock and assuming a GDP level similar to 2019, a National Debt to GDP ratio of 72.6% would have realized.

Foreign Currency Debt

Public sector foreign currency debt increased by $1,307.8 million (37.6%) to $4,783.8 million in 2020. New drawings—some subsequently refinanced—rose to $1,946.7 million from $93.7 million, outpacing the $544.6 million rise in amortization payments to $666.8 million. The Government's debt obligations—which constituted 88.0% of the aggregate—expanded by $1,594.1 million (60.9%) to $4,211.8 million; however, the public corporations component reduced by $286.3 million (33.4%) to $572.0 million. The latter included $248.0 million in obligations of a local utility company that were refinanced and taken over by the Government.

Largely reflecting the refinancing of short-term loans with proceeds from the external bond, and the refinanced local utility company's debt, the public sector's foreign currency debt service payments more than doubled to $868.5 million, from $325.4 million in 2019. The Government's debt service portion rose by $328.5 million to $536.7 million. Similarly, the public corporations' segment grew by $214.6 million to $331.8 million. Net of refinancing activities, the Government's debt-service to total revenue ratio firmed to 17.4% from 8.3% in 2019, while the debt service to exports ratio stood at 21.4%, an increase of 15.0 percentage points from the prior year.

A disaggregation by creditor profile showed that the majority of the foreign currency debt was held by private capital markets (51.7%), followed by external financial institutions (21.1%), multilateral institutions (19.3%), domestic banks (6.4%) and bilateral financial institutions (1.5%). At end-December, the average age of foreign currency debt shortened to 8.6 years, compared to 8.9 years in the prior year. By currency, the bulk of the debt was denominated in US dollars (86.9%), followed by the IMF's SDRs (5.5%), Swiss franc (4.4%), euro (1.7%) and Chinese yuan (1.5%), respectively.



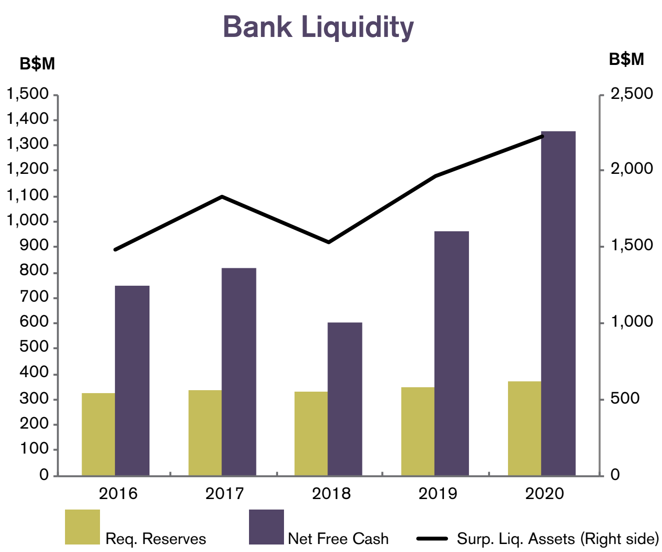
MONEY, CREDIT AND INTEREST RATES

Monetary Sector

Buoyed by the Government's external borrowing activities, monetary sector developments during 2020 featured a notable build-up in both bank liquidity and external reserves, as the reduction in domestic credit outpaced the decrease in the deposit base. Meanwhile, banks' credit quality indicators deteriorated, evidenced by increases in delinquencies across both the short-term and non-accrual segments, partly owing to the cessation of some banks loan deferral programs. In addition, banks' overall profitability contracted, reflecting a rise in bad debt provisioning and higher operating costs. Moreover, the weighted average interest rate spread narrowed, as the decline in the average lending rate, outweighed the softening in the mean deposit rate.

Liquidity

Attributed largely to an uptick in banks' statutory balances with the Central Bank, average net free cash balances—a narrow measure of liquidity—expanded by $413.7 million (54.3%), to $1,175.4 million, a reversal from a reduction of $73.4 million (8.8%) in 2019. An analysis of the monthly trend revealed that balances



averaged $1,085.7 million over the first five months of the year, declining to a low of $1,059.8 million in March. However, net free cash reserves rose to above $1.2 billion in June and remained above this level over the remainder of the year, before peaking at $1,354.2 million in December. This elevated the ratio of net free cash reserves to Bahamian dollar deposits to 18.4%, compared to 13.5% in 2019.

Domestic banks' excess liquid assets—a broader measure of liquidity, inclusive of holdings of Government securities—registered an average surplus of $2,105.0 million per month, increasing 18.5%, relative to the prior year's mean. On a monthly basis, balances were relatively stable during the first seven months of the year, with the lowest level of $1,989.4 million recorded in April, before increasing over the remainder of the year to peak at $2,230.5 million in December, for an annual gain of $263.0 million (13.4%). This pattern corresponded to the net impact of public sector foreign borrowing, which, concentrated in the second half of the year, supported net repayment of debts owed to banks. Meanwhile, the balance of surplus liquid assets exceeded the statutory requirement by 171.4%, vis-à-vis 157.8% in 2019.

Money Supply

The overall money supply (M3) contracted by $30.0 million (0.4%), to $7,863.0 million in 2020, vis-à-vis a sharp rise of $784.1 million (11.0%) in 2019, which was due primarily to a surge in hurricane-related re-insurance inflows. In particular, the growth in narrow money (M1) slowed to $222.6 million (6.9%), from $520.3 million (19.1%) in the prior year. Contributing to this outturn, the build-up in demand deposits moderated to $186.3 million (6.4%), from $493.9 million (20.4%). Meanwhile, the expansion in currency in circulation extended to $36.2 million (10.8%), from $26.4 million (8.5%), in the preceding year.

Broad money (M2) gains slackened to $199.4 million (2.7%), from $597.8 million (8.9%) in the previous year. Specifically, the increase in savings balances tapered to $151.3 million (9.2%), from $209.9 million (14.7%), underpinned by decelerated growth in private sector deposits. In addition, the falloff in fixed deposits deepened to $174.4 million (7.2%), from $132.4 million (5.2%) a year earlier. Further, foreign currency deposits fell by $229.4 million (2.7%), following an expansion of $186.4 million (46.4%), reflecting declines in both private and public sector placements.

As a proportion of the overall money stock (M3), Bahamian dollar demand deposits comprised the largest share, at 39.4%, followed by fixed (28.6%) and savings (22.7%) balances. Currency in active circulation and foreign currency deposits represented smaller shares, of 4.7% and 4.6%, respectively.

Domestic Credit

Banks' domestic credit contracted in 2020, after the Government utilized foreign currency borrowings to reduce local debt. Further, credit to the private sector declined, as the system's conservative lending stance was further impacted by the adverse economic and financial effects brought on by the COVID-19 pandemic.

Total domestic credit fell by $337.4 million (3.8%), a reversal from a $45.8 million (0.5%) accumulation in 2019—the majority of which (95.8%), was denominated in Bahamian dollars. Specifically, net claims on the Government reduced by $91.4 million (3.5%), contrasting with an $81.6 million (3.2%) growth in the prior year. In addition, the falloff in credit to the rest of the public sector quickened to $120.5 million (27.1%), from $41.3 million (8.5%) a year earlier.

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

	Outstanding as at 2018	Absolute Changes 2019	Absolute Changes 2020	Outstanding as at 2020
Destination				
Government (net)	2,539.3	81.6	(91.4)	2,529.5
Central Bank	503.6	(107.7)	(218.0)	177.9
Domestic Banks	2,035.7	189.3	126.6	2,351.6
Rest of Public Sector	485.8	(41.3)	(120.5)	324.0
Central Bank	7.7	(0.7)	(0.1)	6.9
Domestic Banks	478.1	(40.6)	(120.4)	317.1
Private Sector	5,886.2	5.4	(125.5)	5,766.1
Domestic Banks	5,886.2	5.4	(125.5)	5,766.1
Consumer	2,217.2	(8.8)	(53.3)	2,155.1
Mortgages	2,690.6	(43.3)	(21.1)	2,626.2
Other Loans	978.4	57.5	(51.1)	984.8
Financing				
Liabilities (Net of Government)	7,034.2	808.9	(32.2)	7,810.9
Currency	310.5	26.3	36.2	373.0
Total Deposit liabilities	6,723.7	782.6	(68.4)	7,437.9
Demand deposits	2,675.6	646.7	5.5	3,327.8
Savings deposits	1,454.3	213.0	155.0	1,822.3
Fixed Deposits	2,593.8	(77.1)	(228.9)	2,287.8
International reserves	1,196.3	561.8	624.1	2,382.2
Other net external liabilities	(124.2)	156.8	(272.9)	(240.3)
Capital and surplus	2,783.9	(162.4)	50.0	2,671.5
Other (net)	165.3	117.9	(4.1)	279.1

Source: Central Bank of The Bahamas

Private sector credit decreased by $125.5 million (2.1%), after an accretion of $5.4 million (0.1%) in 2019 (See Table 12). Disaggregated by sector, the falloff in the dominant personal loans component—which comprised 72.3% of the total—accelerated to $71.0 million (1.4%), from $37.8 million (0.8%) in the preceding year. In particular, outstanding credit declined for entertainment & catering ($31.8 million), distribution ($11.6 million), private financial institutions ($5.2 million), transport ($4.5 million), professional & other services ($4.1 million), "miscellaneous" purposes ($1.9 million) and fisheries ($1.4 million). More modest reductions of less than $1.0 million occurred for manufacturing and mining & quarrying. In contrast, credit growth was recorded for construction ($5.6 million) and agriculture ($5.4 million), with a muted gain for tourism.

A further breakdown of personal loan activity indicated that the falloff in the consumer segment extended to $49.4 million (2.2%), from a $4.4 million (0.2%) in 2019. In a slight offset, the decrease in housing loans slowed to $21.1 million (0.8%), from $24.7 million (0.9%) and for overdrafts, to $0.5 million (1.0%), from $8.7 million (15.4%) in the previous year.

A disaggregation of the consumer credit components revealed broad-based declines in outstanding balances. The most sizeable net repayments occurred for credit cards ($27.6 million), private cars ($6.4 million), debt consolidation ($4.7 million) and land purchases ($4.3 million). In addition, reductions occurred for home improvements ($3.1 million), education ($2.8 million), "miscellaneous" purposes ($1.8 million) and travel ($1.4 million); while other remaining components registered decreases of less than $1.0 million.

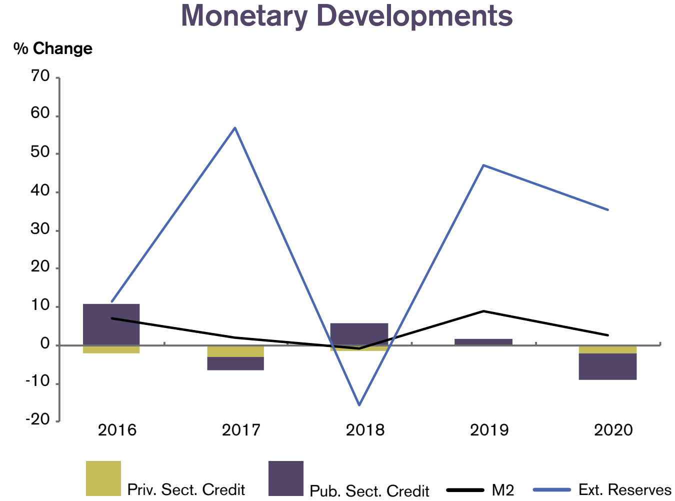
Interest Rates

During 2020, the weighted average interest rate spread on domestic banks' loans and deposits narrowed by 5 basis points, to 9.89 percentage points. Contributing to this outturn was a 7 basis point decline in the average loan rate to 10.39%, which outpaced the 12 basis points softening in the deposit rate, to 0.45%.

On the lending side, reductions were posted for the average overdraft rate by 59 basis points to 9.84% and consumer loans, by 34 basis points, to 12.52%, respectively. In contrast, average rates on both commercial and residential mortgages firmed, by 70 and 35 basis points, to 7.22% and 5.26%, respectively.

Leading the reduction in the mean deposit rate, the average range on fixed maturities narrowed

Monetary Developments



to 0.28% - 0.86%, from 0.35% - 0.90% in 2019. Conversely, the average rates on demand and savings deposits rose by 23 and by 6 basis points, to 0.59% and 0.44%, respectively.

In other interest rate developments, the average 90-day Treasury bill rate increased by 15 basis points to 1.76%. Meanwhile, the Central Bank's benchmark Discount rate and the commercial banks' Prime rate were retained at 4.00% and 4.25%, respectively.

Net Foreign Assets

Reflective of the marked expansion in the Central Bank's net international reserves, the net foreign assets of the banking system grew by $351.2 million (19.5%) to $2,141.9 million in 2020, albeit a deceleration from the $718.6 million (67.2%) expansion in the preceding year. Specifically, the monetary authority's external reserves balance grew by $624.1 million (35.5%), to $2,382.2 million, extending the $561.8 million (47.0%) build-up in 2019. The outturn was largely associated with the Government's external borrowing activities. In contrast, commercial banks registered net foreign liabilities of $240.3 million, following net foreign assets of $32.6 million in the preceding year.

An analysis of the monthly trends showed that the external reserves balance was lowest in January, and rose steadily through the first quarter of the year. However, a sudden stop in tourism sector inflows, because of the COVID-19 pandemic and globally imposed travel restrictions, led to reductions in April and May. However, buoyed by the Government's external borrowing, the balance increased in June, and remained elevated, peaking at $2,382.2 million at end-December. The average monthly levels increased by $561.2 million (36.6%) to $2,094.1 million, vis-à-vis the previous year.

An analysis of the underlying foreign currency transactions affecting reserves showed that the Central Bank's net purchases rose by $195.0 million (39.8%), to $684.2 million. Contributing, the net intake from the Government expanded to $1,133.9 million, relative to $71.8 million a year earlier. In addition, net sales to public corporations—primarily for fuel imports—contracted sharply to $90.9 million, from $444.1 million. However, a net sale of $358.9 million occurred to commercial banks, contrasting with a net purchase of $861.6 million in 2019.

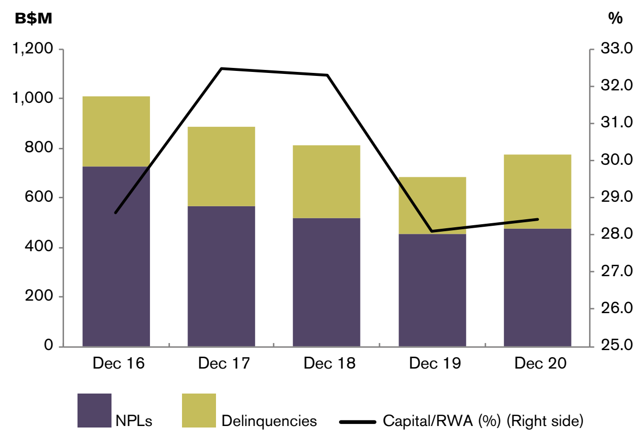
At end-December, the stock of external reserves stood at an estimated 43.7 weeks of the current year's total merchandise imports, relative to 27.7 weeks in the previous year and above the international benchmark of 12.0 weeks. After adjusting for the statutory requirement to maintain reserves equivalent to 50% of the Bank's demand liabilities, "useable" reserves strengthened by $422.1 million (50.5%) to $1,257.3 million.

Banking Sector Credit Quality

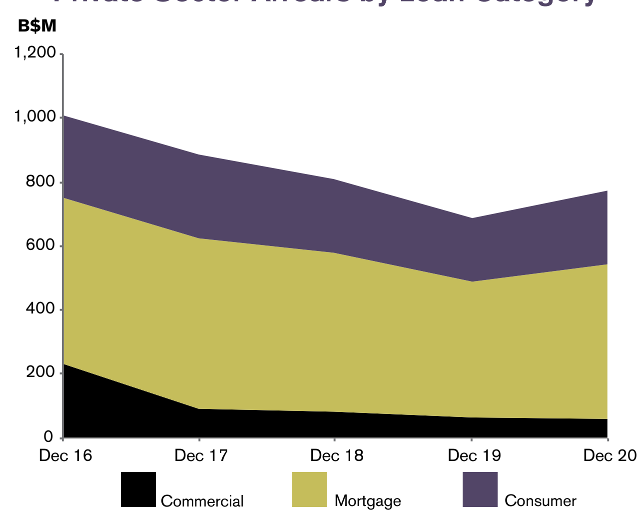
Banks' credit quality indicators exhibited some weakening over the course of 2020, reflecting a slowdown in the economy, related to the ongoing pandemic. Total private sector loan arrears grew by $86.7 million (12.6%) to $773.1 million, contrasting with a $123.5 million (15.3%) reduction in the preceding year. As a result, the ratio of arrears to total private sector loans rose by 1.7 percentage points to 13.8%, following the 2.2 percentage point decrease a year earlier.

The growth in total delinquencies included a $66.2 million (28.5%) rise in the short-term (31-90 days) segment, to $298.5 million. This reversed a $60.5 million (20.7%) reduction registered in 2019. Similarly, the non-performing loans (NPLs) component rose by $20.6 million (4.5%), to $474.6 million, after a decline of $63.0 million (12.2%) in the prior year. Consequently, the ratios of both short-term arrears and NPLs to total private sector loans increased by 1.2 percentage points to 5.3% and by 48 basis points to 8.5%, respectively.

Private Sector Loan Arrears



Private Sector Arrears by Loan Category



A breakdown by loan type showed that mortgage arrears expanded by $63.0 million (14.9%) to $486.2 million, contrasting with the $76.2 million (15.3%) decline in the previous year, leading to a 2.6 percentage point firming in the associated ratio, to 18.7%. In addition, consumer delinquencies grew by $30.2 million (15.2%) to $228.6 million, outstripping the $30.9 million (13.5%) decrease in the prior year, with the corresponding ratio moving higher by 1.6 percentage points, to 10.6%. In contrast, commercial arrears reduced by $6.4 million (9.9%) to $58.2 million, lower than the $16.5 million (20.3%) falloff in 2019, and lowering the attendant loan ratio, by 86 basis points to 7.0%. Meanwhile, the NPL rate for consumer loans, stood at 6.8% vis-à-vis 5.2% at end-2019 and commercial credit, at 4.9% compared to 6.1% in the prior year; while mortgages was relatively unchanged at 11.1%.

Table 13: Commercial Banks' Financial Soundness Indicators*

	2018	2019	2020
Capital Adequacy			
Regulatory capital/RWAs**	32.3	28.1	28.4
Regulatory Tier 1 capital/RWAs**	31.2	27.0	27.0
Asset Quality			
NPLs/Private Sector Loans	9.1	8.0	8.5
NPLs to Capital	19.6	19.0	19.4
Earnings & Profitability			
Return on assets	2.3	2.4	(0.1)
Return on equity	8.8	10.7	(0.3)
Liquidity			
Liquid assets to total domestic assets	26.6	29.6	32.4

Source: Central Bank of The Bahamas
*Year-end data
**Risk Weighted Assets

Capital Adequacy and Provisions

Indicative of the adverse effects stemming from the COVID-19 pandemic, banks sustained a conservative lending stance during the year, and although provisioning levels increased, relatively high capital levels remained. The ratio of capital to risk weighted assets firmed by 30 basis points, to 28.4% at end-December, and remained well above the prudentially prescribed target and trigger ratios of 17.0% and 14.0%, respectively (See Table 13). Anticipating losses from the pandemic, banks increased their provisions for bad debts, by $143.8 million (33.8%) to $569.7 million, following a $12.6 million (2.9%) reduction in the prior year. Consequently, the ratio of provisions to total loans rose by 2.3 percentage points to 9.0%, while the ratio of provisions to arrears moved higher by 11.6 percentage points at 73.7% and to NPLs by 26.2 percentage points, at 120.0%. Further, the ratio of specific provisions to NPLs grew by 7.6 percentage points to 83.4%. In addition, banks wrote-off an estimated $110.5 million in delinquent loans, while recoveries totalled $23.3 million.

Bank Profitability

Reflecting a rise in provisions for bad debt and higher operating costs, domestic banks recorded a net loss of $6.7 million in 2020, vis-a-vis net profits of $255.5 million in 2019. Specifically, the net interest margin reduced by $5.8 million (1.1%) to $538.8 million, contrasting with the prior year's $19.6 million (3.7%) growth. In particular, interest income decreased by $15.9 million (2.7%), to $577.3 million, overshadowing the $10.1 million (20.8%) falloff in interest expense, to $38.5 million. In contrast, income from commission & foreign exchange transactions grew by $3.1 million (8.1%) to $41.2 million, resulting in the gross earnings margin declining by $2.7 million (0.5%) to $580.0 million, compared with a gain of $28.2 million (5.1%) in the previous year.

Operating costs rose by 17.4% ($68.8 million) to $465.1 million in 2020. Leading this outturn, non-staff outlays—including professional services, government fees and maintenance—expanded by 43.9% ($89.2 million). In a partial offset, occupancy costs fell by 53.3% ($18.1 million), while staffing costs edged down by 0.8% ($1.3 million). Consequently, the net earnings margin contracted by 38.4% ($71.5 million) to $114.9 million. Further, banks recorded a net loss of $121.6 million from "non-core" operations, a turnaround from a net surplus of $69.1 million in 2019. This was largely attributed to a more than doubling in provisioning for bad debt to $254.8 million, from $96.1 million. In addition, depreciation costs rose by 45.0% ($5.3 million), while "other" fee-based income contracted by 15.1% ($26.7 million).

Due to these development, the gross earnings margin ratio relative to banks' average assets declined by 41 basis points to 5.15%, as the interest margin ratio narrowed by 41 basis points to 4.78%, while the commission & foreign exchange income ratio edged up by 1 basis point, to 0.37%. Similarly, the net earnings margin moderated by 75 basis points to 1.02% of average assets, as the operational costs ratio widened by 34 basis points to 4.12%. As a result, after accounting for "non-core" operations, the net profit (return on assets) ratio registered a negative 0.05%, relative to a positive 2.44% in 2019.

CAPITAL MARKET DEVELOPMENTS

Domestic capital market developments followed a downward trend in 2020, reflective of contracted economic activities due to COVID-19. In particular, the volume of shares traded on the Bahamas International Securities

Exchange (BISX) reduced by 37.2% to 5.6 million, after a 3.9% growth in 2019. In line with this development, the corresponding value declined by 34.8% to $27.9 million, contrasting with a 2.2% increase in the prior year. As a result, the BISX All Share Index—a market capitalization weighted index—moved down by 6.2% to 2092.46 points, compared to a rise of 5.8% in the previous period. Further, the market capitalization of listed firms almost doubled to $8.8 billion, following a 2.6% uptick a year earlier and was due to the listing of Bahamas Registered Stock (BRS) on the Exchange.

In 2020, the number of publicly traded securities on BISX, excluding public debt instruments reduced by 1 to 37, and comprised 20 common shares, 7 preference shares and 10 debt tranches at end-December. However, inclusive of the 210 BRS, the debt tranches totalled 220, bringing the number of publicly traded securities on the exchange to 247.

INTERNATIONAL TRADE AND PAYMENTS

Preliminary data on the external sector indicated that the estimated current account position reversed to a deficit of $2,064.9 million in 2020, from a surplus of $525.6 million in 2019 (See Table 14). Underlying this outturn, was a reversal in the services account position to a deficit, as the pandemic sharply contracted net travel receipts. In contrast, the capital and financial account surplus rose considerably to $2,417.3 million from $230.8 million in the prior year, attributed to a notable increase in net debt financing inflows due to the Government's external borrowing activities.

The estimated merchandise trade deficit decreased by $579.7 million (24.1%) to $1,824.3 million. In particular, the $269.5 million (40.3%) reduction in exports to $399.6 million, offset the $849.2 million (27.6%) contraction in imports to $2,224.0 million. Specifically, the demand-driven falloff in global oil prices and contracted domestic consumption, reduced net fuel import purchases by $367.3 million (48.8%) to $385.3 million. Similarly, net payments for non-oil merchandise declined by $300.2 million (16.0%) to $1,571.0 million. An analysis of the fuel sub-components showed that the average per barrel price of aviation gas declined by 47.7% to $78.11; kerosene/jet fuel, by 41.6% to $48.81 and gas-oil, by 20.3% to $61.57. Likewise, motor gas fell by 24.7% to $62.14; propane, by 9.0% to $43.93 and bunker c by 28.8%, to $49.01 per barrel.

The services account position reversed to an estimated deficit of $125.5 million from a surplus of $2,630.7 million in 2019. Foremost, net travel receipts—the largest segment of the services account—reduced sharply to $891.7 million (76.5%), from $3,790.2 million in the previous year, as tourism activity was largely at a standstill for most of the year. In addition, net payments for Government services rose by $50.5 million (38.2%) to $182.9 million, due to a rise in disbursements for resident Government operations, along with a falloff in inflows for foreign Government operations. Further, net external payments for insurance services grew by $11.7 million (8.1%) to $156.2 million, owing mainly to an acceleration in non-merchandise insurance payments; and net imports of construction-based services edged up by $0.6 million (1.0%) to $59.0 million. Also, net inflows for international companies' local expenses declined slightly by $0.7 million (0.4%) to $183.1 million. Providing some offset, net payments for transportation services reduced by $171.8 million (46.2%) to $199.1 million, explained by decreases in net disbursements for air & sea freight services (20.3%), and passenger services (67.2%). Likewise, net outflows for uncategorized services contracted by $30.1 million (4.8%) to $595.8 million; and

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

	2018p	2019p	2020p
I. CURRENT ACCOUNT	(1,115.3)	525.6	(2,064.9)
i) Merchandise Trade (net)	(2,675.1)	(2,404.1)	(1,824.3)
Exports	641.7	669.2	399.6
Imports	3,316.8	3,073.2	2,224.0
of which: Oil	761.1	752.5	385.3
ii) Services (net)	2,310.7	2,630.7	(125.5)
Travel	3,395.8	3,790.2	891.7
Other	(1,085.2)	(1,159.5)	(1,017.2)
iii) Income (net)	(682.3)	(547.3)	(488.6)
iv) Current Transfers (net)	(68.6)	846.2	373.5
II. CAPITAL AND FINANCIAL ACCOUNT	609.1	230.8	2,417.3
i) Capital Account (Transfers)	(20.7)	(20.2)	(13.9)
ii)Financial Account	629.7	250.9	2,431.2
of which: Direct Investment	491.4	264.6	359.3
III. NET ERRORS AND OMISSIONS	285.2	(194.6)	271.7
IV. CHANGES IN EXTERNAL RESERVES[1]	221.0	(561.8)	(624.1)

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

for royalty and license fees, fell by $3.9 million (38.0%) to $6.4 million.

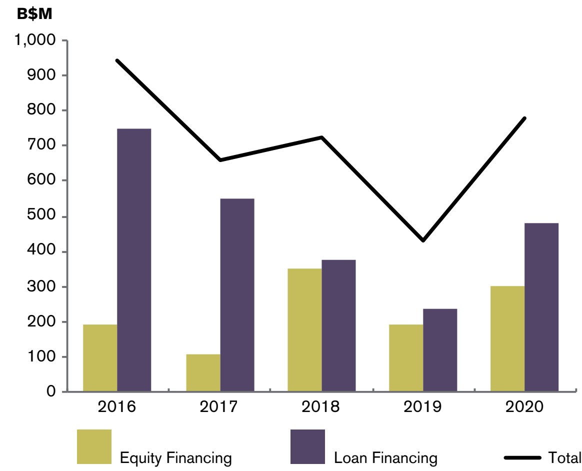
The estimated net income shortfall reduced by $58.8 million (10.7%) to $488.6 million, primarily attributed to an 18.9% decrease in investment-related outflows to $393.0 million. In particular, net private sector interest and dividend payments contracted by 27.0% to $259.9 million, as both non-banks and banks net profit narrowed. Conversely, net outflows for official transactions rose by $4.4 million (3.5%) to $133.1 million, the bulk of which reflected interest payment on public debt. Net repatriation of employee earnings also grew by $32.8 million (52.2%) to $95.6 million.

Net current transfer receipts declined notably to $373.5 million from $846.2 million in 2019, when significant re-insurance inflows from claims related to Hurricane Dorian were received. Transfers unrelated to net income remittances decreased markedly to $466.7 million from the claims settlement related $838.9 million net inflow in the previous year. Further, workers' outward net remittances moved higher by $2.0 million (1.4%) to $139.6 million. Similarly, general Government net receipts narrowed considerably to just $46.4 million from $145.0 million last year.

The significant growth in the surplus on the capital and financial account was due, in large measure, to notable debt-financed inflows of $1,948.1 million, a turnaround from a net payment of $3.5 million in 2019. Specifically, the Government's external financing associated with COVID-19 and the major storm, reversed to generated public sector net borrowing of $1,294.4 million, vis-à-vis a net repayment of $44.6 million in the preceding year. In addition, domestic banks' short-term transactions switched to a net receipt of $272.9 million, from a net liabilities repayment of $156.8 million in the previous year. Likewise, other private debt-based financing inflows widened to $380.7 million, from $198.0 million last year. Further, net direct investments increased by $94.7 million (35.8%) to $359.3 million, as net equity receipts more than doubled to $252.4 million from $90.8 million in 2019, and outweighed a $66.9 million (38.5%) narrowing in net real estate sales. Similarly, residents' net portfolio under the Bahamian Depository Receipt (BDR) programme, reversed to a net receipt of $123.8 million—on account of the National Insurance Board repatriation of funds—following a net outflow of $10.2 million last year. Moreover, migrant transfers decreased by $6.2 million (30.8%) to $13.9 million.

After adjustments for net errors and omissions, the overall balance—which is equivalent to the change in the Central Bank's external reserves—recorded a higher surplus of $624.1 million, compared to $561.8 million in 2019.

Foreign Investment Inflows (gross)

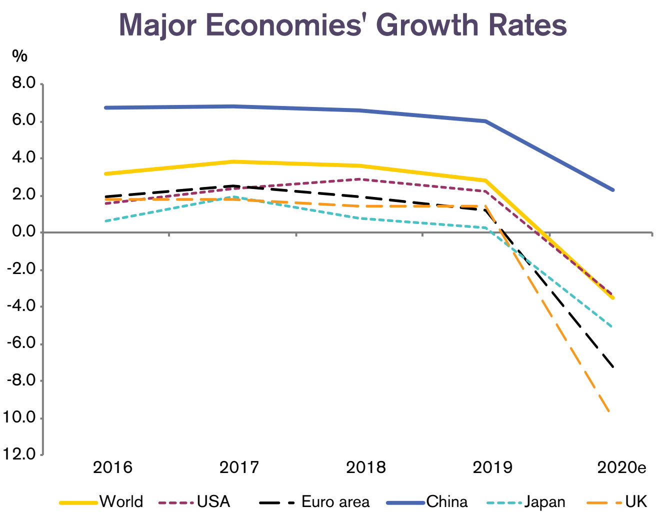


After adjustments for net errors and omissions, the overall balance—which is equivalent to the change in the Central Bank's external reserves—recorded a higher surplus of $624.1 million, compared to $561.8 million in 2019.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy contracted by an estimated 3.5% in 2020, following a growth of 2.9% in 2019, amid the spread of COVID-19 and the implementation of containment measures. In this environment, labour market conditions deteriorated. However, inflationary pressures remained contained, owing to a decline in the global oil prices. Meanwhile, in an effort to stabilize their economies and encourage growth, all of the major central banks either sustained or enhanced their accommodative monetary policy stance. Similarly, fiscal policy was also significantly expansionary.

During the year, economic output among the leading economies was broadly contracted, reflective of the severe impact of the COVID-19 pandemic. Specifically, real GDP in the United States declined by an annualized rate of 3.5%, a reversal from a 2.2% expansion in 2019, driven largely by reductions in personal consumption expenditure, exports, private inventory investment, non-residential fixed investment and state and local Government spending. In the United Kingdom, real output fell by an estimated 9.9% in 2020, vis-à-vis a 1.4% increase a year earlier, underpinned by a falloff in services, production, construction output, Government consumption and business investment. Likewise, the euro area's economy shrunk by an annualized 6.8% during the review year, a turnaround from a 1.3% growth in the previous year, reflective of the COVID-19 pandemic. In Asia, Japanese real output decreased to 4.8%, a switch from a 0.3% growth in 2019, as private consumption and public spending reduced. Meanwhile, China's growth moderated to an annual pace of 2.3% from 6.0% in 2019, evidenced by lower retail sales.



Labour market conditions deteriorated for the major economies in 2020, associated with the spread of the COVID-19 and measures to contain it. In the United States, the jobless rate increased by 4.5 percentage points to an annual average of 8.1% during the year, as the number of unemployed persons quickened to 155,377 million, led by job losses in leisure, hospitality and private education sectors. Likewise, the euro area's unemployment rate rose by 90 basis points to 8.3% in December, with 13.7 million unemployed persons. In addition, in the United Kingdom, the jobless rate firmed by 1.3 percentage points to 5.1% in 2020, as the total number of employed persons decreased by 541,000 from the year earlier. Further, in the major Asian economies, as the effects of COVID-19 lingers, China's unemployment rates moved higher by 2.1 percentage points to 4.2%, while Japan's edged up by 5 basis points to 2.3%.

Global inflationary pressures remained well contained in 2020, attributed to the sharp falloff in international oil prices. Specifically, annual inflation in the United States, declined to 1.4% from 2.3% in 2019, explained by the falloff in the costs for electricity and natural gas. Similarly, in the United Kingdom the inflation rate narrowed by 60 basis points to an annualized 0.8%, owing to lower costs for food & non-alcoholic beverages, clothing & footwear and furniture, household equipment and maintenance. In addition, the euro area's annual average prices decreased to 0.3%, vis-à-vis an increase of 1.3% in 2019, underpinned by reductions in food, alcohol & tobacco and energy costs. Further, China's inflation rate narrowed by 40 basis points to 2.5%, while Japan's average costs fell to 1.7%, following a gain of 0.8% in the prior year.

Primary commodity prices declined during the year, as COVID-19 lockdown measures led to decreased global demand. Specifically, average crude oil prices contracted by 65.3% to $42.26 per barrel over the year, despite supply cuts by OPEC and non-OPEC producers. Further, on a point-on-point basis, average costs declined by 25.0% to $51.26 per barrel at end-December 2020, in comparison to the prior year. Conversely, in the precious metal markets, the average cost of gold rose by 26.8% to $1,777.78, while the average price of sliver grew by 26.5% to $20.68.

Amid economic disruptions caused by the global pandemic and economies remaining below pre-pandemic output levels, all of the major central banks affirmed their accommodative monetary policy stance, with some institutions introducing additional monetary and quantitative easing measures. Specifically, in the United States, the Federal Reserves reduced the target range for the federal funds rate to 0.00%-0.25% from 1.50%-1.75% in 2019. In addition, the Federal Reserves established a temporary repurchase agreement facility for foreign and international monetary authorities. Further, the Bank of England decreased its benchmark interest rate to 0.1%—the lowest in the Bank's history—from 0.75%, and increased its asset purchase programme by £440 billion to £875 billion. In Europe, the European Central Bank kept its key policy interest rates at historic lows. The European Central Bank also extended its emergency stimulus package by €600 billion to a total of €1,350 billion and loaned out €1.31 trillion with a negative interest rate to 742 banks across the euro area. In Asia, the Bank of Japan retained its key policy rate at -0.1% and extended its financing support to businesses by ¥75 trillion to ¥110 trillion. The People's Bank of China also lowered its 7-day reserve repo rate to 2.2% from 2.5%, and announced its commitment to purchase approximately US$56.3 billion in bank loans made to micro and small enterprises by end-2020.

Fiscal stimulus was also aggressively deployed to counteract contraction and side-lining of private sector activities during the year. This included payroll subsidies to cushion job losses, and direct income support to vulnerable households. Governments also intervened to stall housing sector evictions and foreclosure. As a result, the IMF estimates that the average fiscal deficit to GDP ratio in advanced economies reached 13.3% in 2020 compared to 3.3% in 2019. With the most heightened intervention, stimulus and other measures pushed the United States' estimated Federal deficit ratio to 17.5% from 6.4% in the previous year. In the United Kingdom the deficit increased to 14.5% from 2.3%; and the Euro Area with, less fiscal capacity, to 8.4% from 0.6%. In Asia, Japanese countercyclical policies widened the deficit to 13.8% of GDP from 3.4% in 2019, while Chinese intervention resulted in an estimated deficit of 11.8% compared to 6.3% in the prior year.

The US dollar depreciated against all of the major currencies in 2020, owing in large part to the pandemic and the resultant global economic slowdown. In particular, the dollar declined relative to the Swiss franc, by 8.5% to CHF0.89 and the euro, by 8.2% to €0.82. Similarly, the dollar weakened by 6.3% vis-à-vis the Chinese Yuan, to CNY6.53 and the Japanese Yen, by 4.9% to ¥103.25. In addition, the dollar decreased versus the British Pound and the Canadian dollar, by 3.0% and by 2.0%, to £0.73 and CAD$1.23, respectively.

Buoyed by the partial resumption of economic activity following the global lockdown, most of the major stock market indices recorded gains in 2020. Specifically, in the United States, the S&P 500 and the Dow Jones Industrial Average (DIJA) rose by 16.3% and by 7.3%, respectively. Similarly, the Asian market posted gains, as Japan's Nikkei 225 grew by 16.0% and China's SE Composite, by 13.9%. The European bourses registered mixed results, with Germany's DAX increasing by 3.6%, while the United Kingdom's FTSE 100 and France's CAC 40, declined by 14.3% and by 7.1%, respectively.

Meanwhile, the major economies experienced mixed trends in their external trade balances in 2020. In the United States, the trade deficit expanded by $101.9 billion (17.7%) to $678.7 billion—highest since 2008—as the 15.7% falloff in exports outstripped the 9.5% decline in imports of goods and services. Further, the euro area's trade surplus contracted by €229.7 billion (10.8%) to €1897.0 billion, attributed to a 9.2% reduction in exports, which offset the 10.8% decrease in imports. In contrast, the United Kingdom's trade deficits narrowed by £11.3 billion to £15.0 billion, as imports declined by 17.9%, outweighing the 16.9% retrenchment in exports. In addition, Japan recorded a trade surplus of ¥0.7 trillion, vis-à-vis a deficit of ¥1.7 trillion, as the 13.8% falloff in imports, overshadowed the 11.1% contraction in exports. Further, China's trade surplus expanded by 25.9% to US$535.0 billion in 2020, as exports grew by 3.5%, while imports fell by 1.1%.

DOMESTIC ECONOMIC OUTLOOK FOR 2021

The Bahamian economy is expected to register only marginal growth in 2021, as the fallout from the Novel Coronavirus (COVID-19) pandemic, and the residual effects from the passage of Hurricane Dorian continue to weigh on economic developments. Notwithstanding, the recovery in the tourism sector is contingent on progress attained on both the international and domestic health fronts, the effectiveness of the vaccines and the resumption of unrestricted global travel. However, new and ongoing foreign direct investment projects, both in the capital and Family Islands, along with ongoing post-hurricane reconstruction works, are projected to provide support to the construction sector. Against this backdrop, the unemployment rate is expected to remain elevated over the near-term, with any job gains concentrated mostly in the construction sector. Furthermore, barring any shocks to global oil prices, domestic inflationary pressures are likely to remain contained.

On the fiscal front, it is anticipated that net financing needs will remain elevated, reflecting increased outlays for public health services and social welfare related to COVID-19, as well as spending still associated with the restoration of key infrastructure, following the passage of Hurricane Dorian. In addition, revenue losses are expected to be sustained, owing to a slump in taxable economic activities, with improvements in line with the recovery in the tourism sector. The budgetary gap is projected to be financed largely from both external and domestic borrowings.

Monetary sector developments should continue to feature high banking sector liquidity over the near term, undergirded by commercial banks' conservative lending posture. Further, the COVID-19 pandemic will likely lead to a drawdown in deposits, as a slight increase in private sector credit is estimated for 2021. In addition, Banks' credit quality conditions could deteriorate, barring the extension of banks forbearance programmes, while profitability could be adversely impacted, if there remain negligible improvements in domestic economic conditions. Nevertheless, it is anticipated that banks will maintain robust capital levels.

External reserve balances are projected to decline from record levels reached in 2020, as foreign currency inflows from tourism sector activity remain suppressed. Demand for foreign currency is also expected to firm for hurricane-related aid reconstruction work; while fiscal financing could reflect a moderately greater reliance on domestic sources. Nevertheless, reserves levels are anticipated to stay in line with international benchmarks and more than adequate to sustain the Bahamian dollar currency peg.

The downside risks to the economic outlook stem largely from forecasted uncertainties regarding the timeline of recovery from the COVID-19 pandemic, as it relates to effectiveness of the vaccines and unrestricted travel, on a global scale. In addition, risks could also be associated with the speed at which capacity restoration in the Abaco and Grand Bahama tourism sectors are impeded, along with the persistent threat of potential disruptions from major hurricanes.

CENTRAL BANK OF THE BAHAMAS

FINANCIAL STATEMENTS
for the Year Ended December 31, 2020

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REPORT OF THE AUDITORS TO THE BOARD OR DIRECTORS OF CENTRAL BANK OF THE BAHAMAS

Opinion

We have audited the accompanying financial statements of the Central Bank of the Bahamas (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and reserve and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Bahamas as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Central Bank of The Bahamas Act, 2000 as amended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in The Bahamas, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 36 of the financial statements, which describes events subsequent to the date of the financial statements which will have a direct and indirect impact on the Bank as a result of the COVID-19 pandemic. The Bank is continuously evaluating the financial impact of COVID-19 and currently considers that there is no significant impact on the Bank's ability to continue as a going concern.

Key Audit Matter

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the audit of the financial statements as at 31 December 2020. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditors' opinion thereon, and the auditor does not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter (Continued)

New Premises Project and Cash and Data Centre Project

As disclosed in Note 4, the Bank has major capital projects which are in the site preparation phase with the architectural design in the process of finalization and construction is expected to commence towards the end of 2021. The Bank engaged various service providers and consultants for the projects and as at 31 December 2020, the Bank has outstanding contractual commitments for the New Premises Project in the amount of $8,808,063 and Cash and Data Centre Project in the amount of $413,499.

There is no final decision on how the current Central Bank premises will be utilised once the construction of the New Premises is completed thus the building & renovations along with the other assets continue to be depreciated on a straight-line basis without acceleration.

The audit involved obtaining an understanding of the Bank's over-all development plan including the reading of the minutes of the Board of Director's meeting along with direct inquiries with the Governor of the Central Bank. Analysis of the outstanding contractual commitments with the service providers and consultants were also performed.

Other Information

Management is responsible for the other information. The other information comprises of information presented in the Central Bank of the Bahamas' complete Annual Report 2020 (but does not include the financial statements and our auditors' report thereon).

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

In connection with our audit, of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

A further description of the auditors' responsibilities for the audit of the financial statements is located in an Appendix to this report. This description forms part of our auditors' report.

The engagement partner on the audit resulting in this independent auditors' report is Clifford Culmer.

BDO

Chartered Accountants
Nassau Bahamas
20 April 2021

APPENDIX TO THE AUDITORS' REPORT

Detailed Description of Our Responsibilities

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Statement of Financial Position
As at December 31, 2020
(Expressed in Bahamian dollars)

	Note	2020	2019
		$	$
ASSETS			
EXTERNAL ASSETS	6		
Cash and deposits with banks	3	307,566,820	794,469,117
Foreign Government Securities	7	1,701,959,861	672,168,495
Marketable Securities	8	165,618,818	107,615,277
International Monetary Fund:	9		
Bahamas Reserve Tranche		27,775,941	26,668,179
Special drawing rights – holdings		179,235,583	157,135,378
		2,382,157,023	1,758,056,446
DOMESTIC ASSETS			
Cash on hand	3	7,119	33,210
Bahamas Government Treasury bills	16	13,814,961	135,280,375
Advances to Bahamas Government	11	5,809,695	75,193,832
Bahamas Government Registered Stocks	12	232,872,471	249,886,188
Loans to Bahamas Development Bank	13	2,007,962	2,258,260
Bahamas Development Bank bonds	10	4,049,795	4,092,683
Bridge Authority bonds	14	43,964	43,983
Clifton Heritage Authority bonds	15	651,106	641,085
Currency inventory		11,687,379	9,517,771
Retirement benefit asset – Employees	33	-	981,364
Receivables and other assets	17	13,775,440	15,481,553
Property, plant and equipment	4	18,753,320	13,202,940
Intangible asset	5	5,885,127	-
Right of use assets	24	1,967,337	1,153,288
		311,325,676	507,766,532
TOTAL ASSETS		**2,693,482,699**	**2,265,822,978**

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

Central Bank of The Bahamas

Statement of Financial Position (Continued)
As at December 31, 2020
(Expressed in Bahamian dollars)

	Note	2020 $	2019 $
LIABILITIES			
DEMAND LIABILITIES			
Notes in circulation	18	516,214,365	458,223,964
Coins in circulation		30,330,788	30,279,156
Sand Dollar in circulation		75,125	48,000
Deposits by commercial banks	19	1,571,225,899	1,242,871,902
Deposits by Bahamas Government and Bahamas Government agencies		134,206,559	114,072,822
Deposits by international agencies	20	255,211	255,235
Accounts payable and other liabilities		9,888,137	13,644,785
Lease liabilities	24	2,017,199	1,146,061
Investment Currency Market payable		3,816,359	3,565,728
Health insurance subsidy benefit for retirees	34	7,572,806	3,184,622
Retirement benefit liability - Employees	33	578,193	-
Retirement benefit liability - Governors and Deputy Governors	35	880,039	351,271
		2,277,060,680	1,867,643,546
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	9	179,218,740	172,261,421
TOTAL LIABILITIES		**2,456,279,420**	**2,039,904,967**
EQUITY AND RESERVES			
Authorised and fully paid capital	21	3,000,000	3,000,000
Exchange equalisation account	21	12,062,638	10,942,792
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	21	40,680,403	30,680,403
Fair Value Reserve	21	(2,240,720)	(890,776)
General reserve	21	172,561,543	171,046,177
TOTAL EQUITY AND RESERVES		**237,203,279**	**225,918,011**
TOTAL LIABILITIES, EQUITY AND RESERVES		**2,693,482,699**	**2,265,822,978**

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

Director **Director**

April 20, 2021
Date

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

Central Bank of The Bahamas

Statement of Comprehensive Income
For the Year Ended December 31, 2020
(Expressed in Bahamian dollars)

	Note	2020 $	2019 $
INCOME			
Interest income:	22		
Foreign investments		27,971,340	33,049,653
Domestic investments		11,638,496	12,721,398
Loans		1,145,193	547,198
		40,755,029	46,318,249
Interest expense		(350,795)	(1,707,875)
Net interest income		**40,404,234**	**44,610,374**
Net foreign exchange gain		1,119,846	131,682
Net trading gains on Bahamas Government Registered Stocks		141,510	1,889,144
Realised gain on Marketable Securities		3,344,729	209,344
Unrealised gain on Marketable Securities		1,315,616	3,204,514
Bank license fees income		3,394,065	3,700,000
Other income		3,240,001	6,383,951
Total income		**52,960,001**	**60,129,009**
EXPENSES			
Staff costs	23	25,722,067	28,695,117
General and administrative	23	9,868,151	11,102,800
Depreciation	4	2,191,711	2,380,792
Amortisation of intangible asset	5	288,594	-
Amortisation of Right of Use Assets	24	314,060	334,421
Total expenses		**38,384,583**	**42,513,130**
NET INCOME		**14,575,418**	**17,615,879**
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that will or may be reclassified to net income			
Valuation loss on Bahamas Government Registered Stock		(1,349,944)	(2,259,796)
Items that will not be reclassified to net income			
Actuarial (loss)/gain on defined benefit pension plan for employees		(1,631,960)	1,065,844
Actuarial gain on group insurance subsidy		15,866	127,219
Actuarial (loss)/gain on defined pension plan benefit for Governors and Deputy Governors		(324,112)	(13,576)
Total other comprehensive loss		**(3,290,150)**	**(1,080,309)**
TOTAL COMPREHENSIVE INCOME		**11,285,268**	**16,535,570**

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

Central Bank of The Bahamas

Statement of Changes in Equity and Reserves
For the Year Ended December 31, 2020
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2019	**3,000,000**	**10,811,110**	**750,000**	**10,389,415**	**30,680,403**	**1,369,020**	**152,382,493**	**209,382,441**
Comprehensive income								
Net income	-	-	-	-	-	-	17,615,879	**17,615,879**
Other comprehensive income								
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	131,682	-	-	-	-	(131,682)	**-**
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	(2,259,796)	-	**(2,259,796)**
Actuarial gain on defined benefit pension plan for employees (Note 33)	-	-	-	-	-	-	1,065,844	**1,065,844**
Actuarial gain on health insurance subsidy benefit for retirees (Note 34)	-	-	-	-	-	-	127,219	**127,219**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 35)	-	-	-	-	-	-	(13,576)	**(13,576)**
Total comprehensive income	-	131,682	-	-	-	(2,259,796)	18,663,684	**16,535,570**
Balance at December 31, 2019	**3,000,000**	**10,942792**	**750,000**	**10,389,415**	**30,680,403**	**(890,776)**	**171,046,177**	**225,918,011**

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

Central Bank of The Bahamas

Statement of Changes in Equity and Reserves (Continued)
For the Year Ended December 31, 2020
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2020	**3,000,000**	**10,942,792**	**750,000**	**10,389,415**	**30,680,403**	**(890,776)**	**171,046,177**	**225,918,011**
Comprehensive income								
Net income	-	-	-	-	-	-	14,575,418	**14,575,418**
Other comprehensive income								
Allocation to building fund (Note 21)					10,000,000		(10,000,000)	-
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	1,119,846	-	-	-	-	(1,119,846)	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-		(1,349,944)		**(1,349,944)**
Actuarial loss on defined benefit pension plan for employees (Note 33)	-	-	-	-	-	-	(1,631,960)	**(1,631,960)**
Actuarial gain on health insurance subsidy benefit for retirees (Note 34)	-	-	-	-	-	-	15,866	**15,866**
Actuarial loss on defined benefit pension plan for Governors and Deputy Governors (Note 35)	-	-	-	-	-	-	(324,112)	**(324,112)**
Total comprehensive income	-	1,119,846	-	-	10,000,000	(1,349,944)	1,515,366	**11,285,268**
Balance at December 31, 2020	**3,000,000**	**12,062,638**	**750,000**	**10,389,415**	**40,680,403**	**(2,240,720)**	**172,561,543**	**237,203,279**

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

Central Bank of The Bahamas

Statement of Cash Flows
For the Year Ended December 31, 2020
(Expressed in Bahamian dollars)

	Note	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		**14,575,418**	**17,615,879**
Adjustments for non-cash items:			
Discount earned on foreign government securities - net	7	2,249,402	(848,654)
Depreciation	4	2,191,711	2,380,792
Loss on disposal of property, plant and equipment - net	4	-	19,375
Amortisation of intangible asset	5	288,594	-
Amortisation of Right of Use asset	24	314,060	334,421
Interest income		(43,004,431)	(45,469,595)
Gain on sale of Marketable securities		(3,344,729)	(209,344)
Unrealised gain on Marketable securities		(1,315,616)	(3,204,514)
Interest on lease liability		119,412	37,319
Interest expense		350,795	1,707,875
(Increase)/Decrease in operating assets			
Currency inventory		(2,169,608)	1,309,278
International Monetary Fund		(5,150,953)	669,557
Deposits with banks – with original contractual maturities greater than three months		10,000,000	110,000,000
Retirement benefit asset/liability - Employee		(72,403)	8,005,660
Receivables and other assets		1,706,113	(5,150,470)
Increase/(Decrease) in operating liabilities			
Notes in circulation		57,990,401	27,335,109
Coins in circulation		51,632	1,308,233
Sand Dollar in circulation		27,125	48,000
Deposits by commercial banks		328,353,997	451,203,644
Deposits by Bahamas Government and Bahamas Government agencies		20,133,737	17,917,318
Deposits by international agencies		(24)	(67)
Investment Currency Market payable		250,631	(5,441,545)
Health insurance subsidy benefit for retirees		4,404,050	121,565
Retirement benefit liability – Governors and Deputy Governors		204,656	193,333
Accounts payable and other liabilities		(3,756,648)	(15,357,659)
International Monetary Fund		7,146,403	(991,075)
Net cash from operating activities		**391,543,725**	**563,534,435**

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

1. General Information

The Central Bank of The Bahamas (the "Bank") is established as a body corporate, under the Central Bank of The Bahamas Act, and was continued under the Central Bank of The Bahamas Act, 2000 and Central Bank of the Bahamas Act, 2020 (the "Act") which was published on 27 July 2020. The Act establishes the structure, governance and funding of the Bank. The Bank's principal business is the provision of Central Banking facilities for the Commonwealth of The Bahamas. 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 financial or monetary nature referred by him to the Bank for its advice. Its main place of business is located at Frederick Street, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

i) Compliance with IFRS

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

ii) Historical cost convention

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 2 (d), (e), (f), (m), (n), 24, 33, 34 and 35.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

The new standards and amendments that became effective for the Bank's financial year beginning on January 1, 2020 were either not relevant or not significant to the Bank's operations and accordingly did not have a material impact on the Bank's accounting policies or financial statements. The standards and amendments are as follows:

- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- Revised Conceptual Framework for Financial Reporting
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning January 1, 2021:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 , IAS 39, IFRS 7, IFRS 4, and IFRS 16)

(b) Foreign currency translation

i) Functional and presentation currency

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

2. Summary of Significant Accounting Policies (Continued)

(b) Foreign currency translation (continued)

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as a part of net income in the statement of comprehensive income. Translation differences on monetary financial assets and liabilities carried at fair value are part of the fair value gain and losses. The net foreign exchange gain/(loss) in the Bank's assets and liabilities arising from movements in foreign exchange rates is included in the statement of comprehensive income and is appropriated from the general reserve to an exchange equalisation account within equity and reserves.

(c) Financial assets

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

The Bank classifies its financial assets in the following categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and financial assets held at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Any financial asset not held under one of the other business models are measured at fair value through profit and loss.

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

i) Financial assets at fair value through profit or loss (continued)

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Investment Management Committee. Financial assets classified as at fair value through profit or loss consist of Marketable Securities which are managed by a third party and the International Monetary Fund asset balances which have been so designated by management.

ii) Financial assets at fair value through other comprehensive income

Financial assets are classified and measured at fair value through other comprehensive income once held in a business model whose objective is to collect contractual cash flows and selling financial assets. These financial assets are non-derivatives that are either classified in this business model or are not classified as financial assets at amortised cost or financial assets at fair value through profit or loss. Changes in the carrying amount of these monetary financial assets relating to foreign currency rates and interest income calculated using the effective interest method are recognised in the statement of comprehensive income. Other changes in the carrying amount of financial assets at fair value through other comprehensive income are recognised through other comprehensive income.

Bahamas Government Treasury bills and Bahamas Government Registered Stocks are measured at fair value through other comprehensive income.

iii) Financial assets held at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interests.

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

iii) Financial assets held at amortized cost (continued)

Accounts set out below are classified as financial assets held at amortised cost:

- Foreign Government Securities
- Advances to Bahamas Government
- Loans to Bahamas Development Bank
- Bahamas Development Bank bonds
- Bridge Authority bonds
- Clifton Heritage Authority bonds
- Employee loans and other receivables

Subsequent to initial recognition these assets are measured at amortised cost using the effective interest rate method, less any impairment.

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

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for securities traded in active markets (e.g. international securities exchange) or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants, for securities not traded in active markets.

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

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets

The Bank assesses its financial assets measured at amortised cost and debt instruments at FVOCI for 'expected credit loss' (ECL).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade' and is issued or guaranteed by a Foreign Government or the Bahamas Government. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive)

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

(e) Property, plant and equipment

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

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

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

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

Included in Other fixed assets are vehicles depreciated at a rate of 20% and Artworks which the Bank does not depreciate.

Cost of property, plant and equipment under construction are accumulated under work in progress and not depreciated. Work in progress is transferred to the respective asset category and depreciated accordingly when the asset is available for use or when it is in the condition necessary for it to be capable of operating in the manner intended by management.

2. Summary of Significant Accounting Policies (Continued)

(e) Property, plant and equipment (continued)

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

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

(f) Intangible asset

Intangible assets are stated at cost less accumulated amortisation and impairment. Intangible assets are amortised over their respective estimated useful lives on a straight-line basis, from the date they are available for use. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry and known technological advances) and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

The Bank' Digital Currency (Sand Dollar) is amortised over an estimated useful life of 5 years. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

(g) Financial liabilities

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

2. Summary of Significant Accounting Policies (Continued)

(g) Financial liabilities (Continued)

i) Financial liabilities at fair value through profit or loss

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

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

ii) Other financial liabilities at amortised cost

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

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

(h) Provisions

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

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

2. Summary of Significant Accounting Policies (Continued)

(h) Provisions (Continued)

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

(i) Currency inventories

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

(j) 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.

(k) Investment currency market payable

In 2019, the investment current market (ICM) processing was transferred to commercial banks/authorised dealers. Under the new process, the authorised dealers charge a 2.5% ICM Premium and a 2.5% ICM Premium Escrow on processing the transaction. The authorized dealer retains 1.5% and remits 1% of the ICM Premium to the Bank which is recognized in 'Other Income' in the statement of comprehensive income.

The 2.5% ICM Premium Escrow is fully remitted to the Bank and recognised as financial liabilities to be paid to the customers when they return the ICM funds to the Bahamas.

(l) Income and expense recognition

The Bank recognises income when it is probable that future economic benefits will flow to the Bank and the amount of income can be reliably measured. Income is measured at the fair value of the consideration received or receivable.

Interest income and expense

Interest income is accounted for on an accrual basis using the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

(l) Income and expense recognition (Continued)

Interest income and expense (Continued)

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

Bank license fee income

The Bank receives an allocation of the license fees collected from commercial banks and other regulated financial institutions. The bank license fee income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled.

Other income

Other income and expenses are recognised on the accrual basis. The performance obligation as well the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations.

(m) Leases

The Bank is the lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones).

2. Summary of Significant Accounting Policies (Continued)

(m) Leases (Continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

(n) Employee benefits

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

Defined Benefit Plan

The Bank's retirement plan has a contributory defined benefit plan with participants being permanent employees who have been employed on or before December 31, 2013 and have not attained age 55. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries. Remeasurements are recognised in other comprehensive income when they occur. Past service cost is recognised immediately in the period of a plan amendment or curtailment. Contributions are made by employees at 5% of basic salary and by the Bank at 18.8% up to June 2019.

Effective July 2019, the Pension Plan was amended to:

1. Cease pension accruals while retaining all benefit eligibility rules and calculations for active Members.
2. Allow those already eligible to early retire, and those within 5 years of early retirement eligibility, to stay in or opt out of the Plan with all others receiving a cash payout.
3. Cease contributions from active Members.

2. Summary of Significant Accounting Policies (Continued)

(n) Employee benefits (Continued)

Defined Benefit Plan (Continued)

In 2019, 137 Members opted for a cash payout and transferred the payout amount to the Defined Contribution Pension Plan. 6 active Members nearing retirement opted to remain in the Defined Benefit Pension Plan.

There were no additional contributions from July 2019 up to year-end and any future contributions will be based on the recommendation from the actuary.

The asset or liability amount recognised in the statement of financial position represents the present value of the defined benefit obligation and the current service cost at the end of the reporting period less, the fair value of plan assets.

Any asset arising as a result of this calculation is considered a surplus in the defined benefit plan which is fully recoverable by the Bank.

Defined Contribution Plan

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

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

Health insurance subsidy for retirees

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

2. Summary of Significant Accounting Policies (Continued)

(n) Employee benefits (Continued)

Defined Benefit Plan for Governors and Deputy Governors

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

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

(o) Cash and cash equivalents

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

(p) Taxation

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

On 1 January 2015, The Value Added Tax (VAT) Act became effective in The Commonwealth of The Bahamas with 3 categories for goods and services: tax at 7.50%, exempt and zero-rated. The VAT rate was increased to 12.00% effective 1 July 2018.

The Central Bank's operations included services which are subject to VAT and exempt. The standard method of apportionment is used to calculate the allowable VAT Input in accordance with the Act and associated regulations. Any unallowable VAT Input is recognised through profit or loss.

(q) Fiduciary items

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

Notes to the Financial Statements
December 31, 2020
(Continued)

3. Cash and Deposits with Banks

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

	2020	2019
	$	$
External Assets		
Cash on hand	-	4,000
Cash in vault	6,426,423	1,277,137
Cash and deposit with banks	301,140,397	793,187,980
	307,566,820	794,469,117
Domestic Assets		
Cash on hand	7,119	33,210
	307,573,939	794,502,327
Less: Deposits with banks with original contractual maturities greater than three months	(60,510,167)	(71,026,617)
	247,063,772	**723,475,710**

Notes to the Financial Statements
December 31, 2020
(Continued)

4. Property, Plant and Equipment

	Land	Buildings & Renovations	Office Equipment	Computer Software	Office Furniture & Fittings	Other Fixed Assets	Work In Progress	Total
	$	$	$	$	$	$	$	$
COST								
As at January 1, 2020	2,452,938	17,523,725	8,003,086	12,507,107	1,283,187	448,792	-	42,218,835
Additions	2,211,159	445,174	1,349,021	-	145,844	99,390	3,491,503	7,742,091
Disposals/Retirement	-	-	(2,944)	-	(6,901)	-	-	(9,845)
As at December 31, 2020	**4,664,097**	**17,968,899**	**9,349,163**	**12,507,107**	**1,422,130**	**548,182**	**3,491,503**	**49,951,081**
ACCUMULATED DEPRECIATION								
As at January 1, 2020	-	9,646,819	6,511,541	11,862,215	716,457	278,863	-	29,015,895
Charge for the year	-	748,944	608,749	623,438	171,136	39,444	-	2,191,711
Disposals/Retirement	-	-	(2,944)	-	(6,901)	-	-	(9,845)
As at December 31, 2020	**-**	**10,395,763**	**7,117,346**	**12,485,653**	**880,692**	**318,307**	**-**	**31,197,761**
NET BOOK VALUE								
As at December 31, 2020	**4,664,097**	**7,573,136**	**2,231,817**	**21,454**	**541,438**	**229,875**	**3,491,503**	**18,753,320**
COST								
As at January 1, 2019	2,452,938	16,714,776	7,922,839	12,327,704	862,433	422,509	-	40,703,199
Additions	-	919,608	234,749	179,403	484,452	26,283	-	1,844,495
Disposals/Retirement	-	(110,659)	(154,502)	-	(63,698)	-	-	(328,859)
As at December 31, 2019	**2,452,938**	**17,523,725**	**8,003,086**	**12,507,107**	**1,283,187**	**448,792**	**-**	**42,218,835**
ACCUMULATED DEPRECIATION								
As at January 1, 2019	-	9,182,789	6,114,044	10,736,079	687,299	221,376	-	26,941,587
Charge for the year	-	562,964	541,456	1,126,136	92,749	57,487	-	2,380,792
Disposals/Retirement	-	(98,934)	(143,959)	-	(63,591)	-	-	(306,484)
As at December 31, 2019	**-**	**9,646,819**	**6,511,541**	**11,862,215**	**716,457**	**278,863**	**-**	**29,015,895**
NET BOOK VALUE								
As at December 31, 2019	**2,452,938**	**7,876,906**	**1,491,545**	**644,892**	**566,730**	**169,929**	**-**	**13,202,940**

4. Property, Plant and Equipment (Continued)

New Premises Project

The Bank is constructing its new premises on the Royal Victoria Gardens ("RVG") site located between East Street and Parliament Street, south of Shirley Street, and north of East Hill Street in the city of Nassau, Bahamas. By resolution in Parliament, the Government of the Bahamas authorised the transfer of property to the Bank at a nominal cost of $10. The site preparation and demolition phase for the project began in 2020 and the architectural design are in the final stages. The Bank engaged various service providers and consultants for the project and the related costs were previously accumulated under receivables and other assets on the statement of financial position which amounted to $439,255 in 2019. Upon the transfer of the land and commencement of the site preparation, the accumulated costs were transferred to the work in progress which amounted to $3,222,795. As at December 31, 2020, the Bank has outstanding contractual commitments to service providers and consultants for the New Premises Project in the amount of $8,808,063.

There is no final decision on how the current Central Bank premises will be utilised once the construction of the New Premises is completed thus the building & renovations along with the other assets continue to be depreciated on a straight-line basis without acceleration.

Cash and Data Centre Project

During 2020, the Bank completed the purchase of land which will be the future location for the Bank's Cash and Data Centre. Initial costs related to the purchase of the land and design of the project were previously accumulated under receivables and other assets on the statement of financial position which amounted to $452,642 in 2019. The accumulated costs were transferred to land and work in progress in the amount of $2,211,159 and $268,708, respectively, upon conveyance of the land title. The Bank has anticipated that the initial phase of construction will commence near the end of 2021. As at December 31, 2020, the Bank has outstanding contractual commitments on the Cash and Data Centre Project in the amount of $413,499.

5. Intangible Asset

SAND DOLLAR PROJECT	**$**
COST	
As at January 1, 2020	-
Additions	6,173,721
As at December 31, 2020	6,173,721
ACCUMULATED AMORTISATION	
As at January 1, 2020	-
Amortisation	288,594
As at December 31, 2020	288,594
NET BOOK VALUE	
As at December 31, 2020	**5,885,127**

Sand Dollar Project

In prior year, the Bank entered into a contract with a 3rd party for the development of a Bahamas Digital Currency known as the Sand Dollar. Costs related to the development of the Sand Dollar were previously accumulated under receivables and other assets on statement of financial position which amounted to $2,228,338 in 2019. The Sand Dollar development has been substantially completed during 2020 and the Bank has also commenced the public launch of the digital currency thus the accumulated costs which amounted to $6,173,721 were transferred to intangible assets. Amortisation of the Sand Dollar has also commenced during the year. As at December 31, 2020, the Bank has outstanding contractual commitments with the Sand Dollar developer in the amount of $1,417,121.

In accordance with Section 12 of the Act, electronic currency (Sand Dollar) issued by the Bank are considered as legal tender in the Bahamas. Section 15 of the Act also provides power to the Bank to make regulations for the purpose of prescribing the framework under which the electronic currency is issued.

6. External Assets

External assets comprise those assets defined by Section 17(3) 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 104.6% (2019: 94.1%) of such liabilities.

7. Foreign Government Securities

These generally represent internally managed marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years. At December 31, 2020, marketable securities held by the Bank, which mature after 5 years, constituted 16.95% (2019: 15.06%) of the Bank's external assets.

The movement in Foreign Government Securities classified as financial assets held at amortised cost are as follows:

	2020	**2019**
	$	**$**
Beginning balance	668,928,218	565,904,529
Purchases at nominal value	1,788,423,761	117,390,000
Discount on purchases	9,647,465	35,035
Redemptions/maturities	(768,502,199)	(15,250,000)
Discount earned	1,018,638	1,055,007
Amortised premium	(3,268,040)	(206,353)
Total	1,696,247,843	668,928,218
Add: Accrued interest	5,712,018	3,240,277
Ending balance	**1,701,959,861**	**672,168,495**

These securities bear interest at rates varying between 0.05% and 6.00% (2019: 1.38% and 3.63%).

During the year, the Bank has also purchased callable foreign government securities in order to maximise the interests earned on its available funds. These securities are callable by the issuer prior to maturity and not at the option of the Bank thus continued to be treated as financial assets at amortised cost.

8. Marketable Securities

These represent securities that are externally managed by a third party.

The movement in marketable securities classified as financial assets at fair value through profit or loss are as follows:

	2020 $	2019 $
Beginning balance	106,868,971	101,049,906
Purchases	123,859,571	29,696,374
Sales	(70,732,083)	(27,291,167)
Realised gain	3,344,729	209,344
Unrealised gain	1,315,616	3,204,514
Total	164,656,804	106,868,971
Add: Accrued interest	962,014	746,306
Ending balance	**165,618,818**	**107,615,277**

9. International Monetary Fund

Background

The International Monetary Fund (IMF) is an organisation of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The Bahamas was admitted as a member of the IMF on August 21, 1973.

Quota, Subscriptions and Reserve Tranche

Each IMF member country is assigned a quota, or contribution, that reflects the country's relative size in the global economy. Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account, which is essentially a specified basket of four (4) major international currencies (i.e., the U.S. Dollar, Japanese Yen, Euro, and Pound Sterling).

9. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (Continued)

As of December 31, 2020, The Bahamas was assigned a quota of SDR 182,400,000 (2019: SDR 182,400,000) which represents 0.04% (2019: 0.04%) of the total quota allocated by the IMF.

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

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

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

The Bahamian dollar is designated as an unusable currency which permits the Bank to pay the non-reserve portion of the quota in the form of promissory notes. Subsequent to its initial subscription into the IMF, the Bank has increased the IMF subscriptions of The Bahamas by issuing, non-negotiable, interest-free promissory notes which are payable if the IMF requires an emergency loan. Payment of the promissory notes will give rise to an equal and opposite receivable from the IMF. These promissory notes were issued by the Bank and the Government of The Bahamas on behalf of the Bank, in the Bahamian dollar equivalents of SDR 43,275,901 and SDR 114,698,515 (2019: SDR 43,295,571 and SDR 114,750,649) respectively. The promissory notes form, in substance, part of a loan commitment to the IMF and as such are not recognised on the statement of financial position.

9. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (continued)

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

	2020		2019	
	SDR	$	SDR	$
Quota	182,400,000	262,704,590	182,400,000	252,227,386
Subscription payments in promissory notes	(157,974,416)	(227,525,242)	(158,046,220)	(218,550,356)
Subscription payments in local currency	(5,140,304)	(7,403,407)	(5,068,500)	(7,008,851)
Reserve tranche	**19,285,280**	**27,775,941**	**19,285,280**	**26,668,179**

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

	2020		2019	
	SDR	$	SDR	$
Beginning balance	19,285,280	26,668,179	19,285,280	26,821,805
Purchase of SDRs	-	-	-	-
Currency movement	-	1,107,762	-	(153,626)
Total	**19,285,280**	**27,775,941**	**19,285,280**	**26,668,179**

SDR Holdings and SDR Allocation

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

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

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

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

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

9. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation (continued)

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

SDR Holdings

	2020		2019	
	SDR	$	SDR	$
Beginning balance	113,481,828	156,925,575	88,389,139	122,930,869
Purchases	12,659,415	18,232,956	24,956,609	34,510,637
Remuneration and other charges	(1,718,620)	(2,475,274)	136,080	188,175
Currency movement	-	6,518,465	-	(704,106)
Total	124,422,623	179,201,722	113,481,828	156,925,575
Add: Accrued interest		33,861		209,803
Ending balance		**179,235,583**		**157,135,378**

SDR Allocation

	2020		2019	
	SDR	$	SDR	$
Beginning balance	124,413,351	172,041,965	124,413,351	173,033,040
Currency movement	-	7,146,403	-	(991,075)
Total	124,413,351	179,188,368	124,413,351	172,041,965
Add: Accrued interest		30,372		219,456
Ending balance		**179,218,740**		**172,261,421**

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

The interest rate, which is the same on both SDR Holdings and allocation, varied between 0.05% and 0.74% (2019: 0.74% and 1.15%).

10. Bahamas Development Bank Bonds

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

	2020 $	2019 $
Balance	4,000,000	4,000,000
Add: Accrued interest	49,795	92,683
Total	**4,049,795**	**4,092,683**

These bonds bear interest at the Bahamian dollar prime rate of 4.25% (2019: 4.25%) with $2,000,000 maturing on August 1, 2025 and November 1, 2025, respectively.

11. Advances to Bahamas Government

Section 21(1) of the Act states that the Bank shall not make any direct or indirect advances to the Government or to any public corporation. However, per Section 21(4) the Bank may provide temporary loans to the Government, where the amount of the loans, which may be outstanding at any one time, taken together with the Treasury bills or securities issued or guaranteed by the Government or a public corporation, shall not exceed, in aggregate, 30% of the average ordinary revenue of the Government or 30% of the estimated ordinary revenue of the Government, whichever is less. The loan should mature within 91 days and interest rate on the loan is based on market related interest rate.

At the year end date, advances to the Government were 0.33% (2019: 4.33%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2020 $	2019 $
Beginning balance	74,900,000	119,657,052
Additional advances	174,900,000	74,000,000
Repayments	(244,900,000)	(118,757,052)
	4,900,000	74,900,000
Add: Accrued interest	909,695	293,832
Ending balance	**5,809,695**	**75,193,832**

11. Advances to Bahamas Government (Continued)

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

Rate	2020 $	2019 $
0.356%	-	69,444
0.638%	-	9,300,000
0.840%	-	5,530,556
1.698%	-	60,000,000
1.922%	4,900,000	-
	4,900,000	**74,900,000**

The Government has subsequently repaid the outstanding advance on January 20, 2021.

12. Bahamas Government Registered Stocks

The Bahamas Government Registered Stocks were classified as financial assets at fair value through other comprehensive income upon the adoption of IFRS 9. The movements in Bahamas Government Registered Stocks are as follows:

	2020 $	2019 $
Beginning balance	247,090,473	246,404,605
Purchases	88,421,128	62,914,700
Market value adjustment	(1,349,944)	(2,259,796)
Redemptions/maturities	(104,074,337)	(59,969,036)
Total	230,087,320	247,090,473
Add: Accrued interest	2,785,151	2,795,715
Ending balance	**232,872,471**	**249,886,188**

Bahamas Government Registered Stocks bear interest at rates ranging between 0.083% and 6.10% (2019: 3.50% and 5.40%).

13. Loans to Bahamas Development Bank

This balance is comprised of two Government Guaranteed loan facilities made available in accordance with Section 23(h) of the Act.

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

	2020 $	2019 $
Beginning balance	2,250,000	2,500,000
Repayments	(250,000)	(250,000)
Total	2,000,000	2,250,000
Add: Accrued interest	7,962	8,260
Ending balance	**2,007,962**	**2,258,260**

The loans bear interest at 2.00% (2019: 2.00%), with $2,000,000 maturing on October 28, 2024.

14. Bridge Authority Bonds

The movements in the Bridge Authority bonds are as follows:

	2020 $	2019 $
Beginning balance	43,300	486,200
Purchases	-	9,800
Maturities	-	(452,700)
Total	43,300	43,300
Add: Accrued interest	664	683
Ending balance	**43,964**	**43,983**

These bonds bear interest at rates ranging from 1.50% to 1.63% (2019: 1.00% to 1.63%) per annum over the Bahamian dollar prime rate with $19,300 and $24,000 maturing on March 24, 2024 and 2029, respectively.

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2020
(Continued)

15. Clifton Heritage Authority Bonds

These bonds, which mature on May 20, 2025, bear interest at 4.75%. The balance of the Clifton Heritage Authority bonds is made up as follows:

	2020 $	2019 $
Beginning balance	637,600	634,600
Purchases	10,000	3,000
Total	647,600	637,600
Add: Accrued interest	3,506	3,485
Total	**651,106**	**641,085**

16. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 99.09% and 99.17% (2019: 99.09% and 99.58%) maturing 91 to 182 days from acquisition.

	2020 $	2019 $
Beginning balance	134,942,889	155,573,230
Purchases	720,682,484	663,703,600
Redemptions/maturities	(841,855,536)	(684,333,941)
Total	13,769,837	134,942,889
Add: Discount earned	45,124	337,486
Ending balance	**13,814,961**	**135,280,375**

17. Receivables and Other Assets

The receivables and other assets is comprised of:

	2020 $	2019 $
Prepayments, deposits and advances	6,531,717	6,301,975
Employee loans	6,186,534	7,058,250
Numismatic coins	449,921	375,572
Due from Retirement Plan – Governors and Deputy Governors	133,268	-
Others	679,791	2,006,013
Total	13,981,231	15,741,810
Less: Provision for bad debt on employee loans	(205,791)	(260,257)
Ending balance	**13,775,440**	**15,481,553**

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Notes to the Financial Statements
December 31, 2020
(Continued)

17. Receivables and Other Assets (Continued)

As disclosed in Note 4, accumulated costs related to the New Premises Project which amounted to $3,222,795 (2019: $439,255) were previously included under receivables and other assets and transferred to work in progress upon the resolution of the Government on the transfer of the Royal Victoria Gardens land to the Bank and commencement of the site preparation for the construction of the new premises. Further, the accumulated cost related to the Cash and Data Centre Project, including the related land purchase costs, which amounted to $2,479,867 (2019: $452,642) were also initially recognised under receivables and other assets and transferred to land and work in progress in the amount of $2,211,159 and $268,708, respectively, upon conveyance of the land title.

As disclosed in Note 5, accumulated cost related to the Sand Dollar Project which amounted to $6,173,721 (2019: $2,228,338) were previously included under receivables and other assets and transferred to intangible assets upon substantial completion and commencement of the public launch of the digital currency.

18. 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	**2020**	**2019**
	$	**$**
0.50	873,079	870,731
1.00	25,953,612	25,231,607
3.00	2,139,801	2,119,143
5.00	12,979,945	12,164,215
10.00	20,437,240	19,358,620
20.00	57,279,320	54,402,280
50.00	163,661,950	159,239,650
100.00	232,807,400	184,755,700
Other bank notes	82,018	82,018
	516,214,365	**458,223,964**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2020
(Continued)

19. 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.

20. Deposits by International Agencies

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

21. Equity and Reserves

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

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

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

At December 31, 2020, and 2019, the Bank's paid up capital was equal to the authorised capital of $3,000,000.

To comply with Section 31(2) of the Act, the table below presents the distributable earnings of the Bank by deducting from the net income the total amount of "unrealised revaluation gains". Section 7(1)(b) of the Act defines unrealised revaluation gains to include gains and losses arising from the Bank's positions in foreign currencies, gold securities and other financial assets.

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Notes to the Financial Statements
December 31, 2020
(Continued)

21. Equity and Reserves (Continued)

	2020 $	2019 $
Net income	14,575,418	17,615,879
Appropriation of foreign exchange gain	(1,119,846)	(131,682)
Unrealised gain on marketable securities	(1,315,616)	(3,204,514)
Distributable earnings per the Act	12,139,956	14,279,683
Other comprehensive loss	(3,290,150)	(1,080,309)
Distributable earnings net of other comprehensive loss stated in accordance with the Act	8,849,806	13,199,374

Fair value reserve – This account pertains to the unrealised gain/loss on fair value of Bahamas Government Registered Stocks which are classified as financial assets at fair value through other comprehensive income.

Exchange equalisation account - This account represents the net foreign exchange gain or loss arising from the revaluation of foreign currency monetary assets and liabilities of the Bank at the date of the statement of financial position.

Building fund - This account represents a reserve for construction of a new premises. During the year, the Bank appropriated $10,000,000 (2019: $Nil) from the general reserve to the building fund as approved by the Board of Directors.

General reserve - Section 32 of the Act requires that, at the end of any year where the amount in the general reserve exceeds twice the authorised capital of the Bank or 15% of the average amount of demand liabilities of the Bank over the last 3 years, 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 $174,067,478 (2019: $171,046,177) equivalent to 9.4% (2019: 10.7%) of demand liabilities.

22. Income

	2020	2019
	$	$
Interest on foreign investments		
Demand deposits	2,184,928	6,806,839
Fixed deposits	3,910,451	8,388,613
Foreign Government and marketable securities	21,539,089	16,557,950
Interest Income on SDR	336,872	1,296,251
	27,971,340	33,049,653
Interest on domestic investments		
Bahamas Development Bank bonds	170,000	170,000
Bahamas Government Registered Stocks	10,112,510	10,595,914
Bridge Authority bonds	2,502	7,799
Bahamas Government Treasury bills	1,323,164	1,917,288
Clifton Heritage bonds	30,320	30,397
	11,638,496	12,721,398
Interest on loans		
Loans to Bahamas Development Bank	47,388	48,315
Government advances	908,818	293,831
Staff	188,987	205,052
	1,145,193	547,198
Interest expense on IMF allocation	(350,795)	(1,707,875)
Gains/(losses) on investments		
Net foreign exchange gain	1,119,846	131,682
Realised gain on Marketable Securities	3,344,729	209,344
Unrealised gain on Marketable Securities	1,315,616	3,204,514
Net trading gain on Bahamas Government Registered Stocks	141,510	1,889,144
	5,921,701	5,434,684
Bank license fees income	3,394,065	3,700,000
Other income		
Bank statutory fines	1,737	9,170
Commission on foreign currency sales	1,951,488	225,542
Premium on Investment Currency Market	140,502	5,363,481
Other	1,146,274	785,758
	3,240,001	6,383,951
Total income	**52,960,001**	**60,129,009**

23. Expenses

	2020	2019
	$	$
Staff costs		
Salaries, wages and gratuity	16,703,921	15,296,783
Health insurance subsidy	4,615,147	271,191
Group insurance plan	1,673,850	1,445,358
Defined contribution plan	1,210,423	756,456
National insurance	542,744	505,973
Staff training	466,066	964,438
Responsibility allowance	218,030	217,500
Former Governors' retirement benefit	204,656	193,333
Defined benefit plan	(72,403)	8,771,042
Other	159,633	273,043
	25,722,067	**28,695,117**

	2020	2019
	$	$
General and administrative		
Professional fees	3,621,980	3,549,880
Currency	1,346,523	1,963,814
Utilities	1,244,128	1,135,987
Repairs and maintenance	1,204,441	1,068,554
Insurance	228,724	206,714
Subscription and membership fees	191,107	253,725
Rent and common area maintenance	146,679	157,365
Cash shipment	108,668	341,598
Directors' remuneration	63,450	53,825
Stationery and office supplies	14,129	17,615
Other	1,698,322	2,353,723
	9,868,151	**11,102,800**

24. Right of Use Assets and Lease Liabilities

The Bank has lease contracts for various items of land and buildings, and vehicles used in its operations. Leases of land and buildings generally have lease terms between 3 and 8 years, while vehicles generally have lease terms of 3 years.

The vehicle lease was terminated at the end of the lease term and the vehicle was returned to the lessor.

24. Right of Use Assets and Lease Liabilities

Right-of-Use Assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Land and Buildings $	Vehicle $	Total $
January 1, 2020	1,148,938	4,350	1,153,288
Effect of lease modification	1,128,109	-	1,128,109
Amortisation	(309,710)	(4,350)	(314,060)
December 31, 2020	**1,967,337**	**-**	**1,967,337**

	Land and Buildings $	Vehicle $	Total $
January 1, 2019	1,386,594	16,312	1,402,906
Additions	84,803	-	84,803
Amortisation	(322,459)	(11,962)	(334,421)
December 31, 2019	**1,148,938**	**4,350**	**1,153,288**

Lease Liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Land and Buildings $	Vehicle $	Total $
January 1, 2020	1,142,795	3,266	1,146,061
Effect of lease modification	1,128,109	-	1,128,109
Interest expense	119,378	34	119,412
Payments	(373,083)	(3,300)	(376,383)
December 31, 2020	**2,017,199**	**-**	**2,017,199**

24. Right of Use Assets and Lease Liabilities (Continued)

Lease Liabilities (Continued)

	Land and Buildings	Vehicle	Total
	$	$	$
January 1, 2019	1,386,594	16,312	1,402,906
Additions	84,803	-	84,803
Interest expense	36,765	554	37,319
Payments	(365,367)	(13,600)	(378,967)
December 31, 2019	**1,142,795**	**3,266**	**1,146,061**

The following are the amounts recognised in profit or loss:

	2020	2019
	$	$
Amortisation on Right of Use asset	314,060	334,421
Interest expense on lease liabilities	119,412	37,319
	433,472	**371,740**

The maturity analysis of lease liabilities follows:

	2020	2019
	$	$
1 year	312,472	346,704
2-5 years	1,307,910	713,604
Over 5 years	396,817	85,753
	2,017,199	**1,146,061**

Common area maintenance and non-lease components are recognized in profit or loss.

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

25. The Deposit Insurance Corporation

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

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

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

26. Commitments & Contingencies

(a) Contingencies

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

(b) Commitments

Printing of Currency

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

	2020	2019
	$	$
Not later than one year	1,856,100	1,038,880
Later than one year but not later than five years	1,127,880	1,856,100

27. Concentration of Assets and Liabilities

	2020 $	2019 $
EXTERNAL ASSETS		
Geographic Region		
North America	73.99%	62.08%
Europe	0.02%	2.57%
Other	25.99%	35.35%
	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%
DOMESTIC ASSETS		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Government Sector	100.00%	100.00%
DEMAND LIABILITIES		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Financial Sector	93.77%	93.70%
Government Sector	6.23%	6.30%
	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

Section 22(2) of the Act allows the Bank to hold an aggregate amount of securities issued or guaranteed by the Government or a public corporation up to 20% of the average ordinary revenue of the Government, or 20% of the estimated ordinary revenue of the Government, whichever is less. At the statement of financial position date, such securities held by the Bank was 14.73% estimated ordinary revenues.

28. Related Party Transactions

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

28. Related Party Transactions

The Bank provides certain services to the Government of The Bahamas, in accordance with its mandate under Sections 20 to 26 of the Act. These services include but are not limited to:

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

Bank license fee income

As regulator of banks and related financial institutions in accordance with the Bank and Trust Companies Regulation Act 2020, the Bank collects license fees from registered entities and remits the funds to the Government of the Bahamas. The Bank then receives an allocation of the license fees collected and recognised as bank license fee income as disclosed in Note 22.

During the year, the allocation received by the Bank of $3,394,065 (2019: $3,700,000) is net of the demolition cost of the vacated Post Office building located across the site of the New Premises Project on Royal Victoria Gardens in the amount to $1,505,935. The old Post Office ground is not part of the land transferred by the Government to the Bank as disclosed in Note 4.

Key management remuneration

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:

	2020	**2019**
	$	**$**
Senior officials' salaries and short-term benefits	2,692,922	1,795,691
Directors' remuneration	63,450	53,825
Post-employment benefits	148,158	105,819
	2,904,530	**1,955,335**

28. Related Party Transactions (Continued)

(b) Other assets include secured loans to employees totaling $5,980,743 (2019: $6,797,993), net of provision for bad debt totaling $205,791 (2019: $260,257), of which the following relates to key management personnel:

	2020 $	2019 $
Beginning of the year	540,261	759,400
Advances during the year	131,713	53,650
Repayments during the year	(154,208)	(272,789)
End of the year	**517,766**	**540,261**

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

	2020 $	2019 $
Defined benefit pension plan for Governors and Deputy Governors	804,438	575,175
Gratuity	80,341	27,418
End of the year	**884,779**	**602,593**

29. Fiduciary Assets and Liabilities

Section 27 of the Act authorises the Bank to accept unclaimed customer deposits that are required to be transferred to it by a bank in The Bahamas in accordance with the Banks and Trust Companies Regulation Act, pay interest on money deposited and pay out money to any person entitled thereto. At December 31, 2020 the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $68,399,663 (2019: $70,847,813). These amounts are excluded from the statement of financial position.

The Insurance Commission of the Bahamas granted the Bank custody of unclaimed insurance from registered insurance companies in the amount of $4,138,956 (2019: $3,587,747) which are excluded from the statement of financial position.

Additionally, the Bank holds various sinking funds with an external broker on behalf of The Government which totaled $195,463,442 (2019: $127,703,588). These funds are also excluded from the statement of financial position.

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

Central Bank of The Bahamas

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December 31, 2020
(Continued)

30. Financial Instruments

Categories of Financial Instruments

	Amortised Cost $	Fair Value Through Profit or Loss $	Fair Value Through Other Comprehensive Income $	Total Carrying Amount $
December 31, 2020				
EXTERNAL ASSETS				
Cash and deposits with banks	307,566,820	-	-	307,566,820
Foreign Government Securities	1,701,959,861	-	-	1,701,959,861
Marketable securities	-	165,618,818	-	165,618,818
International Monetary Fund:				
Bahamas reserve tranche	-	27,775,941	-	27,775,941
Special drawing rights - holdings	-	179,235,583	-	179,235,583
DOMESTIC ASSETS				
Cash on hand	7,119	-	-	7,119
Bahamas Development Bank bonds	4,049,795	-	-	4,049,795
Advances to Bahamas Government	5,809,695	-	-	5,809,695
Bahamas Government Registered Stock	-	-	232,872,471	232,872,471
Loans to Bahamas Development Bank	2,007,962	-	-	2,007,962
Bridge Authority Bonds	43,964	-	-	43,964
Clifton Heritage Authority Bonds	651,106	-	-	651,106
Bahamas Government Treasury Bills	-	-	13,814,961	13,814,961
Employee loans and other receivables	6,660,534	-	-	6,660,534
Total	**2,028,756,856**	**372,630,342**	**246,687,432**	**2,648,074,630**

30. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2020			
DEMAND LIABILITIES			
Notes in circulation	-	516,214,365	516,214,365
Coins in circulation	-	30,330,788	30,330,788
Sand Dollar in circulation	-	75,125	75,125
Deposits by commercial banks	-	1,571,225,899	1,571,225,899
Deposits by Bahamas Government and Bahamas Government agencies	-	134,206,559	134,206,559
Deposits by International agencies	-	255,211	255,211
Accounts payable and other liabilities	-	9,888,137	9,888,137
Investment Currency Market payable	-	3,816,359	3,816,359
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	179,218,740	-	179,218,740
Total	**179,218,740**	**2,266,012,443**	**2,445,231,183**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2020
(Continued)

30. Financial Instruments

Categories of Financial Instruments

	Amortised Cost $	Fair Value Through Profit or Loss $	Fair Value Through Other Comprehensive Income $	Total Carrying Amount $
December 31, 2019				
EXTERNAL ASSETS				
Cash and deposits with banks	794,469,117	-	-	794,469,117
Foreign Government Securities	672,168,495	-	-	672,168,495
Marketable securities	-	107,615,277	-	107,615,277
International Monetary Fund:				
Bahamas reserve tranche	-	26,668,179	-	26,668,179
Special drawing rights - holdings	-	157,135,378	-	157,135,378
DOMESTIC ASSETS				
Cash on hand	33,210	-	-	33,210
Bahamas Development Bank bonds	4,092,683	-	-	4,092,683
Advances to Bahamas Government	75,193,832	-	-	75,193,832
Bahamas Government Registered Stock	-	-	249,886,188	249,886,188
Loans to Bahamas Development Bank	2,258,260	-	-	2,258,260
Bridge Authority Bonds	43,983	-	-	43,983
Clifton Heritage Authority Bonds	641,085	-	-	641,085
Bahamas Government Treasury Bills	-	-	135,280,375	135,280,375
Employee loans and other receivables	8,804,006	-	-	8,804,006
Total	**1,557,704,671**	**291,418,834**	**385,166,563**	**2,234,290,068**

30. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2019			
DEMAND LIABILITIES			
Notes in circulation	-	458,223,964	458,223,964
Coins in circulation	-	30,279,156	30,279,156
Sand Dollar in circulation	-	48,000	48,000
Deposits by commercial banks	-	1,242,871,902	1,242,871,902
Deposits by Bahamas Government and Bahamas Government agencies	-	114,072,822	114,072,822
Deposits by International agencies	-	255,235	255,235
Accounts payable and other liabilities	-	13,644,785	13,644,785
Investment Currency Market payable	-	3,565,728	3,565,728
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	172,261,421	-	172,261,421
Total	**172,261,421**	**1,862,961,592**	**2,035,223,013**

31. Fair Value Measurements

Fair value of financial instruments

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

	2020		2019	
	Carrying Value $	Fair Value $	Carrying Value $	Fair Value $
FINANCIAL INSTRUMENTS				
Foreign Government Securities	1,701,959,861	1,818,662,263	672,168,495	681,894,460
Loans to Bahamas Development Bank	2,007,962	2,160,271	2,258,260	3,688,769
Bridge Authority bonds	43,964	45,224	43,983	45,243
Clifton Heritage Authority bonds	651,106	666,499	641,085	656,228
TOTAL	**1,704,662,893**	**1,821,534,257**	**675,111,823**	**686,284,700**

31. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

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

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

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

Fair value hierarchy and measurements

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

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

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

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

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

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

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

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

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

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

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

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

	Fair value measurements as at December 31, 2020			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Marketable Securities	165,618,818	-	-	165,618,818
International Monetary Fund:				
Bahamas reserve tranche	27,775,941	-	-	27,775,941
Special Drawing rights - holdings	179,235,583	-	-	179,235,583
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	13,814,961	-	13,814,961
Bahamas Government Registered Stocks	-	232,872,471	-	232,872,471
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	179,218,740	-	-	179,218,740

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

	Fair value measurements as at December 31, 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Marketable Securities	107,615,277	-	-	107,615,277
International Monetary Fund:				
Bahamas reserve tranche	26,668,179	-	-	26,668,179
Special Drawing rights - holdings	157,135,378	-	-	157,135,378
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	135,280,375	-	135,280,375
Bahamas Government Registered Stocks	-	249,886,188	-	249,886,188
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	172,261,421	-	-	172,261,421

Level 3

The Bank does not have a level three classification at December 31, 2020 and 2019.

There were no transfers between levels in the year.

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

	Fair value measurements as at December 31, 2020			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Cash and deposits with banks	307,573,939	-	-	307,573,939
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,049,795	-	4,049,795
Advances to Bahamas Government	-	5,809,695	-	5,809,695
Loans to Bahamas Development Bank	-	2,007,962	-	2,007,962
Bridge Authority bonds	-	43,964	-	43,964
Employee loans and other receivables	-	6,660,534	-	6,660,534
Foreign Government Securities	1,701,959,861	-	-	1,701,959,861
Clifton Heritage Authority bonds	-	651,106	-	651,106

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

	Fair value measurements as at December 31, 2020			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	516,214,365	-	-	516,214,365
Coins in circulation	30,330,788	-	-	30,330,788
Sand Dollar in circulation	75,125	-	-	75,125
Deposits by commercial banks	-	1,571,225,899	-	1,571,225,899
Deposits by Bahamas Government and Bahamas Government agencies	-	134,206,559	-	134,206,559
Deposits by international agencies	-	255,211	-	255,211
Accounts payable and other liabilities	-	9,888,137	-	9,888,137
Investment Currency Market payable	-	3,816,359	-	3,816,359

	Fair value measurements as at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	794,502,327	-	-	794,502,327
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,092,683	-	4,092,683
Advances to Bahamas Government	-	75,193,832	-	75,193,832
Loans to Bahamas Development Bank	-	2,258,260	-	2,258,260
Bridge Authority bonds	-	43,983	-	43,983
Employee loans and other receivables	-	8,804,006	-	8.804,006
Foreign Government Securities	672,168,495	-	-	672,168,495
Clifton Heritage Authority bonds	-	641,085	-	641,085
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	458,223,964	-	-	458,223,964
Coins in circulation	30,279,156	-	-	30,279,156
Sand Dollar in circulation	48,000	-	-	48,000
Deposits by commercial banks	-	1,242,871,902	-	1,242,871,902
Deposits by Bahamas Government and Bahamas Government agencies	-	114,072,822	-	114,072,822
Deposits by international agencies	-	255,235	-	255,235
Accounts payable and other liabilities	-	13,644,785	-	13,644,785
Investment Currency Market payable	-	3,565,728	-	3,565,728

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

The fair value of the financial assets and liabilities disclosed under level 2 and 3 above have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the Bahamian prime rate as the discount rate. The Bahamian dollar Prime rate as at December 31, 2020 was 4.25% (2019: 4.25%).

32. Risk Management

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

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

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

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

32. Risk Management (Continued)

Credit risk

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

Exposure to credit risk

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

	2020 $	2019 $
Cash and deposits with banks		
Aaa	275,905,208	713,531,618
Aa2	53,608	20,440,073
A1	25,181,581	59,216,289
	301,140,397	793,187,980
Bahamas Development Bank Bonds		
Baa3	4,049,795	4,092,683
Advances to Bahamas Government		
Baa3	5,809,695	75,193,832
Bahamas Government Registered Stock		
Baa3	232,872,471	249,886,188
Loans to Bahamas Development Bank		
Baa3	2,007,962	2,258,260
Bridge Authority Bonds		
Baa3	43,964	43,983

32. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2020 $	2019 $
Receivables and Other Assets	6,660,534	8,804,006
Bahamas Government Treasury Bills		
Baa3	13,814,961	135,280,375
Foreign Government Securities		
Aaa	1,701,959,861	672,168,495
Marketable Securities		
Aaa	165,618,818	107,615,277
Clifton Heritage Authority Bonds		
Baa3	651,106	641,085
International Monetary Fund		
Bahamas reserve tranche	27,775,941	26,668,179
Special drawing rights - holdings	179,235,583	157,135,378
	207,011,524	183,803,557
	2,641,641,088	**2,232,975,721**

Market risk

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

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

Currency risk

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

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

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(Continued)

32. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2020							
Financial Assets							
Cash and deposits with banks	7,119	307,566,374	3,664	(5,668)	2,450	-	307,573,939
Foreign Government Securities	-	1,701,959,861	-	-	-	-	1,701,959,861
Marketable securities	-	165,618,818	-	-	-	-	165,618,818
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	27,775,941	27,775,941
Special drawing rights - holdings	-	-	-	-	-	179,235,583	179,235,583
Domestic financial assets	265,910,488	-	-	-	-	-	265,910,488
Total financial assets	**265,917,607**	**2,175,145,053**	**3,664**	**(5,668)**	**2,450**	**207,011,524**	**2,648,074,630**
Financial Liabilities							
Notes in circulation	516,214,365	-	-	-	-	-	516,214,365
Coins in circulation	30,330,788	-	-	-	-	-	30,330,788
Sand Dollar in circulation	75,125	-	-	-	-	-	75,125
Deposits by commercial banks	1,571,225,899	-	-	-	-	-	1,571,225,899
Deposits by Bahamas Government and Bahamas Government agencies	134,206,559	-	-	-	-	-	134,206,559
Deposits by international agencies		255,211	-	-	-	-	255,211
Accounts payable and other liabilities	9,888,137	-	-	-	-	-	9,888,137
Investment Currency Market payable	3,816,359	-	-	-	-	-	3,816,359
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	179,218,740	179,218,740
Total financial liabilities	**2,265,757,232**	**255,211**	**-**	**-**	**-**	**179,218,740**	**2,445,231,183**
Net on-balance sheet position	**(1,999,839,625)**	**2,174,889,842**	**3,664**	**(5,668)**	**2,450**	**27,792,784**	**202,843,447**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2020
(Continued)

32. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2019							
Financial Assets							
Cash and deposits with banks	33,210	794,130,615	7	338,487	8	-	794,502,327
Foreign Government Securities	-	672,168,495	-	-	-	-	672,168,495
Marketable securities	-	107,615,277	-	-	-	-	107,615,277
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	26,668,179	26,668,179
Special drawing rights - holdings	-	-	-	-	-	157,135,378	157,135,378
Domestic financial assets	476,200,412	-	-	-	-	-	476,200,412
Total financial assets	**476,233,622**	**1,573,914,387**	**7**	**338,487**	**8**	**183,803,557**	**2,234,290,068**
Financial Liabilities							
Notes in circulation	458,223,964	-	-	- -	-	-	458,223,964
Coins in circulation	30,279,156	-	-	- -	-	-	30,279,156
Sand Dollar in circulation	48,000	-	-	- -	-	-	48,000
Deposits by commercial banks	1,242,871,902	-	-	- -	-	-	1,242,871,902
Deposits by Bahamas Government and Bahamas Government agencies	114,072,822	-	-	- -	-	-	114,072,822
Deposits by international agencies		255,235	-	- -	-	-	255,235
Accounts payable and other liabilities	13,644,785	-	-	- -	-	-	13,644,785
Investment Currency Market payable	3,565,728	-	-	- -	-	-	3,565,728
International Monetary Fund:							
Special drawing rights allocation	-	-	-	- -	-	172,261,421	172,261,421
Total financial liabilities	**1,862,706,357**	**255,235**	**-**	**-**	**-**	**172,261,421**	**2,035,223,013**
Net on-balance sheet position	**(1,386,472,735)**	**1,573,659,152**	**7**	**338,487**	**8**	**11,542,136**	**199,067,055**

32. Risk Management (Continued)

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

	Average Rate		Year-end Spot Rate	
	2020	**2019**	**2020**	**2019**
USD 1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.2918	1.2797	1.3656	1.3202
EUR 1	1.1468	1.1260	1.2228	1.1233
SDR 1	1.3959	1.3819	1.4403	1.3828

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

Currency	**Weight**
USD	41.73%
EUR	30.93%
CNY	10.92%
JPY	8.33%
GBP	8.09%
	100.00%

At December 31, 2020, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 1,200 (2019: BSD 1,094,583) higher/lower, mainly as a result of foreign exchange gains/losses on translation of SDR-denominated financial assets and liabilities.

Interest rate risk

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

32. Risk Management (Continued)

Interest rate risk (continued)

Certain of the Bank's financial assets and liabilities are exposed to interest rate risk. Foreign Government securities carry an average yield of 2.24% (2019: 2.26%); however, if these securities had a reduced average yield of 1.41% (2019: 2.06%), derived from their varying yields at the lower end of the spectrum, income for the year and equity at year end would have been reduced by $1,469,655 (2019: $1,465,305). Had the yield been tilted towards the higher end of the spectrum, to 3.39% (2019: 2.46%), income for the year and equity at year end would have increased by $4,283,927 (2019: $1,465,305).

In respect of all variable interest bearing instruments, if interest rates had been 50 basis points higher, with all other variables remaining constant, the increase in equity and net operating results for the year would amount to approximately $639,840 (2019: $888,969), arising from variable rate instruments. If interest rates had decreased by 50 basis points, the decrease in equity and net operating results for the year would amount to approximately $(639,840) (2019: $(888,969).

	December 31, 2020	**December 31, 2019**
	$	**$**
Fixed Rate Instruments		
Financial assets	1,105,020,432	1,454,643,016
Financial liabilities	-	-
Variable Rate Instruments		
Financial assets	591,306,465	744,800,564
Financial liabilities	179,218,740	172,261,421

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.

32. Risk Management (Continued)

Liquidity risk (continued)

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

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

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

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

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

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

32. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2020						
Financial Assets						
Cash and deposits with banks	65,286,881	10,143,336	232,143,722	-	-	**307,573,939**
Foreign Government Securities and Marketable Securities	75,995,413	235,392,776	611,628,907	375,134,349	403,808,416	**1,701,959,861**
Marketable securities	-	-	-	165,618,818	-	**165,618,818**
International Monetary Fund:						
Bahamas reserve tranche	27,775,941	-	-	-	-	**27,775,941**
Special drawing rights – holdings	179,235,583	-	-	-	-	**179,235,583**
Bahamas Development Bank bonds	-	-	-	-	4,049,795	**4,049,795**
Advances to Bahamas Government	5,809,695	-	-	-	-	**5,809,695**
Bahamas Government Registered stock	3,320,591	1,736,408	41,842,436	50,687,814	135,285,222	**232,872,471**
Bahamas Government Treasury Bills	-	-	13,814,961	-	-	**13,814,961**
Loans to Bahamas Development Bank	-	-	-	-	2,007,962	**2,007,962**
Bridge Authority bonds	-	-	-	43,964	-	**43,964**
Clifton Heritage Authority bonds	-	-	-	-	651,106	**651,106**
Receivables and other accounts	-	-	-	6,660,534	-	**6,660,534**
Total financial assets	**357,424,104**	**247,272,520**	**899,430,026**	**598,145,479**	**545,802,501**	**2,648,074,630**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2020
(Continued)

32. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2020						
Financial Liabilities						
Notes in circulation	516,214,365	-	-	-	-	**516,214,365**
Coins in circulation	30,330,788	-	-	-	-	**30,330,788**
Sand Dollar in circulation	75,125	-	-	-	-	**75,125**
Deposits by commercial banks	1,571,225,899	-	-	-	-	**1,571,225,899**
Deposits by Bahamas Government and Bahamas Government agencies	134,206,559	-	-	-	-	**134,206,559**
Deposits by International agencies	255,211	-	-	-	-	**255,211**
Accounts payable and other liabilities	9,888,137	-	-	-	-	**9,888,137**
Investment Currency Market payable	3,816,359	-	-	-	-	**3,816,359**
International Monetary Fund: Special drawing rights allocation	179,218,740	-	-	-	-	**179,218,740**
Total financial liabilities	**2,445,231,183**	**-**	**-**	**-**	**-**	**2,445,231,183**
Net on-balance sheet position	**(2,087,807,079)**	**247,272,520**	**899,430,026**	**598,145,479**	**545,802,501**	**202,843,447**

32. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2019						
Financial Assets						
Cash and deposits with banks	245,556,457	110,268,333	438,677,537	-	-	**794,502,327**
Foreign Government Securities and Marketable Securities	6,950,986	2,514,844	89,326,648	308,673,439	264,702,578	**672,168,495**
Marketable securities				107,615,277		**107,615,277**
International Monetary Fund:						
Bahamas reserve tranche	26,668,179	-	-	-	-	**26,668,179**
Special drawing rights – holdings	157,135,378	-	-	-	-	**157,135,378**
Bahamas Development Bank bonds	-	-	-	-	4,092,683	**4,092,683**
Advances to Bahamas Government	75,193,832	-	-	-	-	**75,193,832**
Bahamas Government Registered stock	-	52,323	6,273,332	102,121,142	141,439,391	**249,886,188**
Bahamas Government Treasury Bills	-	66,568,161	68,712,214	-	-	**135,280,375**
Loans to Bahamas Development Bank	-	-	-	-	2,258,260	**2,258,260**
Bridge Authority bonds	-	19,601	-	24,382	-	**43,983**
Clifton Heritage Authority bonds	-	-	-	-	641,085	**641,085**
Receivables and other accounts	1,863,045	825	289,415	1,564,933	5,085,788	**8,804,006**
Total financial assets	**513,367,877**	**179,424,087**	**603,279,146**	**519,999,173**	**418,219,785**	**2,234,290,068**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2020
(Continued)

32. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2019						
Financial Liabilities						
Notes in circulation	458,223,964	-	-	-	-	**458,223,964**
Coins in circulation	30,279,156	-	-	-	-	**30,279,156**
Sand Dollar in circulation	48,000	-	-	-	-	**48,000**
Deposits by commercial banks	1,242,871,902	-	-	-	-	**1,242,871,902**
Deposits by Bahamas Government and Bahamas Government agencies	114,072,822	-	-	-	-	**114,072,822**
Deposits by International agencies	255,235	-	-	-	-	**255,235**
Accounts payable and other liabilities	13,644,785	-	-	-	-	**13,644,785**
Investment Currency Market payable	3,565,728	-	-	-	-	**3,565,728**
International Monetary Fund: Special drawing rights allocation	172,261,421	-	-	-	-	**172,261,421**
Total financial liabilities	**2,035,223,013**	**-**	**-**	**-**	**-**	**2,035,223,013**
Net on-balance sheet position	**(1,521,855,136)**	**179,424,087**	**603,279,146**	**519,999,173**	**418,219,785**	**199,067,055**

32. Risk Management (Continued)

Operational risk

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

33. Retirement Benefit Plans

Defined Contribution Plan

	2020 $	2019 $
Amount recognised as an expense (Note 23)	1,210,423	756,456

Defined Benefit Plan

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

	2020 $	2019 $
Present value of obligation at start of year	17,559,745	51,687,993
Curtailment adjustment	-	(32,361,953)
Interest cost	953,802	1,874,725
Current service cost	-	847,101
Benefits paid	(1,356,589)	(2,749,794)
Actuarial loss/(gain) on obligation due to experience	236,413	(918,660)
Actuarial loss on obligation due to demographic assumption changes	-	-
Actuarial loss/(gain) on obligation due to financial assumption changes	489,581	(819,667)
Present value of obligation at end of year	**17,882,952**	**17,559,745**
Fair value of plan assets at start of year	18,541,109	59,609,173
Curtailment adjustment	-	(40,861,019)
Interest income	1,009,715	2,144,347
Contributions paid – both employees' and employer's	23,012	1,091,996
Benefits paid	(1,356,589)	(2,749,794)
Administrative costs	(6,522)	(21,111)
Return on plan assets, excluding interest income	(905,966)	(672,483)
Fair value of plan assets at end of year	**17,304,759**	**18,541,109**

33. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

	2020 $	2019 $
Present value of funded obligations	17,882,952	17,559,745
Fair value plan assets	(17,304,759)	(18,541,109)
	578,193	**(981,364)**

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

	2020 $	2019 $
Cash	65,980	200,080
Interest receivable	288,854	270,580
Bahamas Government Registered Stocks	15,915,776	17,018,185
Other bonds	369,115	372,824
Equity securities	700,000	700,000
Accounts payable	(34,966)	(20,560)
Total	**17,304,759**	**18,541,109**

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

	2020 $	2019 $
Current service cost	-	644,619
Administrative cost	6,522	21,111
Net interest income	(55,913)	(269,622)
Loss on curtailment	-	8,499,066
	(49,391)	**8,895,174**
Remeasurements recognised in OCI	**1,631,960**	**(1,065,844)**

33. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

Effective June 30, 2019, the Plan was amended to:

1. Cease pension accruals while retaining all benefit eligibility rules and calculations for active Members.
2. Allow those already eligible to early retire, and those within 5 years of early retirement eligibility, to stay in or opt out of the Plan with all others receiving a cash payout.
3. Cease contributions from active Members.

137 active Members opted for a cash payout and transferred the payout amount to the Defined Contribution Pension Plan. The combined actuarial present value of accrued benefits paid to these members amounted to $40,861,019.

6 active Members nearing retirement opted to remain in the Defined Benefit Pension Plan

The Loss on curtailment of $8,499,066 million indicates that the amount paid out to active Members was more than the accounting liability estimate on June 30, 2019.

Movements in the net liability/(asset) recorded in the statement of financial position are as follows:

	2020	**2019**
	$	**$**
Net assets at beginning of year	(981,364)	(7,921,180)
Net expense recognised in net income	(49,391)	8,895,174
Employer contributions	(23,012)	(889,514)
Remeasurements recognised in OCI	1,631,960	(1,065,844)
	578,193	**(981,364)**

The Bank did not made additional contribution to the Plan effective June 30, 2019. Prior to this date, the Bank contributed approximately 18.9% of gross payroll to the plan.

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

	2020	**2019**
	$	**$**
Discount rate	5.35%	5.65%
Expected rate of salary increase at age 18	4.00%	4.00%
Expected rate of salary increase at age 59	4.00%	4.00%
Cost of living adjustment for active employees	1.25%	1.25%

The actual return on plan assets during the year was $103,749 (2019: $1,471,864).

33. Retirement Benefit Plans (Continued)

Sensitivity and other results

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

	2020 $	2019 $
Pensioners	14,283,979	14,249,365
Vesting actives	3,598,973	3,310,380
Unvested actives	-	-
	17,882,952	17,559,745

The pensioner liability of $14,283,979 (2019: $14,249,365), included $1,320,086 (2019: $1,323,431) relating to assumed cost of living adjustments.

The liability for actives of $3,598,973 (2019: $3,310,380), included of $125,019 (2019: $113,752) relating to assumed cost of living adjustments and $227,358 (2019: $248,921) relating to assumed future salary increases.

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2020 for 1% changes in discount rate and salary increases.

	2020		2019	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(1,544,622)	1,819,281	(1,519,583)	1,790,889
Future salary increases	62,527	(60,155)	69,037	(66,184)

If all members lived one year longer than projected, the liability at year-end would be $18,383,386 (2019: $18,023,498).

If the discount rate remained at 5.65% and mortality remained unchanged, the benefit obligation would be $17,393,371 (2019: $17,642,347).

The weighted average duration of the defined benefit obligation at December 31, 2020 is 9.3 years (2019: 9.4 years).

34. Health Insurance Subsidy Benefit for Retirees

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

	2020 $	2019 $
Present value of obligation at start of year	3,184,622	3,190,276
Interest cost	173,968	171,351
Current service cost	87,290	99,840
Past Service Cost – vested benefits	4,353,889	-
Benefits paid	(211,097)	(149,626)
Actuarial gain on obligation due to experience	(129,944)	(69,576)
Actuarial loss on obligation due to financial assumption change	114,078	(57,643)
Actuarial gain on obligation due to demographic assumption change	-	-
Present value of obligation at end of year	**7,572,806**	**3,184,622**
Contribution paid – employees' and employers' contributions	211,097	149,626
Benefits paid	(211,097)	(149,626)
	-	**-**

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

	2020 $	2019 $
Current service cost	87,290	99,840
Net interest cost	173,968	171,351
Past service costs – vested benefits	4,353,889	-
	4,615,147	**271,191**
Remeasurements recognised in OCI	**(15,866)**	**(127,219)**

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

	2020 $	2019 $
Net liability at beginning of year	3,184,622	3,190,276
Net expense recognised in net comprehensive (loss)/income	4,615,147	271,191
Employer contributions	(211,097)	(149,626)
Remeasurements recognised in OCI	(15,866)	(127,219)
	7,572,806	**3,184,622**

34. Health Insurance Subsidy Benefit for Retirees (Continued)

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

	2020 $	2019 $
Discount rate	5.35%	5.65%
Rate of Medical Subsidy Increases	4.00%	0.00%

Sensitivity and Other Results

The benefit obligation as at year-end comprises:

	2020 $	2019 $
Pensioners	3,783,957	1,696,747
Actives	3,788,849	1,487,875
Total	**7,572,806**	**3,184,622**

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2019 for 1% changes in discount rate.

	2020		2019	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount rate	(1,023,578)	1,296,301	(343,678)	420,031

If all members lived one year longer than projected, the liability would be $7,828,652 (2019: $3,253,643).

If the discount rate remained unchanged from 5.65% and mortality assumption remained unchanged, the benefit obligation would increase by $114,078.

The weighted average duration of the defined benefit obligation at December 31, 2020 is 15.1 years (2019: 11.9 years).

35. Retirement Benefit Plan for Governors and Deputy Governors

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

	2020 $	2019 $
Present value of obligation at start of year	4,215,139	4,232,350
Interest cost	230,175	225,010
Current service cost	184,809	185,393
Benefits paid	(282,500)	(282,500)
Actuarial gain on obligation due to experience	(76,935)	(80,617)
Actuarial loss obligation due to demographic assumption change	-	-
Actuarial loss/(gain) on obligation due to financial assumption change	131,575	(64,497)
Present value of obligation at end of year	**4,402,263**	**4,215,139**
Fair value of plan assets at start of year	3,863,868	4,087,988
Expected return on plan assets	210,328	217,070
Benefits paid	(282,500)	(282,500)
Actuarial (loss)/gain on plan assets	(269,472)	(158,690)
Fair value of plan assets at end of year	**3,522,224**	**3,863,868**

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

	2020 $	2019 $
Present value of funded obligations	4,402,263	4,215,139
Fair value of plan assets	(3,522,224)	(3,863,868)
	880,039	351,271

The expense recognised in the statement of comprehensive income in respect of the Bank's non-contributory defined retirement benefit plan for governors and deputy governors is as follows:

	2020 $	2019 $
Current service cost	184,809	185,393
Net interest expense	19,847	7,940
	204,656	**193,333**
Remeasurements recognised in OCI	**324,112**	**13,576**

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

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

	2020 $	2019 $
Net liability at beginning of year	351,271	144,362
Net expense recognised in net income	204,656	193,333
Remeasurements recognised in OCI	324,112	13,576
	880,039	**351,271**

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

	2020 $	2019 $
Discount rate at end of year	5.35%	5.65%
Salary increase (p.a.)	3.50%	3.50%
Cost of living adjustment for pensioners (p.a.)	3.50%	3.50%

Sensitivity and other results

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

	2020 $	2019 $
Pensioners	3,597,825	3,639,964
Actives - Unvested	804,438	575,175
	4,402,263	4,215,139

The pensioner liability of $3,597,825 (2019: $3,639,964) included $876,765 (2019: $897,654) relating to assumed cost of living adjustments, and $876,765 (2019: 897,654) relating to assumed future salary increases.

The liability for actives of $804,438 (2019: $575,175) included $219,991 (2019: $153,692) relating to assumed cost of living adjustments and $289,352 (2019: $215,525) relating to assumed future salary increases.

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

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2020 for 1% changes in discount rate and salary increases.

	2020		2019	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(413,657)	492,514	(390,507)	463,871
Future salary increases	29,502	(28,518)	26,496	(25,422)

If all members lived one year longer than projected, the liability at year-end would be $4,571,315 (2019: $4,371,679).

The weighted average duration of the defined benefit obligation at December 31, 2020 is 10.2 years (2019: 10.1 years).

36. Subsequent Events

The 2019 Novel Coronavirus infection ('coronavirus') or 'COVID-19' outbreak poses a serious public health threat. It has interrupted the movement of people and goods throughout the world, and many levels of government are instituting restrictions on individuals and businesses. The resulting impact on financial reporting will be significant.

The World Health Organization (WHO) announced the coronavirus as a global health emergency, which prompted the governments worldwide to put actions in place to slow the spread of COVID-19 including social distancing, curfews and total lockdowns of businesses. As such, the outbreak represents a significant subsequent event with regards to the 31 December 2020 financial statements.

With regards to the Bank operations, the impact of COVID-19 on financial reporting follows:

Financial Statement Area	Description of Impact
Cash and deposits with banks including fixed deposits and related interest income.	With sustained Federal Reserve interest rate cuts, the returns offered by depositories remain depressed. Overnight rates remain lower. The Federal Reserve first lowered the rate to near zero percent on March 15, 2020 and have since maintained a range of 0% to .25%. This low yielding environment is estimated to continue throughout 2021.

36. Subsequent Events

Financial Statement Area	Description of Impact
Foreign Government Securities and related interest income.	At the beginning of 2020 Treasury yields stood at 1.67%, 1.79% and 2.33% for 5year, 7year and 30year, respectively and dropped by March 17, 2020 to 0.66%, 0.91% and 1.63%. Yields are now rising rapidly over concerns of possible inflation growth amid the economic recovery and have risen to 0.87%, 1.32% and 2.39% recently. The Bank will continue to invest in securities to earn quality returns and absorb some of the anticipated interest rate drop off which may continue in 2021.
Marketable Securities and related fair value of investments including interest income.	The Bank's portfolio has a very strong conservative profile (average rating of AAA) with limited credit exposure and continues to invest in high quality issues with fixed interest rates. It is anticipated that there will be minimal impact.
International Monetary Fund: - effect in Bahamas Reserve Tranche, Special Drawing Rights and the related interest in SDR. - Special Drawing Rights Allocation including interest expense on SDR.	SDR interest rates dropped significantly in 2020 and continue through to 2021; there is no material financial impact as assets and liabilities are matching thus the interest expense and income are offset.
Bahamas Government Treasury Bills and related interest income	Currently there is no foreseeable impact on the repayment of the Bahamas Government Treasury Bills and the related interest income.
Advances to Bahamas Government and related interest income	To date there is no impact on the repayment of government advances and its related interest income. With the initial COVID-19 vaccinations taken around the world the easing of COVID-19 restrictions appear to be in sight.

36. Subsequent Events

Financial Statement Area	Description of Impact
Bahamas Government Register Stock and related interest income.	During 2020, there was an increase in redemptions purchased by the Bank as individual investors redeemed their holdings. This resulted in increased interest income from BGRS. There is no known measureable impact on Bahamas Government Registered Stocks.
Deposit by Commercial Banks	Deposits remain well above required limits. Initially anticipated erosion has not materialised and continues to be avoided.
Deposits by Bahamas Government and Bahamas Government Agencies	The longer the pandemic continues these deposits will be drawn down, however, with government borrowings these agencies are subsidised.
Staff Cost	The Bank continues with its full complement of staff, however, training costs were significantly impacted due to COVID-19 restrictions and will continue into 2021 due to the substitution of remote online training for in person courses. Staff continue to work remotely but are returning to the building as needed with established protocols in place and routine testing.

The Bank's Board of Directors and Management are continuously evaluating the financial impact of COVID-19 and currently considers that there is no significant impact on the Bank's ability to continue as a going concern.

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