2022

CENTRAL BANK OF THE BAHAMAS

ANNUAL REPORT & Statement of Accounts

For the year ended December 31, 2022

Mission

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

Values

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

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

Vision

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

May 8, 2023

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 2022. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

John A. Rolle
Governor

The Hon. Philip E. Davis
Prime Minister & Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

$250

$100

2022
Currency Highlights

$10

$10

$10

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 that are 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.

CONTENTS

FOREWORD

The robust recovery of the Bahamian economy was sustained in 2022, underpinned by the further rebound in tourism and steady stimulus from foreign direct investments. However, domestic price pressures increased, mirroring the pass-through effects from higher global oil prices and elevated costs on imported goods.

In terms of the fiscal outturn, the deficit narrowed significantly in FY2021/22, given a strong recovery in revenue, which outpaced the rise in total spending. Similarly, during the first half of the new FY2022/23, the deficit decreased, as the revenue rebound continued.

Monetary and credit trends were largely influenced by inflows from Government's external borrowings and net tourism receipts. With credit expansion trailing the corresponding gains in deposits, the inflows contributed to a buildup in liquidity and external reserves. Given the improved outlook for the reserves, the Central Bank maintained an accommodative monetary policy posture for domestic credit. However, domestic banks' appetite to expand private sector credit remained subdued, given the overhang of lending risks which pre-dated the COVID-19 pandemic. In the meantime, banks' credit quality indicators improved, in line with economy's upturn.

On the financial sector supervision front, in August 2022, the Central Bank relaxed some prudential controls on credit policies. Within the confines of lending institutions' credit risk management frameworks, the regulatory stipulated maximum total debt service ratio (TDSR) on personal lending was relaxed to 50.0%, from within a range of 40.0%-45.0%. Also, the Central Bank sanctioned up to 100% financing of borrower requests, for qualified personal loans other than residential mortgages, as opposed to the previously mandated minimum 15.0% equity or down payment requirement.

In 2022, the Central Bank also lifted the moratorium on new license applications for money services business, owing to the Bank's assessment that the sub-sector was in a healthier position to establish a stable footing going forward. Efforts also gained more traction around implementation of international risk-based supervisory standards for financial institutions, and the development of crisis management frameworks for Bahamian banks and credit unions.

The Central Bank's input, coordinated with the efforts of other domestic regulators, continued to strengthen and uphold the Bahamian jurisdiction's international standing in countering money laundering related financial crimes. Added to its supervisory engagement, the Central Bank also deployed new monitoring tools to analyse SWIFT wire transfers, to develop new insights on the characteristics of cross-border payments between The Bahamas and the rest of the world.

There was additional progress on financial markets infrastructure development. Among these was the October launch of The Bahamas Registered Stock (BRS) Portal—a web based solution—automating the subscription process for Government debt. The Bahamas Government Securities depository project also progressed satisfactorily, to enable the commissioning of the platform at the beginning of 2023. These initiatives were indicative of the broader efforts to improve the delivery channels for public facing services, as more services in both the Exchange Control and Banking Supervision Departments moved closer to full automation.

The Bank made important technical inroads on the digital currency project, now poised for an increased emphasis on adoption in 2023. Given the relaxation of COVID-19 protocols, there was some resumed in-person educational and marketing campaigns, toward increasing use and awareness of SandDollar. The greater efforts however, remained on developments within the technical platform, to complete the integration with the ACH; and upgrades to the digital wallet architecture to support increased involvement of Banks and credit unions in 2023, and faster growth in the merchant ecosystem for digital wallet payments.

The Bank's most valuable assets continue to be its staff. Because of their hard work and dedication there was steady progress on our strategic objectives in 2022. For this, I am extremely grateful. I also thank the Board of Directors for their invaluable support and oversight of our efforts; and I look forward to both the staff and Directors' continued commitment.

Governor

CENTRAL BANK OF THE BAHAMAS

DIRECTORS

AT DECEMBER 31, 2022

MR. JOHN ROLLE
CHAIRMAN

MR. DEREK ROLLE
DEPUTY GOVERNOR

MR. THOMAS DEAN
BOARD MEMBER

MR. JOHN SWAIN
BOARD MEMBER

MR. BRYAN KNOWLES
BOARD MEMBER

MR. KENDAL NOTTAGE
BOARD MEMBER

DR. OLIVIA SAUNDERS
BOARD MEMBER

BOARD COMMITTEES

AUDIT COMMITTEE

MR. JOHN SWAIN

MR. BRYAN KNOWLES

MR. KIRVY FERGUSON, NON-DIRECTOR

ENTERPRISE RISK COMMITTEE

DR. OLIVIA SAUNDERS

MR. KENDAL KELLY NOTTAGE

MS. JUNE COLLIE

MRS. TARA COOPER BURNSIDE, K.C.

CENTRAL BANK OF THE BAHAMAS
SENIOR OFFICIALS

Mr. John A. Rolle	Governor
Mr. Derek S. Rolle	Deputy Governor
Ms. Karen V. Rolle	Inspector, Banking Supervision
Mrs. Sherrece L. Saunders	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	Manger, 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
Mr. Errol L. Bodie	Manager, Information Technology
Mr. Gevon R. Moss	Manager, Human Resources
Mrs. Nakeisha S. Burrows	Manager, Internal Audit
Mr. Ricardo H. Barry	Manager, Facilities Services

Pictured from left: Mr. Allan Wright, Mrs. Nakeisha Burrows, Mrs. Rochelle Delevaux-McKinney, Mrs. Cleopatra Davis, Mr. Ricardo Barry, Mr. Derek Rolle, Mr. Errol Bodie, Mrs. Tamieka Watson, Mr. Derrick Burrows, Mrs. Andrea Adderley-McQuay, Ms. Karen Rolle, Mr. John Rolle. Insets: Mr. Gevon Moss, Mr. Jermaine Campbell and Mrs. Sherrece Saunders.

2022 AT A GLANCE

- **THE DOMESTIC ECONOMY** sustained its positive growth momentum from the adverse effects of the Novel Coronavirus (COVID-19), expanding by 14.4% in 2022, following a 17.0% tourism-led recovery in 2021. Buoyed by the relaxed pandemic restrictions and increased demand for travel in key source markets, tourism output registered strong growth during the year, undergirded by gains in the high value-added air component and a rebound in cruise passengers. Further, several varied-scale foreign investment projects, and to a lesser extent, public sector post-hurricane rebuilding works, provided stimulus to the construction sector.
- **AVERAGE CONSUMER PRICE** inflation remained elevated, attributed to the pass-through effects of higher global oil prices and supply chain disruptions.
- **INDICATIONS ARE THAT** unemployment remained above pre-COVID levels, although trending downward, with the re-employment of tourism sector employees and construction sector stimulus.
- **THE FISCAL DEFICIT** to GDP ratio decreased to an estimated 5.9% in FY2021/22 from 12.5% in FY2020/21, underpinned by a VAT-led growth in total receipts, which outstripped the expansion in overall spending.
- **WITH THE RECOVERED** output base, at end-December, the Government's Direct Charge to GDP ratio declined to an estimated 85.6% from 89.5% in 2021. The National Debt to GDP ratio reduced by 4.4 percentage points to an estimated 88.6% in 2022.
- **EXTERNAL RESERVES GREW** by $178.3 million (7.3%) during the year, exceeding the $50.6 million (2.1%) accumulation in 2021, bolstered by net foreign currency inflows from real sector activities, and the receipt of proceeds from Government's external borrowings. The import cover ratio narrowed to 34.2 weeks, from 36.1 weeks in 2021—but exceeded the 12 weeks benchmark.
- **DURING 2022**, the Central Bank progressed on finalizing the Bahamas Capital Regulations, 2022, adopting the reform process set out in the Banks and Trust Companies Regulation Act, 2020.
- **IN AUGUST 2022**, the Central Bank relaxed some prudential controls on credit policies, within the confines of lender institutions' credit risk management frameworks, by raising the maximum total debt service ratio (TDSR) on personal lending to 50.0% from within a range of 40.0%-45.0%; and sanctioned zero-percent equity injection for qualified personal loans other than residential mortgages.
- **DURING THE YEAR**, the Bank accommodated a temporary waiver of the Investment Currency Market (ICM) premium on purchases of Bahamas Government's external bonds.
- **IN OCTOBER 2022**, the Central Bank lifted the moratorium on consideration of new license applications for money services business given, *inter alia*, the abatement of pandemic conditions and the Bank's assessment that the sub-sector was in a healthier position to establish a stable footing going forward.
- **IN 2022**, the Bank launched the Bahamas Registered Stock (BRS) Portal—a web based solution—automating the subscriptions platform for Government debt.
- **THE OPERATIONS OF** the credit bureau gained traction, with increased participation from the domestic banks, credit unions, public utilities and other credit information providers (CIPs).

BOX 1: STRATEGIC FOCUS FOR 2023-2025

The Board approved the latest five-year Strategic Plan for the Central Bank in 2021, for the period 2021-2025. The Plan, which continued during 2023-2025 is based on six main pillars. These pillars are broadly aimed at improving the effectiveness and transparency of the Central Bank's activities mandated by law, enhancing its operational efficiency and risk management systems, and strengthening its external relations and communication framework.

The main pillars of the Strategic Plan that will guide the work programmes of the Bank during 2023-2025 are:

Improve the monetary policy, financial stability and exchange control frameworks

- Introduce indirect monetary policy instruments, leveraging the modernisation of the Government securities market and infrastructure.
- Develop an active toolkit for macro and micro-prudential supervision and policies.
- Continue to develop targeted proposals for liberalisation of residents' access to foreign currency funding.
- Develop proposals to strengthen access to and usage of the Bahamas Depository Receipts and the Investment Currency regimes for portfolio investments.
- Deepen stakeholder engagement on capital account liberalisation and capital flow management policies.

Enhance the financial sector supervisory and regulatory framework

- Advance the implementation of the Basel II and Basel III risk-based frameworks.
- Develop guidance on account opening standards for business enterprises and improve domestic frameworks for politically exposed persons.
- Sustain reforms to strengthen the AML/CFT regime.
- Further enhance mechanisms for cooperation among the Bahamian Group of Financial Services Regulators.

Strengthen policy advice capacity

- Improve the framework for fiscal policy advice to the Government.
- Develop domestic policy proposals on consumer financial protection, financial literacy and financial inclusion, with efforts supported by the Financial Services Ombudsman.

Strengthen domestic infrastructures for payments and public debt management operations

- Continue to modernize the debt issuance and management framework for public debt.
- Introduce a Government savings bond instrument for retail investors.
- Continue to promote widespread adoption of the digital domestic currency.

Enhance operational efficiency and risk management systems

- Continue to strengthen enterprise risk management, inclusive of business continuity and information frameworks.
- Conclude the modernisation and upgrade of core IT systems.
- Complete the digitization of corporate records and adopt a modernised information governance framework.

Strengthen external relations and communications frameworks

- Strengthen public relations capacity in the policy and technical work streams of the Bank.
- Deepen public engagement on Exchange Control policies and reforms.

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 Governors. The Bank is committed to the continual strengthening of its governance, organizational accountability and risk management structures, as it delivers on its mandate.

BOARD OF DIRECTORS

Under the governance structure established in the Act, the Board of Directors has overall responsibility for the oversight of the Bank's management and operations, including strategic planning, financial and accounting practices and procedures, procurement activities, succession planning, enterprise risk management and internal control processes. The Board approves policies that govern these activities.

The Board is appointed by the Governor General, on the advice of the Minister of Finance. The Act provides for a complement consisting of the Governor (Chairman), two non-voting Deputy Governors and six independent non-executive 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 conducted in good faith, while carrying out their statutory duties. The current Board is vacant of one Deputy Governor and one non-executive director.

During 2022, the Bank bid farewell to director Robert Adams. The Board is grateful to Mr. Adams for his valuable contributions to the work of the Bank during his tenure. As at 31st December, 2022, the slate of independent non-executive directors comprised Mr. Thomas Dean, Mr. John Swain, Dr. Olivia Saunders, Mr. Kendal Kelly Nottage and Mr. Bryan Knowles.

For Board meetings, four directors form a quorum. In 2022, the Board met monthly. One of the Directors' key decision during the year was to establish an Enterprise Risk Committee of the Board and terms of reference for Executive Risk Management Committee, comprising of senior management of the Bank. Resultantly, more emphasis was placed on enterprise risk management, internal controls and the approval of policies aimed at mitigating risks. The Board's deliberations also featured oversight of ongoing operations, procurement activities and progress on strategic plan goals. Attention was focused on international and domestic economic developments, specifically, the recovery of the global and Bahamian economy, following the COVID-19 pandemic and its impact on The Bahamas' external reserves. Further, given the importance of the financial sector to the economy and consumers, the Board closely monitored the fulfilment of the Central Bank's regulatory mandate for financial sector supervision. This highlighted, among other activities, ongoing efforts to promote the safety and soundness of Central Bank supervised financial institutions and the financial sector as a whole, and the state of progress on The Bahamas' compliance with international Anti-Money Laundering/Countering the Financing of Terrorism and Proliferation Financing (AML/CFT/CPF) standards. Directors also monitored the Central Bank's digital currency initiative more closely.

ACCOUNTABILITY & TRANSPARENCY

The Bank is guided by both statutes and best international practices, to maintain a high degree of transparency and accountability in its operations. In keeping with its statutory obligations, the Bank prepared an Annual Report of its activities for 2021, which was later laid before Parliament. Monthly balance sheet information was also provided to the Minister of Finance, and published in both the Official Gazette and on the Bank's website.

During the year, the Governor met regularly with the Minister of Finance and the Minster for Economic Affairs, and presented timely communication on emerging financial sector matters and concerns that would impact the economy and Government finances. These meetings and communications helped to facilitate coordination between monetary and fiscal policy actions, while providing an opportunity to inform the Government 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). Information of specific interest to financial consumers, such as the Cost Analysis on the Comparability of Bank Fees, was also published. These publications, along with other announcements, notices, and press releases, were accessible to the public on the Bank's website.

Contributing to accountability and transparency, the Governor and senior officers of the Bank also made regular speeches and presentations in public forums, on relevant aspect of the Bank's work. These various topics included domestic economic conditions and projections, regulatory and supervisory developments, exchange control policy; and updates on strategic initiatives, such as the financial literacy programme, the Office of the Financial Services Ombudsman and Project Sand Dollar.

CORPORATE STRATEGY, RISK AND GOVERNANCE

The Bank's approach to risk management is based on sound central banking principles, a robust governance structure and internationally accepted risk management standards. To focus on risk management across the Bank, the Corporate Strategy, Risk and Governance (CSRG) Unit was established in 2020.

The CSRG Unit's core functions include monitoring of progress on the Bank's strategic plan, coordination of enterprise risk management, information assets management, and business continuity planning and compliance. The CSRG Unit, which represents the second line of defence within the Bank, coordinates and gathers information on risks and controls that Departments have self-identified in their operations, to provide an enterprise-wide view of the Bank's risk and control landscape. This work complements that of front line departments, which serve as the first line of responsibility in identifying, assessing, controlling and mitigating risk within the Bank's operations.

Enterprise Risk Management (ERM)

The CSRG Unit remained focused on progressing the Bank's enterprise-wide risk management program. In this context, ongoing training was facilitated to further expand ERM awareness and build capacity. This enabled the completion of the annual risk and control self-assessment exercise, in which each Department self-identified risks and controls, determined the controls' effectiveness and implemented action plans to address risk management deficiencies. While ERM processes were being carried out across the Bank, a modular approach was taken to pilot the risk management methodology in one Department, before it is extended to the rest of the operations.

In March 2022, the Board established the Enterprise Risk Committee (ERC) to oversee the Bank's risk management functions and non-financial matters. The ERC is comprised of two non-executive Board Members, Dr. Olivia Saunders (Chairman) and Mr. Kendal Nottage, and two external experts, Ms. June Collie (IT professional) and Mrs. Tara Cooper Burnside (with extensive experience in commercial law and financial services regulations). Concurrently, the Board approved terms of reference for the Executive Risk Management Committee (ERMC), comprised of senior management within the Bank. The management committee is mandated to ensure that proper attention is given, on a collaborative basis, to the risks facing the Bank; and to maintain comprehensive reporting to the Board on enterprise risk management activities.

Since its establishment, the Board's ERC held four meetings and the management-level ERMC met on five occasions. During these meetings, deliberations largely focused on operational risks, including information technology and cybersecurity risks. An enterprise-wide consolidated risk and control register was produced using the self-assessments from each Department, which provided the respective committees with the baseline risk profile of the Bank. Both Committees were also able to agree on the Bank's 2023 Risk Appetite Statement, which was subsequently adopted by the Board.

Business Continuity

With the relaxation of COVID-19 pandemic protocols in the country, the Bank ended the work from home arrangements during the second quarter of 2022. Since then the full complement of staff returned to the office premises. Throughout the pandemic, the Bank was generally satisfied with its ability to continue operations. The Bank expects to build on the lessons learnt to develop a limited remote or "work from home" policy, which further strengthens the Business Continuity Programme (BCP).

The Bank updated the framework for its business continuity and disaster recovery systems in 2022. The amended framework incorporates several enhancements to the Bank's business continuity programme, such as an overhaul to the Bank's Business Continuity Steering Committee; alignment with the Bank's ERM framework and the ISO 22301 standard for BCP practices; and other reforms to strengthen department-level accountability for business continuity systems. The changes lay the groundwork for the advancement of the Bank's Business Continuity Programme in 2023.

Information Assets Management

The Information Assets Management Unit (IAMU) is responsible for overseeing the Bank's records management programme and manages the dissemination of information via the Bank's corporate intranet and website. During 2022, IAMU remained focused on the digitisation of onsite corporate records in order to transition the Bank to a digital workspace. The Unit continued to review and develop policies for a comprehensive information governance framework. In addition, IAMU expanded the Bank's collection of eBooks and other digital resources.

Compliance

The Bank also appointed a Money Laundering Reporting and Compliance Officer to oversee matters relating to compliance with domestic and international laws and regulations, as well as, best practices relating to AML/CFT and related matters. A focal point of compliance efforts would be the reinforcement of policies and procedures within the various business areas of the Bank, underpinned by continuous education and training initiatives. The Bank expects the compliance function to further strengthen the risk management programme, increasing staff awareness of their respective roles and responsibilities within the AML/CFT/CPF framework.

Internal Audit

The Internal Audit (IA) Unit is 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 Unit also provides best practice recommendations with respect to risk management.

As prescribed by the Institute of Internal Auditors (IIA), a Board-approved Internal Audit Charter and risk-driven Annual Audit Plan govern operations of the Bank. In an effort to support the profession's core principle of independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

In executing its 2022 Audit Plan, IA issued reports focused on strengthening the Bank's internal control environment, especially where those processes supported the attainment of the Bank's strategic plan initiatives. With both current and emerging risks considered, the Unit examined the Bank's core operations, support activities, and internal initiatives. The core aim of these reviews was to mitigate risk inherent in the business, enhance existing internal controls and strengthen operational effectiveness and efficiency.

In support of its own strengthening, IA implemented a Quality Assessment and Improvement Programme and expanded the technical capacity and certification base of the audit team.

Information Security

In alignment with the Banks's strategic plan, the work effort of the Information Security Unit (ISU) placed emphasis on maintaining a robust and responsive information security program. The Unit enhanced the Bank's threat detection capabilities, deploying real-time tools to mitigate cyber security threats. The improved monitoring capabilities have enabled the ISU to mature its reporting with key outputs, including an enriched monthly Information Security Monitoring report, providing an analytical view of the Bank's security landscape.

SandDollar remained a focus for Information Security during the year. Emphasis was placed on promoting broad security awareness around the Central Bank Digital Currency (CBDC) security architecture, e-payments and safe wallet practices.

In view of strengthening the security governance and compliance posture, the Bank anticipates the on-boarding of a governance, risk and compliance (GRC) tool during the latter half of 2023. This would support the automated tracking of items for remediation, demonstrate and gauge the Bank's maturity against industry accepted information security frameworks, and establish a repository for third party attestation data.

CURRENCY OPERATIONS

Under the Currency Department, the Bank continued to progress key strategic initiatives around issuance of secure, modern banknotes; the numismatic programme and critical financial markets infrastructures.

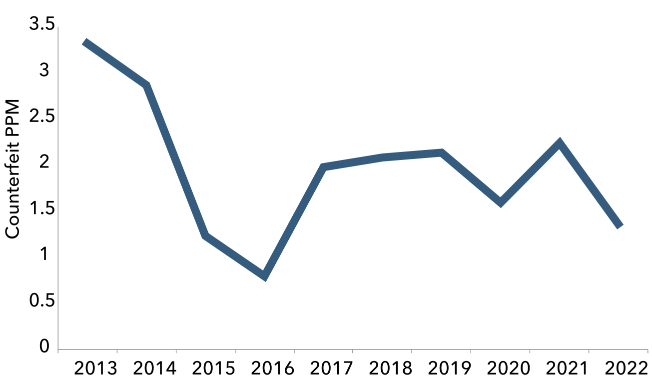
Circulation Notes and Coins

In December 2022, the Bank released the first reprint of the CRISP Evolution $10 banknote, which was originally introduced in 2016, as part of the Counterfeit Resistant Integrated Security Product (CRISP) Evolution banknote family (see Table 1). The reprint incorporated several enhancements from the original note including, an enhanced security thread, an improved substrate to bolster durability and extend banknote life, and a change in colour to better distinguish this note from the CRISP Evolution $1 that was released in 2017.

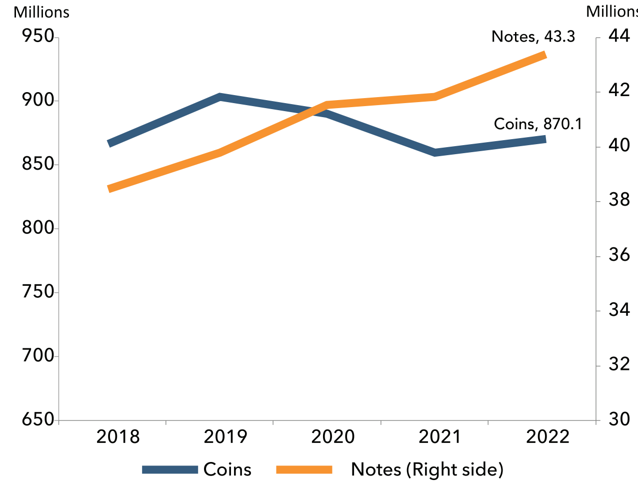
The Bank's educational and training campaigns were advanced through scheduled and ad hoc targeted counterfeit banknote detection workshops. The Bank also updated its website and mobile banknote app (CBB Banknote MAP) to support ongoing public education confidence in the authenticity of circulating banknotes. Moreover, the relaxation of COVID-19 protocols allowed the Bank to resume in-person banknote detection training for members of the Bahamas Alliance for the Blind and Visually Impaired.

The robust Durasafe® substrate continued to improve average lifespans of CRISP Evolution $100 and $50 banknotes. Similar results are expected for the reprinted CRISP Evolution $10. The Hybrid™ substrate also improved durability for the $1 and $5 denominations. The effectiveness of various anti-counterfeit initiatives is evidenced by the continued low rates of counterfeit notes detected over the past 10-year period, estimated at 1.4 parts per million in 2022 (See Chart below).

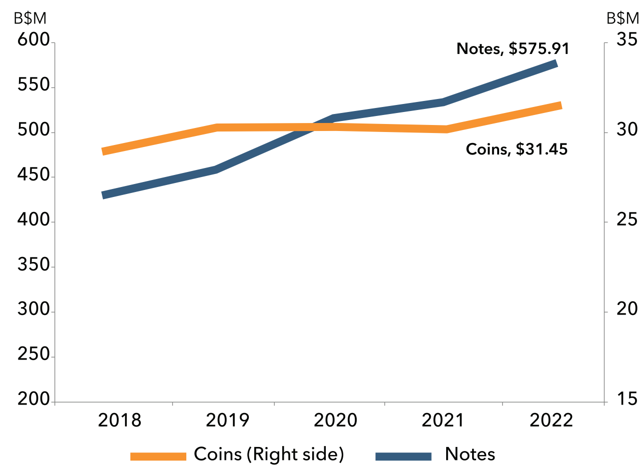
Counterfeit Parts per Million (PPM) Notes in Circulation



Quantity of Notes and Coins in Circulation



Value of Notes and Coins in Circulation



During 2022, the volume and value of banknotes in circulation rose by 4.0% and 8.0%, respectively, to approximately 43 million notes valued at $576.0 million. The number of coins outstanding increased by 1.0% to 870 million, representing 4.0% higher liabilities, at $31.5 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

Numismatics

The Bank's numismatic programme featured continued releases of collectors' items. These included two mintings from the second series of the Islands of The Bahamas programme, $10 Silver Proof coins showcasing features from Long Island: Dean's Blue Hole and the Annual Regatta. Queen Elizabeth II's Platinum Jubilee was celebrated with a $250 Gold Proof coin, and the annual programme concluded with the Pirate Ship, $100 Gold Proof coin.

Financial Market Infrastructure

The progress made on the Bahamas Government Central Securities Depository (BGSD) during 2022 readied the infrastructure for its 1st January, 2023 launch. This involved centralising the system to facilitate Bahamas Registered Stock and Treasury bill offerings, settlement of interest and principal payments and ownership transfers. The operating security of the technology platform was also enhanced for both external and internal users, with the integration of two-factor authentication protocols.

The Bank also substantially advanced the upgrade of the Bahamas Interbank Settlement System (BISS), the Real-Time Gross Payment Settlement (RTGS) system, towards compliance with the ISO20022 standards. The upgrade, aligned with the improved international standards on the information content for payments messages, is targeted for completion during the second quarter of 2023. It also impacts the SWIFT infrastructure, and compliant formats for cross-border payments. In this regard, the Central Bank is the national coordinator for the compliance upgrade that is also underway among all domestic financial institutions.

Improvements to the Digital currency or SandDollar production environment, incorporated an Automated Clearing House (ACH) integration to facilitate movements of funds between bank deposit accounts and digital wallets. In December, the Bank subsequently mandated SandDollar Authorised Financial Institutions (AFIs) to extend the feature to their proprietary platforms, with a targeted completion date of the end of the first quarter 2023.

Meanwhile, the value of SandDollars in circulation expanded to $1.05 million, from just $0.30 million in 2021. Except for some charitable events in the second half of the year, adoption marketing efforts remained subdued as more renewed technical work focused on upgrades to support accelerated activities in 2023. During the year, the Bank commissioned technical upgrades to the wallet infrastructure to support a more aggressive push for adoptions in 2023, targeting particularly the ease of providing merchant services, self-enrolment for digital wallets and AML insights. See Box 3 for more details on Project SandDollar.

BANKING OPERATIONS

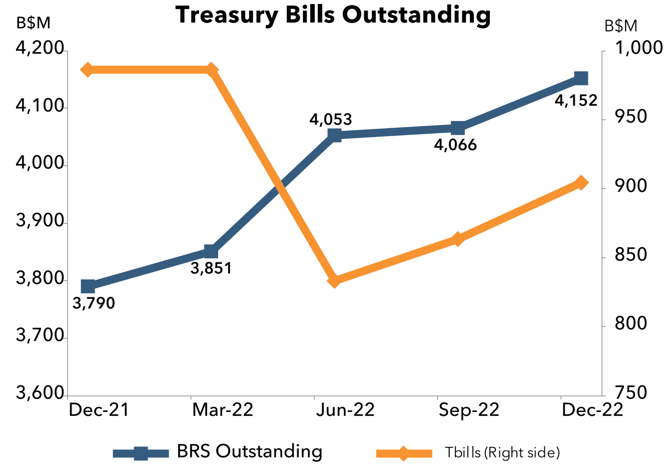
Public Debt Administration

The Bank serves as Registrar and Transfer Agent for the Government and Government agencies. Government agencies outstanding debt balances remained constant during 2022, as there were no new issues nor maturities throughout the period. Year-end liabilities were $22.0 million for the Bridge Authority, $47.0 million for the Education Loan Authority, $24.0 million for the Clifton Heritage Authority, $4.0 million for Bahamas Development Bank and $160.0 million for the Bahamas Mortgage Corporation.

The Bank and the Ministry of Finance continued to coordinate on the government's domestic debt operations. During the year, there were 16 bond offerings, totalling $897.1 million. The proceeds refinanced $655.5 million in maturities and raised $241.7 million in net new financing. Meanwhile, investor access to the market was enhanced, as the Bank completed the launch of the web-based Bahamas Registered Stock (BRS) Portal, to automate the subscription process for instruments. The portal allows for self-on-boarding of investors, and is slated to offer additional tools to support user self-management starting in 2023.

Over the year, the outstanding balance of Government Treasury bills (T-Bills) declined by $81.9 million to $904.4 million at end-2022. However, Central Bank advances to the Government rose to $335.0 million from $265.0 million at end-2021. The Government also accessed the 2021 IMF Special Drawing Rights (SDRs) Allocation of 174.8 million, equivalent at drawdown to $232.3 million. This liability is also owed to the Central Bank.

Bahamas Registered Stock and Treasury Bills Outstanding



Payments and Settlements Operations

The Bank worked with its technology vendors and stakeholders to reduce the Government and its agencies' back-office reliance on the Bank for domestic payments processing. Two related projects were advanced to streamline public sector clients' internal workflow processes. In particular, a web-based portal was deployed for agencies to directly submit and monitor payments, and the financial management tools around the Bank's in-house payments operations were upgraded.

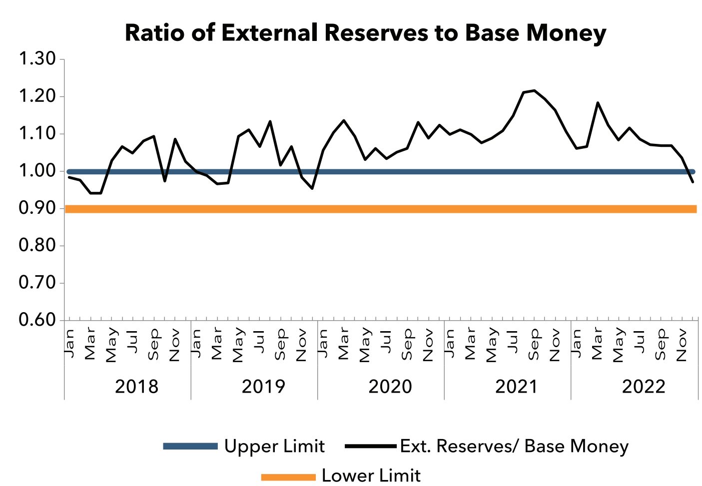
BOX 2: MONETARY POLICY IN 2022

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

During 2022, the MPC met monthly to discuss developments in the international and domestic environment. The Committee's discussions were framed against the backdrop of several interrelated domestic economic and financial trends. Specifically:

- The sustained domestic economic recovery, buoyed by improved tourism output, evidenced by ongoing gains in the high value-added air arrivals and the rebound in sea passengers.
- Elevated inflationary pressures, both globally and domestically, against the backdrop of ongoing geopolitical tensions Eastern Europe, which contributed to higher international oil prices, increased costs for other imported goods and supply chain shortages.
- Trends in external reserves, which included net receipts from the Government's external borrowings and foreign currency inflows through the private sector.
- Improvement in banks' credit quality indicators, reflective of the improving economic conditions and ongoing loan write-offs.
- Persistent high levels of bank liquidity, amid further contracted private sector credit.

In evaluating the external risks to the domestic economy, the MPC noted several important trends. On the positive side, there was the sustained, albeit moderated, growth in the United States economy, which contributed to favourable tourism outturn. In addition, foreign direct investments were sustained at healthy levels. However, headwinds persisted, with the ongoing geopolitical tensions in Eastern Europe, contributing to higher global oil prices and further aggravating supply chain shortages first brought on by the COVID-19 pandemic. The MPC also monitored the potential adverse economic effects from the major central banks counter-inflation policies and further mutations of the COVID-19 virus, which



could derail the progress made on the health front.

In keeping with the Bank's mission to maintain adequate levels of external reserves to support the fixed exchange rate regime, the Committee maintained its strict monitoring of external reserves adequacy indicators; particularly the ratio of external reserves to the Central Bank's demand liabilities and the import cover ratio. During the first half of the year, external reserves featured a buildup in balances, propelled by recovered private sector inflows. With the seasonal pattern of net imports related drawdowns more resumed than in the previous year, reserves trended downwards in the third and fourth quarters. The fourth quarter reduction also accelerated, due the Government's drawdown on the 2021 IMF SDR allocation and significant resident investments in the Government's external bonds. As a result, the ratio of reserves to the Central Bank's demand liabilities, which remained above 100.0% for the majority of 2022, peaked at 106.3% in April, before settling at 90.9% in December, although remaining above the 80.0% benchmark range.

Similar trends were noted with regard to the more broadly tracked indicator, total external reserve coverage in weeks of annual current year's merchandise imports. Specifically, the ratio rose from 36.1 weeks at year end-2021, to 42.1 weeks in the first quarter of 2022. The ratio continued to trend upward in the subsequent quarters, falling to its lowest level of 34.2 weeks at the end of the year, although remaining well above the international benchmark of 12.0 weeks.

The MPC also monitored key financial soundness and stability indicators. Specifically, as commercial banks maintained their conservative lending posture, liquidity in the banking system remained at persistently high levels. In addition, banks' credit quality indicators improved in 2022, undergirded by the continued recovery in the domestic economy and ongoing loan write-offs. Further, the domestic banks' average capital levels stayed well in excess of the minimum regulatory ratio of 17.0%. The average capital adequacy ratio for the sector stood at 34.5% at December-end 2022.

Given the healthy levels of external reserves, sustained economic growth and mild consumer credit demand, the MPC decided that the Central Bank should maintain an accommodative posture for domestic credit in 2022, vis-à-vis non-interest rate tools which affect the ease of access to credit. In August, the Bank relaxed the minimum qualification standards for personal loans, raising the total debt service ratio to 50% from within a range of 40% to 45%. Also, with the exception of residential mortgages, the Central Bank removed the minimum equity or down payment requirement on loans, allowing lenders to grant facilities of up to 100% of the borrower's financing requirement. In these context, the Central Bank anticipates an incremental uplift in lending in 2023, consistent with moderate tolerance for some reduction in external reserve.

BOX 3: CENTRAL BANK DIGITAL CURRENCY INITIATIVE

Payments System Modernisation Context

The Bahamas launched its central bank digital currency (CBDC), SandDollar, as an extended phase of the broader Payment System Modernization Initiative (PSMI). The initiative was launched in the early 2000s with initial emphasis on digitising the settlement processes for interbank payments. It was marked by the establishment of the RTGS platform in 2004 and the ACH platform in 2010. Acceleration in the initiative during the last decade dwelt on establishing the framework for electronic money (e-money) services. Reforms also expanded the payments space to non-bank services providers; and established consumer and data protection standards for users of e-money. On its present path, the modernisation initiative also targets strengthened financial inclusion outcomes and ameliorated conditions to reduce financial crimes risks in the economy. In further transitioning the economy to digital payments adoption, the SandDollar infrastructure was developed to enable interoperability across the various proprietary retail payments platforms introduced by e-money service providers.

The Retail CBDC Model

SandDollar was developed for retail use, by all members of the public. While the Central Bank mints the currency, distribution to the public occurs through the Authorised Financial Institutions (AFIs) that have successfully completed the Bank's information and cybersecurity assessment. AFIs must also be entities licensed by the Central Bank as either domestic banks, credit unions, or money services firms (payment services institutions and money transmission business). All seven of the participating AFIs as at end-2022, were money services firms, while one commercial bank and one credit union were in advance preparations to become AFIs.

The AFIs provide access to SandDollars, either through their proprietary mobile applications or the white-listed sovereign app published by the Central Bank. In this regard, the proprietary applications either arrange for SandDollars to be held in self-custody accounts by the wallet holders, who in turn maintain direct accounts on the Central Bank's ledger; or for the AFI to pool the custody of SandDollars via a consolidated balance with the Central Bank so that the retail accounts are maintained off the Central Bank ledger. All sovereign wallets are self-custody accounts.

The access levels and on-boarding process for the CBDC is risk-based, to satisfy internationally robust AML/CFT standards, and critical national financial inclusion goals. At Tier I, all individuals are qualify to open SandDollar wallets, but are subject to a $500 holding limit. The on-boarding only requires basic user information and contact details; a Photo ID is not required. Tier II access is governed by the Central Bank's simplified due diligence guideline process for transactional accounts at deposit taking institutions, with some level of official ID. It provides for holding limits access of up to $8,000. Meanwhile, the monthly transactions limit for Tiers I and II are $1,500 and $10,000 respectively. Tier III, on-boarding is prescribed for all business and institutional accounts. These are subject to an upper holding limit of $1.0 million, within KYC determined assessments, but no limit on the volume of transactions permitted.

SandDollar Rollout and Adoption

The digital currency launch began with a pilot in Exuma in December 2019, followed by Abaco, in February 2020. With the Pandemic's interruption, outreach was severely curtailed, with the Central Bank's efforts subsequently shifted to continue the technology platform buildout and enhance the design of the user on-boarding process. Subsequently, in October 2020, the Central Bank moved to a gradual national rollout. This period also paralleled continuing efforts by AFIs to achieve interoperability with the SandDollar platform and by extension, with each other. Until 2022 however, most AFIs undertook very limited customer enrolment efforts. Given the containment measures associated with the spread of the COVID-19 virus, and internally facing efforts of PSPs, the initial uptake of the SandDollar was relatively low, representing only 0.01% of total currency in circulation, by the end of 2020 and some 0.05% at end-December 2021.

In 2022, given the relaxed COVID-19 protocols, the Bank resumed in-person educational and marketing campaigns geared towards increasing adoption. In August, the Bank was a platinum sponsor of the Rolleville Regatta and Homecoming in Exuma. The SandDollar brand also sponsored three major cultural events in New Providence, all with the intent of increasing awareness, and exposing residents to first-hand experience in using the digital currency across the various digital wallet architectures on the market. These initiatives helped to spur additional yet limited adoption, given the low penetration in general for domestic e-money payments. The value of SandDollars in circulation expanded to $1.1 million in 2022, from just $0.3 million in 2021.

SandDollars still circulate within a very nascent space for mobile payments, on the whole, although this is the ecosystem that most target for near-term adoptions activities. In particular, the number of merchants enrolled by AFIs, at varying capacity and awareness of the system's interoperability features, advanced to 1,429 from 565 in the previous year, with the number or wallet holders in reach of SandDollars increasing to 98,551 from 33,470 in 2021.

While existing wallet adopters represent the equivalent of 20.0% to 25.0% of transactional account holders within the banking system at the end of 2022, the peer to peer (P2P) and peer-to business (P2B) payments are still collectively compressed in value at $55.7 million in 2022, a majority still denominated other than in SandDollars. Collectively, these payments represented less than 1.0% of estimated non-cash domestic payments cleared though intra-bank transfers, ACH (interbank), and via credit and debit cards (which totalled more than $17.0 billion in 2022).

Technology Enhancements

Factors critical to a more accelerated adoptions push, include the SandDollar ACH integration, expansion in the merchant ecosystem and extended participation of banks and credit unions. The Bank has been laying the foundation for this during 2022, as a precursor to accelerate and further entrench public education.

During 2022, the Bank completed the core integration of SandDollar to the ACH system, permitting two-way movement of funds between the Central Bank's sovereign wallet application and the banking system. In this period, all commercial banks also completed and tested the enabling changes in their online banking platforms to facilitate wire transfer top-up of SandDollar wallets. The features were made available in the app during the fourth quarter of 2022. The AFIs were mandated to develop solutions to integrate the ACH solution into their applications by the end of the first quarter of 2023. After this point, each retail wallet in The Bahamas will have mandated, direct two-way access to the ACH via the CBDC platform.

Several other important technical upgrades commenced in 2022 that are expected to rollout over the course of 2023. Key among these are further hardening of the SandDollar security infrastructure and operational resiliency, work on offline payments functions, activation of the electronic know your customer (eKYC) system, and support features for merchant fees and e-Commerce.

In the meantime, the Wallet 2.0 release targeted for the second quarter of 2023, summarises critical features upgrades ahead of broadened financial institutions' participation and targeted growth in the merchant ecosystem. Key features of Wallet 2.0, which are currently in the developmental stage, will among other things, address transactions and wallet visibility by participating AFIs; enhanced AML/CFT risk management features for AFIs; enabled, convenient portability of accounts between financial institutions, and end-to-end user self-on boarding for Tier 1 wallets. The white-listed wallet will also address anticipated point of sales needs for medium and large-sized businesses requiring multiple payments terminals and allow all AFIs to provide fee-based merchant services from within the core platform. The AFIs will also be able to customise the appearance of the app to project their individual brand identities, including such as company logos, and branding colour preferences.

Resourcing

The internal resourcing and reorganising efforts during 2022, placed the SandDollar infrastructure operations and adoptions efforts under the Currency Department. Resourced with initial personnel, the SandDollar Adoption Unit (SDAU) is coordinating the Central Bank's public awareness outreach, and engaging with AFIs to expand the merchant ecosystem for SandDollar enabled payments. The Unit is also spearheading outreach to the Family Islands, and in 2023 will begin to expand the involvement of the commercial banks and credit unions.

PAYMENTS & SETTLEMENT SYSTEMS

Oversight

The Bank, through the Payments Unit of the Research Department, continued to strengthen the oversight of the domestic payments and settlement systems, while ensuring the efficiency, reliability and security of the infrastructure. Quarterly meetings were held with senior members of the Bahamas Automated Clearing House (BACH)—owned and operated by the Clearing Banks Association to process small value transactions under $150,000. These meetings centred on collateral and settlement issues of banks, internal audits, and any other significant developments that emerged during the year. The Unit also monitored the operational efficiency and ongoing upgrades within the Central Bank operated RTGS system, for large value inter-bank payments in excess of $150,000.

On the reform front, the Bank continued to progress with the benchmarking of the proposed strategy for the reduction and elimination of cheques in The Bahamas. The framework seeks to proactively address financial inclusion and promote legitimate access to alternatives to cheque usage for both individuals and businesses. A legal firm was engaged to review the existing environment in which cheques are negotiated, and to identify reforms that would support any migration away from the physical instruments, toward outcomes that were not encumbered by the use of alternative payments instruments. The Bank also undertook initial efforts to enlist a qualified firm to design and execute a public education and relations campaign. While the targeted deadline for the elimination of cheques is end-2024, stakeholder input and public consideration are expected to weigh on any deviation from this timeline, as a steering committee, drawing on key public and private sector representation is expected to oversee the project from 2023 onwards.

Payments Settlements Trends

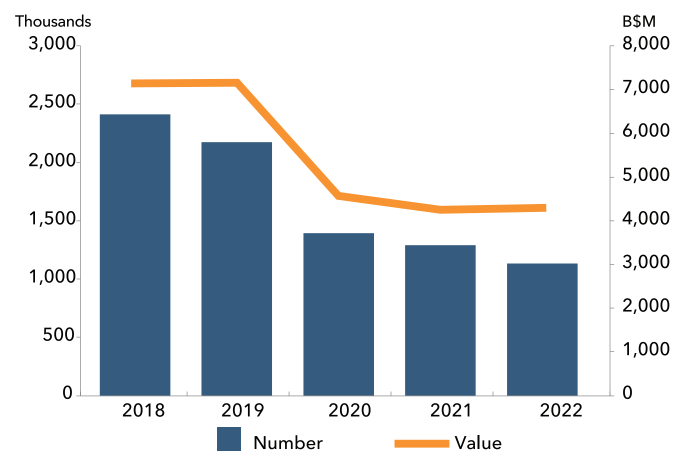
The domestic economy's upward trend in adopting electronic payment transactions was maintained in 2022, supported by ongoing improvement in the ACH and RTGS systems, and efforts of commercial banks to further encourage clients toward digital payment services.

Transactions cleared through the BISS-RTGS system increased by 7.4% to 293,261 and the associated value rose by 19.8% to $43.1 billion in 2022, reversing the year-earlier 20.8% contraction to $36.0 billion. Participants of the RTGS system comprised the seven clearing banks that process direct interbank transactions, X9 (cheques) and NACHA (direct credit) payments. On a normal basis, the RTGS operates seven daily settlement windows, beginning at 8:15 a.m. and concluding at 4:45 p.m.

During the review year, BACH payments, which are processed in compliance with the globally accepted National Automated Clearing House Association (NACHA) format, recorded further gains. Specifically, the number of these transactions grew by 9.7% to 3.7 million, while the attendant value was higher, by 25.7% at $7.4 billion, moderating from the 39.2% growth registered in 2021.

Cheque usage remained low, except for large value transactions. In particular, the number of processed cheques declined by an annualized 11.9% to 1.1 million, albeit the corresponding value rose by 1.1% to $4.3 billion.

Cheques Cleared



Retail Payments Services

Growth in electronic transactions were highlighted by greater overall use of credit cards, debit cards and automated cash dispensing services, with reliance on credit finance transactions. These shifts also captured the uplift in spending from the depressed levels estimated during the pandemic.

For card-based payments, the volume of debit card transactions increased by 18.2% to 20.8 million, with the value expanded by 16.6% to $2.3 billion.

In 2022, the number of credit cards issued or renewed by commercial banks expanded by 4.9% to 95,049, and the associated value of debt owed also rose by 2.0% to $221.2 million. The volume of purchases and other transactions using credit, most of which were repaid within the same period, rebounded by 27.5% to $1.2 billion. This was still below pre-pandemic levels, given shifts towards debit cards. Disaggregated by access amount, the number of cards with a credit limit under $5,000 grew by 6.2% to 62,961, while the outstanding balance decreased by 5.9% to $70.0 million. Meanwhile, the number of cards issued with a credit limit between $5,000-$10,000 increased by 4.4% to 19,443 and the corresponding value, by 7.1% to $64.7 million. However, the number of accounts extending credit with limits in excess of $10,000 declined by 0.7%, while the value grew by 5.5% to $86.5 million.

As for automated banking services, the number of ATMs slightly reduced to 385. However, the volume of cash denominated transactions conducted through these devices grew by 9.6% to 8.9 million, and associated value rose by 11.9% to $2.1 billion.

Internet Banking

Commercial banks registered further increased use of internet banking services during 2022. These solutions afford customers 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 these facilities. In 2022, the user base of these services inclusive of residential, business, public sector and other accounts, firmed by 4.9% to 98,921.

Instances of Payment Fraud

In keeping with the emphasis on consumer financial protection, the Central Bank also collects data on fraud relative to cheques, debit and credit cards. In 2022, the reported number of such cases reduced by 24.2% to 6,319; however, the corresponding value expanded to $21.2 million from $2.6 million. Analysed by type, instances of debit card fraud constituted 80.5% of total cases, while the attendant value comprised 71.4% of the overall value. Reported credit card fraud comprised 18.9% of total cases and some 6.0% of the associated value. As cheque usage continued to decline, the instances of this type of fraud represented just 0.6% of total cases, against 22.6% of overall value.

Electronic Money Services

Activity in the retail payment space, facilitated by Electronic Money Service Providers (EMSPs), moderated in 2022, as the Government's pandemic-related disbursements, which were mainly processed through payment providers, were terminated. The number of service providers remain at seven at year end; however, the number of agents acting on their behalf fell by one-third to 135.

In terms of activity, the number of top-up transactions contracted by 42.6% to 837,954, while the value fell by 48.5% to $57.1 million. In line with the decrease in the use of social transfers, the number of withdrawals declined more than four-fold to 44,509, and the corresponding value reduced by 33.2% to $74.0 million.

During 2022, the number of person-to-person (P2P) transactions declined by 40.9% to 22,127, while the value registered a 38.7% contraction to $5.9 million. In contrast, person-to-business (P2B) transactions more than doubled to 339,749, supported by Central Bank and authorized financial institutions' initiatives to expand SandDollar adoption and usage. Consequently, the value rose by 16.0% to $52.3 million. Business-to-business (B2B) transactions also decreased sharply in volume to 158 from 2,107, which occasioned a 32.7% reduction in value to $3.4 million.

At end-2022, the total number of e-money users grew, with personal accounts higher by 70.0% at 93,464 and business users advanced more than three-fold to 1,409 from just 396 in 2021.

FOREIGN RESERVES MANAGEMENT

The Central Bank's reserve management strategy prioritizes the preservation of capital, maintaining adequate liquidity levels, while also maximizing return on investment. With relaxed COVID-19 guidelines and the resumption in global economic activity, external reserves remained buoyant in 2022. Reserves were boosted by the return of economic activity and pent up demand for travel, while other stimulants included external borrowing proceeds. However, while inflows increased, consumption also grew—influenced by inflation—contributing to the drawdown in balances. Given these developments, external balances, which opened 2022 at $2.4 billion, peaked at $3.3 billion in July and closed the year $178.3 million (7.3%) higher than in 2021 at $2.6 billion.

DORMANT ACCOUNT ADMINISTRATION

The Bank administered dormant accounts in accordance with provisions in the Banks and Trust Companies Regulation Act, 2020. Under the regime, accounts that may be classified as "dormant" include custody accounts, contents of safety deposit boxes, money orders, credit card balances, credit balance on loans, collateral held on a loan, including cash and non-cash, funds paid for shares or other interest in a licensee, deposit account of precious metals and gemstones, and securities. These are facilities with banks on which no customer activity has occurred for

Table 2: Dormant Account Balances

Currency	Account Balances 2021 ($'000)	Account Balances 2022	No. of Accounts 2022	% of Total Balances
Bahamian $	43,576.5	44,480.4	35,890	50.2
Canadian $	4,788.8	5,879.8	424	6.6
Swiss Franc	6.5	24.7	11	0.0
Euro	160.7	422.4	50	0.5
UK (Sterling)	1,400.8	1,302.5	95	1.5
US$	33,752.1	36,458.3	5,408	41.2
TOTALS	**83,685.3**	**88,568.2**	**41,878**	**100.0**

Source: Central Bank of The Bahamas

at least seven years. As such, banks are required by law to transfer these balances from their institutions to the Central Bank for safekeeping until the account holders are presented to claim the funds, or held with the Central Bank until the applicable 10-year custodial period expires. However, dormant account balances of $500 or less are escheated to the Government on immediate transfer to the Central Bank.

As at 31st December 2022, the Bank maintained custody of 41,878 dormant facilities, with balances totalling $89.0 million, denominated in six currencies (see Table 2). Balances in United States dollars and Bahamian dollars combined, accounted for a dominant 91.4% of the total, while the Canadian dollar, Swiss franc, Euro and British pound accounted for the remaining 8.6%.

In accordance with the Act, as at 31st December 2022, an estimated $1.9 million in dormant funds was due for remittance to the Government against the applicable 10-year custodial period expiration.

EXCHANGE CONTROL ARRANGEMENTS

Consistent with the Central Bank's legislative mandate, the Exchange Control Department ensures prudent management of external reserves, in order to maintain the fixed parity between the United States and Bahamian dollar and to ensure the sustainability of the local foreign exchange markets.

Since the removal of the conservation measures imposed in 2020, and paralleling rebounded foreign exchange inflows, foreign currency outflows further expanded during 2022. Specifically, total foreign currency sales for external payments—inclusive of sales completed under delegated authority—increased by 31.1%, compared to 2021's total sales, to $8.3 billion. Sales of foreign currency to facilitate current account payments totalled $7.3 billion, a year-to-year increase of 20.0%, while capital account transactions rose to $1.0 billion from $262.0 million in 2021, mainly due to loan refinancing payments to external creditors and external investments (largely for portfolio purchases).

A significant amount of outflows for both goods and services do not require formal application or transactions level approvals—as invoicing is sufficient to allow payments for most goods and services. Also, some Exchange Control approvals do not expire with the calendar year. Hence, the volume of recorded payments typically exceeds annual approvals. However, in terms of applications to purchase foreign currency, approvals granted almost doubled to $6.3 billion from $3.4 billion in 2021, in line with the economy's recovered state. Approvals for current account transactions dominated at $4.8 billion, while capital account items amounted to $1.4 billion. Payments for oil imports accounted for the largest share of current account approvals ($1.3 billion), followed by insurance services ($596.2 million), non-oil imports merchandise ($489.6 million), transfer payments ($258.5 million) and travel services ($103.4 million). Most approvals for capital transactions were grouped under loan repayments ($774.4 million), with other transactions representing the remainder ($668.4 million).

The Bank continues to engage domestic broker-dealers, to provide access to external capital market investments though Bahamas Depositary Receipts (BDR), which are listed on the Bahamas International Securities Exchange (BISX). An annual allocation of $35.0 million is provided for BDR transactions, at the official B$ exchange rate. Of this amount, apportioned quarterly, $21.6 million was used in 2022, predominantly by two of the five eligible brokerage firms.

The Investment Currency Market (ICM) facilitates access by domestic investors to external portfolio purchases and specified direct investments, at a premium (the offer rate) above the official exchange rate. Capital repatriated back to The Bahamas is also reconverted into local currency at a premium (the bid rate). The ICM's bid and offer rates remained unchanged at 5.0% and 2.5%, respectively. Outflow activity via the ICM totalled $272.7 million during 2022; a significant share representing purchases of Bahamas Government external bonds, which traded for a period at a substantive discount on the international markets. From 6th

October, 2022 through end-2022, the Bank granted a temporary waiver of the ICM premium on investments in The Bahamas Government's external bonds. Of the $227.4 million approved for transactions approximately $166.9 million was used through year-end. A number of approvals were allowed to be carried over to January 2023.

During the year, the Exchange Control Department continued to conduct training with authorised dealers, namely commercial banks and Money Transmission Businesses (MTBs), via the online meeting platforms. The Bank registered one additional authorized dealer in 2022, bringing the total to 10, while the number of authorized agents (trust companies providing foreign currency services to residents) decreased by 1 to 10. The number of MTBs held steady at 5.

ECONOMIC ANALYSIS, STATISTICS AND RESEARCH

The Bank, via the Research Department, seeks to provide the public with comprehensive, accurate and timely information on domestic economic and financial developments, through regular publications, research studies and surveys. In this context, in 2022, the Department maintained publication of essential reports, including 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). In addition, the quarterly Bank Lending Conditions Survey (BLCS) was compiled and published. The March Edition of the QER, continues to spotlight the annual survey on the "Gross Economic Contribution of The Financial Sector to the Economy".

During the year, research projects undertaken by staff centred on various important economic themes. Papers were presented at the Research Department's internal seminars and at external conferences, which continued to be held virtually in 2022. Among these works, staff authored a publication on "Financial Inclusion and Central Bank Digital Currency in The Bahamas" which was presented at the Barbados 41st Annual Review Seminar and at the IMF's Institute of Capacity Development Departmental Seminar. In addition, the Department hosted, virtually, the 53rd Regional Annual Monetary Studies Conference, in which staff presented a paper titled "Global Warming and The Bahamas".

The Bank continued to provide technical training for Research Staff, in collaboration with several international partners. These were aimed, among other things, at strengthening capacity in the areas of data analytics, financial programming and scenario analysis, financial inclusion, and external debt statistics.

In keeping with its mandate, the Department provided economic and financial statistics on The Bahamas to an array 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). The Department also 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.

PRUDENTIAL SUPERVISION & REGULATION

Profile of Regulated Activities and Entities

The Central Bank's supervisory mandate for oversight encompasses a range of regulated activities under the Banks and Trust Companies Regulation Act, 2020 ("the BTCRA"), the Bahamas Co-operative

Table 3: Regulated Entities

	2020	2021	2022
Banks and Trusts	**217**	**214**	**202**
Banks & Trusts	50	50	46
Banks	24	22	21
Trusts	143	142	135
Non-Licensee Reg. Representatives	6	6	7
Licensee Reg. Representatives	23	23	22
PTC (Registered)	136	140	155
Non-Bank MTB	5	5	5
Non-Bank MTA	22	20	18
MTB Branches	116	98	85
Cooperative Credit Unions	10	10	8
Payment Services Providers	3	3	3
Payment Services Agents	1	8	8
Memo Items:			
Assets of Domestic Banks (B$Bil)	19.6	20.8	20.6
% change	6.2%	6.3%	-1.2%
Assets of Int'l Banks (B$Bil)	153.3	129.0	118.0
% change	-8.7%	-15.8%	-8.6%

Source: Central Bank of The Bahamas

Credit Unions Act, 2015 (and Regulations under those Acts), the Payment System Act, 2012 and the Credit Reporting Regulations Act, 2018. Impacted by global economic developments, trends across regulated sectors showed a contraction and consolidation of international banking balance sheet activity, while the domestic financial services space exhibited further strengthening of balance sheet quality and profitability, as recovery from the COVID-19 pandemic became more entrenched. While domestic entities continued to pursue efficiency improvements through digitisation of service platforms, business growth remained muted given the ongoing emphasis on reducing credit risks.

In 2022, the number of supervised banks and trust companies decreased by 12 to 202 (see Table 3). This included 75 public entities and 127 restricted and non-active licensees. No new licenses were issued, whereas 12 Supervised Financial Institutions (SFIs) ceased operations, which comprised three public banks and trust companies, two public banks and seven restricted operations. Public entities, represented by 20 authorized dealers and agents, resident for exchange control purposes, were allowed to transact with both the domestic and international clientele—these included the existing 10 commercial banks.

The total number of Private Trust Companies (PTCs) increased by 15 to 155 at end 2022. However, the number of licensee Registered Representatives (RRs) for PTCs was one less at 22. As for money services firms, these comprised an unchanged number of payments services institutions (three) and non-bank money transmission businesses (five), with related agents for these entities totalling a combined 18. Further, financial cooperative credit unions decreased by two to eight, inclusive of the Bahamas Cooperative League Limited, as the operations of two of the smallest cooperatives were liquidated.

In 2022, total domestic assets of commercial banks and trust companies stood at $11.6 billion, an increase of $0.7 million (6.4%) relative to 2021. Meanwhile, the COVID-19 pandemic, along with new strategic initiatives by the banks have led to increased promotion of the use of digital banking services. At end-2022, the branch network remained unchanged at 68.

As for credit unions, total assets rose by $9.1 million (2.0%) to $483.7 million, owing to the net growth in member loans, cash and statutory deposits, since the pandemic. Similarly, the membership base increased by 5.1% to 49,658 persons.

As at end-2022, licensed international banks and trust companies decreased to 182 from 193 in 2021. Total assets declined by approximately US$11.0 billion or 8.6% to $118.0 billion as at end-December, 2022. Fiduciary assets also reduced by approximately US$26.4 billion or 17.2% to $127.4 billion for the period ending December, 2022. Although there was growth evidenced in areas of the sector, the net decline in balance sheet and fiduciary assets was primarily attributed to the closure of three public banks and trust companies and client attrition associated with a few others.

Some international banks and trust companies continued to recover during 2022, with institutions seeking new strategies to rebound from the negative effects of the global pandemic. Meanwhile, a number of institutions sought to rebuild through enhanced products and new ownership, while others made decisions to exit the jurisdiction by way of merger and acquisitions, or assets transfers to other local supervised entities or affiliated entities. In some instances, these movements were precipitated by decreased profits from within the jurisdiction.

Supervisory and Regulatory Developments

The Bank's regulatory agenda in 2022 remained focused on several major work streams, inclusive of finalizing the Basel capital rules and operationalizing aspects of the recovery and resolution framework emanating from the reforms set out in the new Banks and Trust Companies Regulation Act, 2020. The Basel Capital Regulations, 2022 which underwent extensive industry consultation takes a more proportionate measure based on the size and complexity of SFIs.

The Bank also undertook to progress its policy position on the prudential treatment of digital assets, adopting the earlier stance of the Basel Committee, of "same risk, same activity, same treatment", with more conservative measures for unbacked cryptoassets and algorithmic stablecoins. The Basel Committee continued to explore the prudential treatment of banks' crypto asset exposures, with the release of a second public consultation paper in June, 2022. This paper provided the foundation for the Central Bank to fine-tune its proposed policy framework on the prudential treatment of digital assets, underscoring the need for banks to deploy sound risk management policies and procedures in this area. The Bank's draft guidelines, which set out the minimum standards was sent out for public consultation in December, 2022.

On the supervisory front, financial institutions returned to a greater degree of normalcy in their operations, although many maintained a hybrid home/office working arrangement for employees. The Bank continued to monitor the rebound of domestic financial institutions, which experienced a surge in non-performing loans in 2021. Following the conclusion of loan forbearance programmes, commercial banks continued their aggressive write-offs and provisioning posture, reversing the upward trajectory of non-performing loans in the sector. In August 2022, the Bank relaxed some credit control policies by widening the maximum Total Debt Service Ratio (TDSR) to 50.0% and, within lenders credit risk management frameworks, permitting zero-percent equity injection for personal loans other than residential mortgages. These measures allowed financial institutions to capture opportunities for new lending, while maintaining prudent and sound internal risk management policies.

In line with the Bank's external engagement strategy, the Bank Supervision Department continued exchanges with management and board members of SFIs and sustained bilateral engagement with other local and international supervisory and regulatory agencies. These collaborative efforts allowed for the sound monitoring of licensees and robust consolidated supervision. In addition, external stakeholder meetings and other forms of engagement included the Association of Certified Anti-Money Laundering Specialists (ACAMS) Bahamas Chapter, Bahamas Association of Compliance Officers (BACO), Bahamas International Chartered Accounts (BICA), the Auditors Advisory Committee (AAC), and the Association of International Banks and Trust Companies (AIBTC).

Outreach to further strengthen the Bank's AML/CFT engagement with domestic and international stakeholders also sought to enhance the Banks's leadership and recognition in the space. In January 2022, the Bank, in collaboration with the Inter-American Development Bank (IDB) hosted the third Global Research Conference, which was held in hybrid form. The conference attracted scholars and practitioners, who presented and discussed research related to anti-money laundering and financial crime suppression. The participants included representatives from academia, policymakers and regulatory agencies. From among the international standard setting bodies, the event attracted experts from the Financial Action Task Force (FATF), the Caribbean Financial Action Task Force (CFATF), and the Financial Action Task Force of Latin America (GAFILAT).

Supervisory Effectiveness

Significant emphasis also remained on strengthening the Bahamian risk-based supervisory framework.

The engagement and follow up with SFIs are prioritised to achieve effective results around three categories of interventions:

- Directives, which address the most urgent and serious matters;
- Requirements, which are less serious and urgent than Directives, but are sufficiently serious that the Central Bank is prepared to deploy its statutory powers to achieve the required result; and
- Expectations, which cover matters where SFIs should consider improving identified aspects of risk management.

The Bank monitors supervisory effectiveness by the pace at which SFIs resolve directives and requirements. In broad terms, the Bank remained satisfied with the remediation of directives and requirements by SFIs over the year. From September 2021 to September 2022, the total number of directives outstanding increased from 12 to 21, reflecting issuance of 23 new directives and the resolution of 14 from among those previously active. Although a large number of necessary directives were identified, what remains important is that they were cleared at a more acceptable pace. Of the remaining 21 directives, nine were assessed to be progressing satisfactorily as at September 2022, while two were not progressing satisfactorily; and three were too new to assess the progress. Further, the number of requirements due for resolution reduced as at September 2022, reflecting the closing of a substantial majority of the previously slower progressing requirements.

The Bank approved 347 applications for regulated functions for the year 2022. In continuing its commitment to ensure appropriate corporate governance structures, as well as fit and proper management of firms within the jurisdiction, the Bank reviewed and recommended approval for the appointment of 123 directors, 157 Money Laundering Reporting & Executive Officers and 67 senior officials/officers.

Table 4: Applications for Approved Persons

	2020	2021	2022
Directors	79	101	123
Money Laundering Reporting & Executive Officers	85	98	157
Senior Officials	29	77	67
Total	**193**	**276**	**347**

Source: Central Bank of The Bahamas

AML/CFT and Other Oversight

The supervision of AML and terrorist financing (TF) risks is a sustained focus for the Bank. During the year, the Bank reviewed the self-assessments of SFIs to gain a current view of SFIs' money laundering/terrorist and proliferation financing (ML/TF) risks and controls. In addition, the Bank completed updated assessments of several domestic and international banks and trust companies, as well as interviews with Money Laundering Reporting and Compliance Officers (MLROs) from the various sectors.

The annual AML Data Return submissions by SFIs are important inputs to the supervisory oversight, identifying trends and emerging risks. In 2022, Electronic Money Service Providers (EMSP) submitted these returns for the first time. The Bank also implemented an automated tool to monitor SWIFT inbound and outbound wire transfers against The Bahamas. The tool is expected to provide new insights on the characteristics of Bahamian cross-border payments, identify patterns of relevance, among others, in the sectors, jurisdictions and institutions of counterparties and intermediaries.

In July 2022, the fourth edition of the Correspondent Banking Newsletter was issued to the international correspondent banking community. This outreach initiative promotes improved understanding of Bahamian AML/CFT developments within the external stakeholders.

Collaborating with external stakeholders is part of the AML/CFT initiative to preserve the integrity of the Bahamas financial services industry. To this end, representatives from the Bank continued to participate in The Bahamas' Identified Risk Framework Steering Committee (IRFSC), which meets monthly to discuss related AML/CFT work within the jurisdiction. Notably, through the Office of the Attorney General and the National Identified Risk Framework Coordinator (NIRFC), the Committee leads the official work to address deficiencies identified in the AML/CFT Mutual Evaluation Report (MER) of The Bahamas, published by the CFATF in July 2017. Given such efforts, in December 2022, the CFATF confirmed the re-rating of The Bahamas' technical rating, given the completion of two of the FATF Recommendations. With this re-rating, The Bahamas is now compliant or largely compliant with all of the 40 FATF recommendations.

Data Analytics

The Bank collects financial data through the Online Reporting and Information Management System (ORIMS) to inform its prudential supervision of SFIs. Owing to the implementation of Basel II/III capital requirements, updated financial returns were incorporated during a phase of parallel reporting, for the June through September reporting periods. The official release of the new return to ORIMS, is scheduled for the first quarter of 2023. Further, in 2022 a data return was also implemented for EMSPs.

Compliance and Timeliness of SFI Reporting

The Bank also monitors the timeliness of regulatory submissions. Identified SFIs were issued summary reports on key findings from the analyses, for their guidance. During the year, regulatory reporting compliance of SFIs decreased to 74.2% compared to 83.0% in 2021. The Bank has undertaken a targeted initiative to foster improved on-time compliance by all SFIs.

Examinations Programme

Onsite examinations supplement the Central Bank's offsite reviews, providing important additional insights on SFIs' governance and risk management practices. In 2022, the Bank conducted 14 examinations, three of which the Bank assisted the parent (home) regulator (see Table 5) with their review of money laundering, terrorist, and proliferation financing risk of the local subsidiary. Additionally, discovery review meetings were held with the larger two of the three existing EMSPs. SFIs are identified for examinations through the supervisory planning process, with accelerated scheduling when necessary, and dictated by emerging threats.

In 2022, the Bank issued 12 Examination Reports, including one outstanding from 2021. No external reports were issued for the discovery review meetings. For ML/TF examinations, where assistance was provided to the home regulator, the reports are issued by the home regulators. As of 31st December 2022, there were no outstanding reports.

Table 5: On-site Examinations Conducted

	2020	2021	2022
Examinations			
Domestic Licensees	2	2	1
Other Licensees			
Follow-up /Special Focus	7	8**	8
Regulator Initiated	0	1*	3+
Discovery Reviews	0	0	2*
Financial Credit Unions	2	0	2
Total	**11**	**11**	**16**
Reports			
Finalized Reports	12	12	12
Reports in Progress	2	1	0
Total	**14**	**13**	**12**

Source: Central Bank of The Bahamas
* No report to SFI required.
** Internal report generated for supervisory purposes for one examination.
\+ Report prepared by home regulator

Domestic SFIs Risks

Credit Risk Review

In June 2022, the Bank relaxed its lending rules/guidelines to domestic banks and credit unions around the qualification criteria for the provision of domestic credit, against the backdrop of the domestic economy's increased capacity to sustainably absorb more credit expansion and the favourable outlook for external reserves. Despite this relaxation, regulatory focus remained on ensuring that the domestic banks were deploying effective strategies to reduce the level of non-performing loans (NPLs) in the banking system. In this vein, half yearly and ad-hoc meetings were held with senior bank executives to discuss the strategies deployed to manage this risk.

The banking system's credit risk management framework remained under close surveillance. In 2022, there was a notable reduction, in the number and value of credit facilities on deferral in the banking system. At 31st December 2022, the book of assets represented less than 0.01% of credit in the private sector. In the meantime, the industry's NPL rate declined to 7.7% at end-2022 from 9.6% in 2021.

Stress Testing

Stress testing, particularly around credit and liquidity risks, helps to assess the resilience of the banking system. The credit risk stress test uses extreme, but credible, scenarios to assess whether the Domestic Systemically Important Banks (DSIBs) have sufficient capital to absorb losses and withstand varying levels of predicted losses from probable economic or financial crises.

There are no immediate financial stability concerns, given the commercial banks' high capital buffers and satisfactory provisioning levels. The credit stress scenarios examined shocks to NPLs of 100%, 150% and 200%, and the consequent impact of these on income and capital. The consolidated results, which produced simulated declines in banks' capital levels of up to 4.6%, consistently yielded no capital injection requirement. At all levels of shocks, capital remained above the established trigger and target ratios of 14.0% and 17.0%, respectively. In particular, the banking sector's average capital to risk-weighted assets ratio fluctuated between 29.1% and 32.8%.

Stress test results also show that commercial banks are less vulnerable to interest rate risks, due to the persistent robust levels of eligible capital, among other reasons. Simulations further indicate that the risk to near-term depletion of liquidity was negligible, owing to the high level of liquidity across the banking system, supported by banks' continued cautious lending posture.

Capital Adequacy

Commercial banks' capital levels remained elevated during 2022, with a reported common equity tier 1 capital less regulatory adjustments to risk-weighted assets ratio of 29.4%. This is well above the established total capital requirement of 17.0% in the newly released Bahamas Capital Regulations, 2022.

Credit Unions

The supervision of credit unions remained risk-based, focusing on multiple areas; primarily, AML/ Know Your Customer (KYC), corporate governance and credit risk management, as well as on the efforts of credit unions to remediate on-site examination findings. In 2022, regular meetings resumed with the sector to discuss, among other pertinent matters, prudential trends and pending consultations on legislative reforms. The Bank intends to strengthen its supervision of this sector via proposed reforms to the legal framework of credit unions in The Bahamas.

With respect to credit risk, the credit unions' progress in managing delinquencies was closely monitored, given the sector's very thin capital and liquidity buffers, and the expiration of wide-ranging loan payment deferral programmes. At end-2022, virtually none of the sector's loans were under deferral arrangements, compared to 1.2% at end-2021. However, the average NPL rate in the sector was an estimated 11.9%, down from 12.5% in 2021, but higher than 10.6% in 2020.

Money Services Businesses

Supervisory focus remained heavily on Money Transmission Businesses' (MTBs) and Payment Services Institutions' (PSIs) reputational risks, inclusive of AML/CFT, and operational risk management. This focus ensures that all key exposures are being effectively identified, measured, monitored and mitigated.

Effective 31st October 2022, the Central Bank lifted the moratorium placed on the consideration of new license applications for MTBs and PSIs, given, *inter alia*, the abatement of pandemic conditions and the Bank's observation that the sub-sector was in a better position to establish a stable footing and provide expanded services to the Bahamian public.

Basel II and III Implementation Programme

Progress was maintained in the implementation of the Basel II and III prudential standards. After extensive consultation and industry feedback, the Central Bank released the Bahamas Capital Regulations, 2022 and the accompanying Guidelines for the Management of Capital and the Calculation of Capital Adequacy, which came into effect 15th July, 2022. This development codified banking sector capital requirements previously stated in guidance notes to a higher standard of regulations, which are proportionately tailored to be effective, while minimising the compliance costs for SFIs. Some key features of the Regulations and Guidelines are (i) the leverage ratio requirement that supplement SFIs' risk-based capital adequacy requirements; (ii) implementation of capital buffers, which are fixed across the economic cycle, rather than countercyclical in nature; (iii) revised approach to ICAAPs; (iv) implementation of a new calculation for converting SFIs' risks to risk-weighted assets; and (v) simplified capital definitions. Other implementation focuses within the Basel framework addressed amendments to other guidelines impacted by the new Capital Regulations, which included the Liquidity and Large Exposures Regulations and Guidelines, Market Risk and Operational Risk.

Guidance Notes and Policies

In 2022, following industry consultation, the Bank also released guidelines on Credit Risk, Internal Audit and Recovery Planning. The revised Credit Risk Guidelines provide guidance on the expected credit loss framework, asset classifications and further clarifications on the TDSR, and replaced the Guidelines for the Management of Credit Risk, 2003 and the Impaired Assets and Provisioning Guidelines, 2005. The new Internal Audit Guidelines outline Central Bank's expectations with respect to assessing the effectiveness of the internal audit function of SFIs. Further, the new Recovery Planning Guidelines provide a general approach for SFIs to develop recovery plans.

As work on crisis management advanced, at the end of 2022, the Bank began to develop a toolkit to operationalize the resolution framework for SFIs. This effort embraced reforms to strengthen the operations of the Deposit Insurance Corporation (DIC) and proposed amendments to the Bahamas Cooperative Credit Union Act, 2015. The credit union reforms are crafted particularly to promote enhanced governance arrangements for the cooperatives, and to strengthen the Central Bank's powers to intervene in supervised entities, more akin to the ease of engaging with banks and trust companies.

In December 2022, the Bank also released draft Digital Assets Guidelines for a 60 day consultation period. As mentioned earlier, the draft guidelines provide SFIs with an overview of the Central Bank's expectations for engagement in digital asset activities and identification of accepted best practices for effective risk management.

Crisis Management

In 2022, the IMF conducted a technical assistance mission to assist the Bank and the DIC with operationalizing the respective resolution framework for SFIs and strengthening the operations of the deposit insurance scheme. Output from this mission, has informed revisions to the proposed suite of draft legislative amendments which target the framework; capacity resourcing recommendations for the DIC; and support to evaluate the pilot program to develop the first set of draft resolution plans for SFIs.

The Bank also developed an action plan for 2023 to progress several key recommendations emanating from the mission. The plan encompassed more engagement with supervisory authorities of foreign-owned banks relative to recovery planning and the development of a comprehensive strategy for resolving failed financial institutions. The plan also includes a framework for undertaking resolvability assessments and resolution planning for DSIBs, liaising with other relevant agencies to develop a programme of regular training and crisis management testing and expanding the newly developed Bahamas Financial Stability Council to include all safety net players.

Administrative Monetary Penalties

Administrative Monetary Penalties imposed for the year 2022 totalled $314,625.00 of which $171,625.00 has been collected as at 31st December, 2022. Uncollected payments amounted to $143,000.00, of which $103,500.00 are not due until 15th January, 2023. Uncollected payments include payments for two Notices of Contravention in the amounts of $100,000.00 and $20,000.00, respectively, issued to two SFIs during the fourth quarter of 2022. Breaches for 2022 covered 10 different categories—the most active being late or erroneous filing of Daily B$ Position, Weekly Interim Reports, and Quarterly Unaudited Financial Statements.

Credit Bureau

The credit bureau operations gained traction in 2022, with the increased participation of the domestic banks, credit unions, public utilities and other credit information providers (CIPs). Some 38 statutorily obligated institutions progressed through varying stages of testing and data submission. Moreover, all banks transitioned to regular reporting of data and started using credit reports generated by the bureau. As stakeholder engagement increased, CRIF Information Services Bahamas Limited, the credit bureau operator, continued to offer educational seminars, brochures, infomercials and online updates to increase public awareness of the initiative.

Regulatory Cooperation

In 2022, the Bank received two information requests from one foreign regulatory authority, to which it responded.

Membership in International and Regional Bodies

Representatives of the Bank participate in national, regional and international associations to foster cooperation and capacity building. This included The Bahamas' Group of Financial Services Regulators (GFSR) and the national Identified Risk Framework Steering Committee (IRFC) for AML and related matters. Bank representatives also participated as experts and assessors in the CFATF Mutual Evaluation and Re-Rating processes. In the international arena, the Bank's involvement in regional and international forums serves to coordinate training in banking supervision and related matters, mutual exchange of knowledge, and to coordinate input where mutual interests exist on the work being advanced within the global standards setting bodies. In this regard, during 2022, the Bank completed a three-year term as chair of the Caribbean Group of Banking Supervisors (CGBS). The Bank was also actively engaged as a member of the Association of Bank Supervision of the Americas (ASBA), and remained within the Group of International Finance Centre Supervisors (GIFCS). Moreover, a corporate membership is maintained in the Association of Certified Anti-Money Laundering Specialist (ACAMS).

DEPOSIT INSURANCE CORPORATION

With technical and administrative support provided by the Central Bank, the Deposit Insurance Corporation (DIC) further advances its strategic goals to build operational capacity, enhance public confidence in the financial sector and maintain compliance with international principles for effective deposit insurance schemes.

Under the Protection of Depositors Act, 1999, as Amended in 2020, the DIC insures Bahamian dollar deposits at member banks and credit unions for up to a maximum of $50,000 per depositor. With the addition of two members, the DIC member institutions increased to 19 at end-2022.

At end-December 2022, both member credit unions and member banks recorded, in aggregate, insurable and insured deposits of $8.7 billion and $2.7 billion, respectively, which equates to an 8.3% increase in total insurable deposits and a 4.0% increase in total insured deposits since the previous year. Of the $8.7 billion in insurable deposits, member banks contributed the majority (95.2%), that is, circa $8.3 billion. Likewise, of the $2.7 billion in insured deposits, member banks supplied the majority, that is, 87.4% or $2.3 billion. Meanwhile, member credit unions' insurable deposits were $414.4 million and insured deposits amounted to $335.2 million. As such, the coverage ratio, which is represented as the share of insured deposits to insurable/eligible deposits, was 28.1% for banks and 80.9% for credit unions. Banks' other insurable liabilities totalled $50.0 million, consisting of $44.2 million in accrued interest and $5.8 million in stored value cards. For credit unions, accrued interest totalled $4.4 million.

As it relates to funding, premiums continued 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 previous year. The

DIC premium collections increased by 9.3% to $4.1 million over the preceding year, of which, approximately $3.9 million was attributed to banks and $0.2 million to credit unions.

In 2022, total assets of the DIC increased by approximately 5.2% ($3.8 million) to $76.4 million vis-à-vis 2021, representing both premium and net investment income inflows.

INFORMATION TECHNOLOGY

In 2022, the Information Technology (IT) Department made progress with several multi-year strategic initiatives. The Bank successfully launched its PeopleSoft Human Capital Management solution in the latter half of 2022, following extensive project activities to migrate multiple solutions to a single, comprehensive Enterprise Resource Planning (ERP) solution. In parallel, the Bank worked steadily to migrate to PeopleSoft's Financial and Supply Chain Management solution to replace the legacy general ledger solution.

Progress was also made on designing and building a new enterprise-wide application submission and approval portal for the Bank Supervision and Exchange Control Departments, as the Bank launched the first online application using this tool in December 2022. In addition, the first phase of the Bank's internal network infrastructure upgrade was completed in 2022, ushering in increased resilience, improved network bandwidth, and deeper security integration to accommodate the services needs of the organization.

The IT Department continued to contribute to the Bank's modernization initiative, providing technical leadership and support to enhancements to the SandDollar solution, the launch of the Bahamas Central Securities Depository and migration to support the pending ISO 20022 payments format. In addition, the IT Department provided support to the implementation of critical cyber security tools to assist the Information Security Unit with its monitoring and management of threats to the Bank's systems, data and people.

FACILITIES MANAGEMENT, AND WORKPLACE HEALTH & SAFETY

The Bank conducts business from its Main Building situated between Market Street on the west and Frederick Street on the east. The Bank also owns three protected historical buildings used as a combination of museums and staff amenities. In particular, the Great House, a limestone structure, is occupied by the staff cafeteria; Balcony House, a wooden, two-storied residential building in The Bahamas, presently is operated as a museum by the Antiquities, Monuments and Museums Corporation (AMMC); and Veranda House, hosts a small gym for employees. The Bank transitioned from its lease of the Trimark Building, located to the north of the main building, to increased floor space in the Bahamas Financial Centre (BFC) located on Charlotte Street. This accommodates the Bank Supervision operations and overflow staffing from the IT and Currency Departments.

The physical premises security programme progressed several strategic projects designed to improve the Bank's overall safety and security network. These included deployment of a digital monitoring product (DMP) alarm management system, and premises access control and CCTV surveillance systems. All projects were designed to lessen the Bank's probability of risk exposure and protect the Bank's staff and physical assets. Additional health and safety training initiatives were also advanced including training of the staff incident wardens; and updating of policies and procedural documents that impact safety practices.

Further preparations on the new Headquarters project addressed completion of the architectural works and securing of property ownership. In 2022, the Central Bank concluded the legal conveyance of the ownership for the Royal Victoria Gardens property from the Bahamas Government. In addition, the Bank's engaged architect completed the construction documents phase and secured the building permit for the structure.

The Cash and Data Centre Project progressed in parallel. The Bank advertised the bid package for the project at the close of 2022, and is expected to select a building contractor by the start of the second quarter of 2023.

In 2022, further improvements were made to protect the security, safety and functionality of the Bank's properties. These included the completion of the roofing project on the main premises, refurbishment of the art gallery and parking facilities, and refurbishment of the rooftop seating areas.

STAFF COMPLEMENT AND RELATIONS

The Bank's Human Resources (HR) operations addressed recruitment, compensation and benefits, and employee training and development. The HR Department also supported completion of the Industrial Agreements with the respective middle managers and staff unions, namely, the Bahamas

Communications and Public Managers Union (BCPMU) and the Union of Central Bankers (UCB).

The staff complement decreased by seven to 265 in 2022, with the turnover rate increasing by 3.7 percentage points to 12.1% (see Table 6). The employee complement consisted of 175 non-management, 75 middle management and 15 executive management employees. The female to male ratio remained at almost 2:1. There were 32 employee separations—19 resignations, eight terminations and five retirements. During the year, 26 new persons joined the Bank, with 39 positions filled through internal staff movements, inclusive of 32 promotions, six lateral transfers and one secondment.

During the annual Employee Recognition and Awards Ceremony, held 17th January, 2023, the Bank recognized 35 employees, who through the end of 2022 attained 5, 10, 15, 20, 25, 30 and 35 years of continuous service.

Table 6: Workforce Metrics

	2020	2021	2022
Staff Complement	274	272	265
Gender Distribution (%)			
Male	39.1	39.3	38.9
Female	60.9	60.7	61.1
Turnover Rate (%)*	6.6	8.4	12.1

Source: Central Bank of The Bahamas
* Includes staff who retired during the period.

Recognition was also given to those employees making exceptional contributions to the strategic goals of the Bank, through the Governor's Award. Peer initiated nominations received from all employees in the Bank, led to recognition of five (5) finalists for the Award. The winner of the 2022 Award was cited for contribution to work on the Bahamas Depository Receipts (BDR) and Investment Currency Market (ICM) programmes, and progression of the Exchange Control Online Portal for enhanced engagement with external stakeholders. The Awardee was also credited with enhancing the Exchange Control's Department contribution to the Monetary Policy Committee (MPC), providing mentorship and support, and implementing changes that improved the operations of the Exchange Control Department.

Employee Relations

As the majority of employees worked remotely for almost half the year, communications continued through virtual Departmental meetings, monthly Open Management Meetings for management team members and weekly management meetings with Department Heads. In March, the Bank also convened the Governor's town hall meeting with employees to discuss key initiatives of the Bank's Strategic Plan, 2022-2025.

During the year, the Bank maintained open dialogue and negotiations on new Industrial Agreements with the respective mid-management and non-management bargaining representatives, the BCPMU and the UCB. Both agreements were concluded in August, 2022, for a four-year period commencing January 2021.

The Bank also engaged with retirees, processing benefits entitlements and providing support during periods of illness and bereavement. In 2022, following the pandemic-related deferment, the annual Retirees' Thanksgiving Luncheon resumed.

In-person attendance for the Staff Christmas Party, Children's Christmas Party and monthly socials, also resumed in 2022, following a two-year hiatus due to the COVID-19 pandemic.

Wellness Programmes

The Bank motivates employees through various wellness initiatives, to promote healthy lifestyles and further reduce medical benefits costs over time. The Zest Wellness Programme continued, with an increase in the staff participation rate by almost two-percentage points to 80.1%. The initiative featured virtual and in-person sessions, and focused on healthy eating and staying active. Additionally, the Great House Cafeteria continued to provide nutritional meals to complement the Bank's health and wellness programme. Through June 2022, the Bank funded on-site COVID-19 testing for staff and hosted the Ministry of Health's seasonal influenza inoculations. In addition, counselling services for staff continued through the Employee Assistance Provider.

Staff Development and Training

In continued efforts to enhance operational efficiency, the Bank retained its focus on increasing the technical capacity of employees. Training was mainly undertaken through virtual platforms and included topics on AML fundamentals, banking supervision, information technology, information security, topics related to monetary policy and exchange controls and a range of essential soft skills.

During the second quarter of 2022, overseas training activities commenced, albeit on a limited basis. These were facilitated through partnerships, including Allianz Global Investors, the Association of Supervisors of Banks of the Americas (ASBA), the Centre for Latin American Monetary Studies (CEMLA), Central Banking, the Caribbean Financial Action Task Force (CFATF), Currency Research, De La Rue, the Federal Reserve Bank of New York, the Group of International Finance Centre Supervisors (GIFCS), the Institute of Internal Auditors (IIA), International Currency Association, Inter-American Development Bank (IDB), the International Monetary Fund (IMF), Raymond James, and SICPA. Training was also attended locally through courses, seminars and workshops provided by the Bahamas Institute of Financial Services (BIFS), the Bahamas Institute of Chartered Accountants (BICA), and various tertiary-level institutions.

As per in-house training, the Bank facilitated two induction training workshops for new hires. Through peer-level presentations, the Bank also continuously spotlighted the strategic initiatives of departments throughout the organisation. Employees were also targeted for leadership training, while soft skills training exposed areas such as conflict resolution, customer service delivery, business communication, time and project management, critical thinking and problem solving.

Compensation Review

Alongside improvements in the performance management system, the Bank aimed to ensure adequate employee compensation and benefits. The Bank commissioned a new compensation study, to review its policies and practices relative to competitive market trends. The delivered report provided recommendations to guide further adjustments and alignment of compensation to attract and retain talent.

Executive Professionals and Apprentice Programmes

The Bank sponsors the Executive Professional and Apprentice programmes, to attract a reservoir of entry-level talent respectively at the graduate and undergraduate levels. During 2022, two Executive Professionals continued their rotation in the Banking and Research Departments, with five Apprentice Interns receiving permanent placements at the Bank. One (1) Apprentice joined in October, 2022 and commenced rotation in the Research Department.

Summer Internship Programme

The 2022 Summer Internship programme continued in virtual format. The seven-week programme commenced in June, 2022 for five interns, who were guided by senior staff members in preparation of their research papers. The research papers were presented in July, 2022 at a Roundtable Forum. The Bank will continue with its outreach programme to students who are interested in careers in finance, financial regulations and economic policy.

COMMUNITY INVOLVEMENT AND OUTREACH

The Bank's outreach to local schools continued through virtual presentations on the Role and Functions of Central Bank. The Bank was also represented through the HR Department on the Education Committee for the Bahamas Institute of Financial Services and liaised with the University of The Bahamas in the formulation of graduate programmes in Economics. In addition, the Bank participated in University of the Bahamas' Job Fair.

In 2022, the Central Bank expanded its art collection, with the acquisition of important works by John Beadle, Roland Rose, Kendra Frorup and Jeffrey Meris. Acquisitions also continued to support mid-career artists like Ritchie Eyma and Thierry Lamare, as well as young talents like Dyah Neilson, Kachelle Knowles, Samantha Treco and Keith Thompson. In the first Art Gallery exhibition since the beginning of the pandemic, the Bank staged "UNSEEN", a selection of rarely exhibited works from the Bank's old collection, together with new acquisitions.

The High School and Open Call art competitions have showcased and continuously identified new talent for almost four decades. The 39th versions of the events attracted record high, 120 and 90 submissions, respectively. In addition to the traditional media like sculpture, painting and drawing, the competitions also invited film, digital media and poetry. Moreover, for the first time, the exhibitions were hosted virtually on the online platform "artsteps", with over 900 visitors in only the first few days.

The collaboration with the Antiquities, Monuments, and Museums Corporation (AMMC) extended from the ongoing work on Balcony House and the Teahouse, to the coordinated demolition of the Little House on the Royal Victoria Garden premises. Valuable building elements were secured and taken to the Incubator for Collaborative Expression (ICE) for storage.
The Central Bank's Culture Initiatives have been

supportive of ICE from the beginning and still maintains a studio space for young artists on that premise.

2022 FINANCIAL PERFORMANCE

The Bank's financial statements for the year ended 31st December 2022, along with comparable figures for 2021, are presented on pages 52 to 108 of this report.

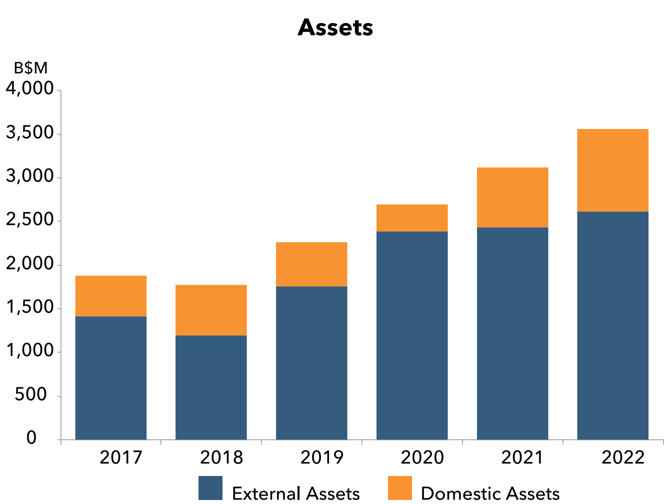
The Bank's financial outturn is mainly impacted by external reserves developments, which are affected by real sector performance, global interest rates (mainly the US) and the Government's financing activities.

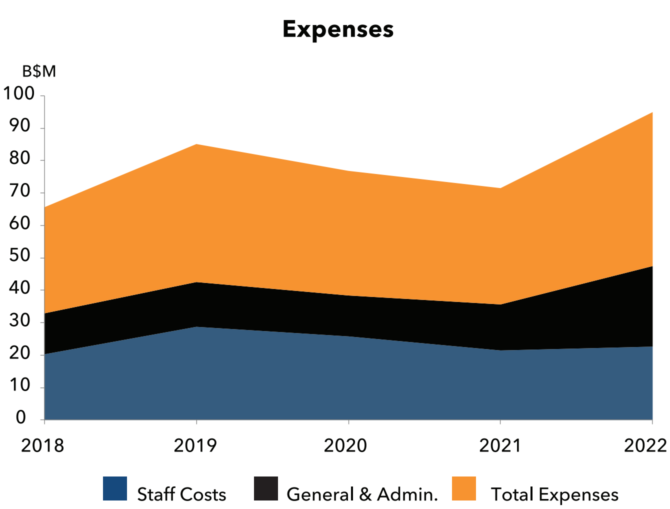
In 2022, the Bank's total assets rose by $436.7 million (14.0%) to $3,555.1 million. Underlying this outcome, external assets—which represented 73.4% of total assets—grew by $178.3 million (7.3%) to $2,611.0 million, supported by proceeds from the Government's foreign currency borrowings and net inflows from tourism activities. In the components, foreign currency cash and deposit balances almost doubled to $622.8 million in 2022 from $323.8 million in 2021. Further, the Bank's holdings of marketable securities increased by $132.1 million (7.9%) to $1,795.2 million. In a partial offset, Special Drawing Rights (SDR) holdings reduced to $167.3 million from $418.9 million in the prior year. In addition, the Reserve Tranche declined by $1.3 million (4.9%) to $25.7 million.

Total domestic assets of the Bank grew by $258.4 million (37.7%) to $944.1 million in 2022. Contributing to this outturn, advances to the Government expanded by $70.4 million (26.5%) to $336.5 million. Similarly, the SDR equivalent claims on the Government, a new transaction, amounted to $233.0 million in 2022, while retirement benefit assets more than doubled to $0.8 million from just $0.2 million in the previous year. Meanwhile, claims represented as Bahamas Development Bank bonds remained at $4.1 million and Bridge Authority Bonds at $0.5 million. Conversely, Bahamas Registered Stock holdings reduced by $39.2 million (11.5%) to $301.7 million and Treasury bill portfolio, by $2.3 million (16.2%) to $11.7 million. In addition, loans to Bahamas Development Bank decreased by $0.3 million (13.4%) to $1.6 million. Further, the value of property, plant & equipment declined by $0.5 million (2.3%) to $24.4 million and intangible assets by $0.4 million (6.1%) to $5.6 million, while currency inventory edged down by $0.1 million (0.8%) to $12.2 million. The remaining domestic assets decreased by a combined $4.1 million (25.4%) to $11.9 million.

The Bank's total demand liabilities, expanded by $454.0 million (18.4%) to $2.915.7 million in 2022. Reflective of this outturn, unremunerated deposits of commercial banks increased considerably by $441.5 million (26.9%) to $2,084.7 million, underpinned by proceeds from the Government's repayment of its short-term outstanding debt held by banks. Further, currency in circulation, inclusive of SandDollars, moved higher by $44.5 million (7.9%) to $608.5 million, while accounts payable more than doubled to $14.1 million from $6.7 million. The Investment Currency Market liabilities also rose by $3.9 million (92.5%) to $8.1 million and health insurance subsidies, by $0.4 million (4.3%) to $9.0 million. In contrast, Government and related agency deposits reduced by $45.3 million (19.5%) to $187.4 million.

During 2022, the gross income generated by the Bank increased by $10.7 million (29.1%) to $47.3 million, as the interest income from investment sources grew by $21.1 million (58.4%) to $57.3 million. Specifically, interest on foreign investments almost doubled to $40.7 million from $20.4 million, while





earnings from domestic investments advanced by $2.5 million (21.1%) to $14.4 million. Interest on loans also rose notably to $7.0 million from $3.9 million in the previous year. Meanwhile, "other miscellaneous" transactions recorded a loss of $10.0 million, following an income of $0.5 million in 2021.

In 2022, the Bank's total expenses increased by $11.8 million (33.1%) to $47.5 million, explained by an $8.9 million registered loss on impairment. Further, general and administrative costs rose by $1.3 million (12.5%) and staff costs, by $1.2 million (5.7%). Meanwhile, depreciation expenses held steady at $2.2 million.

As a result of these developments, the Bank recorded a total comprehensive net income of $1.4 million, exceeding the $0.7 million in 2021.

OUR ENVIRONMENT

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that in 2022, the domestic economy sustained its positive growth momentum from the adverse effects of the Novel Coronavirus (COVID-19). In particular, real GDP grew by 14.4% in 2022, following a 17.0% tourism-led recovery in 2021. Reflective of the relaxed pandemic restrictions and increased demand for travel in key source markets, tourism output registered strong growth, undergirded by gains in the high value-added air component and a rebound in cruise passengers. Further, steady foreign direct investment inflows, and to a lesser extent, public sector post-hurricane rebuilding works, provided stimulus to the construction sector. Given that output remained below the pre-pandemic heights, indications are that the unemployment rate persisted above pre-COVID levels, although trending downward, with the re-employment of tourism sector employees. In price developments, inflation remained elevated, largely attributed to the rise in global oil prices, increased costs for other imported goods, and supply chain shortages due to geopolitical tensions in Eastern Europe.

In the fiscal outturn for FY2021/22, the overall deficit reduced considerably, as a rebound in VAT receipts contributed to an increase in total revenue, which outpaced the rise in aggregate expenditure. Similarly, for the first half of FY2022/23, through end-2022, the deficit narrowed, due to a VAT-led growth in total receipts, which outstripped the expansion in overall spending. Financing of the deficit for FY2021/22 was secured from both domestic and external sources, comprising a mix of long and short-term debt. Meanwhile, in the first half of the new fiscal year, financing also included a drawdown in IMF Special Drawing Rights (SDRs).

The Direct Charge on Government consequently rose by $718.6 million (7.0%) to $11,036.4 million during the calendar period. Nevertheless, with the recovery in the output base, at end-December 2022, the corresponding ratio of the debt to GDP decreased by 3.9 percentage points to 85.6%, following a 7.0 percentage points reduction last year. Further, the National Debt—inclusive of Government loan guarantees to the public sector—rose by $709.3 million (6.6%) to $11,426.3 million, a slowdown from the $859.1 million (8.7%) growth in the prior year. Similarly, the National Debt to GDP ratio declined by 4.4 percentage points to 88.6%, vis-à-vis an 8.1 percentage point reduction to 93.0% in 2021.

Monetary sector developments were marked by a buildup in the deposit base, which overshadowed the rise in domestic credit, resulting in an expansion in both bank liquidity and external reserves. During the year, inflows to the banking system included Government's external borrowings and foreign currency receipts from real sector activities. Against this backdrop, at end-2022, the stock of external reserves was equivalent to an estimated 34.2 weeks of the current year's total merchandise imports, compared to 36.1 weeks in the previous year; remaining well above the 12.0 weeks international benchmark.

Banks' credit quality indicators improved during the review year, underpinned by the sustained recovery in the economy and ongoing loan write-offs. Further, domestic banks overall profitability strengthened, owing largely to a reduction in bad debt provisioning. Meanwhile, the weighted average interest rate spread widened, due to an increase in the lending rate, while the deposit rate remained unchanged.

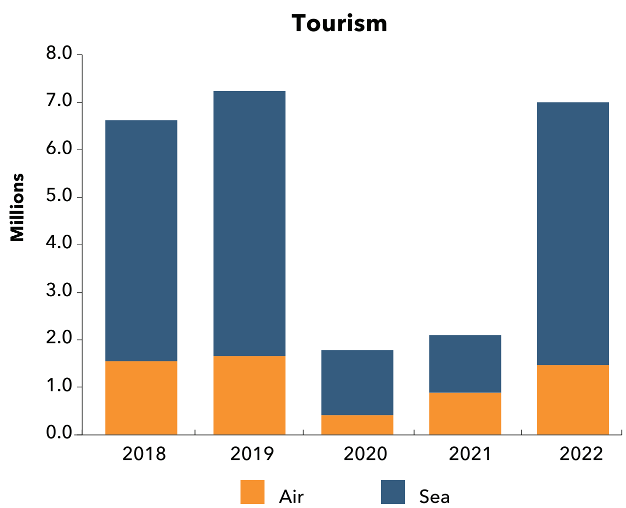
In the external sector, the estimated current account deficit reduced significantly in 2022. Bolstered by the growth in tourism receipts, along with a reversal in the secondary account position to a net inflow from a net outflow, the services account surplus increased more than two-fold. Conversely, net financial account inflows, excluding reserve assets, declined in 2022, mainly reflective of a reduction in 'other' private investments inflows. Meanwhile, capital account transfers reported nil transactions during the review year, following net receipts in 2021, which was owing to Hurricane Dorian residual re-insurance inflows.

TOURISM

Tourism maintained its recovery momentum during 2022, reaching close to pre-pandemic levels. In particular, ongoing strengthening in the high-value added air component was accompanied by a rebound in sea traffic, both stimulated by relaxed pandemic restrictions and heightened demand for travel in the key source markets. Further support was provided by growth in the vacation rental market.

Data provided by the Ministry of Tourism showed that overall tourist arrivals more than tripled to 7.0 million in 2022, extending the 2.1 million (17.1%) rebound recorded in 2021. Air arrivals, indicative of high-yielding stopover tourism, expanded by 65.8% to 1.5 million, exceeding the 0.9 million (112.0%) growth in the prior year. Further, the sea component recovered to 5.5 million, a reversal from the 11.8% reduction to 1.2 million visitors last year.

A disaggregation by first port of entry revealed that total arrivals to New Providence doubled to 3.3 million, outpacing the 22.2% increase to 1.1 million in 2021. Contributing to this outturn, air passengers advanced to 1.1 million, from 0.7 million last year, while sea traffic rose to 2.1 million, from just 0.5 million in the previous year. Likewise, visitors to the Family Islands increased to 3.3 million, from 0.9 million in the preceding year, owing to gains in sea visitors, to 3.0 million from 0.7 million, and air traffic, to 0.3 million from 0.2 million in the prior year. In Grand Bahama, tourist arrivals recovered to 389,404, improving from 85,320 in 2021. Sea passengers amounted to 349,884, exceeding the 65,569 visitors last year, while air arrivals strengthened to 39,520 from 19,751 in the previous year.



Positive trends were also seen in the private vacation rental market, a subset of the stopover market. Data provided by AirDNA revealed continued improvements in off-resort business activity, as total room nights sold grew by 48.5% in 2022, albeit lower than the 62.8% gain in 2021. Analysed by component, both entire place and hotel comparable listings rose by 47.4% and by 58.3%, respectively, relative to 64.8% and 47.4% in 2021. Further, occupancy levels for hotel comparable rentals, on average, moved higher by 7.1 percentage points to 52.1%, while the corresponding average daily rate (ADR) appreciated by 9.0% to $188.04. Similarly, occupancy levels for entire place listings on average, advanced by 6.4 percentage points to 55.6%, and the associated ADR increased by 8.4% to $519.12.

CONSTRUCTION

During the review year, construction sector activity continued to be supported by numerous ongoing foreign investment projects. However, domestic private sector investment, as represented by residential and commercial building activity, remained constrained. In addition, forward looking indicators remained subdued over the near term.

Indicative of domestic activity, total mortgage disbursements for new construction and repairs—as reported by commercial banks, insurance companies and the Bahamas Mortgage Corporation—reduced by $9.5 million (10.2%) to $83.2 million, a reversal from an $11.7 million (14.5%) increase in 2021. Residential disbursements—which accounted for 98.0% of the total—decreased by $9.6 million (10.6%) to $81.1 million, in comparison to a 15.4% growth in the previous year. In contrast, the commercial component grew by $0.2 million (9.0%), a switch from a $0.4 million (17.5%) falloff a year earlier.

Total mortgage commitments for new construction and repairs—a forward-looking indicator of domestic activity—declined in number by 57 (20.0%) to 228, although the correlated value expanded by $17.8 million (32.1%) to $73.3 million. A disaggregation by loan category showed that residential approvals fell in number by 53 (19.5%) to 219, while the corresponding value rose by $16.6 million (33.3%) to $66.3 million. In addition, commercial commitments decreased in number by 4 to 9, with the associated value higher by $1.3 million (21.8%) at $7.0 million.

In terms of interest rates, the average financing cost for residential mortgages narrowed by 16 basis points to 6.07%; while the average rate for commercial mortgages fell by 12 basis points to 7.01%.

Table 7: Selected Economic Indicators

	2020	2021	2022
		(% Change)	
Real GDP	(23.5)	17.0	14.4
Hotel Occupancy (%)*	42.1	39.1	n.a.
Total Arrivals	(75.2)	17.1	233.3
Mortgage Disbursements	(29.1)	35.0	(15.4)
Construction Completions - Value	50.2	103.0	n.a.
Inflation	0.04	2.91	5.60
National Debt/GDP Ratio (%)	101.1	93.0	88.6

Source: Central Bank of The Bahamas
* Data from The Ministry of Tourism - Hotel Performance Statistics

PRICES

Average domestic consumer price inflation, as measured by the change in the average Retail Price Index

(RPI) for The Bahamas, rose to 5.6% in 2022 from 2.9% in 2021, attributed to the pass-through effects of higher average prices on international oil and imported goods (see Table 7). Underpinning this outturn, average costs increased for recreation & culture by 12.8%, after registering a decrease in 2021. Further, average inflation accelerated for food & non-alcoholic beverages (13.5%), restaurants & hotels (12.4%), and transport (12.3%). Average price gains were also posted for communication (8.0%), health (5.7%) and for housing components, including water, gas and electricity (3.3%). Meanwhile, the average cost decline slowed for miscellaneous goods & services (0.4%). Providing some offset, average inflation moderated for clothing & footwear (2.9%), education (1.6%) and furnishing, household equipment & routine household maintenance (1.2%). In addition, average costs fell for alcohol beverages, tobacco & narcotics (0.5%), following a rise in the previous year.

In line with the rise in global oil prices, domestic energy costs firmed in 2022. In particular, the average price for gasoline rose by 38.6% to $6.09 per gallon, extending the 8.1% uptick in the prior year. Likewise, diesel costs moved higher by 22.9%, to $6.03 per gallon, but was lower than the 33.9% firming in 2021. With regard to the Bahamas Power and Light's (BPL) fuel surcharge, for the ten-months to October, prices stabilized at 10.50 cents per kilowatt hour (kWh), as the utility provider withheld the cost pass-through. However, in November 2022, a new tier system was introduced, whereby the average cost for the generation of less than 800 kWh, moved higher to 14.50 cents per kWh in December. In addition, for the generation of more than 800 kWh, the average price stood at 19.10 cents per kWh.

FISCAL OPERATIONS

FY2021/22 Performance

During FY2021/22, the Government's overall fiscal deficit reduced notably to $717.4 million from $1,335.3 million in FY2020/21 (see Table 8); approximately $234.5 million below the original budgeted amount. In terms of the components, underpinned by a rebound in VAT receipts, total revenue grew by $701.1 million (36.7%) to $2,609.3 million; an estimated $362.9 million (16.2%) higher than the budgeted estimates. Likewise, aggregate expenditure rose by $83.1 million (2.6%) to $3,326.7 million, exceeding projected outflows by $128.4 million (4.0%), led by higher external debt obligations.

REVENUE

Tax revenue—at 82.9% of total collections—recovered by $550.4 million (34.2%) to $2,162.1 million for the fiscal year, and outpaced the budgeted amount by $236.0 million (12.3%). The outturn largely reflected a $395.7 million (53.5%) expansion in net VAT collections to $1,135.8 million, which surpassed the budgeted projections by $290.4 million (34.4%). Further, proceeds from stamp taxes on financial and realty transactions advanced by $25.5 million (44.4%) to $83.0 million. Likewise, taxes on the use or supply of goods and services rose by $20.8 million (13.4%) to $175.7 million, led by notable gains in revenue from licenses to conduct business activities, by $19.4 million (19.9%). In addition, receipts from specific taxes—primarily gaming—grew by $13.5 million (35.6%) to $51.3 million. Levies on international trade & transactions also expanded by $212.7 million (71.1%) to $511.8 million, on account of a rise in export taxes, by $81.7 million to $177.5 million; departure taxes, by $74.2 million to $84.9 million and import duties, by $56.2 million to $248.6 million. Further, property taxes firmed by $3.5 million (2.5%) to $147.0 million.

Non-tax revenue grew by $150.4 million (50.8%) to

Table 8: Fiscal Indicators (B$ Millions)

	FY2019/20p Actual	FY2020/21p Actual	FY2021/22p Actual	FY2022/23 Approved Estimates	FY2022/23 Preliminary[1] Estimates
Government Revenue	2,094.8	1,908.2	2,609.3	2,246.5	1,258.3
as % of GDP	18.4	17.9	21.4	16.9	9.4
Government Expenditure	2,920.5	3,243.6	3,326.7	3,198.3	1,534.3
as % of GDP	25.6	30.5	27.2	24.0	11.5
Surplus/(Deficit)	(825.7)	(1335.3)	(717.4)	(951.9)	(276.0)
as % of GDP	(7.2)	(12.5)	(5.9)	(7.1)	(2.1)

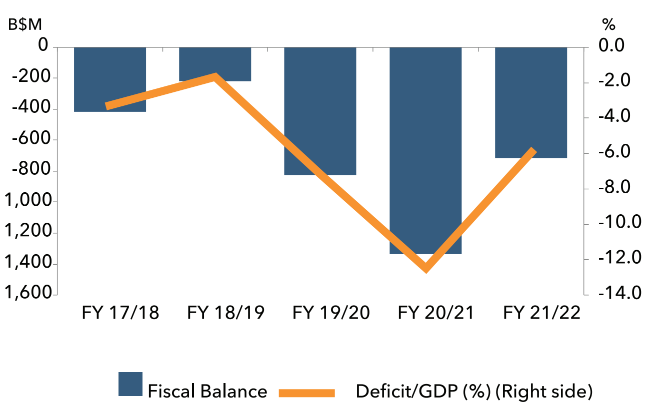
Source: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1]July - December, 2022

$446.8 million vis-à-vis the previous fiscal year—exceeding the budgeted amount by $128.5 million (40.4%). Underlying this development, collections from the sale of goods & services increased by $50.3 million (28.8%) to $225.0 million, attributed to significant gains in proceeds from immigration and customs fees. Similarly, income from property advanced by $47.5 million to $82.8 million. Collections from other "miscellaneous" and unidentified taxes also rose by $53.1 million to $90.6 million. Capital revenue remained at negligible levels over the review period.

EXPENDITURE

Current expenditure—at 91.5% of total outlays—expanded by $170.4 million (5.9%) to $3,042.9 million, approximately $217.0 million (7.7%) higher than the original budgeted estimates. With regard to the components, interest payments on public debt grew by $129.3 million (30.6%) to $551.8 million, underpinned by higher interest payments on both external and internal debt obligations. In addition, outlays for compensation of employees advanced by $36.4 million (5.2%) to $737.2 million. Gains were also recorded in payments for the use of goods and services, by $25.4 million (4.1%) to $639.0 million; subsidies, by $21.8 million (4.6%) to $495.9 million and grants, by $2.2 million (35.1%) to $8.7 million. Further, other payments—inclusive of current transfers and insurance premiums—increased by $74.7 million (29.9%) to $324.6 million. Providing some offset, disbursements for social benefits decreased by $119.4 million (29.5%) to $285.8 million, mainly reflecting the decline in outlays for assistance related to COVID-19.

Fiscal Indicators



Capital outlays contracted by $87.2 million (23.5%) to $283.8 million—an estimated $88.6 million (23.8%), less than was budgeted. Underlying this outturn, was a significant reduction in asset acquisitions, by $49.9 million (18.2%) to $225.0 million, due mainly to a notable decrease in spending on fixed assets. Similarly, capital transfers fell by $37.4 million (38.8%) to $58.8 million.

First Six Months of 2022/2023

For the first six months of FY2022/23, the Government's overall deficit narrowed by $5.3 million (1.9%) to $276.0 million, vis-à-vis the same period of FY2021/22. Contributing to this outturn was an expansion in revenue collections, underpinned by a rebound in VAT receipts, which outstripped the growth in spending. Specifically, total revenue grew by $124.9 million (11.0%) to $1,258.3 million, outpacing the $119.3 million (8.4%) rise in aggregate expenditure, to $1,534.3 million.

The half-year tax receipts rose by $130.6 million, (13.5%) to $1,096.5 million. In particular, VAT collections moved higher by $54.2 million (10.0%) to $598.8 million, compared to the previous fiscal period. In addition, revenue from stamp taxes on financial and realty transactions rose by $5.7 million (11.9%) to $53.5 million. Further, levies on international trade expanded by $88.5 million (39.2%) to $314.3 million. Of note, departure taxes increased more than two-fold to $71.5 million, reflective of the recovery in travel, while proceeds from export taxes grew by almost 50.0% to $119.0 million, and customs & other import taxes, by $6.0 million (5.1%) to $123.4 million. Property taxes also advanced by nearly two-thirds to $59.5 million, specific taxes—mainly gaming—by $8.4 million (47.2%) to $26.1 million and general stamp taxes, by $1.6 million (37.0%) to $5.8 million. In contrast, non-tax revenue declined by $7.0 million (4.1%) to $160.6 million, led by declines in property income, and sales of goods and services.

Expenditure growth included a rise in current spending, of $105.3 million (8.0%) to $1,416.6 million during the six-month period. This reflected an expansion in compensation for employees, public debt interest payments, use of goods and services and other payments—inclusive of current transfers and insurance premiums. Similarly, capital outlays grew by $14.0 million (13.5%) to $117.7 million, largely attributed to an increase in the acquisition of non-financial assets.

Budgetary financing for the six-month period was obtained largely from domestic sources, which totaled $1,348.8 million, inclusive of loans & advances ($582.0 million), long term bonds ($462.5 million), a drawdown in IMF SDRs ($232.3 million) and net Treasury bills/notes ($72.1 million). Further, external financing amounted to $73.3 million. Debt repayments for the period totaled $1,185.9 million, the majority ($940.8 million) of which repaid Bahamian dollar obligations.

National Debt

During 2022, the Government's Direct Charge expanded by $718.6 million (7.0%) to $11,036.4 million, a slowdown from the previous year's growth of $899.9 million (9.6%). With a significant rebound in economic activity, the ratio of the Direct Charge to GDP declined by 3.9 percentage points to approximately 85.6%, following a 7.0 percentage points decrease in 2021 (see Table 9). Bahamian Dollar denominated debt—at 53.1% of the total—rose to $5,863.0 million.

Table 9: Debt Indicators

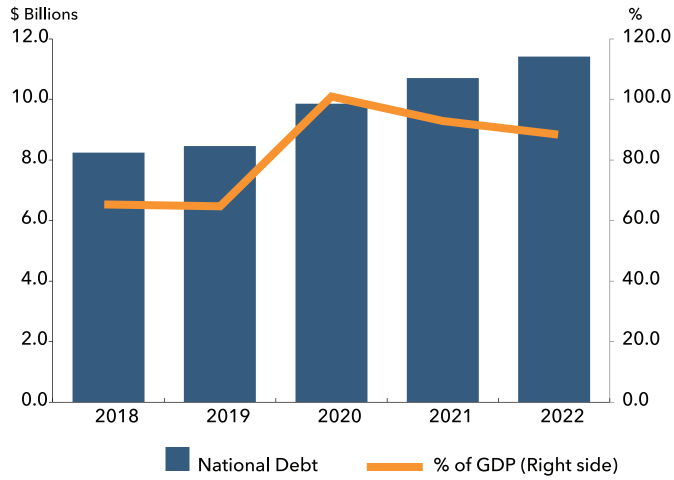
	2020p	2021p	2022p
		B$ Millions	
A. Total F/C Debt	4,784.0	5,032.8	5,652.5
i) External Debt	4,478.0	4,760.8	5,225.0
ii) Internal F/C Debt	306.0	272.1	427.5
B. National Debt	9,857.9	10,717.0	11,426.3
i) Direct Charge	9,417.9	10,317.9	11,036.4
C. Debt Service Ratio (%)*	22.2	13.2	22.4
		% of GDP	
A. Total F/C Debt	49.0	43.7	43.8
i) External Debt	45.9	41.3	40.5
ii) Internal F/C Debt	3.1	2.4	3.3
B. National Debt	101.1	93.0	88.6
i) Direct Charge	96.5	89.5	85.6

Source: Treasury Accounts and Public Corporations' Quarterly Report
*Net of refinancing activities

Further, foreign currency claims grew by $652.8 million to $5,173.4 million. An analysis by holder classification showed that banks held the largest share of Bahamian dollar debt (38.9%), followed by the private sector (41.4%), the Central Bank (11.0%) and public corporations (8.7%).

For the year, Government's contingent liabilities contracted by $9.2 million (2.3%) to $389.9 million. As a result, the National Debt, which includes these liabilities, rose by $709.3 million (6.6%) to $11,426.3 million at end-December, a moderation from the $859.1 million (8.7%) expansion in 2021. Meanwhile, the National Debt-to-GDP ratio declined by 4.4 percentage points to 88.6%, vis-à-vis an 8.1 percentage point decrease to 93.0% in 2021.

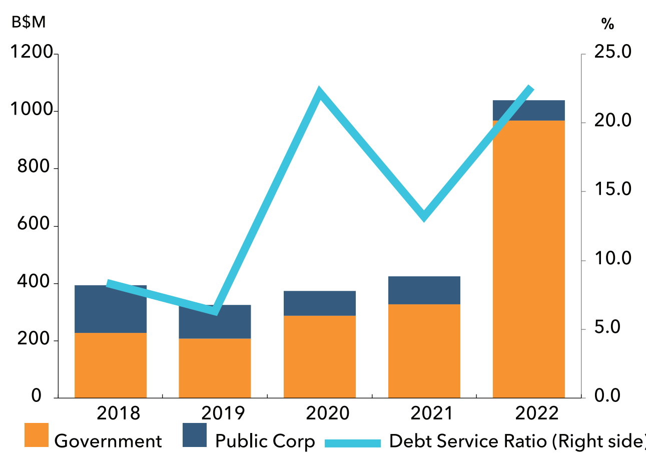
National Debt



Foreign Currency Debt

During 2022, public sector foreign currency debt grew by $619.7 million (12.3%) to $5,652.5 million. New drawings rose to $1,306.3 million from $409.7 million in the preceding year; whereas amortization payments increased to $664.5 million from $154.4 million in 2021. The Government's debt obligations—which constituted 91.5% of the aggregate—expanded by $652.8 million to $5,173.4 million; however, the public corporations' component fell by $33.2 million to $479.1 million.

Public Sector F/C Debt Service



Foreign currency debt service payments expanded to $1,039.4 million, from $425.9 million in 2021. The Government's debt service portion advanced to $968.7 million from $328.1 million; however, the public corporations' segment fell by $27.0 million (27.6%) to $70.7 million. The Government's debt service to total revenue ratio firmed to 35.4%, from 13.9% in 2021, while the debt service to exports ratio stood at 22.4%, an increase of 9.2 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 (50.6%), followed by multilateral institutions (20.9%), external financial institutions (20.0%), The Central Bank (4.1%), domestic banks (3.4%) and bilateral financial institutions (1.0%). At end-December, the average age of foreign currency debt increased to 8.6 years from 8.4 years in the preceding year. By currency, the majority of the debt was denominated in US dollars (82.9%), followed by the IMF's SDRs (8.4%), euro (5.4%), Swiss franc (2.3%), and Chinese yuan (1.0%), respectively.

MONEY, CREDIT AND INTEREST RATES

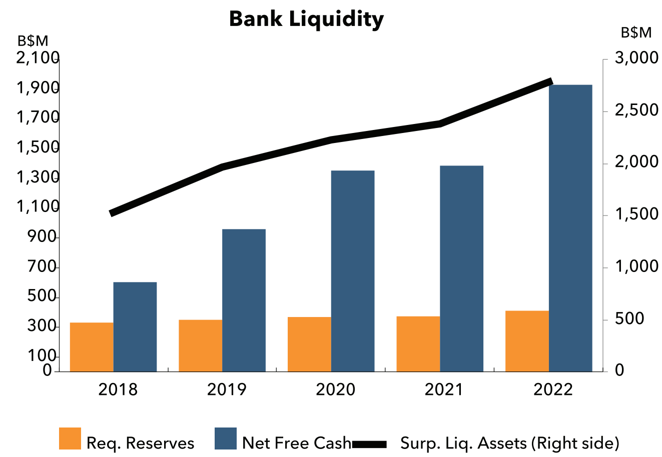
Monetary Sector

Monetary sector developments during 2022 featured a buildup in bank liquidity and external reserves, with the expansion in the deposit base outpacing the growth in domestic credit. In this regard, inflows impacting both liquidity and external reserves included Government's external borrowings and net foreign currency receipts from real sector activities. Further, banks' credit quality indicators improved during the year, underpinned by the sustained economic recovery and ongoing loan write-offs. Banks' overall profitability also strengthened, owing largely to a reduction in bad debt expenses. In addition, the weighted average interest rate spread widened, as the average lending rate increased, while the mean deposit rate remained unchanged.

Liquidity

Throughout 2022, banking sector liquidity remained high. Reflecting largely an accumulation in balances held with the Central Bank, average net free cash reserves—a narrow measure of liquidity—expanded by $506.5 million (35.7%) to $1,924.0 million, extending the year earlier buildup of $242.1 million (20.6%). An analysis of the monthly trend showed that balances rose steadily over the first eight months of the year, peaking at $2,251.4 million in August, before trending downwards towards $1,928.4 million in December. For the year, surplus reserves increased by $540.5 million (38.9%), elevating the corresponding ratio vis-à-vis Bahamian dollar deposits to 23.6% from 18.5% in 2021.

Domestic banks' excess liquid assets—a broader measure of liquidity, including Government securities—registered an average monthly surplus of $2,788.1 million per month, 21.2% higher than the previous year. On a monthly basis, the excess trended upward to a peak of $2,995.0 million in August. However, given seasonal influences, balances trended downwards to $2,786.0 million at end-December, for an annual gain of $407.4 million (17.1%). Further, year-end surplus liquid assets exceeded the statutory minimum by 191.0%, vis-à-vis 176.9% in 2021.



Money Supply

The overall money supply (M3) grew by $769.8 million (9.4%) in 2022, extending the $363.3 million (4.6%) growth in 2021, for an aggregate stock of $8,997.2 million. A breakdown by the component showed that the expansion in narrow money (M1) more than doubled to $582.6 million (15.7%) from $250.1 million (7.2%) last year, as the accumulation in demand deposits extended to $545.7 million (16.4%) from $230.5 million (7.4%). Similarly, currency in circulation rose by $36.9 million (9.4%), exceeding the year earlier increase of $19.6 million (5.3%).

Broad money (M2) advanced by $693.9 million (8.9%), surpassing the $274.1 million (3.7%) gain in the previous year. Underpinning this outcome, savings balances increased by $209.6 million (11.1%), extending the $96.6 million (5.4%) growth last year, led predominantly by a rise in private sector deposits. However, fixed balances fell by $98.3 million (4.5%), deepening the year earlier $72.6 million (3.2%) contraction. Meanwhile, foreign currency deposits rose by $75.9 million (17.0%), vis-à-vis an $89.2 million (24.9%) buildup in 2021.

As a proportion of the overall money stock (M3), Bahamian dollar demand deposits constituted the

Table 10: Flow of Bank Credit (B$ Millions)

	Outstanding as at 2020	Absolute Changes 2021	2022	Outstanding as at 2022
Destination				
Government (net)	2,529.5	403.6	291.6	3,224.7
Central Bank	177.9	280.0	347.7	805.6
Domestic Banks	2,351.6	123.6	(56.2)	2,419.0
Rest of Public Sector	324.0	(8.8)	32.1	347.3
Central Bank	6.9	0.2	(0.2)	6.9
Domestic Banks	317.1	(9.0)	32.3	340.4
Private Sector	5,765.8	(85.1)	(19.1)	5,661.6
Domestic Banks	5,765.8	(85.1)	(19.1)	5,661.6
Consumer	2,154.6	(138.0)	(79.2)	1,937.4
Mortgages	2,626.4	(22.3)	110.5	2,714.6
Other Loans	984.8	75.2	(50.4)	1,009.6
Financing				
Liabilities (Net of Government)	7,810.9	416.4	769.9	8,997.2
Currency	373.0	19.6	36.9	429.5
Total Deposit liabilities	7,437.9	396.8	733.0	8,567.7
Demand deposits	3,327.8	383.0	614.4	4,325.2
Savings deposits	1,822.3	102.0	206.8	2,131.1
Fixed Deposits	2,287.8	(88.2)	(88.2)	2,111.4
International reserves	2,382.2	50.6	178.3	2,611.0
Other net external liabilities	(240.3)	145.4	58.6	(36.3)
Capital and surplus	2,670.3	(87.2)	(141.6)	2,441.5
Other (net)	280.0	176.5	(87.3)	369.2

Source: Central Bank of The Bahamas

largest share at 43.1%, followed by savings deposits (23.3%) and fixed deposits (23.0%). Foreign currency balances and currency in active circulation represented smaller shares, at 5.8% and 4.8%, respectively.

Domestic Credit

The expansion in domestic lending in 2022 was dominated by the Government's drawdown of SDRs allocations, which resulted in a corresponding liability to the Central Bank. Meanwhile, credit to the private sector remained contracted during the year, albeit a moderation from the prior year's reduction, as commercial banks' continued their conservative lending stance.

Total domestic credit expanded by $304.6 million (3.4%), although lower than the year earlier increase of $309.7 million (3.6%). The Bahamian dollar component continued to dominate at 93.0% of the aggregate. Specifically, net claims on the Government grew by $291.5 million (9.9%)—mostly reflecting proceeds from the IMF SDRs allocation in the final quarter of the year—but was below the $403.6 million (16.0%) buildup in the previous year. Further, credit to the rest of the public sector rose by $32.1 million (10.2%), a reversal from an $8.8 million (2.7%) decline in 2021.

The reduction in private sector credit slowed to $19.1 million (0.3%), from $85.1 million (1.5%) a year earlier (see Table 10). Disaggregated by sector, the contraction in personal loans—which comprised 72.6% of the total—moderated to $34.4 million (0.7%) from $71.0 million (1.4%) in the previous year. In addition, decreases in outstanding credit occurred for construction ($31.6 million), "miscellaneous" purposes ($24.0 million), distribution ($13.4 million), and private financial institutions ($2.6 million). In contrast, credit growth was recorded for transport ($35.5 million), tourism ($18.4 million), professional and other services ($16.7 million), entertainment and catering ($5.7 million) and manufacturing ($1.9 million). More modest increases of less than $1.0 million were registered for fisheries, mining & quarrying and agriculture.

A further breakdown of personal loan activity showed that credit for housing grew by $57.1 million (2.2%), a switch from a contraction of $21.1 million (0.8%) a year earlier, while overdrafts rose by $1.2 million (2.4%), following a $0.5 million (1.0%) falloff in the prior year. In contrast, the reduction in consumer loans accelerated to $92.7 million (4.5%) from $49.4 million (2.2%) in 2021.

A disaggregation of the Bahamian dollar consumer credit component revealed that net repayments were posted for debt consolidation ($70.9 million), "miscellaneous" purposes ($10.3 million), home improvements ($8.0 million), land purchases ($7.4 million), with both travel and education posting net repayments of $4.2 million each. More muted net reductions were recorded for medical ($0.9 million) and commercial vehicles ($0.1 million). Conversely, net lending increased for credit cards ($4.2 million), furnishings and domestic appliances ($2.7 million), private cars ($1.8 million), and taxis & rented cars ($0.3 million).

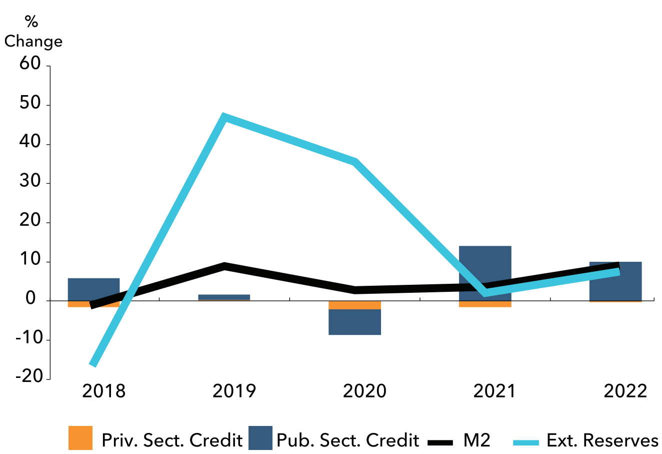
Interest Rates

During 2022, the weighted average interest rate spread on domestic banks' loans and deposits widened by 98 basis points to 10.48 percentage points. Specifically, the weighted average lending rate increased by 98 basis points to 11.00%, while the average deposit rate remained unchanged at 0.52%.

On the lending side, the average rate on commercial mortgages rose by 77 basis points to 6.79%, and the rate on overdrafts grew by 74 basis points to 10.95%. Similarly, the average lending rate for consumer loans firmed by 63 basis points to 12.97%, with residential mortgages higher by 7 basis points at 5.21%.

In terms of deposits, the average rate paid on demand deposits moderated by 22 basis points to 0.44%, while the average rate on savings deposits steadied at 0.40%. Further, the average range on fixed maturities narrowed to 0.28%-0.98% from 0.27%-1.21% in 2021.

Monetary Developments



In other interest rate developments, the average 90-day Treasury bill rate rose by 38 basis points to 2.88%. Meanwhile, the Central Bank's benchmark Discount rate and commercial banks' Prime rate remained unchanged at 4.00% and 4.25%, respectively.

Net Foreign Assets

Total net foreign assets of the banking system increased by $236.9 million (10.1%) to $2,574.7 million, extending the year earlier $196.0 million (9.1%) expansion. Specifically, the Central Bank's external reserves balance rose by $178.3 million (7.3%), exceeding the $50.6 million (2.1%) accumulation last year, bolstered by net foreign currency inflows from real sector activities, and the receipt of proceeds from Government's external borrowings. Further, domestic banks' net foreign liabilities decreased by $58.6 million to $36.3 million, albeit lower than the $145.4 million reduction in 2021.

An analysis of monthly trends showed that external reserves balances were lowest in January, increasing steadily through the first quarter of 2022. After a slight decline in April, external reserves augmented to a peak of $3,313.4 million in July. Amid seasonally elevated foreign currency demand in the latter half of the year, balances trended lower to $2,611.0 million at end-December. In 2022, the average monthly levels of $2,946.6 million were approximately one-fifth higher than in the previous year.

An analysis of underlying foreign currency transactions affecting external reserves showed that the Central Bank recorded a net purchase of $426.2 million, a shift from a net sale of $200.9 million in 2021. Contributing to this outcome, the Bank's transactions with commercial banks reversed to a net purchase of $152.5 million, from a net sale of $156.4 million in the prior year. Further, the net intake from the Government more than doubled to $673.4 million from $233.9 million in the previous year, reflecting inflows from external borrowing activities. In contrast, net outflows to public corporations—primarily for fuel purchases—increased by $121.3 million to $399.7 million.

At end-December, the stock of external reserves stood at an estimated 34.2 weeks of total merchandise imports, vis-à-vis 36.1 weeks in 2021, and above the international benchmark of 12.0 weeks. After adjusting for statutory requirement to maintain reserves equivalent to 50.0% of the Bank's demand liabilities, usable reserves reduced by $42.1 million (3.5%) to $1,174.1 million.

Banking Sector Performance

Credit Quality

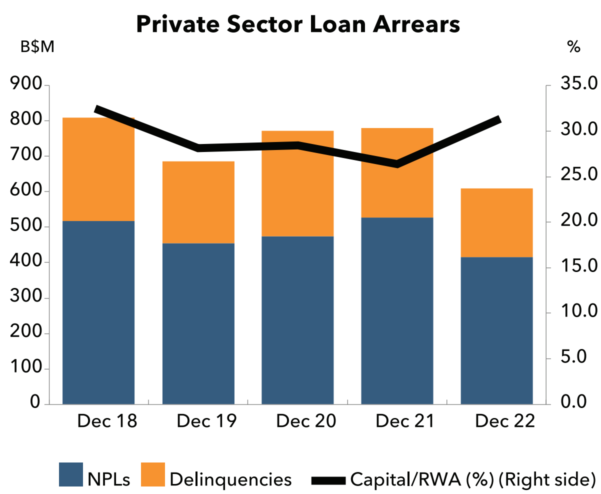
Domestic banks' credit quality indicators improved during the review year, amid the sustained recovery in the economy and ongoing loan write-offs. Total private sector loan arrears declined by $169.6 million (21.8%) to $610.2 million, a turnaround from a $6.7 million (0.9%) growth in the preceding year. Correspondingly, the ratio of arrears to total private sector loans fell by 2.9 percentage points to 11.4%, following a 42 basis point uptick in 2021.

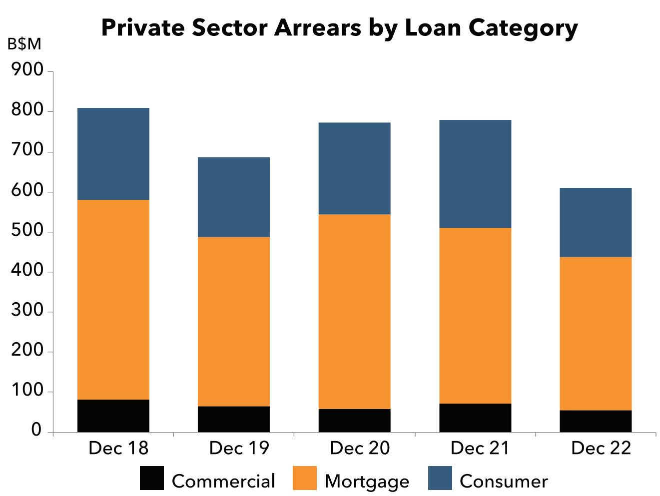
The decline in arrears was led by a $113.0 million (21.4%) reduction in the non-performing loan (NPL) segment to $415.0 million, contrasting with the $53.4 million (11.2%) growth in the previous year. Similarly,

Table 11: Commercial Banks' Financial Soundness Indicators*

	2020	2021	2022
Capital Adequacy			
Regulatory capital/RWAs**	28.4	26.4	31.2
Regulatory Tier 1 capital/RWAs**	27.0	24.7	32.1
Asset Quality			
NPLs/Private Sector Loans	8.5	9.6	7.7
NPLs to Capital	19.5	22.5	18.7
Earnings & Profitability			
Return on assets	(0.1)	2.3	3.5
Return on equity	(0.3)	10.9	17.9
Liquidity			
Liquid assets to total domestic assets	32.4	33.8	37.3

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





short-term (31-90 days) arrears reduced by $56.6 million (22.5%) to $195.2 million, exceeding the $46.6 million (15.6%) decrease in the prior year. As a result, the ratios of NPLs and short-term arrears to total private sector loans moved lower by 1.9 percentage points to 7.7% and by 1.0 percentage point to 3.6%, respectively.

By loan type, consumer delinquencies contracted by $96.4 million (35.7%) to $173.5 million, a switch from a $41.3 million (18.1%) expansion in 2021. The correspondent arrears ratio declined by 4.4 percentage points to 8.9%. Similarly, commercial arrears fell by $16.3 million (22.8%) to $55.2 million, vis-à-vis the $13.2 million (22.7%) increase in the preceding year, with the attendant loan ratio decreasing by 2.0 percentage points to 6.0%. In addition, mortgage arrears reduced by $56.9 million (13.0%) to $381.5 million, extending the previous year's reduction of $47.8 million (9.8%), and curtailing the associated loan ratio by 2.0 percentage points at 15.2%. Meanwhile, the NPL rates for consumer loans fell to 5.8% from 9.9% in 2021, mortgages, to 10.2%, relative to 11.0% in the prior year and commercial arrears, to 5.0% from 5.3% a year earlier.

Capital Adequacy and Provisions

In line with the improvement in credit quality indicators, banks reduced their total provisioning for loan loss, but maintained high capital adequacy ratios during 2022. Loan loss provisions contracted by $126.1 million (24.6%) to $386.5 million, extending the prior year's $62.5 million (10.9%) retrenchment. Correspondingly, the ratio of total provisions to total private sector loans fell by 1.9 percentage points to 6.5%. Similarly, the ratio of total provisions to total arrears decreased by 2.4 percentage points to 63.4% and to NPLs by 4.0 percentage points, to 93.2%. In addition, banks wrote-off an estimated $141.7 million in delinquencies and recovered approximately $52.1 million in 2022. Meanwhile, the risk-adjusted capital ratio increased by 4.8 percentage points to 31.2%, remaining well in excess of the minimum regulatory prescribed ratio of 17.0% (see Table 11).

Bank Profitability

Domestic banks' profitability further strengthened in 2022, on account of a decline in provisions for bad debt and decreased staff and occupancy costs. Net profits increased by $142.3 million (55.8%) to $397.0 million, compared to 2021. In particular, the net interest margin widened by $8.7 million (1.6%) to $541.7

million, a turnaround from a $5.8 million (1.1%) reduction a year earlier. In particular, interest income rose by $5.5 million (1.0%) to $578.6 million, while interest expense fell by $3.2 million (8.0%) to $36.9 million. Further, earnings from commission and foreign exchange transactions grew by $7.6 million (15.1%) to $58.2 million, resulting in a $16.3 million (2.8%) growth in the gross earnings margin to $599.9 million.

Operating costs expanded by $9.3 million (2.3%), a reversal from a $53.8 million (11.6%) contraction in the previous year. Of note, non-staff outlays—including professional services, Government fees and maintenance—increased by $17.4 million (7.5%). However, staff costs decreased by $6.0 million (3.7%), and occupancy costs by $2.1 million (13.5%). As a result, the net earnings margin improved by $7.0 million (4.1%) to $179.3 million. Further, the net gain from "non-core" operations extended to $217.7 million from $82.4 million in 2021. This was led by a significant reduction in provisioning for bad debts, combined with a marginal falloff in depreciation costs. In addition, other fee-based income rose by $25.7 million (13.1%).

Table 12: Balance of Payments Summary (B$ Millions)

	2020p	2021p	2022p
I. CURRENT ACCOUNT	(2,284.5)	(2,434.0)	(1,756.6)
i) Merchandise Trade (net)	(1,592.6)	(2,625.6)	(2,916.6)
Exports	431.4	638.6	793.5
Imports	2,024.0	3,264.2	3,710.0
of which: Oil	450.3	816.2	1,146.6
ii) Services (net)	(129.8)	1,008.3	1,949.5
Travel	857.0	2,173.1	3,330.6
Other	(986.8)	(1,164.8)	(1,381.0)
iii) Primary Income (net)	(439.5)	(734.2)	(853.7)
iv) Secondary Income (net)	(122.6)	(82.4)	64.1
II. CAPITAL AND FINANCIAL ACCOUNT			
i) Capital Account (Transfers)	650.0	53.9	0.0
ii) Financial Account	(2,316.3)	(1,493.8)	(1,363.2)
of which: Direct Investment	(374.8)	(298.4)	(316.4)
III. NET ERRORS AND OMISSIONS	(57.8)	936.8	571.7
IV. CHANGES IN EXTERNAL RESERVES	624.1	50.6	178.3

Source: Central Bank of The Bahamas

Movements in banks' profitability ratios were also dominated by the reduced bad debt costs. As a percentage of average assets, the gross earnings margin ratio narrowed by 1.1 percentage points to 5.18%, as the interest margin ratio and the commission & foreign exchange income ratio declined by 1.1 percentage points to 4.68% and by 5 basis points to 0.50%, respectively. Similarly, the net earnings margin ratio decreased by 27 basis points to 1.55%, reflecting a reduction of 83 basis points in the operating costs ratio to 3.63%. However, after accounting for the impact of reduced provisions on other net earnings, the net income (return on assets) ratio firmed by 32 basis points to 3.43%.

Capital Market Developments

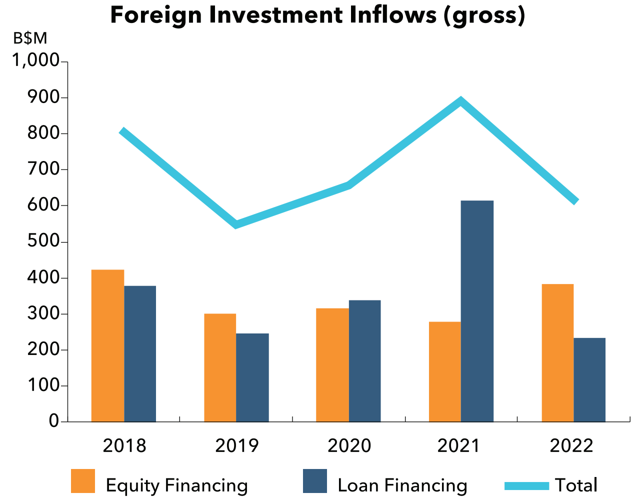
Domestic capital market developments were subdued during 2022. Specifically, the volume of shares traded on the Bahamas International Stock Exchange (BISX) contracted by 26.4% to 8.9 million, following a more than two-fold expansion in 2021. Correspondingly, the value of traded shares declined by 39.8% to $65.3 million, a reversal from the previous year $80.6 million rebound. Nevertheless, the BISX All Share Index—a market capitalization weighted index—appreciated further by 416.8 points (18.7%) to 2,645.06, outpacing the 6.5% growth registered last year. In addition, the market capitalization of listed securities rose by 8.4% to $10.1 billion, extending the prior year's 5.9% growth.

The total number of publicly traded securities on BISX remained unchanged at 268 in 2022, and comprised 20 ordinary shares, 8 preference shares, and 240 debt trances, including 9 bonds and 231 tranches of Bahamas Government registered stocks.

INTERNATIONAL TRADE AND PAYMENTS

Preliminary data on the external sector for 2022 indicated that the estimated current account reduced considerably to $1,756.6 million from $2,434.0 million in 2021 (see Table 12). Contributing to this development, the services account surplus increased more than two-fold, supported by buoyant tourism receipts, and a reversal in the secondary account transactions to a net inflow from a net outflow in the previous year. By comparison, net financial account inflows, excluding reserve assets, decreased to $1,363.2 million from $1,493.8 million in the previous year, owing largely to a reduction in 'other' investments inflows. Meanwhile, capital account transfers reported nil transactions during the review year, following net receipts in 2021 on account of residual hurricane-related re-insurance inflows.

Foreign Investment Inflows (gross)



The estimated merchandise trade deficit widened by $290.9 million (11.1%) to $2,916.6 million in 2022. Specifically, the $445.8 million (13.7%) rise in imports to $3,710.0 million, outstripped the $154.9 million (24.3%) growth in exports, to $793.5 million. A further disaggregation of trade flows showed that payments for fuel imports increased by $330.4 million (40.5%) to $1,146.6 million, explained by higher global oil prices. In terms of fuel types, the average per barrel cost more than doubled for aviation gas, to $234.08 from $117.98 and for kerosene jet-fuel, to $151.70 from $80.26. Further, the average price per barrel for gas oil rose by 72.0% to $116.30; for bunker-c, by 48.5% to $110.18; for motor gas, by 38.0%, to $139.47; and for propane, by 6.9% to $70.66.

The services account surplus expanded to $1,949.5 million from $1,008.3 million in 2021. Underlying this outturn, net travel receipts—the dominant segment of the services account—increased notably to $3,330.6 million from $2,173.1 million in the prior year, buoyed by the ongoing strengthening in tourism activities, amid the relaxation of COVID-19 related travel restrictions. In addition, net payments for insurance services fell by $8.0 million (2.9%) to $268.5 million. In a partial offset, net outflows for Government goods and services advanced to $194.7 million from $76.7 million in the prior year. Further, net payments for "other" business services grew by $52.4 million (14.1%) to $425.2 million and for transportation services, by $31.1 million (11.3%) to $307.0 million. In addition, net outflows for construction services moved higher by $13.3 million (12.9%) to $116.8 million, while net charges for the use of intellectual property increased by $7.4 million (98.7%) to $14.8 million and for net telecommunications, computer and information services purchases, by $2.0 million (3.9%) to $54.0 million.

The primary income account deficit (against wages and investment income) widened by $119.4 million (16.3%) to $853.7 million. Leading this outturn, net investment income outflows rose by $125.0 million (19.4%) to $767.7 million, explained by a rise in net remittances against portfolio investments, by $115.7 million (54.7%) to $327.3 million—reflective of interest payments on external bonds. Further, net outflows for direct investment increased by $77.8 million (31.1%) to $327.6 million. Providing some offset, "other" net investment outflows—inclusive of interest and dividends by banks, other companies and the Government—decreased by $57.1 million (28.1%) to $146.0 million. Further, net outflows for employees' compensation reduced by $5.5 million (6.0%) to $86.0 million.

During 2022, predominantly reflecting net transfers, the secondary income account position reversed to a surplus of $64.1 million from a deficit of $82.4 million in 2021, as general government inflows increased considerably to $132.7 million from $31.5 million in the previous year, reflective of the recovery in cruise passenger tax levies. Further, various private financial and non-financial corporations' net outflows reduced by $25.2 million (24.8%) to $76.4 million, inclusive of a decline in the workers' remittances portion. In addition, "other" net private current transfers switched to an inflow of $7.7 million, from an outflow of $12.3 million in the prior year.

There were no estimated capital transfers for the capital account in 2022—which encompassed financial corporations, non-financial corporations, households, and non-financial institutions serving households (NPISHs). However, in 2021, Hurricane Dorian residual re-insurance inflows of $53.9 million were recorded.

The net financial inflows–representing net investment inflows–reduced by $130.7 million (8.7%) to $1,363.2 million in 2022. Reflective of this development, "other" investments net inflows declined considerably to $881.7 million from $1,642.5 million in 2021, as private entities' net external loan exposures decreased to $234.1 million from $614.4 million in the preceding year. Likewise, general Government's net loan inflows moderated to $155.2 million from $289.3 million in 2021. Further, net currency and deposits inflows of banks and other private entities fell by $35.9 million (5.8%) to $588.0 million. In addition, due to valuation changes, IMF SDRs registered a net outflow of $18.7 million, a reversal from a net allocation receipt of $239.6 million in 2021. In contrast, "other" private sector related accounts receivable/payable net inflows increased to $50.0 million from $16.2 million in the previous year. Meanwhile, the net portfolio investment position shifted to a net inflow of $165.0 million from a net outflow of $447.1 million in the preceding year, as debt securities recorded a net inflow of $103.8 million, attributed to Government's external bonds issue, vis-à-vis a net outflow of $378.6 million in the prior year. In addition, net portfolio equity and investment fund shares reported a $61.3 million net inflow, a turnaround from a $68.5 million net outflow a year earlier. Further, net private direct investment inflows increased by $18.0 million (6.0%) to $316.4 million, as equity and investment fund shares inflows expanded to $412.7 million (inclusive of real estate investments) from $78.1 million in 2021. This outweighed debt instruments net repayments of $96.3 million, a reversal from a net inflow of $220.3 million in the previous year.

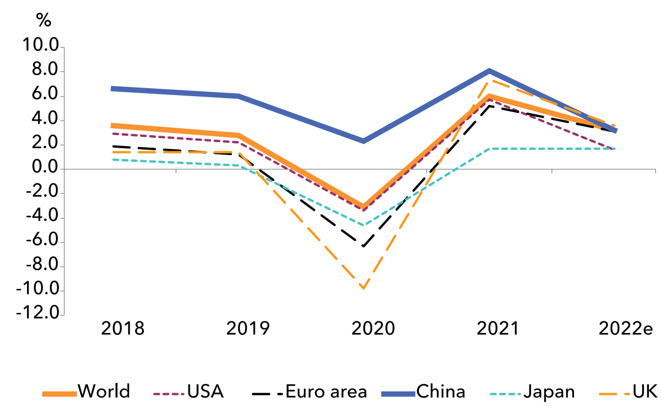
As a result of these developments, and after adjusting for net errors and omissions, the surplus in reserve assets, which corresponds to the change in the Central Bank's external reserves, rose notably to $178.3 million from $50.6 million in 2021.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Growth in the global economy slowed to an estimated 3.2% in 2022, down from 6.0% in 2021. The outturn was largely influenced by geopolitical tensions in Eastern Europe, elevated inflation and the ongoing spread of the COVID-19 virus. Nonetheless, employment conditions continued to improve during the year. However, inflationary pressures remained heightened, attributed to higher global oil prices. In this environment, the major central banks sustained their monetary policy tightening stances, in an attempt to stabilize their economies and foster economic growth.

Real GDP growth in the United States slowed to an annual rate of 2.1%, from 5.9% in 2021, as the decline in residential fixed investment and Government spending, combined with a rise in imports, overshadowed the gains in consumer spending, exports, private inventory investment and non-residential fixed investment. Likewise, in the United Kingdom, the expansion in real output narrowed to 4.0% from 7.6% in the previous year, led by a reduction in the production sector. Further, in the euro area, real economic growth moderated to 3.5%, lower than the 5.2% increase in the preceding year. Similarly, in Asia, following an 8.1% rise in 2021, China's economy grew at a slower pace of 3.0% over the review year, underpinned by widespread COVID-19 lockdowns and a historic falloff in the property market. In addition, output expansion in Japan moderated to 0.4%, vis-à-vis 1.5% in the prior year, on account of decreases in private consumption and capital spending.

Major Economies' Growth Rates



Labour market conditions in almost all of the major economies continued to improve during 2022. In the United States, the unemployment rate declined by 2.0 percentage points to an annual average of 3.6% in the review year, with notable job gains in leisure and hospitality, professional and business services, manufacturing, construction, and transportation and warehousing sectors. In addition, in the United Kingdom, the jobless rate decreased by 80 basis points to 3.7%. Further, the euro area's unemployment rate fell by 40 basis points to 6.6% in December. In Asia, Japan's jobless rate reduced by 20 basis points to 2.4%, relative to 2021. In contrast, China's unemployment rate rose to 5.5% from 3.8% in 2021.

Global inflationary pressures remained elevated in 2022, associated with higher international oil prices, as a result of the ongoing political unrest in Eastern Europe and supply chain disruptions. In particular, in the United Kingdom, the inflation rate rose to an annualized rate of 10.5%, from 5.4% in 2021, underpinned by increased costs for restaurants and hotels, and food and non-alcoholic beverages. Similarly, the euro area's annual inflation rate advanced to 9.2% from 5.0% the year prior, owing to higher food and energy prices. In Asia, Japan's average annual price gains extended to 4.0%, from 0.8% in the previous year. Further, China's inflation firmed to 2.0% from 0.9% in the preceding year. In contrast, annual inflation in the United States, tempered slightly to 6.5% in 2022 from 7.0% in 2021, explained by a falloff in the energy index and costs for used cars and trucks.

Amid rising inflationary pressures, most major central banks sustained their monetary policy tightening, in an effort to curtail inflation. Specifically, in the United States, the Federal Reserve increased the target range for the Federal funds rate to 4.25%-4.50% from 0.00%-0.25% in 2021, citing the adverse impact on inflation and overall economic activity of Russia's war against Ukraine and supply chain disruptions. In addition, over the year the Bank of England raised its main policy rate to 3.50% from 0.25% in the previous year. Similarly, the European Central Bank increased its key interest rates on the main refinancing operations to 2.50% by end-2022, from a starting base of 0.00%; the marginal lending facility, to 2.75% from 0.25% and the deposit facility, to 2.00% from 0.50% in the prior year. The Bank also maintained its stance on reinvesting in the principal payments from maturing securities under the Asset Purchase Programme (APP). However, in Asia, the Bank of Japan reaffirmed its policy rate at -0.1%, while the People's Bank of China held its reverse repo rate at 2.0%, in an attempt to maintain banking system liquidity levels.

Fiscal stimulus measures scaled back in 2022, unwinding from pandemic-related measures. Consequently, the IMF estimated that the average fiscal deficit to GDP ratio in advanced economies reduced to 4.3%, from 8.3% in 2021. In particular, the United States' estimated federal deficit to GDP ratio contracted to 4.0% from 10.9% in 2021. Likewise, the United Kingdom's deficit to GDP ratio declined to 4.3% from 8.0%, and the euro area average, to 3.8% from 5.1% in the preceding year. In contrast, as Asian economies continued to deal with widespread outbreaks of COVID-19, fiscal policy remained expansionary. Specifically, Japan's deficit to GDP ratio increased to 7.9% from 6.7% in 2021, while China's deficit to GDP ratio firmed to 8.9% from 6.1% in the prior year.

Buoyed by the Federal Reserve's rate hikes, the United States dollar appreciated against all of the major currencies. In particular, the dollar strengthened relative to the British Pound, by 25.1% to £0.92 and the euro, by 21.7% to €1.07. Similarly, the dollar rose vis-à-vis the Japanese Yen, by 13.9% to ¥131.12, the Chinese Yuan by 8.5% to CNY6.90 and the Canadian dollar, by 7.3% to CAD$1.36. The dollar also increased versus the Swiss Franc, by 1.3% to CHF0.92.

Attributed in part to the ongoing geopolitical tensions in Eastern Europe, the majority of the major stock market indices registered losses in 2022. Specifically, in the United States, the S&P 500 and the Dow Jones Industrial Average (DIJA) decreased by 19.4% and by 8.8%, respectively. Similarly, the European bourses recorded negative movements, with France's CAC 40 declining by 9.5%, Germany's DAX, by 12.4% and China's SE Composite, by 15.1%. In contrast, the United Kingdom's FTSE 100 rose by 0.9%.

Primary commodity prices firmed during the year, as the easing of COVID-19 lockdown measures resulted in an increase in global demand. Specifically, crude oil prices, which were significantly elevated over most of the year, appreciated by 41.9% to an average $100.80 per barrel over the year. On a point-on-point basis, the price moved higher by only 3.9% to $82.32 per barrel at the end of December 2022, as a softening in the global economic outlook subsequently suppressed markets. In the precious metal markets outcomes were mixed, as the average cost of gold edged up by 0.2% to $1,795.70 per troy ounce; however, the average price of silver declined by 13.5% to $21.60 per troy ounce.

Developments in major economies' external balances varied during the review year. In the United States, the trade deficit narrowed by $86.7 billion (10.1%) to $948.1 billion, as the 18.8% rise in exports surpassed the 16.6% growth in imports of goods and services. China's trade surplus also expanded by 29.7% to US$877.6 billion, as exports grew by 7.0%, outstripping the 1.1% uptick in imports. However, in the United Kingdom, the trade deficit widened by £22.4 billion (1.0%) to £43.9 billion, as imports grew by 13.2%, outweighing the 6.7% improvement in exports. In addition, in the euro area, the trade balance reversed to a deficit of €314.7 billion, vis-à-vis a surplus of €128.4 billion in 2021, owing to a 37.5% uptick in imports, which offset the 18.0% increase in exports. Further, Japan's trade deficit surged to ¥20.0 trillion, from ¥1.8 trillion in the previous year, reflecting a 39.2% rise in imports, which overshadowed the 18.2% expansion in exports.

DOMESTIC ECONOMIC OUTLOOK FOR 2023

The Bahamian economy is expected to sustain its recovery-driven growth momentum in 2023, undergirded by ongoing gains in tourism's value added contribution to GDP, with air and sea arrivals poised to return to pre-pandemic levels in the first half of the year. However, continued growth in the tourism sector remains contingent on maintaining the progress attained, on both the international and domestic health fronts, in containing the spread the COVID-19 virus. Further, new and ongoing foreign investment-led projects, both in the capital and the Family Islands, along with post-hurricane reconstruction projects, are anticipated to maintain stimulus to the construction sector. The labour markets are poised to benefit from continued re-engagement of the tourism sector workers and construction hiring. However, the jobless rate is forecasted to stay above pre-pandemic levels, given the backlog of job seekers carried over from the pandemic. Meanwhile, domestic inflationary pressures are projected to remain elevated, from cost pass-through in higher international oil prices and imported goods, given lingering supply chain shortages, and ongoing geopolitical tensions in Eastern Europe.

In the fiscal sector, although consolidating, expectations are that the Government's net financing gap will remain high, owing to expenditures for health and social welfare related to COVID-19, along with spending still associated with the restoration of key infrastructure following the 2019 major hurricane. Nevertheless, the recovery in revenue is anticipated to continue, in line with the tourism-led improvement in taxable economic activities. The estimated budgetary shortfall is expected to be financed from a combination of domestic and external borrowings, but with a sustainably increased proportion of the total funding from domestic sources.

The monetary sector is forecasted to feature sustained high levels of liquidity, as commercial banks retain a conservative lending posture. However, the downward trend in loan delinquencies is expected to persist, reflecting the sustained recovery of the economy and ongoing loan write-offs. Banks are also anticipated to maintain robust levels of capital, and adequate provisions for any potential credit losses.

The external reserves outlook remains healthy, with balances anticipated to stay above international benchmarks, and more than adequate to sustain the Bahamian dollar currency peg, although some net drawdowns are anticipated. Nonetheless, outcomes will remain contingent on supply and demand factors in the foreign exchange earning sectors, with the boost in tourism receipts, balanced against the continuing outflow needs for public sector debt service, fuel imports and rising private sector imports. Given the monetary policy tolerance for stronger private sector credit expansion, a modest reduction in the external balances is also possible.

The downside risks to the outlook centre around uncertainties surrounding the COVID-19 pandemic, as it relates to the emergence of new variants, the effectiveness of vaccines and vulnerabilities within the domestic health sector infrastructure. Potential threats of disruptions from major hurricanes also persist for The Bahamas. In addition, geopolitical tensions pose additional risks to global supply chains, particularly as it relates to the price of oil, and ensuing inflationary pressures. Likewise, the ongoing counter-inflation measures employed by the major central banks pose the risk of eventually constraining travellers' spending capacity and slowing tourism's momentum.

CENTRAL BANK OF THE BAHAMAS

Financial Statements For

The Year Ended December 31, 2022

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REPORT OF THE AUDITORS TO THE BOARD OF 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 2022, 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 2022 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, 2020 as amended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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.

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 2022. 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.

Amendment of the Central Bank Act

As discussed in Note 11, on 27 April 2023, the Central Bank of the Bahamas Act, 2020 (the "Act") was amended and was approved with specific reference to Section 17A and 21 to come into force on 1 December 2022, prior to year end. The amendment allowed the Government of the Bahamas (the "Government") to access, utilize, and convert Special Drawing Rights (the "SDRs") of the International Monetary Fund (the "IMF"). The amendment further specified that the use of SDRs would not be included in the aggregate of temporary loan limits to the Government as noted in Section 21 of the Act, as amended.

Our audit procedures involved inquiry of management, reviewing the amended Act and obtaining the opinion of a legal expert on its retroactive application.

Key Audit Matter (cont)

Termination of the New Premises Project
As disclosed in Note 4, in March 2023, the Board of Directors approved the termination of the New Premises Project and the transfer of the property ownership back to the Government of the Bahamas. As a result, the Bank has recognised an impairment loss associated with this project totalling $8,919,607 as at year-end. Additionally, the Bank has estimated that additional termination fees will be recognised subsequent to year end.

Our audit procedures included obtaining and reviewing the minutes of the Board of Directors' meetings, press releases, and direct inquiries with management. We then determined whether the transaction was an adjusting or non-adjusting subsequent event in relation to the impairment loss and termination fees.

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 2022 (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, 2020, 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 ISA 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
8 May 2023

APPENDIX TO THE AUDITORS' REPORT

Detailed Description of Our Responsibilities

As part of an audit in accordance with ISA, 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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, 2022
(Expressed in Bahamian dollars)

	Note	2022	2021
		$	**$**
ASSETS			
EXTERNAL ASSETS	6		
Cash and deposits with banks	3	622,839,055	323,822,280
Foreign Government securities	7	1,647,363,012	1,500,587,304
Marketable securities	8	147,819,012	162,485,626
International Monetary Fund:	9		
Bahamas reserve tranche		25,665,695	26,991,559
Special drawing rights (SDR) – holdings		167,336,090	418,877,284
		2,611,022,864	2,432,764,053
DOMESTIC ASSETS			
Cash on hand	3	133,608	28,518
Bahamas Government Treasury bills	16	11,686,254	13,951,251
Advances to Bahamas Government	11	336,511,444	266,079,180
Bahamas Government Registered Stocks	12	301,731,848	340,899,934
Loans to Bahamas Development Bank	13	1,645,955	1,901,290
Bahamas Development Bank bonds	10	4,134,834	4,092,683
Bridge Authority bonds	14	471,293	450,467
Clifton Heritage Authority bonds	15	664,493	651,115
SDR loan to Government	17	232,972,614	-
Currency inventory		12,229,650	12,331,427
Retirement benefit asset - employees	34	819,956	181,088
Receivables and other assets	18	7,962,350	13,704,278
Property, plant and equipment	4	24,404,127	23,858,114
Intangible asset	5	5,588,514	5,954,314
Right of use assets	25	3,159,274	1,593,680
		944,116,214	685,677,339
TOTAL ASSETS		**3,555,139,078**	**3,118,441,392**

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, 2022
(Expressed in Bahamian dollars)

	Note	2022 $	2021 $
LIABILITIES			
DEMAND LIABILITIES			
Notes in circulation	19	575,989,527	533,568,761
Coins in circulation	19	31,452,443	30,142,343
Sand Dollar in circulation		1,052,459	303,785
Deposits by commercial banks	20	2,084,661,301	1,643,120,990
Deposits by Bahamas Government and Bahamas Government agencies		187,134,908	232,439,999
Deposits by international agencies	21	255,183	255,298
Accounts payable and other liabilities		14,113,648	6,722,442
Lease liabilities	25	3,143,977	1,662,509
Investment currency market payable		8,146,781	4,232,114
Health insurance subsidy benefit for retirees	35	9,036,833	8,661,991
Governors and Deputy Governors	36	729,528	607,722
		2,915,716,588	2,461,717,954
OTHER LIABILITIES			
International Monetary Fund:			
Special drawing rights allocation	9	400,110,725	418,852,722
TOTAL LIABILITIES		**3,315,827,313**	**2,880,570,676**
EQUITY AND RESERVES			
Authorized and fully paid capital	22	3,000,000	3,000,000
Exchange equalization account	22	9,794,108	11,281,511
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	22	43,680,403	43,680,403
Fair value reserve	22	(2,216,268)	(3,079,984)
General reserve	22	173,914,107	171,849,371
TOTAL EQUITY AND RESERVES		**239,311,765**	**237,870,716**
TOTAL LIABILITIES, EQUITY AND RESERVES		**3,555,139,078**	**3,118,441,392**

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

Director **Director**

5 May 2023

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, 2022
(Expressed in Bahamian dollars)

	Note	2022 $	2021 $
INCOME			
Interest income:	23		
Foreign investments		40,671,997	20,435,870
Domestic investments		14,437,115	11,921,232
Loans		7,002,973	3,940,949
		62,112,085	36,298,051
Interest expense		(4,841,927)	(149,949)
Net interest income		**57,270,158**	**36,148,102**
Net foreign exchange loss		(1,487,403)	(781,127)
Net trading (loss)/gain on Bahamas Government Registered Stocks		(167,298)	188,512
Realized (loss)/ gain on marketable securities			
Externally managed marketable securities	8	(1,920,558)	1,079,329
Foreign Government securities	7	-	1,185,750
Unrealized loss on marketable securities	8	(16,019,341)	(7,699,546)
Bank license fees income		4,900,000	4,211,457
Other income		4,729,994	2,305,133
Total income		**47,305,552**	**36,637,610**
EXPENSES			
Staff costs	24	22,713,267	21,496,982
General and administrative	24	11,655,410	10,361,327
Loss on lmpairment	4	8,919,607	-
Depreciation	4	2,236,607	2,273,450
Amortisation of intangible asset	5	1,499,951	1,256,845
Amortisation of right of use assets	25	519,405	336,080
Total expenses		**47,544,247**	**35,724,684**
NET (LOSS)/INCOME		**(238,695)**	**912,926**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will or may be reclassified to net income			
Valuation gain/(loss) on Bahamas Government Registered Stock		863,716	(839,264)
Items that will not be reclassified to net income			
Actuarial gain on defined benefit pension plan for employees		618,367	776,544
Actuarial gain/(loss) on group insurance subsidy		88,637	(699,929)
Actuarial gain on defined pension plan benefit for Governors and Deputy Governors		109,024	517,160
Total other comprehensive income/(loss)		**1,679,744**	**(245,489)**
TOTAL COMPREHENSIVE INCOME		**1,441,049**	**667,437**

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, 2022
(Expressed in Bahamian dollars)

	Authorized & Fully Paid Capital $	Exchange Equalization Account $	Contingency Reserve $	Other Reserves $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2021	**3,000,000**	**12,062,638**	**750,000**	**10,389,415**	**40,680,403**	**(2,240,720)**	**172,561,543**	**237,203,279**
Comprehensive income								
Net income	-	-	-	-	-	-	912,926	**912,926**
Other comprehensive income								
Allocation to building fund (Note 22)	-	-	-	-	3,000,000	-	(3,000,000)	-
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	(781,127)	-	-	-	-	781,127	-
Valuation loss on Bahamas Government Registered Stocks	-	-	-	-	-	(839,264)	-	**(839,264)**
Actuarial gain on defined benefit pension plan for employees (Note 34)	-	-	-	-	-	-	776,544	**776,544**
Actuarial loss on health insurance subsidy benefit for retirees (Note 35)	-	-	-	-	-	-	(699,929)	**(699,929)**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 36)	-	-	-	-	-	-	517,160	**517,160**
Total comprehensive income	-	(781,127)	-	-	3,000,000	(839,264)	(712,172)	**667,437**
Balance at December 31, 2021	**3,000,000**	**11,281,511**	**750,000**	**10,389,415**	**43,680,403**	**(3,079,984)**	**171,849,371**	**237,870,716**

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, 2022
(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, 2022	**3,000,000**	**11,281,511**	**750,000**	**10,389,415**	**43,680,403**	**(3,079,984)**	**171,849,371**	**237,870,716**
Comprehensive income								
Net loss	-	-	-	-	-	-	(238,695)	**(238,695)**
Other comprehensive income								
Allocation to building fund (Note 22)								-
Appropriation of foreign exchange loss (Note 2 (b) ii)	-	(1,487,403)	-	-	-	-	1,487,403	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	863,716	-	**863,716**
Actuarial gain on defined benefit pension plan for employees (Note 34)	-	-	-	-	-	-	618,367	**618,367**
Actuarial gain on health insurance subsidy benefit for retirees (Note 35)	-	-	-	-	-	-	88,637	**88,637**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 36)	-	-	-	-	-	-	109,024	**109,024**
Total comprehensive income	-	(1,487,403)	-	-	-	863,716	2,064,736	**1,441,049**
Balance at December 31, 2022	**3,000,000**	**9,794,108**	**750,000**	**10,389,415**	**43,680,403**	**(2,216,268)**	**173,914,107**	**239,311,765**

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, 2022
(Expressed in Bahamian dollars)

	Note	2022 $	2021 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)/income		**(238,695)**	**912,926**
Adjustments for non-cash items:			
Discount earned on foreign government securities - net	7	1,716,347	4,824,692
Depreciation	4	2,236,607	2,273,450
Gain on disposal of property, plant and equipment - net		(13,200)	(18,121)
Impairment loss	4	8,919,607	-
Amortization of intangible asset	5	1,499,951	1,256,845
Amortization of right of use asset	25	519,405	336,080
Interest income		(63,828,432)	(41,122,744)
Gain/(loss) on sale of marketable securities			
Externally managed marketable securities	8	1,920,558	(1,079,329)
Foreign Government securities	7	-	(1,185,750)
Unrealized loss on sarketable securities		16,019,341	7,699,546
Interest on lease liability		93,505	62,068
Interest expense		4,841,927	149,949
Decrease/(increase) in operating assets			
Currency inventory		101,777	(644,048)
International Monetary Fund – net SDRs		25,462,680	8,547,112
Deposits with banks – with original contractual maturities greater than three months		(45,000,000)	5,000,000
Retirement benefit asset/liability - employees		(20,501)	17,263
Receivables and other assets		(680,644)	71,162
Increase/(decrease) in operating liabilities			
Notes in circulation		42,420,766	17,354,396
Coins in circulation		1,310,100	(188,445)
Sand Dollar in circulation		748,674	111,160
Deposits by commercial banks		441,540,311	72,012,591
Deposits by Bahamas Government and Bahamas Government agencies		(45,305,091)	98,233,440
Deposits by international agencies		(115)	87
Investment currency market payable		3,914,667	415,755
Health insurance subsidy benefit for retirees		463,479	389,256
Retirement benefit liability – Governors and Deputy Governors		230,830	244,843
Accounts payable and other liabilities		7,391,206	(3,165,695)
International Monetary Fund		(20,572,466)	(5,060,208)
Net cash from operating activities		**385,692,594**	**167,448,281**

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, 2022
(Expressed in Bahamian dollars)
(Continued)

	Note	2022 $	2021 $
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of foreign government securities	7	(848,503,917)	(882,980,313)
Proceeds from maturities/redemptions of foreign government securities	7	701,299,000	1,080,276,622
Purchase of marketable securities	8	(52,460,453)	(66,507,330)
Proceeds from sales of marketable securities	8	49,064,758	62,988,649
Purchase of property, plant and equipment	4	(5,279,655)	(7,378,244)
Proceeds from sale of property, plant and equipment		13,200	18,121
Additions to intangible asset	5	(1,134,151)	(1,326,032)
Purchase of Bridge Authority bonds	14	(20,500)	(399,300)
Purchase of Clifton Heritage Authority Bonds	15	(13,300)	-
Purchase of Bahamas Government Registered Stock	12	(35,846,767)	(197,123,321)
Proceeds from sales and maturities of Bahamas Government Registered Stocks	12	75,773,578	89,873,316
SDR loan to the Government	17	(232,972,614)	-
Repayments of loans by Bahamas Development Bank	13	250,000	125,000
Purchase of Bahamas Government Treasury bills	16	(80,039,054)	(412,502,991)
Proceeds from the sales/maturities of Bahamas Government Treasury bills	16	82,247,088	412,384,833
Advances to Bahamas Government	11	(1,032,000,000)	(685,000,000)
Repayments from Bahamas Government	11	962,000,000	424,900,000
Interest received		59,534,132	40,177,449
Net cash used in investing activities		**(358,088,655)**	**(142,473, 541)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchases of SDRs	9	(3,516,876)	(2,711,640)
Sale of SDRs	9	232,260,313	-
Repayment of lease liabilities	25	(697,036)	(379,181)
Interest paid		(3,011,458)	(135,828)
Net cash from/(used) in financing activities		**225,034,943**	**(3,226,649)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**252,638,882**	**21,748,091**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		268,811,863	247,063,772
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**521,450,745**	**268,811,863**

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2022

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 IFRSs

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

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 IFRSs 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 5.25, 33, 34, 35 and 36.

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, 2022 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:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 , IAS 39, IFRS 7, IFRS 4, and IFRS 16)
- Onerous Contracts (IAS 37)

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, 2022:

- IAS 1 Disclosure of Accounting Policies
- Amendments to IAS 8 –Accounting Estimates
- Amendments to IAS 1 Classification of Liabilities –Current or Noncurrent
- Amendments to IFRS 16: Lease Incentives

(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 in accordance with Section 31 (2) (a & b) of the Act.

(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 sell 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
- SDR loan to the Government

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 currency 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 were made by employees at 5% of their 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 the 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. As at 1 January 2022, the VAT rate was reduced to 10%.

The Central Bank's operations include 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.

3. Cash and Deposits with Banks

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

	2022 $	2021 $
External Assets		
Cash in vault	3,162,105	2,257,386
Cash and deposit with banks	619,676,950	321,564,894
	622,839,055	323,822,280
Domestic Assets		
Cash on hand	133,608	28,518
	622,972,663	323,850,798
Less: Deposits with banks with original contractual maturities greater than three months	(101,521,918)	(55,038,935)
	521,450,745	**268,811,863**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2022
(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, 2022	4,664,097	18,996,979	9,786,678	13,145,082	1,501,813	676,713	8,277,260	57,048,622
Additions	-	1,844,451	798,653	92,194	52,591	102,180	2,389,586	5,279,655
Reclassification	-	-	-	-	-	-	6,422,572	6,422,572
Disposals/Retirement	-	-	(245,719)	(20,264)	(4,920)	(98,440)	(8,919,607)	(9,288,950)
As at December 31, 2022	**4,664,097**	**20,841,430**	**10,339,612**	**13,217,012**	**1,549,484**	**680,453**	**8,169,811**	**59,461,899**
ACCUMULATED DEPRECIATION								
As at January 1, 2022	-	11,269,314	7,971,721	12,628,948	1,050,994	269,531	-	33,190,508
Charge for the year	-	912,766	836,026	231,341	182,773	73,701	-	2,236,607
Disposals/Retirement	-	-	(245,719)	(20,264)	(4,920)	(98,440)	-	(369,343)
As at December 31, 2022	**-**	**12,182,080**	**8,562,028**	**12,840,025**	**1,228,847**	**244,792**	**-**	**35,057,772**
NET BOOK VALUE								
As at December 31, 2022	**4,664,097**	**8,659,350**	**1,777,584**	**376,987**	**320,637**	**435,661**	**8,169,811**	**24,404,127**
COST								
As at January 1, 2021	4,664,097	17,968,899	9,349,163	12,507,107	1,422,130	548,182	3,491,503	49,951,081
Additions	-	1,028,080	625,058	637,975	80,503	220,871	4,785,757	7,378,244
Disposals/Retirement	-	-	(187,543)	-	(820)	(92,340)	-	(280,703)
As at December 31, 2021	**4,664,097**	**18,996,979**	**9,786,678**	**13,145,082**	**1,501,813**	**676,713**	**8,277,260**	**57,048,622**
ACCUMULATED DEPRECIATION								
As at January 1, 2021	-	10,395,763	7,117,346	12,485,653	880,692	318,307	-	31,197,761
Charge for the year	-	873,551	1,041,918	143,295	171,122	43,564	-	2,273,450
Disposals/Retirement	-	-	(187,543)	-	(820)	(92,340)	-	(280,703)
As at December 31, 2021	**-**	**11,269,314**	**7,971,721**	**12,628,948**	**1,050,994**	**269,531**	**-**	**33,190,508**
NET BOOK VALUE								
As at December 31, 2021	**4,664,097**	**7,727,665**	**1,814,957**	**516,134**	**450,819**	**407,182**	**8,277,260**	**23,858,114**

4. Property, Plant and Equipment (Continued)

New Premises Project

The Bank's ongoing construction of 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 continued throughout the year. By resolution in Parliament, the Government of the Bahamas (the 'Government") 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 designs were completed.

In March 2023, the Board of Directors approved the termination of the New Premises Project and the transfer of the property ownership back to the Government. As a result, the Bank has recognised an impairment loss associated with this project totalling $8,919,607 as at year-end. Additionally, the Bank has estimated that additional termination fees will be recognised subsequent to year end.

The Bank will explore alternative arrangements to meet its long-term accommodation needs.

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. In 2020, 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 anticipated that the initial phase of construction will commence near the end of 2021, however this was rescheduled for late 2022. As at December 31, 2022, the Bank has outstanding contractual commitments on the Cash and Data Centre Project in the amount of $11,720 (2021: $396,549).

The Bank anticipates ground-breaking prior to 30 June 2023 with completion within 24 months.

Information Technology (IT) Modernisation Project

The Bank initiated an IT Modernisation Project geared towards achieving corporate goals, reducing overall long-term costs, improving performance and operational efficiencies which includes network upgrades and changing to a new Enterprise Resource Planning system (ERP). The overall IT modernisation cost was previously included in the total prepayment, deposits and advances and was reclassified in 2022. The overall budget is $5 million with progress billings of $3,500,000 (2021: $2,662,066) as at December 31, 2022.

4. Property, Plant and Equipment (Continued)

Information Technology (IT) Modernisation Project (continued)

A third-party vendor was engaged to implement the on-site installation of PeopleSoft's Financial Supply Chain Management (FSCM) and Human Capital Management (HCM) solutions software. PeopleSoft will replace the existing JD Edwards platform which is currently utilised by the Bank.

As at December 31, 2022, the Bank has outstanding contractual commitments to service providers and consultants for the IT Modernisation project in the amount of $770,587 (2021: $1,905,421) with an anticipated completion time of August 2023 (Phase 1) and March 2024 (Phase 2).

5. Intangible Asset

	Sand Dollar Project $	Development Costs $	Total $
COST			
As at January 1, 2022	7,499,752	-	7,499,752
Additions	-	1,134,151	1,134,151
As at December 31, 2022	**7,499,752**	**1,134,151**	**8,633,903**
ACCUMULATED AMORTISATION			
As at January 1, 2022	1,545,438	-	1,545,438
Amortisation	1,499,951	-	1,499,951
As at December 31, 2022	**3,045,389**	**-**	**3,045,389**
NET BOOK VALUE			
As at December 31, 2022	**4,454,363**	**1,134,151**	**5,588,514**

	Sand Dollar Project $	Development Costs $	Total $
COST			
As at January 1, 2021	6,173,720	-	6,173,720
Additions	1,326,032	-	1,326,032
As at December 31, 2021	**7,499,752**	**-**	**7,499,752**
ACCUMULATED AMORTISATION			
As at January 1, 2021	288,593	-	288,593
Amortisation	1,256,845	-	1,256,845
As at December 31, 2021	**1,545,438**	**-**	**1,545,438**
NET BOOK VALUE			
As at December 31, 2021	**5,954,314**	**-**	**5,954,314**

5. Intangible Asset (continued)

Sand Dollar Project

In 2019, the Bank entered into a contract with a 3rd party for the development of a Bahamas Digital Currency known as the Sand Dollar. As at December 31, 2022, the Bank has outstanding contractual commitments with the Sand Dollar developer in the amount of $1,848,651 (2021: $312,801).

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.

The additional development in 2022 will be amortised once integrated and available for use, which is expected to be in 2023.

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 89.55% (2021: 98.83%) of such liabilities.

7. Foreign Government Securities

Foreign Government Securities represent internally managed marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years. At December 31, 2022, marketable securities held by the Bank, which mature after 5 years, constituted 9.98% (2021: 10.72%) of the Bank's external assets. The movement in Foreign Government Securities classified as financial assets held at amortised cost are as follows:

	2022	**2021**
	$	**$**
Beginning balance	1,495,312,592	1,696,247,843
Purchases at nominal value	860,479,000	881,160,000
Discount on purchases	(11,975,083)	1,820,313
Redemptions/maturities	(701,299,000)	(1,080,276,622)
Gain on redemption	-	1,185,750
Discount earned	1,937,228	683,055
Amortised premium	(3,653,575)	(5,507,747)
	1,640,801,162	1,495,312,592
Add: Accrued interest	6,561,850	5,274,712
Ending balance	**1,647,363,012**	**1,500,587,304**

5. Intangible Asset (continued)

Sand Dollar Project

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7. Foreign Government Securities (continued)

These securities bear interest at rates varying between 0.05% and 6.00% (2021: 0.05% and 6.00%).

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:

	2022 **$**	**2021** **$**
Beginning balance	161,555,268	164,656,804
Purchases	52,460,453	66,507,330
Sales	(49,064,758)	(62,988,649)
Realised (loss)/gain	(1,920,558)	1,079,329
Unrealised loss	(16,019,341)	(7,699,546)
	147,011,064	161,555,268
Add: Accrued interest	807,948	930,358
Ending balance	**147,819,012**	**162,485,626**

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, 2022, The Bahamas was assigned a quota of SDR 182,400,000 (2021: SDR 182,400,000) which represents 0.04% (2021: 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 (2021: SDR 43,275,901 and SDR 114,698,515) 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:

	2022		2021	
	SDR	$	SDR	$
Quota	182,400,000	242,745,903	182,400,000	255,285,915
Subscription payments in promissory notes	(157,974,416)	(210,239,267)	(157,974,416)	(221,100,018)
Subscription payments in local currency	(5,140,304)	(6,840,941)	(5,140,304)	(7,194,338)
Reserve tranche	**19,285,280**	**25,665,695**	**19,285,280**	**26,991,559**

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

	2022		2021	
	SDR	$	SDR	$
Beginning balance	19,285,280	26,991,559	19,285,280	27,775,940
Currency movement	-	(1,325,864)	-	(784,381)
Total	**19,285,280**	**25,665,695**	**19,285,280**	**26,991,559**

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.

9. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation (continued)

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

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

SDR Holdings

	2022		2021	
	SDR	**$**	**SDR**	**$**
Beginning balance	299,251,605	418,830,702	124,422,623	179,201,722
Purchases	2,642,591	3,516,876	1,937,448	2,711,640
Sales	(174,822,197)	(232,260,313)	-	-
Remuneration and other charges	(2,539,440)	(3,379,598)	172,891,534	241,977,926
Currency movement	-	(20,974,287)	-	(5,060,586)
Total	124,532,559	165,733,380	299,251,605	418,830,702
Add: Accrued interest		1,602,710		46,582
Ending balance		**167,336,090**		**418,877,284**

SDR Allocation

	2022		2021	
	SDR	**$**	**SDR**	**$**
Beginning balance	299,235,548	418,808,230	124,413,351	179,188,368
Additional SDR	-	-	174,822,197	244,680,070
Currency movement	-	(20,572,466)	-	(5,060,208)
Total	299,235,548	398,235,764	299,235,548	418,808,230
Add: Accrued interest		1,874,961		44,492
Ending balance		**400,110,725**		**418,852,722**

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. On 23 August 2021, the IMF allocated 456 Billion in SDR to its entire membership of countries, increasing the Bank's allocation to 299,235,548. In December 2022, the Bank loaned the Government of the Commonwealth of The Bahamas $232,260,313 from the conversion of SDR 174,822,197 as disclosed in Note 17. The interest rate, which is the same on both SDR Holdings and allocation, varied between 0.05% and 0.29% (2021: 0.05% and 0.08%).

10. Bahamas Development Bank Bonds

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

	2022 $	2021 $
Balance	4,000,000	4,000,000
Add: Accrued interest	134,834	92,683
Total	**4,134,834**	**4,092,683**

These bonds bear interest at the Bahamian dollar prime rate of 4.25% (2021: 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, Amended, 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) of the Act, Amended, 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 30.12% (2021: 28.89%) of the lesser of such revenues, which exceeds the Bank’s temporary loan limits to the Government by 0.12% or $2,300,000. This was significantly impacted by the facilitation of secondary market redemptions during the year. Per the Act, there are no resulting concerns for exceeding the limit.

Prior to the amendment to the Central Bank Act Section 17A, the SDR loan would have been included in the calculation of the temporary loan limits. The amendment to the Central Bank Act Section 17A excludes the SDR loan from the temporary loan limit calculations and as a result removes the SDR loan balance from this assessment.

The movements in advances for the year are as follows:

	2022 $	2021 $
Beginning balance	265,000,000	4,900,000
Additional advances	1,032,000,000	685,000,000
Repayments	(962,000,000)	(424,900,000)
	335,000,000	265,000,000
Add: Accrued interest	1,511,444	1,079,180
Ending balance	**336,511,444**	**266,079,180**

11. Advances to Bahamas Government (Continued)

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

Rate	2022 $	2021 $
2.760%	-	75,000,000
2.793%	-	115,000,000
2.819%	-	75,000,000
2.846%	75,000,000	-
2.868%	160,000,000	-
2.873%	100,000,000	-
	335,000,000	**265,000,000**

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:

	2022 $	2021 $
Beginning balance	336,498,061	230,087,320
Purchases	35,846,767	197,123,321
Market value adjustment	863,716	(839,264)
Redemptions/maturities	(75,773,578)	(89,873,316)
	297,434,966	336,498,061
Add: Accrued interest	4,296,882	4,401,873
Ending balance	**301,731,848**	**340,899,934**

Bahamas Government Registered Stocks bear interest at rates ranging between 0.023% and 6.25% (2021: 0.023% and 6.25%).

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:

	2022 $	2021 $
Beginning balance	1,875,000	2,000,000
Repayments	(250,000)	(125,000)
	1,625,000	1,875,000
Add: Accrued interest	20,955	26,290
Ending balance	**1,645,955**	**1,901,290**

The loans bear interest at 2.00% (2021: 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:

	2022 $	2021 $
Beginning balance	442,600	43,300
Purchases	20,500	399,300
	463,100	442,600
Add: Accrued interest	8,193	7,867
Ending balance	**471,293**	**450,467**

These bonds bear interest at rates ranging from 1.50% to 1.63% (2021: 1.50% to 1.63%) per annum over the Bahamian dollar prime rate with $404,600 and $58,500 (2021: 403,600 and $39,000) maturing on March 24, 2024 and 2029, respectively.

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:

	2022 $	2021 $
Beginning balance	647,600	647,600
Purchases	13,300	-
	660,900	647,600
Add: Accrued interest	3,593	3,515
Total	**664,493**	**651,115**

16. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 2.79% and 99.30% (2021: 2.79% and 99.33%) maturing 91 to 182 days from acquisition.

	2022 $	2021 $
Beginning balance	13,887,995	13,769,837
Purchases	80,039,054	412,502,991
Redemptions/maturities	(82,247,088)	(412,384,833)
	11,679,961	13,887,995
Add: Discount earned	6,293	63,256
Ending balance	**11,686,254**	**13,951,251**

17. SDR Loan to the Government

During November 2022, the Government and Central Bank agreed a Memorandum of Understanding (the “MOU”) that allowed the Government to access SDRs totalling 174.8 million.

The SDRs are convertible into US$ and at year end, the loan totalled $232,661,032. The loan bears variable interest rates, which fluctuate on a monthly basis, ranging from 0.05% to 2.92%, and is anticipated to be repaid in full or part by 31 December 2023. The interest shall be repaid at such frequency and on such dates as may be set by the IMF which is normally on a quarterly basis.

The MOU further stipulates all obligations related to the SDRs including all costs, charges and payment of interest will be the responsibility of the Government without a financial burden to the Bank.

17. SDR Loan to the Government (Continued)

Set out below are the movements during the year:

	2022 $	2021 $
Beginning balance	-	-
Loan disbursed	232,260,314	-
Currency movement	400,718	-
	232,661,032	-
Interest accrual	311,582	-
Ending balance	**232,972,614**	**-**

18. Receivables and Other Assets

The receivables and other assets are comprised of:

	2022 $	2021 $
Prepayments, deposits and advances	2,336,098	7,690,673
Employee loans	4,764,357	5,190,214
Numismatic coins	715,591	723,813
Due from Retirement Plan – Governors and Deputy Governors	229,369	209,456
Others	127,447	161,035
	8,172,862	13,975,191
Less: Provision for bad debt on employee loans	(210,512)	(270,913)
Ending balance	**7,962,350**	**13,704,278**

19. Currency 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	**2022**	**2021**
	$	**$**
0.50	929,635	927,615
1.00	27,137,759	26,376,610
3.00	2,176,200	2,179,058
5.00	13,468,985	13,104,330
10.00	21,992,390	20,856,510
20.00	59,202,940	56,619,120
50.00	124,090,000	120,396,500
100.00	326,909,600	293,027,000
Other bank notes	82,018	82,018
	575,989,527	**533,568,761**

Coins	**2022**	**2021**
	$	**$**
Coins in Circulation	24,827,843	23,499,743
Demonetised currency liability	6,624,600	6,624,600
	31,452,443	**30,142,343**

In 2018, the Bank commissioned third party consultants to conduct a study to determine the need for the future issuance of the 1-cent coin considering its low circulation to demand ratio, high production costs and lackluster public sentiments. In 2019, the Bank affirmed its decision to demonetise the 1-cent coin in order to address the negative seignorage and loss of purchasing power. This decision was supported with a marketing campaign to inform and educate the public on the eventual elimination of the coin and to coordinate public redemption opportunities.

The Bank facilitated an 18-month redemption by weight programme commencing October 2020 and ending in July 2021. The goal was to improve efficiency of existing denominational line-up given the lack of circulation of the 1-cent denomination and production cost of which amounted to approximately $443,000 annually.

19. Currency in Circulation (Continued)

Demonetised currency liability

The redemption exercise resulted in 664,260,000 ($6,642,600) 1-cent coins remaining outstanding as at December 31, 2022 and 2021 per the below table.

Estimated 1-Cent Coins in Circulation - 2019	Estimated 1-Cent Coins Redeemed - 2021	Total 1-Cent Coin Liability	Total 1-Cent Coin Liability - expressed in dollars ($)
720,000,000	55,740,000	664,260,000	6,642,600

The Bank will recognize the remaining $6,642,600 as extraordinary income once the Act is revised and the obligation is written off.

20. 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 5.00% of total Bahamian dollar deposit liabilities, of which at least 4.00% 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.

21. 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.

22. 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, 2022 and 2021, 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.

	2022 $	2021 $
Net (loss)/income	(238,695)	912,926
Appropriation of foreign exchange loss	1,487,403	781,127
Unrealised loss on marketable securities	16,019,341	7,699,546
Distributable earnings per the Act	17,268,049	9,393,599

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.

22. Equity and Reserves (Continued)

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 $Nil (2021: $3,000,000) 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 $173,914,107 (2021: $171,849,371) equivalent to 6.00% (2021: 7.00%) of demand liabilities.

23. Income

	2022 $	2021 $
Interest on foreign investments		
Demand deposits	4,463,917	357,663
Fixed deposits	5,115,478	302,344
Foreign Government and marketable securities	26,254,795	19,626,531
Interest Income on SDR	4,837,807	149,332
	40,671,997	20,435,870
Interest on domestic investments		
Bahamas Development Bank bonds	170,000	170,000
Bahamas Government Registered Stocks	14,058,333	11,137,062
Bridge Authority bonds	26,102	21,627
Bahamas Government Treasury bills	151,670	564,287
Clifton Heritage bonds	31,010	28,256
	14,437,115	11,921,232
Interest on loans		
Loans to Bahamas Development Bank	31,836	38,623
Government advances	6,842,197	3,749,848
Staff	128,940	152,478
	7,002,973	3,940,949
Interest expense on IMF allocation	(4,841,927)	(149,949)
Gains/(losses) on investments		
Net foreign exchange (loss)/gain	(1,487,403)	(781,127)
Realised gain on Marketable Securities		
Externally Managed Marketable Securities	(1,920,558)	1,079,329
Foreign Government Securities	-	1,185,750
Unrealised (loss)/gain on Marketable Securities	(16,019,341)	(7,699,546)
Net trading (loss)/ gain on Bahamas Government Registered Stocks	(167,298)	188,512
	(19,594,600)	(6,027,082)
Bank license fees income	4,900,000	4,211,457
Other income		
Bank statutory fines	335	313
Commission on foreign currency sales	1,962,762	1,342,091
Premium on Investment Currency Market	1,574,578	176,102
Other	1,192,319	786,627
	4,729,994	2,305,133
Total income	**47,305,552**	**36,637,610**

Central Bank of The Bahamas

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December 31, 2022
(Continued)

24. Expenses

	2022 $	2021 $
Staff costs		
Salaries, wages and gratuity	16,847,945	15,745,298
Group insurance plan	1,875,765	1,875,724
Defined contribution plan	1,236,496	1,270,045
Health insurance subsidy	757,290	648,303
Staff training	704,305	392,413
National insurance	568,272	569,874
Former Governors' retirement benefit	230,830	588,629
Responsibility allowance	117,500	218,120
Defined benefit plan	(20,501)	17,263
Other	395,365	171,313
	22,713,267	**21,496,982**

	2022 $	2021 $
General and administrative		
Professional fees	4,596,082	3,881,285
Currency	1,586,221	1,497,313
Utilities	1,504,572	1,275,214
Repairs and maintenance	1,127,320	926,055
Insurance	328,522	248,846
Subscription and membership fees	310,208	429,697
Cash shipment	223,901	55,724
Directors' remuneration	82,950	82,825
Rent and common area maintenance	56,489	147,993
Stationery and office supplies	1,680	1,182
Other	1,837,465	1,815,193
	11,655,410	**10,361,327**

25. 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.

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

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, 2022	1,593,680	-	1,593,680
Effect of lease modification	(1,128,687)	-	(1,128,687)
Additions	3,213,686		3,213,686
Amortisation	(519,405)	-	(519,405)
December 31, 2022	**3,159,274**	**-**	**3,159,274**

	Land and Buildings $	Vehicle $	Total $
January 1, 2021	1,967,337	-	1,967,337
Effect of lease modification	(37,577)	-	(37,577)
Amortisation	(336,080)	-	(336,080)
December 31, 2021	**1,593,680**	**-**	**1,593,680**

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, 2022	1,662,509	-	1,662,509
Effect of lease modification	(1,128,687)	-	(1,128,687)
Additions	3,213,686		3,213,686
Interest expense	93,505	-	93,505
Payments	(697,036)	-	(697,036)
December 31, 2022	**3,143,977**	**-**	**3,143,977**

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

Lease Liabilities (Continued)

	Land and Buildings $	Vehicle $	Total $
January 1, 2021	2,017,199	-	2,017,199
Effect of lease modification	(37,577)	-	(37,577)
Interest expense	62,068	-	62,068
Payments	(379,181)	-	(379,181)
December 31, 2021	**1,662,509**	**-**	**1,662,509**

The following are the amounts recognised in profit or loss:

	2022 $	2021 $
Amortisation on Right of Use asset	519,405	336,080
Interest expense on lease liabilities	93,505	62,068
	612,910	**398,148**

The maturity analysis of lease liabilities follows:

	2022 $	2021 $
1 year	30,432	308,753
2-5 years	3,113,545	1,259,920
Over 5 years	-	93,836
	3,143,977	**1,662,509**

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.

26. 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.

27. 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.

As disclosed in Note 4, the Bank has contingent contractual fees from the termination of the new building project.

(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:

	2022	**2021**
	$	**$**
Not later than one year	-	1,127,880

28. Concentration of Assets and Liabilities

	2022 $	2021 $
EXTERNAL ASSETS		
Geographic Region		
North America	70.68%	60.30%
Europe	0.00%	0.00%
Other	29.32%	39.70%
	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	93.25%	90.18%
Government Sector	6.75%	9.82%
	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 14.6% (2021: 16.5%) of estimated ordinary revenues.

29. 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.

29. Related Party Transactions (Continued)

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 recognises as bank license fee income as disclosed in Note 23.

During the year, the allocation received by the Bank of $4,900,000 (2021: $4,211,457).

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:

	2022	**2021**
	$	**$**
Senior officials' salaries and short-term benefits	2,929,716	2,944,530
Directors' remuneration	82,950	82,825
Post-employment benefits	154,711	148,720
	3,167,377	**3,176,075**

29. Related Party Transactions (Continued)

(b) Other assets include secured loans to employees totaling $4,553,845 (2021: $4,919,300), net of provision for bad debt totaling $210,512 (2021: $270,913), of which the following relates to key management personnel:

	2022 $	2021 $
Beginning of the year	409,890	517,766
Advances during the year	571,418	38,990
Repayments during the year	(313,974)	(146,866)
End of the year	**667,334**	**409,890**

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

	2022 $	2021 $
Defined benefit pension plan for Governors and Deputy Governors	1,207,045	989,663
Gratuity	140,885	142,660
End of the year	**1,347,930**	**1,132,323**

30. 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, 2022, the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $88,968,155 (2021: $83,685,310). 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 $4,777,323 (2021: $4,465,474) 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 $41,942,844 (2021: $234,639,342). 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

Notes to the Financial Statements
December 31, 2022
(Continued)

31. 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, 2022				
EXTERNAL ASSETS				
Cash and deposits with banks	622,839,055	-	-	622,839,055
Foreign Government securities	1,647,363,012	-	-	1,647,363,012
Marketable securities	-	147,819,012	-	147,819,012
International Monetary Fund:				
Bahamas reserve tranche	-	25,665,695	-	25,665,695
Special drawing rights - holdings	-	167,336,090	-	167,336,090
DOMESTIC ASSETS				
Cash on hand	133,608	-	-	133,608
Bahamas Development Bank bonds	4,134,834	-	-	4,134,834
Advances to Bahamas Government	336,511,444	-	-	336,511,444
Bahamas Government Registered Stock	-	-	301,731,848	301,731,848
Loans to Bahamas Development Bank	1,645,955	-	-	1,645,955
Bridge Authority Bonds	471,293	-	-	471,293
Clifton Heritage Authority Bonds	664,493	-	-	664,493
SDR Loan to Government	232,972,614	-	-	232,972,614
Bahamas Government Treasury Bills	-	-	11,686,254	11,686,254
Employee loans and other receivables	4,681,292	-	-	4,681,292
Total	**2,851,417,600**	**340,820,797**	**313,418,102**	**3,505,656,499**

31. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2022			
DEMAND LIABILITIES			
Notes in circulation	-	575,989,527	575,989,527
Coins in circulation	-	31,452,443	31,452,443
Sand Dollar in circulation	-	1,052,459	1,052,459
Deposits by commercial banks	-	2,084,661,301	2,084,661,301
Deposits by Bahamas Government and Bahamas Government agencies	-	187,134,908	187,134,908
Deposits by International agencies	-	255,183	255,183
Accounts payable and other liabilities	-	14,113,648	14,113,648
Investment currency market payable	-	8,146,781	8,146,781
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	400,110,725	-	400,110,725
Total	**400,110,725**	**2,902,806,250**	**3,302,916,975**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2022
(Continued)

31. 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, 2021				
EXTERNAL ASSETS				
Cash and deposits with banks	323,822,280	-	-	323,822,280
Foreign Government securities	1,500,587,304	-	-	1,500,587,304
Marketable securities	-	162,485,626	-	162,485,626
International Monetary Fund:				
Bahamas reserve tranche	-	26,991,559	-	26,991,559
Special drawing rights - holdings	-	418,877,284	-	418,877,284
DOMESTIC ASSETS				
Cash on hand	28,518	-	-	28,518
Bahamas Development Bank bonds	4,092,683	-	-	4,092,683
Advances to Bahamas Government	266,079,180	-	-	266,079,180
Bahamas Government Registered Stock	-	-	340,899,934	340,899,934
Loans to Bahamas Development Bank	1,901,290	-	-	1,901,290
Bridge Authority Bonds	450,467	-	-	450,467
Clifton Heritage Authority Bonds	651,115	-	-	651,115
Bahamas Government Treasury Bills	-	-	13,951,251	13,951,251
Employee loans and other receivables	5,080,336	-	-	5,080,336
Total	**2,102,693,173**	**608,354,469**	**354,851,185**	**3,065,898,827**

31. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2021			
DEMAND LIABILITIES			
Notes in circulation	-	533,568,761	533,568,761
Coins in circulation	-	30,142,343	30,142,343
Sand Dollar in circulation	-	303,785	303,785
Deposits by commercial banks	-	1,643,120,990	1,643,120,990
Deposits by Bahamas Government and Bahamas Government agencies	-	232,439,999	232,439,999
Deposits by International agencies	-	255,298	255,298
Accounts payable and other liabilities	-	6,722,442	6,722,442
Investment currency market payable	-	4,232,114	4,232,114
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	418,852,722	-	418,852,722
Total	**418,852,722**	**2,450,785,732**	**2,869,638,454**

32. 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.

	2022		2021	
	Carrying Value $	Fair Value $	Carrying Value $	Fair Value $
FINANCIAL INSTRUMENTS				
Foreign Government securities	1,647,363,012	1,669,453,970	1,500,587,304	1,505,724,661
Loans to Bahamas Development Bank	1,645,955	1,775,042	1,901,290	2,025,752
Bridge Authority bonds	471,293	490,878	450,467	474,034
Clifton Heritage Authority bonds	664,493	676,957	651,115	665,387
TOTAL	**1,650,144,753**	**1,672,396,847**	**1,503,590,176**	**1,508,889,834**

32. 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 the Bahamas Government and deposits by commercial banks, international agencies, the 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 IFRSs, 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.

32. 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.

32. 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, 2022			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Trading Securities	147,819,012	-	-	147,819,012
International Monetary Fund:				
Bahamas reserve tranche	25,665,695	-	-	25,665,695
Special Drawing rights - holdings	167,336,090	-	-	167,336,090
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	11,686,254	-	11,686,254
Bahamas Government Registered Stocks	-	301,731,848	-	301,731,848
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	400,110,725	-	-	400,110,725

32. 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, 2021			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Marketable Securities	162,485,626	-	-	162,485,626
International Monetary Fund:				
Bahamas reserve tranche	26,991,559	-	-	26,991,559
Special Drawing rights - holdings	418,877,284	-	-	418,877,284
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	13,951,251	-	13,951,251
Bahamas Government Registered Stocks	-	340,899,934	-	340,899,934
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	418,852,722	-	-	418,852,722

Level 3

The Bank does not have a level three classification at December 31, 2022 and 2021.

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, 2022			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Cash and deposits with banks	622,972,663	-	-	622,972,663
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,134,834	-	4,134,834
Advances to Bahamas Government	-	336,511,444	-	336,511,444
Loans to Bahamas Development Bank	-	1,645,955	-	1,645,955
Bridge Authority bonds	-	471,293	-	471,293
Employee loans and other receivables	-	4,681,292	-	4,681,292
Foreign Government Securities	1,647,363,012	-	-	1,647,363,012
Clifton Heritage Authority bonds	-	664,493	-	664,493
SDR loan to Government	232,972,614	-	-	232,972,614

32. 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, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	575,989,527	-	-	575,989,527
Coins in circulation	31,452,443	-	-	31,452,443
Sand Dollar in circulation	1,052,459	-	-	1,052,459
Deposits by commercial banks	-	2,084,661,301	-	2,084,661,301
Deposits by Bahamas Government and Bahamas Government agencies	-	187,134,908	-	187,134,908
Deposits by international agencies	-	255,183	-	255,183
Accounts payable and other liabilities	-	14,113,648	-	14,113,648
Investment currency market payable	-	8,146,781	-	8,146,781

	Fair value measurements as at December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Cash and deposits with banks	323,850,798	-	-	323,850,798
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,092,683	-	4,092,683
Advances to Bahamas Government	-	266,079,180	-	266,079,180
Loans to Bahamas Development Bank	-	1,901,290	-	1,901,290
Bridge Authority bonds	-	450,467	-	450,467
Employee loans and other receivables	-	5,080,336	-	5,080,336
Foreign Government Securities	1,500,587,304	-	-	1,500,587,304
Clifton Heritage Authority bonds	-	651,115	-	651,115

	Fair value measurements as at December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	533,568,761	-	-	533,568,761
Coins in circulation	30,142,343	-	-	30,142,343
Sand Dollar in circulation	303,785	-	-	303,785
Deposits by commercial banks	-	1,643,120,990	-	1,643,120,990
Deposits by Bahamas Government and Bahamas Government agencies	-	232,439,999	-	232,439,999
Deposits by international agencies	-	255,298	-	255,298
Accounts payable and other liabilities	-	6,722,442	-	6,722,442
Investment currency market payable	-	4,232,114	-	4,232,114

32. 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, 2022 was 4.25% (2021: 4.25%).

33. 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.

33. 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 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.

	2022 $	2021 $
Cash and deposits with banks		
Aaa	424,992,909	256,694,777
Aa2	167,415,335	45,111,816
A1	15,198,500	15,010,458
Aa1	12,070,206	4,747,843
	619,676,950	321,564,894
Bahamas Development Bank bonds		
Baa3	4,134,834	4,092,683
Advances to Bahamas Government		
Baa3	336,511,444	266,079,180
SDR loan to Government		
Baa3	232,972,614	-
Bahamas Government Registered stock		
Baa3	301,731,848	340,899,934
Loans to Bahamas Development bank		
Baa3	1,645,955	1,901,290
Bridge Authority bonds		
Baa3	471,293	450,467

33. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2022 $	2021 $
Receivables and other assets	4,681,292	5,080,336
Bahamas Government Treasury bills		
Baa3	11,686,254	13,951,251
Foreign Government securities		
Aaa	1,647,363,012	1,500,587,304
Marketable securities		
Aaa	147,819,012	162,485,626
Clifton Heritage Authority bonds		
Baa3	664,493	651,115
International Monetary Fund		
Bahamas reserve tranche	25,665,695	26,991,559
Special drawing rights - holdings	167,336,090	418,877,284
	193,001,785	445,868,843
	3,502,360,786	**3,063,612,923**

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:

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2022
(Continued)

33. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2022							
Financial Assets							
Cash and deposits with banks	133,608	622,838,604	121	153	177	-	622,972,663
Foreign Government securities	-	1,647,363,012	-	-	-	-	1,647,363,012
Marketable securities	-	147,819,012	-	-	-	-	147,819,012
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	25,665,695	25,665,695
Special drawing rights - holdings	-	-	-	-	-	167,336,090	167,336,090
Domestic financial assets	895,453,591	-	-	-	-	-	895,453,591
Total financial assets	**895,587,199**	**2,418,020,628**	**121**	**153**	**177**	**193,001,785**	**3,506,610,063**
Financial Liabilities							
Notes in circulation	575,989,527	-	-	-	-	-	575,989,527
Coins in circulation	31,452,443	-	-	-	-	-	31,452,443
Sand Dollar in circulation	1,052,459	-	-	-	-	-	1,052,459
Deposits by commercial banks	2,084,661,301	-	-	-	-	-	2,084,661,301
Deposits by Bahamas Government and Bahamas Government agencies	187,134,908	-	-	-	-	-	187,134,908
Deposits by international agencies		255,183	-	-	-	-	255,183
Accounts payable and other liabilities	14,113,648	-	-	-	-	-	14,113,648
Investment Currency Market payable	8,146,781	-	-	-	-	-	8,146,781
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	400,110,725	400,110,725
Total financial liabilities	**2,902,551,067**	**255,183**	**-**	**-**	**-**	**400,110,725**	**3,302,916,975**
Net on-balance sheet position	**(2,006,963,868)**	**2,417,765,445**	**121**	**153**	**177**	**(207,108,940)**	**203,693,088**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2022
(Continued)

33. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2021							
Financial Assets							
Cash and deposits with banks	28,518	323,800,146	3,621	6,149	12,364	-	323,850,798
Foreign Government securities	-	1,500,587,304	-	-	-	-	1,500,587,304
Marketable securities	-	162,485,626	-	-	-	-	162,485,626
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	26,991,559	26,991,559
Special drawing rights - holdings	-	-	-	-	-	418,877,284	418,877,284
Domestic financial assets	633,315,862	-	-	-	-	-	633,315,862
Total financial assets	**633,344,380**	**1,986,873,076**	**3,621**	**6,149**	**12,364**	**445,868,843**	**3,066,108,433**
Financial Liabilities							
Notes in circulation	533,568,761	-	-	-	-	-	533,568,761
Coins in circulation	30,142,343	-	-	-	-	-	30,142,343
Sand Dollar in circulation	303,785	-	-	-	-	-	303,785
Deposits by commercial banks	1,643,120,990	-	-	-	-	-	1,643,120,990
Deposits by Bahamas Government and Bahamas Government agencies	232,439,999	-	-	-	-	-	232,439,999
Deposits by international agencies		255,298	-	-	-	-	255,298
Accounts payable and other liabilities	6,722,442	-	-	-	-	-	6,722,442
Investment Currency Market payable	4,232,114	-	-	-	-	-	4,232,114
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	418,852,722	418,852,722
Total financial liabilities	**2,450,530,434**	**255,298**	**-**	**-**	**-**	**418,852,722**	**2,869,638,454**
Net on-balance sheet position	**(1,817,186,054)**	**1,986,617,778**	**3,621**	**6,149**	**12,364**	**27,016,121**	**196,469,979**

33. Risk Management (Continued)

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

	Average Rate		Year-end Spot Rate	
	2022	**2021**	**2022**	**2021**
USD 1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.2328	1.3723	1.2034	1.3498
EUR 1	1.0497	1.1727	1.0621	1.1342
SDR 1	1.3354	1.4235	1.3308	1.3996

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	43.38%
EUR	29.31%
CNY	12.28%
JPY	7.59%
GBP	7.44%
	100.00%

At December 31, 2022, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 19,798 (2021: BSD 1,200) 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.

33. 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 3.00% (2021: 1.97%); however, if these securities had a reduced average yield of 1.17% (2021: 0.49%), 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 $21,360,139 (2021: $14,744,805). Had the yield been tilted towards the higher end of the spectrum, to 3.45% (2021: 3.39%), income for the year and equity at year end would have increased by $16,345,851 (2021: $26,002,663).

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 $1,939,579 (2021: $4,981,353), 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 $(1,939,579) (2021: $(4,981,353).

	December 31, 2022 $	December 31, 2021 $
Fixed Rate Instruments		
Financial assets	2,458,043,867	2,174,210,211
Variable Rate Instruments		
Financial assets	788,026,505	888,893,802
Financial liabilities	400,110,724	418,852,722

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.

33. 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.

Notes to the Financial Statements
December 31, 2022
(Continued)

33. 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, 2022						
Financial Assets						
Cash and deposits with banks	35,437,490	80,844,246	506,690,927	-	-	**622,972,663**
Foreign Government Securities and Marketable Securities	59,379,306	135,680,466	203,420,373	868,797,539	380,085,328	**1,647,363,012**
Marketable securities	-	-	4,427,322	86,110,480	57,281,210	**147,819,012**
International Monetary Fund:						
Bahamas reserve tranche	25,665,695	-	-	-	-	**25,665,695**
Special drawing rights – holdings	167,336,090	-	-	-	-	**167,336,090**
SDR Loan to Government	-	-	232,972,614	-	-	**232,972,614**
Bahamas Development Bank bonds	-	-	-	-	4,134,834	**4,134,834**
Advances to Bahamas Government	336,511,444	-	-	-	-	**336,511,444**
Bahamas Government Registered stock		4,664	3,339,583	113,943,971	184,443,630	**301,731,848**
Bahamas Government Treasury Bills	-	-	11,686,254	-	-	**11,686,254**
Loans to Bahamas Development Bank	-	-	-	-	1,645,955	**1,645,955**
Bridge Authority bonds	-	-	-	471,293	-	**471,293**
Clifton Heritage Authority bonds	-	-	-	-	664,493	**664,493**
Receivables and other assets	-	-	-	4,681,292	-	**4,681,292**
Total financial assets	**624,330,025**	**216,529,376**	**962,537,073**	**1,074,004,575**	**628,255,450**	**3,505,656,499**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2022
(Continued)

33. 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, 2022						
Financial Liabilities						
Notes in circulation	575,989,527	-	-	-	-	**575,989,527**
Coins in circulation	31,452,443	-	-	-	-	**31,452,443**
Sand Dollar in circulation	1,052,459	-	-	-	-	**1,052,459**
Deposits by commercial banks	2,084,661,301	-	-	-	-	**2,084,661,301**
Deposits by Bahamas Government and Bahamas Government agencies	187,134,908	-	-	-	-	**187,134,908**
Deposits by International agencies	255,183	-	-	-	-	**255,183**
Accounts payable and other liabilities	14,113,648	-	-	-	-	**14,113,648**
Investment Currency Market payable	8,146,781	-	-	-	-	**8,146,781**
International Monetary Fund:						
Special drawing rights allocation	400,110,725	-	-	-	-	**400,110,725**
Total financial liabilities	**3,302,916,975**	**-**	**-**	**-**	**-**	**3,302,916,975**
Net on-balance sheet position	**(2,678,586,950)**	**216,529,376**	**962,537,073**	**1,074,004,575**	**628,255,450**	**202,739,524**

33. 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, 2021						
Financial Assets						
Cash and deposits with banks	68,459,810	12,007,941	243,383,047	-	-	**323,850,798**
Foreign Government securities	18,167,460	67,692,604	246,095,953	907,882,446	260,748,841	**1,500,587,304**
Marketable securities	-	-	-	162,485,626	-	**162,485,626**
International Monetary Fund:						
Bahamas reserve tranche	26,991,559	-	-	-	-	**26,991,559**
Special drawing rights – holdings	418,877,284	-	-	-	-	**418,877,284**
Bahamas Development Bank bonds	-	-	-	-	4,092,683	**4,092,683**
Advances to Bahamas Government	266,079,180	-	-	-	-	**266,079,180**
Bahamas Government Registered stocks	33,381	303	35,274,706	114,431,269	191,160,275	**340,899,934**
Bahamas Government Treasury bills	-	-	13,951,251	-	-	**13,951,251**
Loans to Bahamas Development Bank	-	-	-	-	1,901,290	**1,901,290**
Bridge Authority bonds	-	-	-	450,467	-	**450,467**
Clifton Heritage Authority bonds	-	-	-	-	651,115	**651,115**
Receivables and other assets	-	-	-	5,080,336	-	**5,080,336**
Total financial assets	**798,608,674**	**79,700,848**	**538,704,957**	**1,190,330,144**	**458,554,204**	**3,065,898,827**

Notes to the Financial Statements
December 31, 2022
(Continued)

33. 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, 2021						
Financial Liabilities						
Notes in circulation	533,568,761	-	-	-	-	533,568,761
Coins in circulation	30,142,343	-	-	-	-	30,142,343
Sand Dollar in circulation	303,785	-	-	-	-	303,785
Deposits by commercial banks	1,643,120,990	-	-	-	-	1,643,120,990
Deposits by Bahamas Government and Bahamas Government agencies	232,439,999	-	-	-	-	232,439,999
Deposits by International agencies	255,298	-	-	-	-	255,298
Accounts payable and other liabilities	6,722,442	-	-	-	-	6,722,442
Investment Currency Market payable	4,232,114	-	-	-	-	4,232,114
International Monetary Fund:						
Special drawing rights allocation	418,852,722	-	-	-	-	**418,852,722**
Total financial liabilities	**2,869,638,454**	**-**	**-**	**-**	**-**	**2,869,638,454**
Net on-balance sheet position	**(2,071,029,780)**	**79,700,848**	**538,704,957**	**1,190,330,144**	**458,554,204**	**196,260,373**

33. 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.

34. Retirement Benefit Plans

Defined Contribution Plan

	2022 $	2021 $
Amount recognised as an expense (Note 24)	1,236,496	1,270,045

Defined Benefit Plan

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

	2022 $	2021 $
Present value of obligation at start of year	16,794,410	17,882,952
Interest cost	892,284	923,853
Benefits paid	(1,142,124)	(1,229,343)
Actuarial loss on obligation due to experience	(354,949)	(551,912)
Actuarial loss on obligation due to financial assumption changes	-	(231,140)
Present value of obligation at end of year	**$16,189,621**	**16,794,410**
Fair value of plan assets at start of year	16,975,498	17,304,759
Interest income	902,526	893,276
Contributions paid – both employees' and employer's	17,259	21,094
Benefits paid	(1,142,124)	(1,229,343)
Administrative costs	(7,000)	(7,780)
Return on plan assets, excluding interest income	263,418	(6,508)
Fair value of plan assets at end of year	**$17,009,577**	**16,975,498**

34. 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:

	2022 $	2021 $
Present value of funded obligations	16,189,621	16,794,410
Fair value plan assets	(17,009,577)	(16,975,498)
	(819,956)	**(181,088)**

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

	2022 $	2021 $
Cash	813,408	1,152,610
Interest receivable	640,972	260,691
Bahamas Government Registered Stocks	14,537,676	14,537,676
Other bonds	369,115	369,115
Equity securities	700,000	700,000
Accounts payable	(51,594)	(44,594)
Total	**17,009,577**	**16,975,498**

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

	2022 $	2021 $
Administrative cost	7,000	7,780
Net interest income	(10,242)	30,577
	(3,242)	**38,357**
Remeasurements recognised in OCI	**(618,367)**	**(776,544)**

34. 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

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

	2022 $	2021 $
Net (liability)/assets at beginning of year	(181,088)	578,193
Net (gain)/expense recognised in net income	(3,242)	38,357
Employer contributions	(17,259)	(21,094)
Remeasurements recognised in OCI	(618,367)	(776,544)
	(819,956)	**(181,088)**

The Bank did not make additional contributions 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:

	2022 $	2021 $
Discount rate	5.50%	5.50%
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 $1,165,944 (2021: $886,768).

34. Retirement Benefit Plans (Continued)

Sensitivity and other results

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

	2022 $	2021 $
Pensioners	12,908,647	13,172,769
Vesting actives	3,280,974	3,621,641
	16,189,621	16,794,410

The pensioner liability of $12,908,647 (2021: $13,172,769), included $986,272 (2021: $1,045,351) relating to assumed cost of living adjustments.

The liability for actives of $3,280,974 (2021: $3,621,641), included of $62,631 (2021: $69,653) relating to assumed cost of living adjustments and $163,537 (2021: $187,447) relating to assumed future salary increases.

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2022 for 1% changes in discount rate and salary increases.

	2022		2021	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(1,307,097)	1,530,383	(1,408,999)	1,653,393
Future salary increases	44,134	(42,794)	51,113	(49,350)

If all members lived one year longer than projected, the liability at year-end would be $16,653,742 (2021: $17,266,310).

There is no change in the discount rate used in 2022.

The weighted average duration of the defined benefit obligation at December 31, 2022 is 8.7 years (2021: 9.1 years).

35. Health Insurance Subsidy Benefit for Retirees

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

	2022 $	2021 $
Present value of obligation at start of year	8,661,991	7,572,806
Interest cost	468,330	398,216
Current service cost	288,960	250,087
Benefits paid	(293,811)	(259,047)
Actuarial (gain)/loss on obligation due to experience	(88,637)	875,288
Actuarial gain on obligation due to financial assumption change	-	(175,359)
Present value of obligation at end of year	**9,036,833**	**8,661,991**
Contribution paid – employees' and employers' contributions	293,811	259,047
Benefits paid	(293,811)	(259,047)
	-	**-**

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

	2022 $	2021 $
Current service cost	288,960	250,087
Net interest cost	468,330	398,216
	757,290	**648,303**
Remeasurements recognised in OCI	**(88,637)**	**699,929**

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

	2022 $	2021 $
Net liability at beginning of year	8,661,991	7,572,806
Net expense recognised in net comprehensive (loss)/income	757,290	648,303
Employer contributions	(293,811)	(259,047)
Remeasurements recognised in OCI	(88,637)	699,929
	9,036,833	**8,661,991**

35. Health Insurance Subsidy Benefit for Retirees (Continued)

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

	2022 $	2021 $
Discount rate	5.50%	5.50%
Rate of Medical Subsidy Increases	4.00%	4.00%

Sensitivity and Other Results

The benefit obligation as at year-end comprises:

	2022 $	2021 $
Pensioners	4,648,804	4,504,918
Actives	4,388,029	4,157,073
Total	**9,036,833**	**8,661,991**

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2022 for 1% changes in discount rate.

	2022		2021	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount rate	(1,186,403)	1,495,093	(1,143,197)	1,441,683

If all members lived one year longer than projected, the liability would be $9,339,888 (2021: $8,949,120).

There is no change in the discount rate used in 2022.

The weighted average duration of the defined benefit obligation at December 31, 2022 is 14.7 years (2021: 14.7 years).

36. Retirement Benefit Plan for Governors and Deputy Governors

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

	2022 $	2021 $
Present value of obligation at start of year	4,053,758	4,402,263
Interest cost	216,735	227,964
Current service cost	197,405	197,761
Benefits paid	(226,250)	(282,500)
Actuarial gain on obligation due to experience	(85,997)	(427,155)
Actuarial loss/(gain) on obligation due to financial assumption change	-	(64,575)
Present value of obligation at end of year	**4,155,651**	**4,053,758**
Fair value of plan assets at start of year	3,446,036	3,522,224
Expected return on plan assets	183,310	180,882
Benefits paid	(226,250)	(282,500)
Actuarial gain on plan assets	23,027	25,430
Fair value of plan assets at end of year	**3,426,123**	**3,446,036**

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:

	2022 $	2021 $
Present value of funded obligations	4,155,651	4,053,758
Fair value of plan assets	(3,426,123)	(3,446,036)
	729,528	607,722

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:

	2022 $	2021 $
Current service cost	197,405	197,761
Net interest expense	33,425	47,082
	230,830	**244,843**
Remeasurements recognised in OCI	**(109,024)**	**(517,160)**

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

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

	2022 $	2021 $
Net liability at beginning of year	607,722	880,039
Net expense recognised in net income	230,830	244,843
Remeasurements recognised in OCI	(109,024)	(517,160)
	729,528	**607,722**

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

	2022 $	2021 $
Discount rate at end of year	5.50%	5.50%
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:

	2022 $	2021 $
Pensioners	2,948,606	3,064,095
Actives - Unvested	1,207,045	989,663
	4,155,651	4,053,758

The pensioner liability of $2,948,606 (2021: $3,064,095) included $709,562 (2021: $758,562) relating to assumed cost of living adjustments which are directly linked to assumed future salary increases.

The liability for actives of $1,207,045 (2021: $989,663) included $381,512 (2021: $332,138) relating to assumed future salary increases and cost of living adjustments.

36. 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, 2022 and 2021 for 1% changes in discount rate and salary increases.

	2022		2021	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(392,543)	467,053	(390,280)	465,083
Future salary increases	22,427	(21,966)	26,817	(26,095)

If all members lived one year longer than projected, the liability at year-end would be $4,304,603 (2021: $4,198,282).

The weighted average duration of the defined benefit obligation at December 31, 2022 is 10.3 years (2021: 10.5 years).

37. Bahamas Government – IMF Loan

In 2020 The IMF executive Board approved The Government of The Bahamas's request for emergency financial assistance of US$250 million to help meet the urgent balance of payments needs stemming from the COVID-19 pandemic. The Executive Board of the IMF approved a disbursement in the amount of SDR 182.4 million for The Bahamas under the Rapid Financing Instrument (RFI).

The Bahamas Government currently makes quarterly interest payments in February, May, August and November with the first scheduled General Resources Account repurchase due September 1, 2023 per the below:

Scheduled GRA Purchases

Due Date	Member	Member Name	Repurchase Amount $
1/09/2023	BHS	Bahamas, The	22,800,000
1/12/2023	BHS	Bahamas, The	22,800,000
1/03/2024	BHS	Bahamas, The	22,800,000
3/06/2024	BHS	Bahamas, The	22,800,000
3/09/2024	BHS	Bahamas, The	22,800,000
3/12/2024	BHS	Bahamas, The	22,800,000
3/03/2025	BHS	Bahamas, The	22,800,000
3/06/2025	BHS	Bahamas, The	22,800,000
		TOTAL	**182,400,000**

37. Bahamas Government – IMF Loan (Continued)

Outstanding debt on the RFI is USD$242,745,903 (2021: $255,285,216) as at December 31st 2022.

38. Subsequent Events

Termination of the Central Bank New Premises Project

On March 30th, 2023 Directors approved the formal termination of the Central Bank Headquarters Project on the RVG Site and authorised the conveyance of the RVG property back to the Government disclosed in Note 4. The Bank will explore alternative arrangements to meet its long-term accommodation needs.

Central Bank of the Bahamas (Amendement) Act, 2023

On April 27th, 2023, the Central Bank of the Bahamas Act, 2020 was amended. The following are the amendments to the Act:

a. Insertion of Section 17A which granted the Government with access, use, and conversion of the SDRs and excluding the proceeds from the conversion in the calculation of the temporary loan limits which had come into force on December 1st, 2023.

b. Amendment of Section 21 which reduced the temporary loan limits from 30.00% to 15.50% of the average revenue of the Government or the estimated ordinary revenue of the Government, whichever is the less.

c. Repeal and replacement of Section 22 which prohibits the Bank to purchase or subscribe from primary markets Treasury Bills and securities issued or guaranteed by the Government or any public corporation.

d. Insertion of Section 22A which allows the Bank, for the purpose of implementing monetary policy, maintaining financial stability or to support the working of the clearing and settlement systems, to purchase from the secondary markets Treasury Bills and securities issued or guaranteed by the Government or a public corporation if the Treasury bills and securities are negotiable.

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