THE CENTRAL BANK OF THE BAHAMAS

ANNUAL REPORT

& Statement of Accounts

2016

For the year ended
31 December, 2016

MISSION

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

VISION

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

VALUES

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

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

May 1, 2017

Dear Prime Minister:

In accordance with Section 32(1) of the Central Bank of The Bahamas Act, 2000, I have the honour of forwarding to you, on behalf of the Board of Directors, the Annual Report of the Bank for the year 2016. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

John A. Rolle
Governor

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

ABOUT THE BANK

Under the Central Bank of The Bahamas Act, 2000 (the Act), the Bank is mandated as follows:

- to promote and maintain monetary stability and balance of payments conditions, conducive to the orderly development of the economy;
- in collaboration with other financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and
- to advise the Minister of Finance on any matter of a financial or monetary nature referred by [the Minister] to the Bank for its advice.

MONETARY POLICY

In its monetary role, a key objective of the Bank is to ensure adequate support for the fixed parity of the Bahamian dollar against the United States' currency. To do so, the Bank has to maintain adequate foreign reserves against the stock of its demand liabilities, 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. In performing its oversight function, the Bank seeks to ensure, *inter alia*, that the payments infrastructure functions smoothly, efficiently and fairly in the interest of all participants and users; that it minimizes and controls risks; and that the level of product innovation and development is adequate for the needs of the economy.

CURRENCY

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

FINANCIAL STABILITY

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

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FOREWORD

The Central Bank operated within an environment of mild economic activity during 2016, with monetary credit trends continuing to evolve in a sustainable fashion. Given the impetus from net private sector foreign currency inflows, and the sustained discount in oil prices that comparatively kept the public sector's net foreign currency demand in check, improvements were noted in both external reserves and bank liquidity. Credit quality metrics showed a more sizeable improvement, as both direct sales of non-performing mortgages and initial inroads from the Government's Mortgage Relief Programme (MRP), supplemented the continued credit restructuring efforts of commercial banks, and the incremental improvement in the debt service capacity of households.

The economy experienced expansionary impulses from tourism and foreign investments over most of the year. This was punctuated by the passage of Hurricane Matthew in October; however, the recovery from the storm was quick in most tourism markets. The exception was Grand Bahama, which suffered an extended setback, as major parts of the hotel plant remained closed well into 2017, on the heels of very weak visitor volumes over the first half of 2016.

While the hurricane resulted in significant re-insurance inflows and an ensuing pickup in construction activity, the fiscal outturn deteriorated, following the necessary increased spending on infrastructure repairs and social assistance, recovery tax incentives, and a disruption in revenue collections. The fiscal performance was also constrained by increased subsidies for public enterprises and continued preparations for the introduction of National Health Insurance.

The Bank foresees a gradually improving outlook for the economy, concentrated in the foreign exchange earning sectors. The pace of growth is expected to peak higher during 2018-2019, as more tourism sector capacity comes on stream. In this context, external reserves are projected to experience gradual improvement over this horizon. With this in mind, the Monetary Policy Committee (MPC) endorsed a 50 basis point reduction in the Discount Rate, to 4.0 percent in December 2016, in order to ease private sector financing conditions and stimulate increased activity particularly in housing and commercial investments.

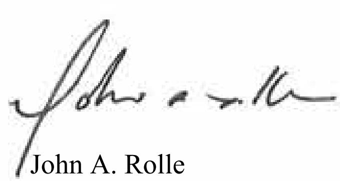
As the economy strengthens, the Bank will strive for continuous improvement in its capacity to deliver on its statutory mandates. Strengthening of the risk-based supervisory regime for banks, credit unions and other licensees is a high priority, in line with evolving international benchmarks. Our economic surveillance framework is also postured for ongoing enhancement, in order to introduce more transparency and clarity to monetary policy operations, and to strengthen the delivery of policy advice and debt management support to the Government.

This Annual Report unveils a new Strategic Plan for 2016-2020. Among other articulated goals, it espouses the continued modernisation of the supervisory and policy regimes, and bolsters support for financial sector development. Emphasis is centred particularly on increasing the sector's resilience in the face of threatened correspondent banking relationships. Related to this, is pursuing accelerated progress towards a well-regulated and modernized payments system, that promotes financial inclusion and reduces the economy's reliance on cash, which more easily facilitates money laundering and other criminal abuses.

The Bank is also placing renewed focus on minimising the administrative burden of Exchange Controls, and in identifying targeted liberalisation that improves the investment climate. This must happen in a sustainable way that safeguards the viability of the fixed exchange rate regime.

The Bank's most valuable assets are its staff. Their continued hard work and dedication underpin the achievements spotlighted in this annual report. Ensuring that they continue to develop and grow in a safe and collegiate environment is a top priority for us.

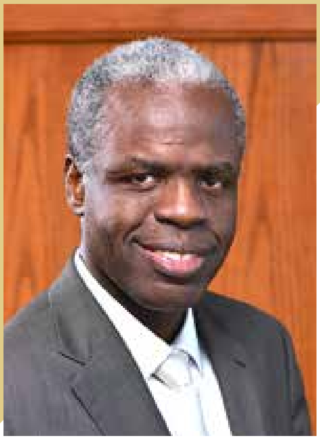
I therefore thank them all for their unwavering commitment and support.

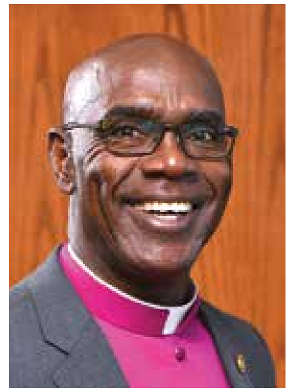


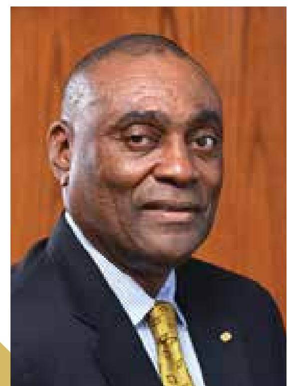
John A. Rolle
Governor

DIRECTORS AND SENIOR OFFICIALS

AT DECEMBER 31, 2016







Directors pictured clockwise from the top: Mr. John Rolle, Chairman; Mr. L. Edgar Moxey; Archdeacon James Palacious; Mr. Mario Gray and Mr. Donald Demeritte.

The Central Bank's Executive Management Team seated from left: Ms. Deborah Ferguson, Human Resources Manager; Mr. John Rolle, Governor; Ms. Karen Rolle, Banking Supervision Manager. Back row from left: Mr. Errol L. Bodie, Information Technology Manager; Mr. John Ferguson, Chief Security Officer; Mr. Abhilash Bhachech, Banking Supervision Inspector; Mr. Michael Lightbourne, Deputy Governor; Mrs. Cleopatra Davis, Internal Audit Manager; Mr. Keith Jones, Accounts Manager; Mr. Alwyn Jordan, Research Manager; Mr. Ian Fernander, Administration Manager. Insets from left: Mr Derek Rolle, Senior Banking Manager; Mrs. Tamieka V. Watson, Exchange Control Manager; Ms. Rochelle A. Deleveaux, Legal Counsel & Board Secretary.



2016 AT A GLANCE

- Despite disruptions from the passage of Hurricane Matthew in the final quarter, indications are that economic activity was relatively stable in 2016. This reflected modest gains in the tourism sector and positive contributions from construction, which benefited from several varied-scaled foreign investment-led projects and rebuilding activity after the hurricane.

- Average consumer prices fell slightly during the year by 0.35%, a reversal from the 1.88% rate recorded in 2015. This was due to the spillover effect of lower global oil prices in earlier periods and the conclusion of transition adjustments after the value added tax (VAT) introduction.

- Employment conditions improved, with the jobless rate narrowing to 11.6% in November 2016, from 14.8% twelve months earlier.

- The fiscal deficit to GDP ratio contracted to an estimated 3.5% in FY2015/2016, from 4.4% in FY2014/15, as the VAT-led growth in revenue, outpaced the rise in expenditure.

- The National Debt to GDP ratio rose to an estimated 77.9% in 2016, from 75.3% in the prior year; the Government's Direct Charge component approximated 69.9% of GDP versus 66.8% in 2015.

- External reserves grew by $92.0 million to $904.0 million, with the import cover ratio firming to 16.8 weeks, compared to 13.3 weeks in 2015.

- The Central Bank developed Exchange Control liberalisation proposals to improve specific categories of businesses' access to foreign currency funding. The recommendations were approved by the Government in March, 2017.

- An Administrative Monetary Penalties (AMP) regime was implemented for the banks in August, which aimed at improving the quality and timeliness of regulatory reporting.

- The Bank's second "de-risking" survey, revealed that the loss of correspondent banking relationships (CBRs) was being felt more among the standalone (non-branch/subsidiary) operations of its licensees.

- Progress continued on proposed reforms to key regulatory frameworks, including the dormant accounts regime, the Central Bank of the Bahamas Act and payments system oversight.

STRATEGIC FOCUS FOR 2017

ENHANCE THE EFFECTIVENESS OF THE MONETARY POLICY FRAMEWORK

- Continue to develop the Bank's macro-economic forecasting framework, by strengthening linkages between sectors.
- Broaden the Bank's policy toolkit by developing appropriate indirect monetary policy instruments.
- Widen the scope of the economic data collected, in order to more effectively monitor the performance of the economy.
- Construct additional financial stability indicators to enhance policy analysis and decision-making.
- Promote more targeted Exchange Control liberalization measures, which seek to promote economic development within the context of exchange rate stability.
- Provide further assistance to the Government, in order to strengthen co-ordination between fiscal and monetary policy, by developing a Fiscal Policy Advisory Report.

STRENGTHEN SUPERVISORY AND REGULATORY OVERSIGHT

- Continue to progress towards full implementation of the Basel II and III Risk-Based frameworks.
- Develop a formal transparent framework of active macro and micro-prudential policies.
- Continue to support the establishment of a credit bureau.
- Sustain efforts to develop a comprehensive crisis management framework for distressed financial institutions, through appropriate amendments to legislation for, Deposit Insurance, Banks & Trust Companies and the Central Bank.
- Pursue stronger co-operative ties with the domestic financial regulators, mainly through the Group of Financial Services Regulators (GFSR).
- Continue to develop the AML/CFT Guidance Protocols for dealing with domestic gaming operations.
- Accelerate regulatory reforms to address emerging threats to the banking sector and the economy from de-risking of correspondent banking relationships.
- Promote further development and modernization of the payments system, with emphasis on ensuring that oversight mechanisms are in place and fostering the development of non-cash payment solutions.

ENHANCE OPERATIONAL EFFICIENCY & GOVERNANCE

- Continue to advance plans to develop modern and secure accommodations for the Bank.
- Further develop the Bank's business continuity/recovery plans.
- Modernize the framework for public debt management, including the dematerialization of Government securities, the creation of a central securities depository and by introducing a pricing model for secondary issues.
- Enhance the Bank's currency products and services, including strengthening safeguards against counterfeiting via public education and currency design considerations.
- Accelerate the modernisation of the information technology systems, with emphasis on improved governance, security and business process enhancements.
- Pursue strengthening of the Bank's performance management systems, and frameworks for capacity development and succession planning.

DEVELOP EFFECTIVE EXTERNAL RELATIONS AND COMMUNICATIONS FRAMEWORKS

- Promote transparency and understanding of the Bank's policies and operations through outreach programmes.
- Develop and implement an official Communications Policy to, *inter alia*, enhance communication with the public, in an effort to ensure clarity and transparency in the Bank's decisions.
- Revamp the Bank's website to improve the functionality and timeliness of information and improve the ease of navigation.
- Introduce a secure portal for communication with regulated entities.

OVERVIEW OF STRATEGIC ACTIVITIES PLAN FOR 2016 - 2020

Introduction

The Central Bank's Strategic Plan for 2016-2020 builds on work already underway in preceding years, with the objective of having the Bank's output–when benchmarked relative to its statutory mandate–add value to the economic and financial environments in The Bahamas. The Bank prepares and publishes a strategic plan every five years that sets out the priorities, activities and desired outcomes under each of its main areas of responsibility. This plan includes the timeframe, strategic objectives and 'nature and scope' of the activities that will be undertaken; and performance measurement and resources deployment, to achieve the plan's objectives.

The Board of Directors approved the new strategic plan in December 2016, encompassing activities on which the Bank had already commenced earlier in the year. Management's input to the Plan was formalized over a series of workshops, including a week-end retreat during May.

The main pillars for the 2016-2020 Strategic Plan that will guide the work programmes of the Bank are as follows:

- Increasing the effectiveness and transparency of the frameworks for monetary policy, financial stability and exchange control
- Enhancing the banking supervision and regulatory frameworks, in line with international benchmarks
- Strengthening capacity to provide policy advice
- Promoting further development of the payments systems
- Enhancing operational efficiency
- Developing effective external relations and communications frameworks

The Bank undertakes to regularly report on its activities and performance, using evidence-based metrics. This includes a disciplined approach to reviewing and understanding baseline policies and conditions, identifying objectives-based interventions; assessing implementation and monitoring & evaluating outcomes. This approach is aimed at improving oversight, ensuring better use of financial resources, addressing economic surveillance gaps; and demonstrating links between the strategic direction, and intended policy outcomes. It will rely on measured indicators specific to each area of the Bank's operations.

Monetary Policy, Financial Stability & Exchange Control

Through sound surveillance practices and transparent monetary policy operations, the Bank will seek to maintain confidence in the Bahamian dollar, and in the banking sector—vital to supporting growth and development of the economy. The Bank will develop policy tools that allow it to intervene more effectively and efficiently to protect the foreign reserves. As a complement to the monetary policy objectives, it will improve the frameworks used to develop policy advice for the public sector.

More visibility will also be given to policies to promote financial stability. As data input is essential to this, the Bank will increase the scope of its surveillance efforts to permit more timely and complete inferences about economic activity.

In its advisory role to the Minister of Finance, and in its internal operations where delegated authority is already established, the Bank will undertake a deepening of exchange control liberalization initiatives, targeting both operational processes and policies. An important goal is to considerably reduce the administrative drag of policies affecting current account transactions (trade and transfer payments). In addition, economic benefits from carefully sequenced and targeted liberalization of capital or investment related transactions will also be achieved.

The Supervisory and Regulatory Framework

Supervisory frameworks for licensees will continue to evolve and be aligned with international benchmarks. A key focus is the ongoing transitioning to full implementation of the Basel II and III risk-based framework for banks and trust companies. Emphasis will also be maintained on improving the oversight framework for money transmission businesses (MBTs) and credit unions; strengthening the anti-money-laundering (AML) / combating the financing of terrorism (CFT) regime, and on ensuring that all licensees maintain compliant systems against relevant local and international tax standards and obligations.

Regulatory reform will also be promoted in directions that address emerging threats to the financial sector and the economy from de-risking of correspondent banking relationships, and which promote greater financial inclusion and consumer protection. In this regard, the Bank's emphasis on accelerated development and modernization of the domestic payments system has multiple intended benefits. Such initiatives will continue to promote transparent oversight mechanisms that build confidence in the system, and reduce transaction costs.

The Bank's heightened focus on financial sector stability, will directly address safety and soundness of the licensees. This will highlight targeted reform proposals for the various legislative frameworks, including for the Central Bank's own governance arrangements and for deposit insurance.

The Bank will pursue stronger cooperative ties with other domestic financial regulators, particularly through the Group of Financial Services Regulators (GFSR), in order to minimize the incidence of domestic regulatory arbitrage, and to forecast necessary changes in the future scope of regulation. Increased coordination will also focus on identifying more structured, consolidated approaches to advancing the legislative agenda for the financial sector.

Banking, Currency and Foreign Reserves Management

Strategic focuses for banking, investments and related operations will be on further development of the payments and settlements infrastructure, and of the government securities market infrastructure, in accordance with best practices. Heightened emphasis is also being placed on building capacity in foreign reserves management, modernizing currency products and services, including strengthening safeguards against counterfeiting, through public education and currency design considerations. Work strands will also address the potential role of digital currency in the domestic landscape.

External Relations and Transparency

External relations capacity will be enhanced to promote transparency and understanding of the Bank's policies and operations. International standards on transparency will frame improvements in communication with external stakeholders, including periodic reviews to achieve closer alignment with standards endorsed by the IMF.

An expanded, formal communications policy for all aspects of the Bank's engagement with external stakeholders is being developed. The Bank will also improve its online presentation via the website and social media, and undertake regular external stakeholder surveys to receive constructive feedback on its operations. As external relations are an extension of client services delivery, public facing supervisory operations and exchange control administration will be targeted for electronic enhancements.

More engagement with domestic regulators and international bodies is also a priority. This will increase The Bahamas' influence and input on matters affecting the financial services industry. The Bank anticipates therefore, increased representation in external forums and greater visibility in published policy commentary on international issues.

Operations

The Bank is aiming to achieve more efficiency through secure and effective use of technology, while also developing highly motivated and productive employees. A comprehensive modernization of the IT environment is therefore planned. Moreover, efforts will be sustained to strengthen internal capacity building systems, particularly to better contain medium-term costs originating from the succession planning framework. An early transition to a three-year forward rolling budgeting process is also a priority to permit more orderly planning for capital expenditures, time-bounded sequencing and prioritization of initiatives.

Support of good corporate governance and risk management practices embedded in the internal audit functions will also be strengthened. Added capacity will be developed to monitor risks and controls in the IT environment, in concert with increased focus on information security. Accountability for addressing of audit deficiencies will also be heightened, in the context of the performance management system and the multi-year strategic planning process.

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

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

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for policy and oversight of the Bank's management and operations, including strategic planning, financial and accounting practices and procedures, risk management and succession planning.

Appointed by the Governor General, on the advice of the Minister of Finance, the Board is comprised of the Governor (Chair) and four independent directors. During 2016, the Bank welcomed Mr. Donald Demeritte and Mr. Mario Gray, who were each appointed as Directors, with effect from 19th January, 2016 and 13th December, 2016, respectively; the Bank also bid farewell to Ms. Paula Adderley, who resigned from the Board effective 30th September, 2016. The Bank is grateful to Ms. Adderley for her contribution to the work of the Board. At end-2016, the Board had a full complement of five directors, including non-executive Directors Archdeacon James Palacious and Mr. L. Edgar Moxey, who were each re-appointed for one year from 1st July 2016.

As required under the Act, each Director must sign a declaration of secrecy in relation to the affairs of the Bank, and is indemnified by the Bank against personal, civil or criminal liability, in respect of their actions done in good faith while carrying out their statutory duties.

The Board, which is statutorily required to hold monthly meetings, met on twelve occasions in 2016; three Directors form a quorum. There is statutory provision for the appointment of two Deputy Governors, who may attend Board meetings, but are only eligible to vote in cases where, in the absence of the Governor, he or she chairs the Board meeting. Currently, only one Deputy Governor has been appointed.

During 2016, the Board's agenda included discussions on domestic and international economic and financial conditions, their implications for external reserves, the Bank's Strategic Plan for 2016-2020, and the status of proposed legislative amendments impacting the Bank's operations. The Board also monitored Management's progress on financial sector supervisory matters and internal developments affecting the state of industrial relations. Deliberations were facilitated by various management briefs and reports.

ACCOUNTABILITY & TRANSPARENCY

The Bank is mandated, by statute and best business practices, to ensure a high degree of transparency, which facilitates accountability. In compliance with these responsibilities, the Bank furnished the Minister of Finance with a report of its activities for 2016, which was subsequently laid before Parliament. Monthly balance sheet information was also provided to the Minister and published in the Gazette.

The Governor maintained the scheduled monthly briefings with the Minister of State for Finance, and provided special periodic communications, both written and verbal, on industry related matters, as they emerged. These meetings help to facilitate and maintain coordination between monetary and fiscal policy, and provide an opportunity to keep the Government informed of the Bank's performance in meeting its statutory obligations.

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

MANAGEMENT COMMITTEE

The Governor, Deputy Governor and senior officers oversee the daily operations of the Bank. In weekly meetings, the Executive Committee discussed several high-level issues, including the Bank's Strategic Plan for 2016-2020, the plans to further improve and liberalize the exchange control regime and challenges confronting the jurisdiction, such as de-risking. Emphasis continued to be placed on ensuring that the Bank was adequately staffed and that appropriate training opportunities were provided to employees. Additional efforts were also placed on strengthening various aspects of the Bank's policies and procedures.

Decision making on matters pertaining to the Bank's critical functions continued to be supported by several other key internal committees, such as the Monetary Policy Committee (MPC), the Regulatory Policy Advisory Committee (PAC), the Investment Committee, Staff Recruitment, Selection & Appointment Committee and the Pension Administration Committee.

LEGISLATIVE ISSUES

The Central Bank of the Bahamas Act

During 2016, discussions continued with the Government on a proposed modernisation of the governing legislation for the Central Bank. The recommended reforms, which have been endorsed at a high-level by the Government, will be put out for public consultation during 2017. The revamped legislation would, *inter alia*, extend greater flexibility to the Bank in debt market operations that support monetary policy objectives; impose more conservative limits on Central Bank lending to Government; and define a transparent process for recapitalization of the institution in the event of losses. The legislative reforms will also coincide with the necessary initiatives to strengthen financial stability mechanisms, including the focus on protection of depositors and dormant accounts.

Dormant Accounts

The Bank continued to develop proposals on revisions to the legislative framework for dormant accounts, engaging in a further round of consultation with the public, licensees and other domestic regulators. The proposed reforms will broaden dormant account protection from deposits to securities, and define the minimum period before which unclaimed assets would be handed over to the Government for liquidation. Following the second round of public consultations, which ended on 31st May 2016, the Bank made further revisions to the proposed drafts to amend the Banks and Trust Companies Regulation Act, 2000, and the Central Bank of The Bahamas Act, 2000, and submitted these to the Attorney General's Office for final vetting.

Crisis Management/Bank Resolution

Efforts progressed further on proposals to enhance the legislative framework for bank resolution for The Bahamas, as a precursor to finalizing a National Financial Crisis Management Plan. This undertaking incorporates feedback from technical assistance received in the context of the 2012 Financial Sector Assessment Program (FSAP) review conducted by the IMF and other technical assistance received from the Fund and the World Bank. The objective is to ensure strong alignment of The Bahamas' framework with recommended best international standards. The Central Bank has accordingly identified amendments that are required to the Central Bank of the Bahamas Act (2000), Banks and Trust Companies Regulation Act (2000), the Protection of Depositors Act (1999) and the Protection of Depositors Bye-Laws (1999).

Credit Bureau

An appropriate legal and regulatory framework to support a national credit reporting system, is already in draft form for The Bahamas. The Bank views the establishment of a credit bureau as an important part of strengthening the financial sector infrastructure, to facilitate greater efficiency in lending activities and to bolster financial stability. During 2014 and 2015, the Bank facilitated a public awareness campaign and consultations around the draft Credit Reporting Bill and the Credit Reporting Regulations. These have since been forwarded to the Ministry of Finance for the Government's approval and eventual submission to Parliament. It is anticipated that the Credit Reporting Bill and Regulations will be enacted in 2017.

RISK MANAGEMENT

The assessment, control and minimization of risks are pivotal to the Bank's governance processes, with the Internal Audit and Information Security Units playing key roles.

Internal Audit

The oversight of the Bank's system of internal controls, the audit process and risk management, is directed by the Audit Committee of the Board of Directors. Risk management processes are embedded within the operations of the Bank, and the framework assists in identifying, assessing and monitoring material risks and the actions taken to mitigate them.

The Internal Audit (IA) Unit supports both the Audit Committee and Management. To maintain independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

During 2016, the IA Unit focus included an examination of critical financial operations, purchasing & procurement, contract management, project management and the Business Continuity Plan. The effectiveness of departments in discharging their functions also remained under review, including the risk-based supervision process, exchange control administration, research & statistics, human resources, corporate budgeting, and physical security. The Unit also supported various working committees of the Bank, aimed at promoting a robust control and compliance environment, and provided assistance during various external reviews of the Bank.

Information Security

The Information Security (IS) Unit maintained its focus on the security and governance arrangements around the Bank's information management systems. In 2016, considerable progress was made in this area, with key processes implemented to strengthen the protection of the Bank's information assets, and heightened emphasis given to promoting a culture of data protection and integrity within the Bank. During the year, the Information Security Steering and Advisory Committee, comprising senior and middle managers was established, as a forum to advise the Governor and the Board on strategic policy issues affecting the Bank's information management system.

In line with industry best practices, the Bank conducted an IT security assessment to determine the degree to which information system security controls were being correctly implemented. The assessment also included a network penetration test and a gap assessment of internal policies and systems. The Bank continues to leverage the outcome of such exercises to pursue continued strengthening of its information security frameworks.

The Bank also commenced a four-phased IT modernization and process maturity assessment project. The Bank envisages a comprehensive modernisation of its information systems environment, impacting core business processes, strategies and regulatory functions. The assessment will produce a procurement template for new investments in information systems, and further governance strengthening.

In the area of information security awareness, the Bank also hosted its third annual Information Security Month and Fair in June, which featured both local and international exhibitors and speakers. The exercise serves mainly to promote security conscious practices among staff.

BANKING OPERATIONS

Currency Operations

As the lone issuer of currency, the Bank manages and safeguards the supply of banknotes and coins available to the public. It continuously promotes initiatives to increase public confidence, in and knowledge of, the Bahamian currency products. Striking a balance between durability, security, and aesthetics is now at the forefront of this process.

The most notable development for circulating currency was the release of the CRISP Evolution \$10 (CE\$10) on 28th September 2016. It is the culmination of three years of design and production efforts, and the first denomination to be released in the new banknote family. The next denomination to be released will be the CE\$1 on 27th September 2017. The Bank plans to release at least one new denomination each year, leading to the complete redesign of the 8-member family (including the \$½ and \$3) by the end of 2021.

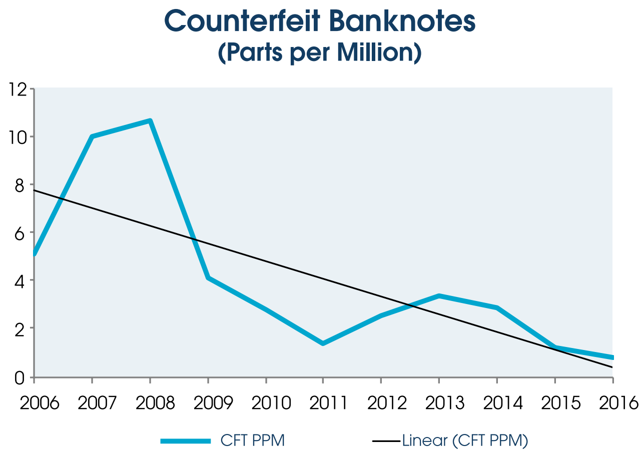
The new banknote family also builds on the Bank's fight against counterfeiting, with the addition of more denomination-specific features, such as security threads, tactile bars for the visually impaired, optically variable inks and substrates. Each member will bear similar aesthetic family traits, but form part of a tiered security strategy—based on circulation usage—as follows:

Banknote Security Tiers

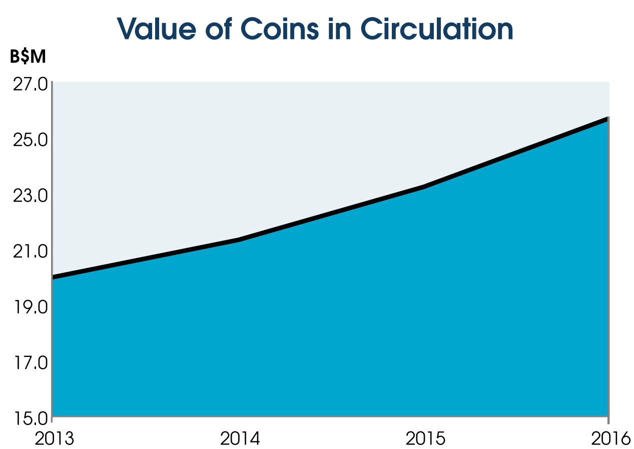
DENOMINATION	PUBLIC CONSUMPTION	COUNTERFEIT RESISTANCE
\$100 \$50	Value Storage	
\$20 \$10	Transactional	
\$5 \$1	Low Value	
\$3 \$1/2	Novelty	

In a recent study conducted by the European Central Bank involving 28 countries, The Bahamas was ranked as having one of the most successful anti-counterfeiting regimes when measured using the most widely accepted statistic—counterfeits detected parts per million (ppm) banknotes in circulation. The Bank has observed a gradual decline in the incidence of counterfeit noted (measured in pieces per million (ppm) notes) since 2006—just after the introduction of the CRISP family—a trend which continued in 2016, when that ratio dipped below the 1.0 ppm mark, the first time since the measurement was adopted.

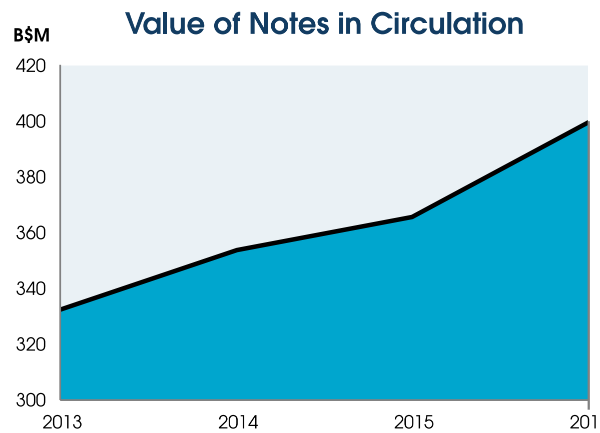
The Bank continued its public education initiative by hosting two anti-counterfeit workshops in Nassau, and one in Grand Bahama. Private sessions are also available to institutions with large staff compliments, as the Bank recognizes some of the difficulties associated with scheduling large-scale offsite training. In 2016, the Bank expanded on this initiative with the launch of the CE\$10 virtual tour, an online application which teaches users how to properly authenticate the new banknote. Each member of the family will have a corresponding virtual tour published on the banknotes page of the Central Bank's website.



The Bank maintains a complement of thirteen denominations in active circulation, with coins ranging from 1¢ to 25¢ and banknotes ranging from $½ to the $100. The 1¢ coin and $1 denominations perennially comprise the largest quantities of coins and banknotes in circulation, respectively. However, the 25¢ coin and $100 banknote account for the largest coin and note values in circulation, respectively. Conversely, the 15¢ coin and $3 banknote make up the lowest quantities of coins and banknotes in circulation, respectively. In 2016, the total quantity and value of currency in circulation continued its upward trend, as the demand for Bahamian currency continues to grow (see chart).



In keeping with its goal to revitalize its collectors' coin programme, the Bank released the 2016 $10 Nassau coin in November. This coin, which is the second in a five-coin series, was minted in fine silver with colour on the obverse side and depicts the festival most synonymous with the city of Nassau, Junkanoo. The Nassau Junkanoo coin has a limited mintage of 1,000 pieces worldwide and is available for purchase from all authorized dealers and commercial banks. The Exuma coin, whose release was originally planned for 2015, was rescheduled to April 2017. In addition, a fourth coin—highlighting the island of Bimini—is slated for release in November 2017.



The British Pobjoy Mint also completed its long awaited release of the 2012 Golden Knights coin, commemorating the gold medal achievement of the men's 4x400m relay team at the London Olympics. The project was completed under a license/royalty agreement with Pobjoy, which produced 10,000 pieces of the $10 coin minted in sterling silver and an unspecified quantity of a $1 version in cupronickel. Both items were produced and marketed by British Pobjoy Mint and are available for purchase online. Images of both coins are available for viewing on the Bank's website. The Bank is continually exploring ways to modernize its circulation and commemorative coin products, educate the public on new initiatives and industry trends, and deliver service befitting that of an issuing authority.

Domestic Debt Markets

The Bank continues to serve in its capacity as Registrar and Transfer Agent for the Government and certain public enterprises, with a residual number of issues managed by private financial institutions.

Under public enterprises' instruments, the Bank facilitated a private offering of $0.7 million in Bridge Authority Bonds in March 2016, increasing the outstanding value to $29.0 million. Outstanding bonds of the Bahamas Development Bank were reduced to $46.0 million, after a $4.0 million maturity in July 2016, while the stock of Clifton Heritage Authority and Education Loan Authority Bonds remained at $24.0 million and $67.0 million, respectively.

Most debt management operations concentrate on Bahamas Government Registered Stock (BGRS), which stood at $3,037.5 million as at December 31, 2016, representing an increase of $242.0 million from December 31, 2015. The Bank facilitated eleven Initial Public Offerings (IPOs) totalling $395.0 million. This included a $20.0 million Hurricane Relief Bond to assist with recovery efforts in the aftermath of Hurricane Matthew, as well as a $120.0 million one-year note to fill the gap between the 182-day Treasury bill note and medium-term paper. In addition, scheduled redemptions totalled $153.0 million. In the last quarter, the Bank conducted two secondary market offerings of $30.6 million from its own holding—the first since late 2014. The settlement structure employed in these instances mirrored the IPOs, aimed at enhancing the efficiency of the secondary market.

Outstanding Treasury bills (short-term liabilities) decreased by $14.0 million to $585.3 million. The Bank facilitated four taps totalling $156.0 million and retirement of $170.0 million. The average tender rate fell by 0.3175 to 99.5125 for 91-day maturities.

As part of its public securities modernization efforts, the Bank took initial steps to develop a centralised securities depository (CSD), which aims to align domestic practices for issuing and settling securities transactions with international standards. The depository is also expected to provide improved support for the amalgamation of the Government's domestic debt operations, with delineated roles for the Bank and the private financial institutions. The CSD will promote real-time bidding of securities and settlement of secondary market transactions between registered participants. These efforts will be supported by modernization of the legal framework around domestic securities, including the dematerialization of BGRS and Treasury bills, and will promote a more efficient space for yield curve development.

FOREIGN RESERVES MANAGEMENT

The Bank's foreign currency operations meet the debt and external operational needs of the public sector and absorb the residual effects of commercial banks' trading activities with the private sector. These collectively impact movements in the stock of international reserves.

During 2016, external balances improved by 11.3% to $904.0 million, and were supported by the Government's $100 external borrowing in the first month of the year, combined with sustained net foreign currency inflows from real sector activities and generally lower world crude oil prices, which lowered oil import costs for the public electricity company.

The Bank's reserves management strategy, strikes a balance between maintaining adequate liquidity for unexpected net drawdowns and a conservative income generating strategy from investments in low risk deposits and sovereign debt. Liquidity management tools included holding cash and cash equivalents, as well as investments in overnight repurchase agreements and fixed deposits. At end-2016, the liquidity tranche represented approximately 28.7% of the external balances, compared to the Bank's target range of 30.0%. The Investment Tranche (71.3% of closing balances)—which continued to focus on medium to long-term sovereign securities—showed a slight uptick in the concentration of supranational and agency debt vis-à-vis Treasury notes. In addition, holdings in Special Drawing Rights (SDRs) and the reserve position (reserve tranche) at the IMF remained largely unchanged.

The Investment Committee (IC) is responsible for implementing and monitoring the strategic asset allocation mandates prescribed under the Central Bank Act and the Investment Policy and Guidelines. The IC meets regularly to analyse global market trends, review investment proposals and discuss potential risks to the external reserve portfolio. These meetings also focus on developing domestic debt management strategies to recommend to the Government. Under the Board approved framework, the IC has oversight of the risk/return framework and has targeted investments in the highest rated sovereigns and international organizations. This conservative investment strategy is grounded in the aim to preserve the portfolio's capital base, while generating modest income and capital returns. Throughout the course of the year, the Bank has been able to maintain the liquidity positions required to settle routine and unexpected foreign exchange claims.

During the year, improved yields in the US Treasury market in late 2016 were insufficient to improve the average portfolio return, which declined by 11 basis points to 2.05%, versus 2.16% in the prior year. In particular, the Bank had limited scope to adjust the maturity profile of the investment tranche before the close of the year. The performance of the Liquidity Tranche improved significantly, however, with a more than doubling of average returns from 0.37% to 0.91%. The tranche also largely absorbed the growth in reserve balances during 2016.

DORMANT ACCOUNTS ADMINISTRATION

The Bank both administers and acts as custodian of dormant deposit accounts. As mandated under Section 20 of the Banks and Trust Companies Regulation Act, 2000 (BTCRA), licensees are required to transfer balances on deposit accounts that have been inactive for a period of seven years. An analysis of the dormant account data showed that the cumulative number of facilities transferred

Box 1: MONETARY POLICY 2016

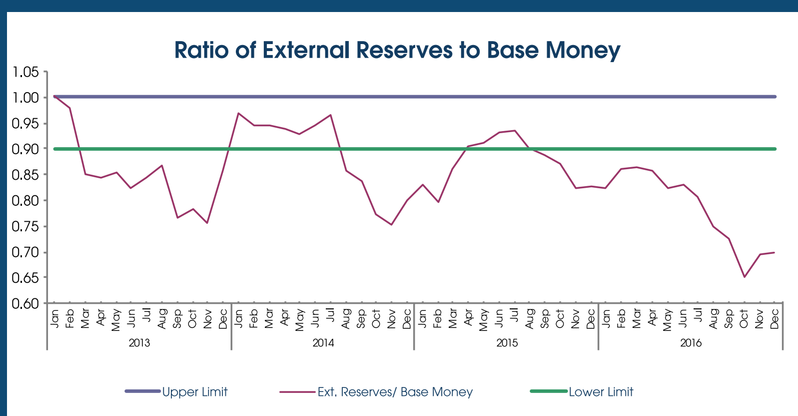
The Bank's Monetary Policy Committee (MPC), which meets monthly, is chaired by the Governor and includes several Heads of Departments and other technicians. The Committee advises and assists the Governor in formulating policy interventions to promote monetary and financial stability, and the sustainability of the fixed exchange rate regime. The monthly surveillance analysis of the MPC is summarized in reports, which are published within five days of each meeting.

The Committee's deliberations during the year were conducted against the backdrop of several inter-related economic trends, as well as emerging challenges, namely:

- Subdued domestic economic activity and elevated unemployment levels; notwithstanding the signs of growth in the tourism sector.
- The impact of Hurricane Matthew on the key foreign exchange earning sectors and its long-term effects on external reserves.
- The downgrade of the country's credit rating to "non-investment grade" status by Standard and Poor's in December, and its implications for the Government's debt management programme.
- The further improvement in banks' credit quality indicators
- Gains in external reserves.
- The improving prospects for tourism, given the re-start of the stalled Baha Mar project.

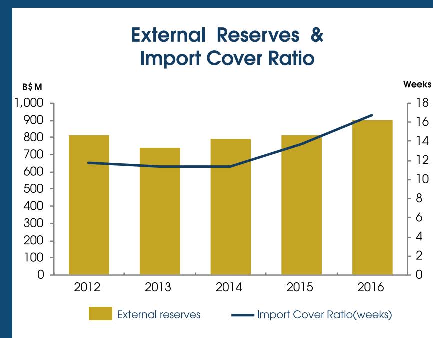
Against this backdrop, the MPC closely monitored external risks to the domestic economy and noted several important trends. On the positive side, the strengthening of the US economy favoured a more upbeat tourism outlook. However, the surprise vote by United Kingdom citizens to exit the European Union, termed "BREXIT", added new uncertainties to the global outlook. The MPC also assessed continued reduced pressures on the external reserves from lower oil prices, despite an agreement by OPEC and other major producers in November to limit output, which could potentially erode the discount.

Given the Bank's mission to maintain adequate external reserves to sustain the fixed exchange rate, the Committee maintained its strict monitoring of the two key external reserve adequacy indicators, namely the ratio of external reserves to base money and the import reserve cover. In this regard, during the first quarter, the receipt of proceeds from the Government's US$100 million equivalent external loan, elevated the base money ratio to 86.3%—the highest for the year. The ratio remained close to this range over the next few months, as reserves improved, given the net receipts from the foreign exchange earning sectors. However, owing in part to the seasonal increase in foreign currency demand during the latter half of the year and the Government's domestic borrowing activities, the ratio fell in the ensuing months, before edging up to 70.0% at end-December.



With reference to the more broadly tracked total import reserve cover adequacy indicator, the ratio rose from 17.3 weeks of the current year's imports in the first quarter of 2016, to peak at 19.5 weeks in the second quarter. It stabilized at approximately 16.8 weeks in latter half of the year—well above the international benchmark of 12.0 weeks.

Given these developments and the generally positive outlook for net foreign exchange earnings—including the resumption of the Baha Mar project—the MPC recommended the reduction in the Discount rate by 50 basis points to 4.00%, which the Bank announced on 22nd December. The reduction was to provide the domestic business sector with additional access to credit to facilitate growth in housing sector investments and commercial activity, predicated on the lowering of commercial banks' Prime lending rate by the same margin to 4.25%, which took effect from 3rd January 2017.



The MPC also maintained its monitoring of banking sector soundness and stability indicators. The Committee noted that liquidity remained at historically high levels, reflecting the constrained pace of economic activity and lending restraint, while average capital levels remained robust–well in excess of the regulatory target and trigger ratios of 17.0% and 14.0% respectively. Credit quality improvement was led by the significant reduction in NPLs which occurred over the year, due mainly to the sale of delinquent mortgages to a non-bank, alongside ongoing loan restructuring activities and some inroads from the Government's revised Mortgage Relief Programme (MRP).

The Committee also reviewed new exchange control liberalisation proposals targeting increased access of domestic companies to external funding sources. These recommendations were forwarded for the Government's review in early 2017.

to the Bank increased by 3,985 (10.2%) to approximately 42,985. The corresponding dormant account balances totalled $95.3 million, denominated in eight currencies. In the context of reinvested earnings, total investments of the Dormant Account Fund totalled $81.2 million. Most liabilities were denominated in United States dollars (65.5%) and Bahamian dollars (21.8%). Other currencies included the Canadian dollar, British pound, Swiss franc, euro, Australian dollar and Hong Kong dollar.

EXCHANGE CONTROL ARRANGEMENTS

During 2016, the Exchange Control Department continued to carry out the Bank's statutory mandate to monitor public demand for foreign exchange, and to process cross-border transactions in accordance with the permissible bounds of official policies. Throughout the year, the Bank received approximately 20,000 correspondences, primarily related to applications for approvals or regularisation on current and capital account transactions.

The Bahamas Depository Receipt (BDR) programme, which facilitates residents' investments in foreign securities, continued to have modest participation. A total of three licensed Broker Dealers participated in the programme over the year, utilizing $19.9 million of the $35.0 million allocated annually.

Residents continued to make outward capital investments through the Investment Currency Market (ICM) at an unchanged premium bid and offer rates of 12.5% and 10.0%, respectively. The related foreign currency sales for 2016 amounted to $12.9 million.

In terms of foreign exchange approvals, the service sector continued to dominate the approved annual current account payments, at $909.2 million, followed by oil payments ($626.3 million), debt servicing payments ($470.9 million), dividend payments ($393.7 million), insurance outflows ($275.5 million), non-oil imports ($183.3 million), and money transfers ($83.2 million).

Box 2: RECENT EXCHANGE CONTROL LIBERALIZATION MEASURES

The Central Bank announced a series of liberalization measures which took effect from 1st April 2016, affecting both capital and current account transactions.

Current Transactions

Under delegated authority from the Central Bank, commercial banks and money transmission businesses (MTBs) are now able to approve applications for increased purchases of foreign currency for external payments, against documentary evidence. Such transactions do not require the prior approval of the Central Bank. Aside from the delegated limits, commercial importers continue to apply directly to the Central Bank for larger authorized amounts, against which multiple transactions can be processed.

The revised delegation include new limits for gifts to persons living abroad of $5,000 per transaction (was $1,000); corporate credit cards, up to $25,000 (previously not allowed); educational institutions abroad, the full amount on the bill (was $25,000 per transaction); and students attending educational institutions abroad, $5,000 per transaction (was $2,500). Meanwhile, under non-oil imports, the over-the-counter limits for remittances directly to suppliers is up to $5,000 and for oil imports, to $25,000 per transaction (both previously not allowed). In the case of temporary residents' outward remittances, salaries and accumulated savings, without reference to the Central Bank, are now without limits (was 50% of salary and all accumulated savings).

Capital Transactions

Revisions to the capital account, still based on prior approvals from the Central Bank, were either geared towards increasing access to direct investments abroad, or to providing greater access for temporary residents to domestics sources of finance. Development of the local capital markets also continued to be promoted.

- Special Criterion Investment: For direct investments both in The Bahamas' offshore sector, as well as abroad, residents are permitted to purchase up to $2,000,000 per person or entity via the official market, with the prior approval of the Bank. This facility is subject to an overall limit of $10,000,000 per investor group, per transaction, and may be accessed once every three years. The previous limits were $1.0 million per person/entity up to $5.0 million every three years.
- Publicly Traded Foreign Securities Listed on BISX as Bahamian Depository Receipts (BDRS): The maximum portfolio access at the official rate remains at no more than 5% of the external reserves at previous year's end, but is now capped at $35.0 million as opposed to $25.0 million previously. Such investments, which must be sponsored by licensed broker dealers, must still be listed as BDRs on the stock exchange. The operational framework, established in 2006, continues to apply; with local securities offerings subject to appropriate approvals from the Central Bank, the Securities Commission and BISX.
- Bahamian Dollar Credit Facilities for Temporary Residents (Mortgage Loans): Temporary residents, borrowing jointly with resident Bahamian dollar spouses, may borrow in Bahamian dollars without limit and without reference to the Bank, to finance owner-occupied residential dwellings. Borrowing for investment purposes, including the purchase of vacant property, duplexes and second homes, still require prior Exchange Control approval. However, temporary residents, who have resided and worked in The Bahamas for at least three years, may borrow up to $400,000 in Bahamian dollars to finance owner-occupied residential dwellings (was $200,000).

During the year, the Government approved a further relaxation of various Exchange Controls on current and capital account transactions. The new liberalization measures focused, *inter alia*, on increased delegated approval limits on commercial banks' sales of foreign currency to the public for current account items, including payments for imports, travel and services; expanded annual access of the private sector to the official market for outward portfolio (Bahamas Depository Receipts) and direct investments; and increased access of temporary residents to the domestic currency financing and investment opportunities.

During the third quarter of 2016, the Bank began to explore additional scope for capital account liberalisation to provide access to funding for targeted domestic sectors. These would include activities that would either have a positive net impact on the economy's net foreign exchange earnings potential, or which would serve critical national development objectives. Through the Governor's Office, Exchange Control and Research Departments, the Bank engaged industry stakeholders with respect to these proposed additional relaxation measures.

Authorised Dealers (commercial banks) and Authorised Agents remained important stakeholders in the administration of exchange controls. At the end of 2016, the number of Authorised Dealers stood at eight, while the number of Agents remained at eight. The Exchange Control Department also continued its training programme to assist Authorised Dealers in ensuring customer compliance with requirements of the enhanced delegation of authority.

In its cooperation with public sector agencies, the Department engaged with the Ministry of Finance and the Bahamas Investment Authority, respectively, to strengthen the mechanisms for the collection of stamp taxes on foreign exchange transactions, and to identify streamlined practices to ease the processing of foreign investment approvals.

PAYMENT & SETTLEMENT SYSTEMS

Oversight

The Bank, through its Payments Unit, continued to focus efforts on strengthening the oversight of the domestic payment and settlement systems. In this context, quarterly meetings were held with members of the Bahamas Automated Clearing House (BACH), which processes small value transactions of less than $150,000. These meetings considered collateral and settlement issues of the commercial banks, internal audits, and other significant developments that emerged. Similar contact was maintained with key stakeholders of the Bank-owned Bahamas Inter-Bank Settlement System (BISS). The BISS provides real time gross settlement (RTGS) for large value payments greater than $150,000. In addition, the Bank produced draft guidelines and regulations aimed at providing the basis for regulatory oversight and further development of retail payment products and services.

Market Developments

In 2016, the Payments Unit focused on infrastructural improvements to the BISS. These initiatives enhanced the overall performance of the RTGS system and augmented the Bank's ability to provide settlement services to the financial community. Further, as a part of its strategic objectives, attention was given to improving the resilience and reliability of BISS and building crisis management competencies, with rigorous testing of failover systems.

A number of efficiency enhancements to reduce duplication of efforts required to settle transactions generated by core internal systems, were scheduled for release in 2016. The two most notable initiatives—Global Collateral Services (GCS) and the Trusted Payments and Settlements Initiative (TPSI)—were delayed due to scheduling conflicts, with higher-profile security upgrades required during the year. The Bank has rolled both projects into its core deployment strategy for 2017, during which time, both programmes will be launched. Other key enhancements scheduled for 2017 include a Payment Compliance Monitor (PCM), designed to identify transactions that potentially violate anti-money laundering and counter financing of terrorism (AML/CFT) guidelines.

Real Time Gross Settlements

In 2016, the volume of RTGS transactions continued to grow. In addition to direct interbank transactions, the seven participating clearing banks processed X9 (cheques) and NACHA (direct credits) payments over the BISS-RTGS, in seven daily settlement windows, commencing at 8:15 a.m. and ending at 4:45 p.m. During the year, the total volume of transactions processed by the RTGS rose by 13.0% to 85,504 items, extending a 15.9% increase in 2015. Similarly, the associated value of transactions advanced by 14.9% to $25.5 billion, following growth of 23.4% to $22.2 billion in the previous year.

Cheques

The reduction in the use of cheques noted over the last decade was sustained in 2016. Processed instruments fell by 4.8% to 2,611,102, following a 2.3% falloff to 2,743,184 in the prior year. Similarly, the associated value of these payments declined by 1.3% to $7.0 billion, in contrast to an increase of 2.8% to $7.1 billion in 2015.

NACHA Payments

Payments processed through the BACH are in accordance with the globally accepted National Automated Clearing

House Association (NACHA) format. During the year, the volume of these transactions firmed by 14.3% to 2.3 million, while the value strengthened by 32.9% to approximately $2.0 billion.

Retail Payment Services

The increased use of technology continues to shape the development of the payments landscape in The Bahamas. This trend was sustained in 2016 via an acceleration in the volume of electronic payments (e-payments) and transactions, with the reliance on cash dispensing contracting.

Automated Teller Machines (ATMs)

Automated Teller Machines (ATMs) are installed throughout the country and are mainly located inside commercial bank branches. Standalone terminals can be found in areas of high customer traffic, such as supermarkets and gas stations. Several of the machines—specifically those placed in high tourist areas—are configured to dispense both Bahamian and US currency. In 2016, the number of ATMs in operation rose by 13.9% to 393; however, the volume of transactions decreased by 6.3% to 10.6 million, while the corresponding value contracted by 30.3% to approximately $2.0 billion.

Debit Cards

Debit cards are issued locally by all commercial banks. International brands, such as Visa and MasterCard, that allow both domestic and foreign transactions, have substantively replaced "non-branded cards". In line with this development, the number of debit card transactions firmed by 9.6% to 9.1 million in 2016, while the corresponding value expanded by 14.5% to $1.4 billion.

Credit Cards

Credit cards issued by the local commercial banks are generally affiliated with international payment companies such as Visa and MasterCard. Most personal cards carry limits which range from $500-$5,000, $5,000-$10,000 and over $10,000. For select high net worth individuals, there is scope for negotiating even higher limits.

An analysis of credit card data for 2016 showed that as a result of banks' aggressive marketing campaigns, the number of cards issued expanded by 18.2% to 225,403, extending the 19.8% upturn registered in the previous year. This gain corresponded with a 2.8% increase in the value of the unpaid balances to $256.2 million, compared to a gain of 1.6% in the prior year. Growth was mainly associated with the $5,000 and under limit cards, which advanced by 20.5%, while the value of credit outstanding for this category fell by 4.1% to $111.6 million. Further, the number of cards with a limit of $5,000-$10,000, increased by 4.1%; however, the corresponding value fell marginally by 0.9% to $70.4 million. For cards with caps over $10,000, the number of cards grew by 13.2%, and the relevant value rose by 20.2% to $74.2 million.

Internet Banking

Commercial banks offer a number of Internet banking services to their customers, which affords them the ability to provide a range of services, such as account balance checks, transfers between personal and third party bank accounts, utility bill payments and foreign currency purchases. The range of Internet services vary between institutions and some banks levy a fee for making these facilities available. The Bank's 2016 Payment Systems Survey revealed that the number of electronic banking users increased by 13.2% to 75,819 accounts compared to 66,970 users in the previous year.

Mobile Payments

The fledgling mobile payments sector has shown significant potential globally as a rapidly growing component of electronic retail payments. The use of smart phones and near field communication (NFC) technology feature prominently on this platform. Domestic marketing is already taking hold in these areas. Interest in such solutions, as well as the Bank's overall strategy to promote the use of less cash over the medium-term, are motivating the Central Bank's intensified efforts to put a comprehensive regulatory framework in place for non-bank electronic payments solution providers. The Bank intends to conclude this initiative during 2017.

ECONOMIC ANALYSIS, STATISTICS AND RESEARCH

During 2016, the Bank, through its Research Department, continued to play a pivotal role in providing domestic economic and financial information to the public, as well as internal and external policy advice to key public sector stakeholders.

With regard to its publications, the Department sustained its efforts to supply the public with comprehensive and timely information on the performance of the domestic and international economy, through the Monthly Economic and Financial Developments (MEFD) report, Quarterly Economic Review (QER) and Quarterly Statistical Digest (QSD). Two issues of the Financial Stability Report (FSR) were published, which analysed developments in the financial sector and assessed the potential risks to stability from both internal and external factors.

The year was also active in terms of its data and information surveys. Notable outcomes included the publication of the results from the second edition of the Bank Lending Conditions Survey for March 2016. Further, the inaugural Survey of Retail Banking Charges in The

Bahamas, provided an in-depth analysis of commercial bank fees over the six-month period December 2015 to June 2016. In addition, the Department published in the March 2016 edition of the QER, the findings from the annual survey on the, "The Gross Economic Contribution of the Financial Sector to the Economy", for 2015.

As part of its ongoing operations, the Department provided economic data to a variety of multilateral organizations, such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Caribbean Centre for Money and Finance (CCMF), the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IADB).

Research projects undertaken by staff focused on a range of topics, which were presented at the Department's internal forums and at external conferences. These studies included an investigation into China's influence in the Caribbean, an assessment of the policy implications of the removal of the trade embargo between Cuba and the United States, the potential impact of oil drilling on the Bahamian economy and a comparative analysis of the costs/benefits of a personal income tax versus a value added tax (VAT). Further, the Bank hosted the 48th Annual Caribbean Centre for Money and Finance (CCMF) Conference in November 2016, under the theme "Issues and Challenges Facing The Caribbean in the New Global Economy". At the event, staff from the Department presented two papers entitled, "An Assessment of Financial Soundness of the Credit Union Sector in The Bahamas (2008-2015)" and "Is the Caribbean an Optimal Currency Area?"

During the year, the Bank continued to pursue initiatives to improve the quality and scope of data collected and to ensure consistency with international compilation standards. In 2016, a team from the Commonwealth Secretariat provided technical advice on the modernisation of the Government's debt management framework, including proposals to de-materialize Government securities. Further, a Caribbean Regional Technical Assistance Centre (CARTAC) mission in September, provided input into the revamping of the statistics reported by the pension fund industry, and in this regard, staff received training related to the development, maintenance, and dissemination of key financial health and stability indicators for the sector.

The Department continued to play a pivotal role in the Bank's outreach programme, with staff facilitating regular presentations to high school and college students on the role and functions of the Central Bank, and also fielded a number of requests from members of the public to provide presentations on various economic topics.

PRUDENTIAL SUPERVISION AND REGULATION

The Central Bank continued to make progress in strengthening the regulatory environment for its licensees. The operating environment remained challenging for financial institutions, reflecting adjustment pressures in both the domestic economy and the external setting. Financial institutions also faced increased demands to manage cybersecurity risk, invest in data protection, and to manage market pressures from rapidly developing financial technology solutions (FinTech).

In the domestic environment, balance sheet growth prospects remained tempered by constrained economic activity and only gradually unwinding non-performing loan exposures. Delinquency management has been generally effective, as banks continue to work with customers on a case-by-case basis to restructure facilities where possible, with the strategy remaining aggressive across banks. Industry-wide non-performing loan (NPL) levels declined more noticeably in 2016, due in part to the sale of a block of claims to a non-bank entity. Given the high-levels of regulatory capital, there also continued to be increased demand for operational efficiencies and the sustainable, efficient deployment of capital, commensurate with regulatory norms.

Growth opportunities in the international sector remained particularly challenged by the evolving standards promulgated by standard setting bodies and the various multi-lateral initiatives on tax transparency and cooperation, against the backdrop of market volatility, high liquidity, a low interest environment and diverse client expectations. The operational focus of the licensees remained on developing information technology platforms, integrating acquired businesses, consolidating client data, enhancing client services and improving operational efficiencies. These will remain at the forefront, as the global regulatory regimes deepen and broaden, specifically in the context of KYC and transaction monitoring expectations and the continued pressure on mitigating de-risking vulnerabilities.

In an environment of compressed earnings and increased regulatory compliance costs, a sector-wide trend towards consolidation continues, through outsourcing arrangements, staff rationalisation, and branch closures. Similarly, business model shifts continue to influence some withdrawal from the jurisdiction. In the meantime, some licensees face increased hurdles maintaining international correspondent banking relationships (CBRs), owing to tightening enforcement of AML/CFT standards and compressed profitability of the correspondent banking model, with a disproportionate effect on emerging market developing economies like The Bahamas.

In the regulatory space, The Bahamas based operations continue to transition to the more demanding Basel III capital and liquidity standards. These reflect a post-crisis (post 2008) emphasis on increased buffers among other risks over the course of the business cycle (countercyclical buffers), large exposures, systemic importance (including too big to fail) and maturity mismatches. These collectively place more conservative parameters on financial institutions' operations and aggravate profitability concerns.

Basel II & III Implementation Programme

The Bank focused on the continued roll out of Pillars I, II and III of the Basel II framework, and on the capital component of the Basel III regime. The implementation centred, *inter alia,* on financial institutions' Internal Capital Adequacy Assessment Process (ICAAP), revisions to the Central Bank's guide on its Ladder of Supervisory Intervention and the introduction and live implementation of the new and revised capital reporting forms under the Basel III framework. Several internal and external training sessions were held in February, to introduce new forms and enhance reporting standards for licensees.

During the first quarter of 2016, the Bank conducted its second-round Quantitative Impact Study (QIS 2) as a follow-up to the first, which was published in December 2015. The purpose of this exercise was to further assess the effects of the Basel II/III framework on licensees' capital base, and to ensure that the online reporting forms were properly calibrated and tested to support the new capital reporting requirements. Forty-four licensees were surveyed, with results generally suggesting that the new Basel II/III requirements would not materially impact capital levels and that the industry would remain well capitalized relative to risk-weighted assets.

Additionally, the Bank released the revised versions of the **Guidelines on the Management of Capital and the Calculation of Capital Adequacy**, the **Guidelines for the Management of Interest Rate Risk in the Banking Book** and the final versions of the **Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP)** and **the Minimum Disclosure Guidelines**. Over the near to medium term, the Bank will focus on implementing the phased-in arrangements under the Basel III framework, which is expected to include a Domestic Systemically Important Banks (D-SIB) framework; and focus on the Leverage Ratio, the Liquidity Coverage Ratio (LCR), and the Net Stable Funding Ratio (NSFR).

Risk-Based Supervisory Framework

During the year, the Bank continued to refine its risk-based supervisory framework and in this regard, introduced the concept of "evergreening" as an enhancement to the risk assessment process. The evergreening framework is intended to refresh the Bank's point-in-time risk view of financial institutions and deploy the necessary supervisory tool, based on the magnitude and direction of such risks. The framework will be formally cemented in 2017. As at 31st December 2016, 14 of the 25 assessments were completed, six were at various stages of completion, four were deferred to 2017, and one was dropped from the schedule, due to the pending liquidation of the licensee. Additionally, one discovery review was completed, with two deferred to 2017.

On-site Examination Programme

As indicated in Table 1, 35 on-site examinations and eight discovery review meetings were completed. The examinations conducted included:

- Limited scope review of commercial banks' AML/CFT systems, credit, financial reporting and controls and outsourcing;
- A cross-sector review of the private trust companies (PTCs), international financial institutions, and registered representatives (non-Central Bank licensees) to confirm the range of practices within this subset of the sector;
- Follow-up inspections of credit unions, given their transfer to the Central Bank's supervision;
- Facilitation of examination visits by various foreign (home) regulatory authorities of Bahamas' licensees, focusing on reputation risk, operational risk and credit risk, and visits by the Central Bank to a foreign branch to review credit operations of institutions connected to The Bahamas; and
- Various other examinations on risk areas, including reputation, fiduciary, operational risks and corporate risk were examined, and follow-up on remedial work to close gaps identified from previous examinations.

As an outcome of this process, 27 examination reports were completed, including seven which were outstanding from 2015. Reports were not required to be produced for the visits by the foreign (home) regulators. As at December 2016, five reports were still in the process of being finalized, including three from examinations conducted during the final month.

Joint Examinations with the Securities Commission of The Bahamas

The Bank undertook four joint examinations with the Securities Commission of The Bahamas (the Commission), utilizing the protocols for the joint examinations, which was formalized in January 2012. In addition, the Commission, for the first time, participated in three of the Bank's discovery review meetings with joint licensees. This is expected to be an ongoing process, thus strengthening supervision, and further streamlining the on-site examination process for jointly regulated financial institutions.

Table 1: Summary of On-site Examinations Conducted in 2016

	2014	2015	2016
Examinations			
Domestic Licensees	2	1	4
Other Licensees	21	17	15
Follow-up /Special focus examinations/Regulator Initiated	2*	7*	4*
Discovery Reviews	1*	2*	8*
Financial Credit Unions	7	3	4
Total	**33**	**30**	**35**
Reports			
Finalized Reports	27	21	27
Reports in Progress	6	7	5
Total	**33**	**35**	**32**

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

Off-Site Surveillance and Monitoring Activities

Commercial Banks

During 2016, the domestic asset base of commercial banks and trust companies increased by 1.7% to $10.0 billion. This was due to a rise in financing to the Government and balances with the Central Bank. The commercial banks' branch network stood at 78, compared with 79 in the previous year.

Throughout 2016, enhanced monitoring of these licensees was maintained. The Bank employed its supervisory objectives through its risk-based supervision framework. This was supported by prudential meetings with senior management to discuss emerging risk trends, operations and strategic initiatives to be implemented within 2017 and beyond. Meetings were also held with staff in critical functions, such as internal audit and compliance, for independent perspectives on internal risk management. Financial and regulatory data submitted were also reviewed to ensure compliance with prudential limits. Moreover, the Central Bank participated in regional and international home supervisory colleges, periodic teleconferences and exchanged home/host supervisory letters for consolidated supervision purposes. In preparation for the Administrative Monetary Penalty (AMP) regime, the Bank issued pro-forma statements to sensitize licensees to certain deficiencies ahead of time.

Credit Unions

In 2016, the credit union sector grew by one, to 10 registrants. At end-December, consolidated assets stood at $395.6 million, for an average growth rate of 6.7% over the past five years. Membership totalled 42,222 persons, equivalent to an estimated 19.4% of the labour force.

During the year, the Central Bank held meetings with senior management of the various unions, as part of the ongoing supervisory engagement with this sector. The Bank also continued its monitoring of the operations of the credit unions through the assessment of regulatory findings and key PEARLS[1] standard ratios. Training activities for the sector included a half-day industry seminar on the topics of Corporate Governance and Risk Management. This broadly covered board oversight, monitoring and risk assessment of significant activities, and the purpose of on-site inspections, and this was facilitated by CARTAC. In addition, the Bank participated in a roundtable discussion with key stakeholders, which was hosted by the Credit Union League.

Credit Risk Reviews

Credit risk is the most pronounced exposure facing the domestic financial system. The Central Bank's level of credit risk oversight is supported from regulatory and financial returns, as well as meetings with senior management. Through these meetings, the Bank is able to evaluate the measures, both qualitative and strategic, taken by licensees to mitigate risks, otherwise not evident through the monthly financial returns. Reliance is also placed on the direct review of Bahamian dollar (B$) portfolio trends for total loans; arrears and non-performing loans; sectoral and large exposures; provisioning levels and credit restructuring; delinquency management strategies; and specific aspects of operational risk management, including fraudulent activity and stress testing.

During 2016, significant progress was made relative to the strategies employed by the institutions to increase profits and lower the level of non-performing facilities. While some institutions continued to provide concessions to existing customers through debt consolidation and restructuring, progress was also made through the implementation of the revised MRP and the sale of non-performing mortgages to a non-bank entity. Domestic licensees also softened debt servicing terms as part of the recovery efforts following Hurricane Matthew.

In addition, close adherence to the 1.0% minimum regulatory general provision requirement was maintained by

[1] Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity and Signs of Growth.

the commercial banks. This prudential requirement is an important mitigant for losses not yet identified or materialized in the entire loan book.

Stress Testing

During the year, despite dividend payments to shareholders, a reduction in the retained earnings surplus and the redemption of approximately $3.4 million in non-qualifying Tier II capital, commercial banks' capital levels remained robust. The capital to risk-weighted assets ratio stood at 28.6% at end-December, well above the established regulatory target and trigger ratios of 17% and 14%, respectively.

Throughout 2016, the Bank Supervision Department continued to encourage commercial banks to integrate stress-testing models into the overall ICAAP, as required under Pillar 2 of the Basel II framework. The Department however, periodically updates the framework for its stress tests to assess the resilience of licensees to various extreme, but plausible shocks to risk factors, such as credit quality, domestic interest rates and liquidity. The framework employs both top-down and bottom-up approaches to assess the effect of provisioning levels and net earnings on licensees' capital adequacy ratios. In the relatively stable domestic market, interest rate risks were assessed as having little to no impact on the capital levels of licensees. Buoyant liquidity levels within the system were observed as potential mitigants in the event of the risk of a drawdown within a less than 30-day period. Given the mild economic activity, benchmark NPL levels are expected to remain within the $850.0 million to $900.0 million range in the near-term. Further, credit risk stress test results indicated that capital ratios would remain above required levels, even at a doubling in NPLs. Thus, at a system-level, no additional capital was required in 2016.

International Firms

International banks and trust companies totalled 232 or 94.0% of all financial institutions at the end of 2016. Of this total, 108 or 46.6% originated from G-10 countries. Collectively, the entities had an asset base of $175.7 billion, a reduction of $4.9 billion (2.7%) year-on-year, with business activities primarily in wealth-management, deposit taking, lending and trading.

A uniform set of supervisory tools were deployed to ensure the safety and soundness of the international sector, including on-going risk assessments, financial analyses, prudential and discovery review meetings, as well as meetings with internal auditors and on-site examinations, and collaborations with home regulators. The engagement with these institutions also remained focused around compliance with AML/CFT and KYC rules, and compliance with corporate governance best practices. With the implementation of Basel II and III, significant focus also continued on capital adequacy, which remained above the minimum regulatory requirements.

In an effort to achieve operational efficiencies and synergies within their groups, some international financial institutions outsourced various business functions. The impact of such a decision can be seen across several business lines, including information technology, finance/accounting and other back office processes. During 2016, the Bank approved 25 outsourcing arrangements against parent institution and third party providers.

Given adjustments to global regulatory and compliance initiatives, including foreshadowed deepening of tax transparency initiatives, the restructuring and reduction of financial presence within the jurisdiction continued. A total of 11 mergers and acquisitions took place during the year. Some smaller institutions benefited, acquiring the portfolios of exiting firms, and adopting growth strategies focused on new markets and business lines.

Meanwhile, licensees stayed active in managing risks from declining CBRs, in the face of de-risking initiatives. The Central Bank's survey revealed extensive contingency planning around such relationships, particularly within standalone operations. The Bank is also pursuing strategies to reduce risks to the jurisdictions, with emphasis on strengthening the national AML/CFT framework in the context of coordinated interventions across financial sector regulators.

Supervisory Policy and Guidance

The Bank either finalized or revised a number of guidelines in 2016, following ongoing consultation with the industry. In some cases, amendments were either sought or obtained to the relevant legislations, including:

New Guidelines

- **Technology Risk Management Guidelines (January 2016)**: These were issued to licensees with general guidance for addressing risks associated with technology used in business operations. The guidelines to promote the adoption of sound practices and processes for managing technology risks.
- **ICAAP Guidelines (August 2016):** These address a licensee's responsibility in developing and implementing its own ICAAP for the purpose of the institution's risk. The guidelines provide guidance to licensees on how to set internal capital targets and develop strategies for achieving those internal targets that are consistent with its business plans, risk profile and current operating environment. A licensee's ICAAP is not subject to approval by the

Central Bank; however, the licensee's internal capital adequacy assessment process will be subject to supervisory review, as appropriate.

- **Guidelines for the Administration of Monetary Penalties (August 2016):** The guidelines set out the enforcement procedures and administrative monetary penalties that would be imposed when regulatory deficiencies are identified in the operations of a Supervised Financial Institution (SFI), including non-compliance with supervisory orders or directives. The guidelines also promote awareness and enhance transparency of the penalties regime for SFIs and other relevant parties.
- **Guidelines on Minimum Disclosures (December 2016):** The guidelines outline a set of disclosure requirements, which would allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. The enhanced transparency is intended to strengthen market discipline by providing a common, consistent framework for assessing and comparing the underlying risks to which banks are exposed.

Revised Guidelines

- **General Information and Application Guidelines for Private Trust Companies and Their Registered Representatives (March 2016)**: These were revised to clarify that the reference location for licence fees are "as stipulated under the Third Schedule of the Banks and Trust Companies Regulation Act."
- **Guidelines for Assessing the Fitness and Propriety of Applicants for Regulated Functions (March 2016)**: The guidelines were amended to clarify the term "Senior Executive Officer" to be an individual who has been given the authority by the Board to commit the licensee with respect to legal and/or financial transactions.
- **Guidelines for the Management of Capital and the Calculation of Capital Adequacy (December 2016)**: The guidelines, which replace those issued in April 2005, align the Central Bank's overall framework for assessing the adequacy of a bank's capital with Basel II and III.
- **Guidelines for the Management of Interest Rate Risk (December 2016)**: The revised guidelines, which replace the guidelines issued in August 2012, were amended to address the trading and banking book boundary, as well as to update various sections in accordance with principles established by the Basel Committee on Banking Supervision and those in line with industry best practices.

Guidance Notice

The Central Bank also issued a notice on **Restricted Bank Licences (October 2016).** This formalizes the policy that was in force since 2012, that discontinued the granting of such licenses. The Bank has 'grandfathered' licensees that were in operation at the time, of which only one remains. This stance is in keeping with the strict definition of a bank defined as one that accepts deposits from the public. This policy position does not apply to restricted trust licences.

Finalized Legislation

- **Uniform Bye-Laws for Credit Unions (April and July 2016)**: The Uniform Bye-Laws that govern each credit union were initially released in April, with grammatical corrections made in July.
- **Bank and Trust Companies (Administrative Monetary Penalties) Regulations, 2016 (June 2016)**: The Regulations set out the legislative framework for the AMP regime, as well as outline the various contraventions that will attract a penalty, along with the classification and assigned penalty.

Engagement with Domestic and International Regulators

On the local level, senior staff from the Bank Supervision Department and the Legal Unit participated in the work of the Group of Financial Service Regulators (GFSR), which comprises the five domestic regulators for banks and trust companies, the securities industry, insurance companies, credit unions and financial and corporate service providers.

At the regional and international levels, senior staff of the Bank Supervision Department participated in regulatory colleges for the systemic commercial banks in the Caribbean and Canada in 2016. Senior staff also attended the Group of International Financial Centres' discussions, held as a part of the annual International Banking Supervisors' Conference in Santiago, Chile, in November 2016.

The Department continued its engagement with home consolidated regulators of licensees via the annual regulatory letters. This is a proactive measure to ascertain the risk areas identified within the group entity, and to gauge whether any impact would be transmitted to the established operations within The Bahamas. Information with respect to specific regulatory issues or financial, operational and environment risk factors are exchanged through the various Memorandums of Understanding (MOUs), in force with foreign supervisors.

In 2016, the Bank received and responded to 38 information requests from 20 foreign regulatory authorities (see Table 2).

Table 2: 2016 Requests for Cooperation

Country	Requests Received From Foreign Regulators
Anguilla	1
Antigua	1
Argentina	2
Barbados	2
Brazil	1
Canada	2
Cayman Islands	4
Cook Islands	1
Hong Kong	2
India	2
Luxembourg	1
Malta	1
Panama	2
Peru	1
Philippines	1
Spain	1
Singapore	2
Switzerland	6
Turks & Caicos	2
United States	3
Total Requests	**38**

SOURCE: Central Bank of The Bahamas

Regulated Entities and Functions

Incremental gains were recorded in most regulated vehicles during 2016, other banks and trust companies, which decreased by one to 248 (see Table 3). Four licenses were issued (one public bank and trust, two public trusts and one restricted nominee trust) and five entities ceased to carry on business, including one public bank and trust company, three restricted trusts, and one non-active bank. Of the 248 licensed entities, 232 maintained a full physical presence in The Bahamas, while the remaining 16 operated via approved management agreements. Approximately 48.0% of the total licensees originate from G-10 countries.

Approval was given for the registration of 19 private trust companies (PTCs), while 10 licensees were deregistered, bringing the total number of registrants to 121 at end-December. The number of financial and corporate service providers (FCSP) that act as registered representatives (RR) increased by one to five. An additional licensee advised of its intention to act as RR of PTCs, increasing the total number of FCSPs to 19. Licensed non-bank money transmission businesses (MTBs) increased by one to three, while related agents remained at 11. The number of financial co-operative credit unions increased by one to 10, inclusive of the Bahamas Cooperative League Ltd. (the self-regulating body for the sector).

Table 3: Regulated Entities

	2014	2015	2016
Banks and Trusts	254	249	248
Banks & Trusts	64	64	62
Banks	33	31	31
Trusts	157	154	155
Non-Licensee Reg. Representatives	5	4	5
Licensee Registered Representatives	16	18	19
PTCs (Registered)	105	112	121
Non-Bank MTBs	2	2	3
Non-Bank MTAs	11	11	11
Cooperative Credit Unions	n/a	9	10
Memo Items:			
Assets of Domestic Banks (B$Bill)	9.60	9.80	9.97
% change	-2.0%	2.1%	1.7%
Assets of Offshore Banks (B$Bill)	192.80	180.50	175.65
% change	-22.1%	-6.4%	-2.7%

SOURCE: Central Bank of The Bahamas

Regulatory applications processed and approved by the Central Bank totalled 330, with the majority linked to new appointments of officials. In keeping with prescribed "fit and proper" requirements, the Bank reviewed and approved the appointment of 88 directors, 154 money laundering reporting officers (MLROs) and executive officers and 43 senior officers. In other administrative activities, some 54 outsourcing applications were also approved, as licensees took further decisions to streamline operations and benefit from economies of scale.

For 2016, 218 meetings were held with licensees and other external stakeholders to discuss licence applications, prudential issues and on-site examinations. Some of these meetings were of a courtesy nature to maintain open dialogue on matters of general interest to the promotion and development of the financial sector.

DEPOSIT INSURANCE CORPORATION (DIC)

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

The DIC assesses depository institutions an annual premium equal to one-twentieth of one percent (0.05%) of deposits, averaged over liabilities at 31st March and 30th September of the preceding year. Based on average total insurable Bahamian dollar deposits in domestic banks of $5.75 billion during 2016, relative to $5.70 billion in the previous year, premiums levied and collected in 2016 amounted to $2.87 million, compared to $2.86 million in 2015. Factoring net earnings, the accumulated assets of the Fund increased by $4.80 million to $45.80 million, with $44.35 million invested in BGRS.

As part of the strategic focus, the Central Bank is exploring proposals to extend insurance coverage to credit unions. This would further enhance the sector's safety net systems, in line with other initiates to strengthen confidence in such operations.

INFORMATION TECHNOLOGY

During 2016, the Bank continued to improve its operational efficiency through the use of Information Technology (IT). In this regard, further upgrades were made to the Online Reporting and Information Management (ORIMS) platform, including the introduction of additional reporting forms, the reduction in the overall delivery time of key reports and improvements in the ability of the system to mine the data collected from licensees and other stakeholders. In support of this initiative, the IT Department took steps to ensure business users were trained in the use of business intelligence (BI) and data warehouse tools, to reduce the reliance on the Department for routine reports and queries.

The Bank also embarked on a plan to modernise and improve IT infrastructure and systems by engaging an external consultancy firm to assist with the development of a strategic roadmap for modernisation. The consultancy was initiated with a discovery workshop, which benchmarked the maturity of the Bank's IT model, and outlined gaps in service delivery. The follow-on phases, which are scheduled for 2018 and beyond, will address any proposed areas of improvement, including a procurement strategy for acquisitions and upgrades. The ultimate goal of the consultancy is to eventually implement a robust and scalable IT infrastructure, capable of supporting the Bank's strategic imperatives.

In terms of document management, the Bank sustained its efforts to digitise old hard copy files, as part of its document conversion project. This is in support of the Bank's overall strategy of driving efficiency in its various business processes, as well as for business continuity and disaster recovery purposes. The Bank also continued to test and enhance its business continuity and disaster recovery posture.

FACILITIES MANAGEMENT AND HEALTH & SAFETY IN THE WORKPLACE

Ongoing maintenance and enhancements to the Bank's facilities continued during 2016. These focused on improving the layout of offices, and repairs to occupied structures. Sustained focus also remained on improving energy efficiency, and enhancing workplace safety and comfort.

The Bank conducts its business from the main building in New Providence, situated between Market Street on the west and Frederick Street on the east, and the leased Trimark Building, located north of the main building. A leased office in Freeport, Grand Bahama, located in the Siboney Commercial Centre, the Mall Drive, is used to provide Exchange Control related services.

The Bank also owns three protected historical buildings: the Great House, a limestone structure, which serves as the employee cafeteria; Balcony House, a two-storied clapboard building presently managed as a museum by the Antiquities, Monuments and Museums Corporation (AMMC); and Verandah House, which was formally used as a training facility by the Bahamas Institute of Financial Services (BIFS).

The enterprise-wide lighting replacement with LED fixtures continued into 2016, and helped facilitate a further overall reduction in electricity costs of 15.0%, compared to the prior year. The main building, which accounts for over 80.0% of total electricity usage, also achieved a 28.0% reduction in fuel costs and roughly a 7.0% decline in kilowatt-hour usage (kWh), respectively. In addition, overall utility costs, including water & sewerage, electricity, cable and telecommunications, declined by 9.0% when compared to 2015.

A strategic priority for the Bank is to secure more adequate and modern facilities over the medium-term. This would allow for more effective, and secure currency operations and reduced accommodation costs. A project management company has been engaged to provide technical management and support for the project, that is expected to progress during 2017. The Government, meanwhile, has been consulted on the proposed location for a new Central Bank building, which would remain in the city centre.

Business Continuity

The Bank remained committed to the sustained review and update of its business impact analyses (BIA) of its business continuity plan (BCP). A major objective is to complete arrangements for a secondary site to shore-up continuity processes throughout the organization. BCP enhancement and related training will continue through 2017.

STAFF COMPLEMENT AND RELATIONS

During the year, there were 21 new hires, and 17 internal staff appointments, of which 15 were promotions. The turnover rate was 6.17%, as 15 employees were separated from the Bank, including seven retirements, four resignations and two completions of contracts.

At the end of December, the Bank's staff complement had increased by eight to 246 employees (Table 4). Of the total employee count, 177 positions were non-management, 57 were mid-management, and 12 executive management; the female to male ratio remained at 2:1. There were also 11 vacant or pending vacancies across the Bank.

Table 4: Workforce Metrics

	2014	2015	2016
Staff Complement	236	238	246
Gender Distribution (%)			
Male	33.5	33.0	33.7
Female	66.5	67.0	66.3
Turnover Rate (%)	5.9	4.7	6.2

SOURCE: Central Bank of The Bahamas

Programmes to foster employee engagement and well-being are well entrenched. During 2016, such activities included the annual Family Fun Day (September), the annual Health Promotion Week (June 27 - July 1), monthly social gatherings, and the annual Christmas parties for the children of employees, and employees, respectively. The Bank also facilitates staff participation in national sporting events, and sponsors in-house team competitions to foster workplace camaraderie.

The annual Long Service Awards Ceremony, which was held on 18th January 2017, recognized 14 employees who attained milestone contributions of 30, 20 and 10 years of continuous service to the Bank. At this occasion, three staff members were honoured for 30 years of service, three for 20 years, and eight for 10 years.

The Bank continues to cultivate a stable and skilled workforce. By the end of December, 57% of staff had served for more than 10 years, with 27% having served for more than 20 years.

Several other initiatives were undertaken for the convenience of or assistance of staff. As is customary, the Bank hosted the Parliamentary Registration Department on several occasions for voter registration for the upcoming 2017 General Election. Staff and retirees' needs were also addressed following the passage of Hurricane Matthew.

A Volunteer Assistance Recovery Programme was launched, enlisting 16 staff members to assist the Bank's retirees and other staff with the clean-up of their residences. A total of 25 persons were assisted in restoring their properties. Interim child-care support and hot breakfast were also provided to alleviate inconveniences in the days immediately following the storm.

Maintaining good industrial relations are a priority for Management and the Board. Separate unions, the Bahamas Communications and Public Managers Union (BCPMU) and the Union of Central Bankers (UCB), represent middle management and non-management staff, respectively. Management seeks to enhance its communication with the unions through separate quarterly meetings, so that ongoing and emerging issues can be quickly addressed. In February 2016, a new four-year industrial agreement was signed with the BCPMU, with retroactive effect to January 15, 2015. In the final quarter of 2016, the Bank commenced negotiations for a new industrial agreement with the UCB.

Other than selective grievances and disputes on staff matters, which continued to be addressed through the industrial relations frameworks, both unions have joined together in legal action in the Supreme Court to contest the amendments made to the Defined Benefit Pension Plan. The Bank received notice of the lawsuit in May 2016.

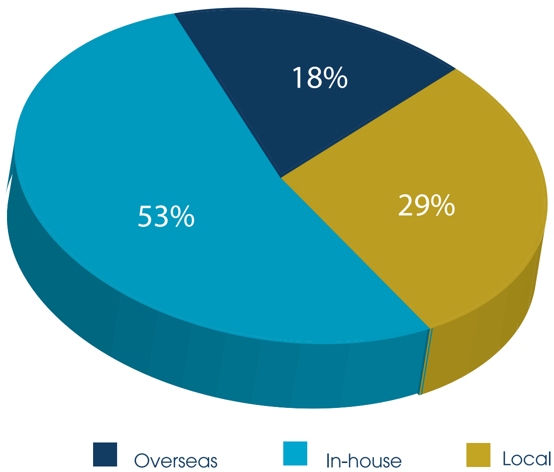
STAFF DEVELOPMENT

A variety of training programmes and policies supported the capacity building needs of the Bank. The number of staff participating in training programmes doubled over the prior year.

In-House Training

In-house training and seminars impact the largest concentration of employees. These included a course in "Business Writing", to strengthen participants' written communication skills; and a Lunch-n-Learn session entitled "Finance 101: Staying on Track in 2016", to impart personal financial management skills. Meanwhile, induction training workshops were held in March and November 2016, respectively, for a total of 28 new hires, to acquaint them with the Bank, its vision, mission, values, policies, as well as all aspects of work life at the Bank. In addition, to meet identified team building needs, professional workshops were facilitated for the Bank Supervision, Exchange Control and IT Departments. With support from CARTAC, the Bank also hosted an in-house seminar entitled "Credit Union Risk-Based Supervision", for the Bank Supervision staff, to strengthen the supervision of the cooperative credit union sector.

Employee Training (2016)



Safety and security within the work place are critical to the Bank. With this in mind, the Security Department, in conjunction with the Fire Department of the Royal Bahamas Police Force, facilitated several Fire Evacuation/ Emergency Procedure Workshops. CPR/First Aid training was also offered to 11 staff members.

The month of September was also recognized as "Records Management Month," which included a number of activities featured to bring awareness to the importance of managing records.

External Training

Staff benefit from both subsidized and fully funded external training. In addition to Bank identified activities, employees are encouraged to pursue independent studies to better equip them to perform and advance within the organisation.

In 2016, the Bank approved and supported 19 new Continuing Education applications for staff. This included persons enrolled in both Bachelor's and Master's degree programmes. Staff also pursued international financial certifications through the Bahamas Institute of Financial Services (BIFS), and Information Security certifications. Some 15 employees were rewarded for the attainment of degrees and certifications in 2016.

With regard to conferences and workshops, during 2016, staff participated in various local financial policy themed sector events. External participation included capacity building in banking supervision, monetary and fiscal policies, forecasting and statistics, debt management and payments system oversight. A more pointed focus was also placed on IT security.

COMMUNITY INVOLVEMENT AND OUTREACH

Career Promotion

Career fairs and student internships remained essential to cultivate interest in central banking. In this regard, the Bank attended fairs hosted by the South Andros High School and C.V. Bethel Senior High School, interacting with some 150 students. Five other schools visited the Bank for similar experiences as follows: Sunland Baptist Academy of Freeport, Grand Bahama (32 students), Remnant Academy (22), Galilee Academy (34), Mt. Carmel Preparatory Academy (33) and the Home School Association (21). The Bank also accommodated another round of students in various high schools' work experience programmes, with placements in the Accounts, Administration, Banking, IT, Human Resources or Research Departments, for periods of up to one week. Institutions accommodated included: Anatol Rodgers High School (6 students), Aquinas College (4), Government High School (4), St. John's College (1) and Akhepran International Academy (1).

Community Relations

The Bank continued to engage in community outreach efforts. This included partnering with "Friends of the Blood Bank" and the Princess Margaret Hospital, to host blood drives on two occasions in 2016.

Support for the Arts

The Bank's Art Programme provides a forum to spotlight and nurture talented young persons without censorship. A total of 10 exhibitions—inclusive of the Annual Art Exhibition (Open Category and High School)—were hosted in the Art Gallery space.

The year commenced with an exhibition by the Bank's Assistant Curator, Ms. Jodi Minnis, under the caption, "It's A Bahamian Ting". This was followed by participation in the National Art Gallery of The Bahamas' (NAGB) "Transforming Spaces" programme, where the Bank showcased artworks in three of its spaces, namely, the Verandah House, the Great House and the Bank's Art Gallery. The partnership with the NAGB also extended to the production of a series of short documentaries on celebrated artists from past Bank competitions and exhibitions over the past 33 plus years. In addition, the Bank sponsored the NAGB's Mixed Media Summer Camp and the Art Supply Drive.

To further stimulate the staff's artistic interest, the first Annual Central Bank Staff Art Exhibition was held, showcasing the talents from a wide cross-section of the organisation. Based on its success, it is envisioned that the competition will grow and gain more traction among staff in the ensuing years.

The 33rd Annual Art Competition and Exhibition was held in two parts during October and November. In October, the Open Category works were showcased, with Ms. Jordanna Kelly's three dimensional piece entitled "Preserved", selected as the overall winner. Mr. Preston Hanna's dyptick piece entitled "Unprepared Future" was the public's favourite, based on voting by patrons attending the exhibition. The High School/Junior component of the Competition was held in November. Ms. Sonae Smith of Aquinas College placed first, with her work entitled "Fall Yet We Rise"; the Best Sculpture Prize was awarded to Ms. Isabella Aranha of Queen's College; Mr. Lawrence Adderley of Nassau Christian Academy was recognized as Best Young Artist, and Ms. Jessica Whittingham of Lyford Cay School received the Scholarship Award. Ms. Moya Strachan of Queen's College received the Art Teacher Award.

The Bank continues to be inspired by the exciting works being produced by these talented young students and is committed to the ongoing development of the art programme in The Bahamas.

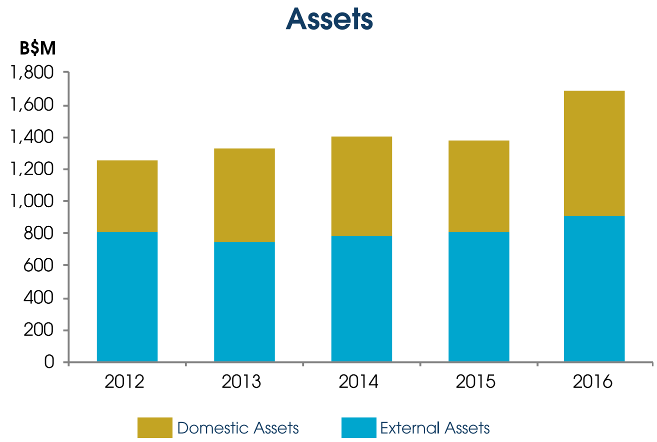
2016 FINANCIAL PERFORMANCE

The Bank's financial outcome is primarily impacted by the performance of the external reserves, which is influenced by real sector performance, interest rates and the Government's external borrowing activities.

The financial statements for the year ended 31st December 2016, along with comparable figures for 2015, are presented on pages 45 to 104 of this report.

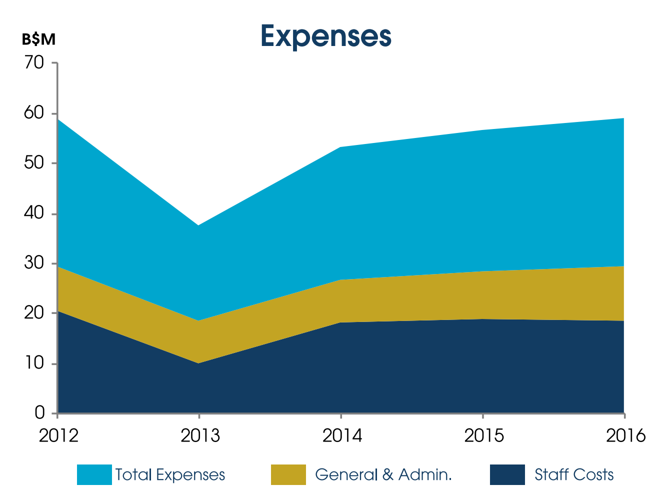
During 2016, total assets of the Bank rose by $299.4 million (21.7%) to $1,681.6 million. This outturn, reflected the growth in external reserves—approximately 53.8% of the total assets—by $92.0 million (11.3%) to $904.0 million. Balances were favoured by the Government's net external borrowing proceeds, net inflows from tourism and foreign investment activities and to a lesser extent, re-insurance inflows following the hurricane. In the portfolio allocation, marketable securities rose by $28.9 million (5.5%) to $550.5 million, and cash and deposit balances by $48.2 million (23.3%) to $254.8 million. Meanwhile, the reserve tranche with the IMF rose nearly three-fold by $17.2 million, but Special Drawing Rights (SDRs) fell by $2.8 million (3.0%).

The Bank's domestic assets rose by $207.4 million (36.4%) to $777.6 million, mainly due to increased holdings of Government debt. Registered Stock holdings expanded by $111.5 million (42.7%), while Treasury bills held, advanced by $97.3 million (76.8%). The remaining domestic assets narrowed by a combined $1.4 million (0.8%) to $181.1 million.



The Bank's demand liabilities grew by $291.4 million (27.8%) to $1,341.1 million. This was due primarily to a $275.2 million (46.6%) gain in commercial banks' deposits, to $866.3 million, reflecting the buoyant liquidity in the system. Additionally, currency in circulation rose by $36.5 million (9.4%) to $425.7 million, while the ICM payable account edged-up by $1.1 million (16.9%), to $7.8 million. In a partial offset, Government and related agency deposits fell by $18.8 million (40.3%) to $27.9 million, and accounts payable decreased by $2.9 million (33.0%) to $5.9 million.

Over the year, the Bank's earnings rose by $4.5 million (12.1%) to $41.9 million, as the interest income from investments—which represented a combined 82.4% of the total (total income gross of interest expense)—firmed by $4.6 million (15.2%) to $34.7 million. Specifically, interest on domestic investments advanced by $4.0 million (29.2%), and earnings on the foreign component by $0.8 million (5.3%). Meanwhile, interest on loans remained unchanged at $1.1 million, while earnings from other "miscellaneous" sources were relatively stable at $7.4 million.



Expenses totalled $29.6 million in 2016, up by $1.2 million (4.2%), year-on-year. In terms of the components, general & administrative and depreciation costs firmed by $1.0 million (12.8%) and $0.7 million (41.2%), respectively, while staff costs fell marginally by $0.5 million (2.6%).

As a result of these developments, the Bank recorded total net comprehensive income of $13.2 million—a gain of $1.8 million (15.8%) over 2015.

ECONOMIC AND FINANCIAL DEVELOPMENTS

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy continued to expand at a modest pace of approximately 3.1% in 2016, according to the IMF, following a gain of 3.4% in the prior year. The outcome was supported by sustained gains in the United States and Europe, while developments in Asia continued to be heavily influenced by the slowdown in China's growth rate. In this environment, employment conditions continued to improve gradually, while some rise in oil prices helped influence moderately firmer inflation in most major economies. Despite the uncertainty over the surprising, pending exit of the United Kingdom from the European Union ("BREXIT"), and the potential shift in policy agenda following the United States' presidential election, major stock markets recorded broad-based gains. Monetary policy developments were dominated by the shift in the Federal Reserve's stance towards policy tightening; although the other major central banks either maintained or enhanced their accommodative stances.

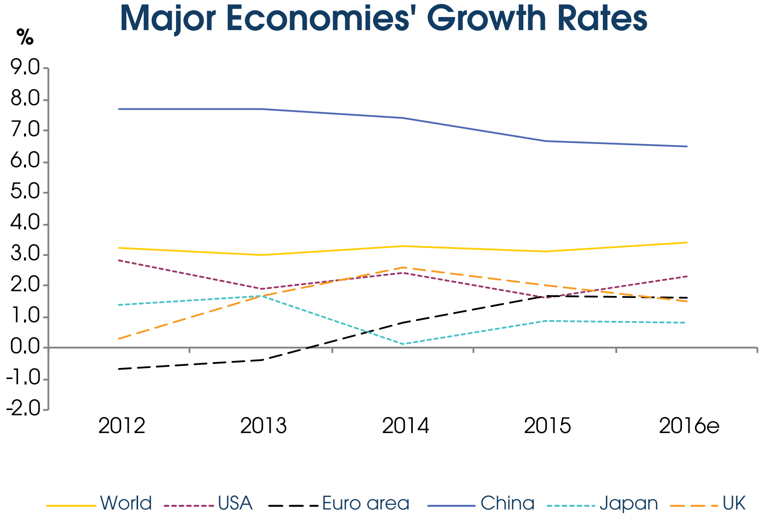
Among developed markets, real GDP growth in the United States slowed to 1.6% from 2.6% in 2015, as private inventory and non-residential fixed investments contracted. Gains in US personal consumption expenditure, and state and local Government spending also moderated, overshadowing the improvement in the trade balance. Similarly, the pace of expansion in the United Kingdom narrowed by 20 basis points to 2.0%, attributed to a falloff in construction activity, which negated gains in the services sector. Moreover, the euro area's expansion eased to an estimated 1.7% from 1.8% in 2015. In Asia, China's growth slowed by 20 basis points to 6.7%, owing in part to declines in exports and the tapering of growth in the real estate sector. Further, Japan's annual output gains narrowed by 20 basis points to 1.0%, explained by weak export demand, reduced private non-real estate investment, and lower government consumption.

Labour market conditions in the major economies continued to improve during 2016. The unemployment rate in the United States declined by 40 basis points to 4.9%, as an average of 144,306 jobs was added to payrolls each month. Similarly, the United Kingdom's unemployment rate fell by 50 basis points to 4.9%, with the number of employed persons increasing by an estimated 302,000 over the past year. In line with positive economic developments in several of the region's southern states, the euro area's jobless rate narrowed by 90 basis points to 10.0% in 2016. Further, the major Asian economies continued to record virtually full employment, as the jobless rates in Japan and China decreased by 30 and 10 basis points to 3.1% and 4.0%, respectively.

Global inflation rates remained relatively benign, although an energy-related uptick emerged during the year. Annual inflation in the United States rose to 2.1% from a mere 0.7% in 2015, largely associated with a rise in energy and medical care costs. Similarly, inflation in the United Kingdom firmed by 1.4 percentage points to 1.6%, led by marked increases in average costs for transport and restaurants & hotels, while the euro area's inflation rate quickened to 1.1% from a mere 0.2% in the previous year, attributed mainly to a rebound in energy prices. China's annual inflation rate firmed by 50 basis points to 2.1%, due to broad-based price increases for a range of items such as food, tobacco & liquor and health care costs. In contrast, declines in energy and food costs contributed to Japan experiencing a marginal fall in average prices by 0.1%, vis-à-vis a 0.8% rise in 2015.

The prices of several primary commodities recorded some strengthening in 2016, reflecting the improving economic outlook. Average crude oil costs decreased during the year by 13.0% to

Major Economies' Growth Rates



US$45.74 per barrel, owing to ongoing softness in global demand and excess supply. However, by year-end, the average price per barrel stood at $56.13, a gain of 53.7% over 2015's level, as OPEC and Russia agreed in late November to cut crude oil production by 1.2 million barrels per day in January. Further, as a result of the recent stimulus to the Chinese economy, which served to reverse the shift away from commodity-intensive investments, the average costs for both silver and gold rose by 10.2% and 8.4%, to $17.14 and $1,249.89 per troy ounce, respectively.

Buoyed by sustained growth in the United States' economy, a tightening monetary policy outlook, and heightened euro-area uncertainty, the United States dollar strengthened against most major currencies during the year. The dollar appreciated by 19.3% vis-à-vis the British Pound to £0.81, reflecting mostly the uncertainty following the "BREXIT" vote. The dollar also increased relative to the Chinese Yuan, by 7.0% to CNY6.95, while more modest gains were noted versus the euro, by 3.2% to €0.95 and the Swiss Franc, by 1.8% to CHF1.02. In contrast, the dollar weakened against the Canadian dollar and Japanese Yen, by 2.8% to CAD$1.34 and by 2.6% to ¥117.00, respectively.

Reflecting generally higher corporate earnings and the election of a potentially "pro-growth" administration in the United States, most of the major equity markets posted gains over the review period. The United States' Dow Jones Industrial Average (DJIA) and the S&P 500 indices appreciated by 13.4% and 9.5%, respectively. Similar changes were recorded in Europe, as gains were posted for the United Kingdom's FTSE 100 (14.4%), Germany's DAX (10.2%) and France's CAC 40 (4.9%). Asian markets registered mixed results, as Japan's Nikkei 225 index firmed by 9.1%, however, China's SE Composite declined by 12.3%, due to increased volatility in the market, as a result of the economic slowdown.

Major countries recorded mixed movements in their external trade balances. The United States' trade deficit edged-up by $1.9 billion (0.4%) to $502.3 billion, as a 2.3% falloff in exports, of mainly industrial supplies & materials and capital goods, outpaced a 1.8% reduction in imports. Similarly, in the United Kingdom, the trade deficit increased by £9.6 billion (32.2%) to £39.4 billion, underpinned by a 6.4% rise in imports of machinery & transport equipment, travel services and chemicals, which outstripped a 4.9% gain in exports. Further, China's trade surplus narrowed by US$98.0 billion (16.1%) to US$510.0 billion, attributed to a 7.7% slump in exports, which countered the 5.5% reduction in imports. In contrast, reflecting a 15.9% decrease in mainly fuel-based imports, which eclipsed the 7.4% decline in exports, Japan reported a ¥4.1 trillion trade surplus, vis-à-vis a ¥2.8 trillion deficit in 2015. Further, the euro area's trade surplus expanded by €35.2 billion (14.7%) to €273.9 billion, as imports softened by 2.0%, and exports held steady.

During 2016, most major central banks either maintained or enhanced their highly accommodative monetary policy stance. In Europe, amid concerns over the potential adverse effect of the UK's "BREXIT" vote on the economy, the Bank of England cut its benchmark interest rate by 25 basis points to 0.25% in August—the first reduction in seven years—and increased the size of its asset purchase programme by £60.0 billion to £435.0 billion. The central bank also announced plans to purchase an additional £10.0 billion in higher-yielding corporate bonds. Similarly, the European Central Bank decreased its main refinancing operations and marginal lending facility interest rates by five basis points, to 0.00% and 0.25%, respectively, while maintaining its €80.0 billion asset purchase programme. In an effort to provide further stimulus to a lacklustre economy, the Bank of Japan reduced its key policy rate to negative 0.1%, and announced that it would be introducing a negative interest rate regime, applicable to a specific section of banks' deposits with the authority. The Bank also doubled its purchases of exchange-traded funds (ETFs) to a rate of ¥6.0 trillion per year, in an effort to stimulate consumer spending, and expressed its intention to continue with its Japanese Government bond purchase programme, in order to maintain 10-year yields at 0.0% over the long-term. Further, the People's Bank of China injected US$20 billion into the banking system, and lowered its reserve requirement ratio by 50 basis points to 16.5%, while adding US$135.8 million to the banking system through a Standing Lending Facility (SLF), in support of additional credit. In contrast, given the improving growth prospects, low unemployment and relatively benign inflation, the Federal Reserve raised the target range for its main federal funds rate by an additional 25 basis points to 0.50%-0.75% in December.

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Despite the passage of Hurricane Matthew in October, preliminary indications are that the domestic economy was relatively stable to mildly increasing in 2016 relative to an estimated 1.7% contraction recorded in 2015 (Table 5). The sustained recovery in the US market provided support to tourism, although expenditure indicators were only incrementally elevated. Construction output was undergirded by a number of varied-scale foreign investment projects, as well as rebuilding activity following the severe storm. In light of the general improvement in economic conditions and the ratcheting-up of employment in the construction sector following the hurricane, the unemployment rate fell during the review year. Meanwhile, average consumer prices declined, reflecting completion of the VAT's pass-through effects, and discounted pricing which still contained domestic energy costs.

In the fiscal outturn for FY2015/16, the overall deficit narrowed by 18.8% to $310.4 million, as the growth in total revenue outpaced gains in aggregate expenditure. This still contrasted with the deficit of $139.1 million that was anticipated, as non-VAT revenue fell short of projections, and some expenditure rose faster than budgeted. Trends over the first half of FY2016/17, revealed an almost doubling in the deficit to $276.9 million, from an estimated $147.9 million in the same period of FY2015/16, owing in part to unplanned expenditure related to the rebuilding of key infrastructure and disruptions to revenue collections in the aftermath of Hurricane Matthew. At end-December, the Direct Charge on the Government stood at $6,313.3 million, a rise of $399.2 million (6.8%) over the prior year. Similarly, the National Debt—inclusive of Government guaranteed loans—rose by $373.1 million (5.6%) to $7,042.4 million at year-end, amounting to an estimated 77.9% of GDP, up from 75.3% at end-December, 2015.

Table 5: Selected Economic Indicators

	2014	2015	2016
		(% Change)	
Real GDP*	(0.5)	(1.7)	0.0*
Unemployment Rate (Nov.)	15.7	14.8	11.6
Occupied Hotel Room Nights	6.3	2.6	N/A
Hotel Occupancy (%)	56.0	58.5	N/A
Total Arrivals	2.8	(3.3)	2.6**
Mortgage Disbursements	(9.9)	45.9	(3.4)
Inflation	1.2	1.9	(0.4)
National Debt/GDP Ratio (%)	72.9	75.3	77.9*

SOURCE: Central Bank of The Bahamas
*2016 GDP obtained from the IMF's April 2017 WEO
**Y-T-D Oct. 2016 vs. Y-T-D Oct. 2015

Monetary developments featured a build-up in the deposit base, which contrasted with more constrained credit growth, resulting in an expansion in bank liquidity and external reserves. External inflows to the banking system included the Government's external borrowing, net foreign currency receipts from real sector activities and a few one-off transactions in the hotel and insurance sectors. At end-2016, reserves were equivalent to an estimated 16.8 weeks of the current year's total merchandise imports, relative to 13.3 weeks in 2015. Further, buoyed by the sale of several tranches of one institution's delinquent mortgage portfolio, aggressive debt restructuring and modest inroads from the Government's MRP, banks' credit quality indicators improved significantly during the year. Banks also reported a higher net profit over the twelve-months to September, owing to lower provisioning for loan losses and reduced staffing costs. Given the gradually improving economic conditions and the incrementally positive outlook for external reserves, the Central Bank lowered the official Discount rate by 50 basis points to 4.00% in December, 2016, while the Prime rate was reduced by the same magnitude in the following month to 4.25%.

In the external sector, the estimated current account deficit narrowed significantly over the review year, associated primarily with the receipt of re-insurance proceeds following the hurricane to cover private rebuilding activities, along with a decrease in the merchandise trade deficit. Meanwhile, the surplus on the capital and financial account declined sharply, mainly on account of a reduction in domestic banks' net foreign liabilities, and tapered net private investment inflows.

REAL SECTOR

Tourism

Although the hurricane adversely affected several properties and travel itineraries in October, preliminary information suggests that output in the tourism sector expanded slightly over the year, with gains in the key stopover segment of the market.

Based on data provided by the Ministry of Tourism, total arrivals expanded by 2.8% over the January to October period to 5.1 million, a reversal from a 3.1% falloff in the corresponding period a year earlier. Underlying this development, the high volume sea component—at 76.9% of the total—grew by 3.4%, to reverse 2015's 5.2% contraction. Further, the high value-added air segment firmed

marginally by 0.9%, a slowdown from a 4.4% advance in the prior period.

An analysis by major ports of entry, showed that the improvement in the sector was solely attributed to the New Providence market, which firmed by 9.3% to 2.9 million, vis-à-vis the preceding year's 8.1% contraction. This outturn reflected gains in both the air and sea segments, of 1.4% and 13.1%, respectively. In contrast, visitors to the Family Islands declined by 2.5%, extending 2015's 5.7% falloff, as the 4.5% reduction in sea arrivals overshadowed the 11.2% improvement in the air component. Similarly, weakness in several key source markets resulted in an 8.7% decrease in Grand Bahama's arrivals, a reversal from a significant 25.0% hike a year ago, reflecting reductions in both the air and sea segments by 16.3% and 7.1%, respectively.

Preliminary data obtained from the Nassau Airport Development Company (NAD), mirrored the trends observed in overall arrivals. Specifically, the volume of passenger traffic through the country's main airport—net of domestic departures—grew by 1.0% to approximately 1.3 million in 2016, extending a 1.5% gain in the prior year. In particular, returns to the dominant United States market increased by 1.9%, extending the year earlier rise of 1.4%. In contrast, the non-US international component fell by 4.1%, vis-à-vis a year earlier 1.8% gain.

Construction

During the year, activity in the construction sector was sustained by several varied-scale foreign investment projects in both the capital and the Family Islands. In addition, the rebuilding activity following the hurricane, provided further impetus in the final quarter.

The domestically financed side of the construction sector remained subdued, as total mortgage loan disbursements for new construction and repairs—as reported by domestic banks, insurance companies and the Bahamas Mortgage Corporation—decreased by 6.7% to $112.7 million, a reversal from the year earlier 23.8% growth. Specifically, the dominant residential segment contracted by 2.8% to $107.8 million, in contrast to a 34.7% expansion in the prior year. Similarly, the commercial component fell by 51.0% to $4.8 million, compared to a 35.4% reduction in 2015.

Forward looking indicators were also subdued, as total domestic mortgage commitments for new buildings and repairs, decreased in volume by 5.3% to 481 and in value by 10.9% to $54.0 million. Residential approvals—which constituted the majority (99.6%) of the total—fell in number by 4.8% to 479 and the corresponding value by 2.5% to $53.2 million. Similarly, commercial commitments were reduced in number by three to two and the associated value fell by $7.9 million to $0.8 million.

In terms of interest rates, financing terms were favourable, as the average rate on commercial mortgages fell by 70 basis points to 7.9%. Similarly, ongoing campaigns to attract new customers, contributed to the 20 basis point reduction in the residential mortgage rate to 7.8%.

Employment

Employment conditions improved modestly in 2016, owing to increased economic activity linked to domestic cultural events and hurricane recovery construction. According to the Department of Statistics' Labour Force Survey, the jobless rate declined by 2.1 percentage points to 12.7% in May 2016, in comparison to the November 2015 level, as an additional 7,540 persons were employed. The jobless rate declined further in the six-month period to November 2016, by 1.1 percentage points to 11.6%, due to a boost in construction jobs in the aftermath of the storm. Further, optimism increased regarding future job prospects, as the number of "discouraged workers", contracted by an estimated 15.2%.

A disaggregation by major job centres revealed that the jobless rate in New Providence decreased by 2.8 percentage points to 13.2% at end-May, and fell by a further 30 basis points to 12.9% at end-November 2016. In addition, the unemployment rate in Abaco—the country's third largest job market—which held steady at 10.1% in the six months ending May, declined by 1.0 percentage point to end the year at 9.1%. In contrast, Grand Bahama's unemployment rate firmed by 60 basis points, to 14.7% in May, but reversed in the second half of 2016, with the rate declining by 1.3 percentage points to 13.3% at end-November 2016. In the inaugural surveys for Bimini and Exuma, which have undergone significant development in recent years based on the construction of hotels and second homes, jobless rates of 4.0% and 8.0% were recorded.

Prices

Reflecting the prolonged impact of relatively low international oil prices, average consumer prices—as measured by changes in the Retail Price Index for The Bahamas—declined by 0.35% in 2016, a reversal from a 1.88% increase in the prior year. Contributing this outturn, average cost accretions slowed sharply for health, by 11.6 percentage points to 3.8%, recreation and culture, by 10.4 percentage points to 0.4%, alcohol beverages, tobacco & narcotics, by 8.3 percentage points to 0.5%, furnishing, household equipment & routine household maintenance, by 5.3 percentage points to 1.3%, and clothing & footwear, by 4.7 percentage points to 0.7%. More muted reductions in inflation rates were noted for communication and miscellaneous goods & services, by 3.2 and 0.7 percentage points to 1.8% and 0.9%, respectively. Further, following gains of 5.9% each in 2015, average costs for restaurants & hotels and food & non-alcoholic beverages declined by 1.3% and 0.9%, respectively. In a modest offset, the decrease in transportation costs narrowed to 4.0% from 5.4% in 2015, as crude oil prices firmed in the latter half of the year. Similarly, the reduction in the housing related components—which account for one-third of the index—moderated by 26 basis points to 1.1%. Conversely, gains in average education costs quickened by 63 basis points to 5.6%.

The reduction in global oil prices in prior periods continued to feed through to the domestic energy market. Relative to 2015, declines were registered in average per gallon prices of both gasoline and diesel, in the eleven months to November, by 10.6% and 11.2% to $3.91 and $3.46, respectively. Similarly, the Bahamas Power and Light's (BPL) average fuel charge was reduced by 51.7% to 9.80¢ per kilowatt hour (kWh) for the nine months to September, following a 24.7% falloff in the same period in 2015.

FISCAL OPERATIONS

FY2015/16 Performance

Assisted by measures to broaden the tax base and strengthen revenue collections, the overall fiscal deficit narrowed by 18.8% ($71.6 million) to $310.4 million in FY2015/16 (Table 6); however, it was more than double in comparison to budget forecasts of $139.1 million. Supported by VAT receipts, aggregate revenue grew by 13.4% ($228.1 million) to $1,929.6 million; although some $110.2 million (5.4%) less than expected. Similarly, total expenditure rose by 7.5% ($156.4 million) to $2,240.0 million, also exceeding the provisioned value by $61.1 million (2.8%).

Revenue

Tax revenue—at 86.9% of total collections—grew by $175.8 million (11.7%) to $1,676.2 million. This outturn reflected mainly the receipt of $627.9 million in VAT revenues for the full fiscal year, compared with a net intake of $218.6 million in the latter half of FY2014/15. These collections paced ahead of budgeted projections. Motor vehicle taxes increased slightly by $1.0 million (3.5%) to $30.4 million. In contrast, non-trade stamp taxes fell by $90.8 million (47.6%) to $100.0 million, attributed in large measure to a shift in a portion of taxes on realty transactions to the VAT category. Partly reflecting the decrease in several tariff rates on goods following the introduction of the new regime, taxes on international trade & transactions contracted by $71.2 million (12.3%) to $506.4 million, as both import and excise taxes fell by 13.8% and 12.3%, respectively. In addition, business & professional license fee receipts declined by $33.8 million (18.8%) to $146.2 million. Selective taxes on services also decreased by $23.4 million (46.4%) to $27.0 million, reflecting mainly the shift in hotel occupancy taxes to the VAT. Similarly, departure and property taxes decreased by $12.1 million (8.2%) and $3.3 million (3.0%), to $134.6 million and $103.7 million, respectively. Under-performance in revenue was still noted against budget forecast for trade taxes, business license fees and property taxes of 21.7%, 25.9% and 31.4%, respectively.

Non-tax receipts strengthened by $55.5 million (28.1%) to $253.2 million during the period—exceeding the budgeted amount by 41.5%. Underlying this outturn, proceeds from fines, forfeits & administrative fees advanced by $55.9 million (36.1%) to $210.7 million, related in part to the receipt of cellular license auction fees. In addition, revenue from the sale of Government property firmed marginally by $0.9 million to $1.6 million, and the intake from public enterprises increased by $0.2 million (3.2%) to $5.1 million. In contrast, income from other "miscellaneous" sources decreased by $1.5 million (4.0%) to $35.6 million. In addition, capital revenue decreased to negligible levels from $3.0 million in the previous year.

Table 6: Fiscal Indicators (B$ Million)

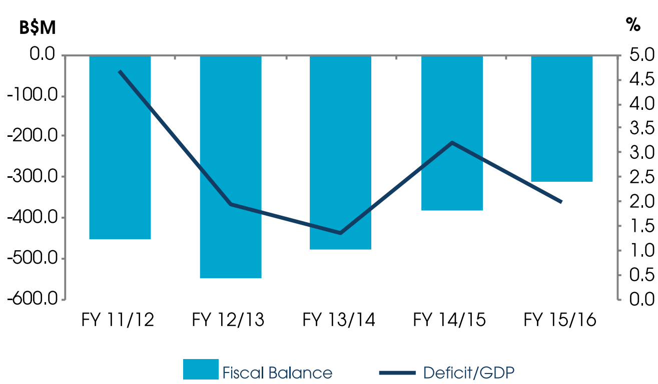
	FY2013/14 Actual	FY2014/15 Actual	FY2015/16 Actual	FY2016/17 Approved Estimates	FY2016/17 Preliminary[1] Estimates
Government Revenue	1,450.8	1,701.5	1,929.6	2,168.8	851.8
% of GDP	16.9	19.5	21.6	23.6	9.3
Government Expenditure	1,930.8	2,083.5	2,240.0	2,266.4	1,128.8
% of GDP	22.5	23.9	25.0	24.7	12.3
Surplus/(Deficit)	(480.0)	(382.0)	(310.4)	(97.6)	(277.0)
% of GDP	(5.6)	(4.4)	(3.5)	(1.1)	(3.0)

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format.
[1] July - December, 2016

Expenditure

Current expenditure, which accounted for 89.5% of total outlays, rose by $293.1 million (17.1%) to $2,004.4 million—approximately 3.5% higher than budget estimates. In terms of the components, transfer payments rose by $258.4 million (34.9%) to $998.4 million, due mainly to the reclassification of most subventions for public enterprises to this category from net lending. Specifically, subsidies & other transfers expanded by $216.8 million (42.8%) to $723.4 million, with transfers to public corporations placed at $116.3 million, as opposed to $6.5 million, exceeding budgeted estimates for these entities by $42.9 million. In addition, transfers to households grew by $25.1 million (20.8%) to $145.8 million, while those paid to entities abroad, non-profit institutions and non-financial public enterprises, rose by $10.2 million (73.6%), $3.0 million (6.9%) and $0.4 million (2.9%), to $24.2 million, $47.0 million and $15.8 million, respectively. Further, amid the rising stock of outstanding debt, interest payments firmed by $41.6 million (17.8%) to $275.0 million, due to growth in both the internal and external components by $37.7 million and $3.9 million, respectively. Similarly, consumption outlays increased by $34.6 million (3.6%) to $1,005.9 million, supported by gains in personal emoluments by $25.1 million, while goods & services purchases firmed by $9.5 million.

Fiscal Indicators



Capital expenditure contracted by 17.5% ($49.0 million) to $231.3 million over the review period, and was 4.9% under budget forecasts. This outturn reflected mainly a reduction in asset acquisitions by $54.4 million (48.2%) to $58.4 million, due to the winding down of purchases of new vessels for the Defence Force, while transfers to non-financial public enterprises fell to negligible levels from $3.1 million last year. In contrast, infrastructure-related outlays grew by $8.5 million (5.2%) to $172.9 million.

Financing

Financing for the deficit was primarily obtained from domestic sources, including net Treasury note and bill issuances ($301.2 million), long-term bonds ($87.3 million), short-term foreign currency loans ($50.0 million) and short-term advances ($22.6 million). On the external side, loan drawdowns amounted to $214.8 million. Debt repayments for 2016 totalled $322.7 million, the bulk of which ($244.3 million) was used to retire Bahamian dollar obligations.

First Six Months of FY2016/17

For the first half of FY2016/17, the Government's budgetary operations were dominated by the effects of the hurricane, which necessitated unplanned spending to rebuild key infrastructure and provide social assistance, as well as disruptions in revenue collections. As a result, the overall deficit almost doubled to $276.9 million, from an estimated $147.9 million in the comparable period of FY2015/16. Underlying this outturn, aggregate spending firmed by 8.1% ($84.7 million) to $1,128.8 million, while total revenue decreased by 5.0% ($44.4 million) to $851.8 million.

Expenditure

The growth in aggregate expenditure included a rise in capital outlays, by $45.7 million (51.1%) to $135.0 million, largely attributed to a $40.6 million (58.7%) increase in infrastructure spending to $109.6 million, related to coastal protection, and the repair of buildings and docks after the hurricane. Similarly, asset acquisitions grew by $5.1 million (25.2%) to $25.4 million, owing primarily to higher "miscellaneous" outlays, related to the delivery of new Defence Force vessels.

Current expenditure also expanded, by $77.9 million (8.5%) to $993.7 million during the half-year period. This outturn mainly reflected a $55.2 million (13.1%) increase in transfer-related payments to $477.2 million, as spending associated with the preparations for the National Health Insurance Scheme (NHI), led to subsidies & other transfers firming by $52.4 million (17.7%). The interest component also edged up by $2.9 million (2.3%), as external payments firmed by $4.1 million (10.2%). Further, consumption spending strengthened by 4.6% ($22.7 million) to $516.5 million, as both purchases of goods and services and personal emoluments registered gains.

Revenue

Total tax receipts contracted by $39.5 million (4.9%) to $761.9 million, inclusive of a $15.4 million (4.9%) reduction in VAT collections to $302.1 million, mostly due to extensions granted for filing returns following the hurricane and other related disruptions to taxable business activities. Further, other "unallocated" taxes were reduced by almost half ($21.0 million) to $21.2 million and property tax collections, by $18.1 million (36.7%) to $31.2 million. More muted decreases were recorded for taxes on international trade by $0.7 million (0.3%) to $258.7 million, reflecting a falloff in excise taxes, which offset gains in revenue from both import and export taxes, while selective taxes on services fell marginally by $0.5 million (5.3%) to $9.7 million, mainly owing to the decrease in gaming taxes. In addition, non-tax receipts fell by $4.7 million (5.0%) to $89.9 million, as a timing-related reduction in dividend collections resulted in lower income from other "miscellaneous" sources.

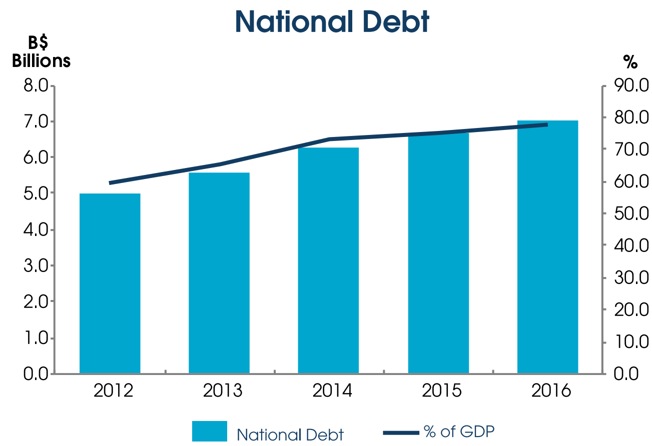
Financing

Budgetary financing for the six-month period included drawdowns from domestic sources, led by long-term bond issuances ($395.0 million), commercial banks' credit ($263.5 million)—inclusive of a special $130.0 million syndicated hurricane relief loan—and net Treasury bill issuances ($108.3 million). In addition, external debt drawdowns provided $13.8 million in funding. Meanwhile, debt amortization amounted to $425.9 million, the majority of which ($408.2 million) went towards retiring Bahamian dollar obligations.

National Debt

The half-year deficit financing resulted in an increase in the Direct Charge of $339.0 million (5.7%), culminating in calendar year growth of $399.2 million (6.8%) to $6,313.3 million. This extended the prior year's expansion of $332.0 million (5.9%). At end-December, the ratio of the Direct Charge to GDP stood at an estimated 69.9%, a rise of 3.1 percentage points over 2015 (Table 7). The debt was dominated by the Bahamian dollar component (at 72.4% of total), which rose by $343.4 million (8.1%) to $4,570.1 million, while foreign currency claims firmed by $55.9 million (3.3%) to $1,743.2 million. By holder classification, the majority of the Bahamian dollar debt continued to be held by banks (39.2%), followed by the private sector (31.7%), the Central Bank (15.9%) and public corporations (13.2%).

Government's contingent liabilities contracted during 2016 by $26.2 million (3.5%) to $729.2 million, largely reflecting declines in the guaranteed obligations of the Bahamas Electricity Corporation, the Public Hospital Authority and the Bahamas Development Bank. As a result of these developments, the National Debt grew by $373.1 million (5.6%) to $7,042.4 million at end-December, a slight slowdown from the $384.7 million (6.1%) gain recorded a year earlier. Further, the ratio of the National Debt to GDP is estimated to have firmed by 2.6 percentage points to 77.9% at end 2016.

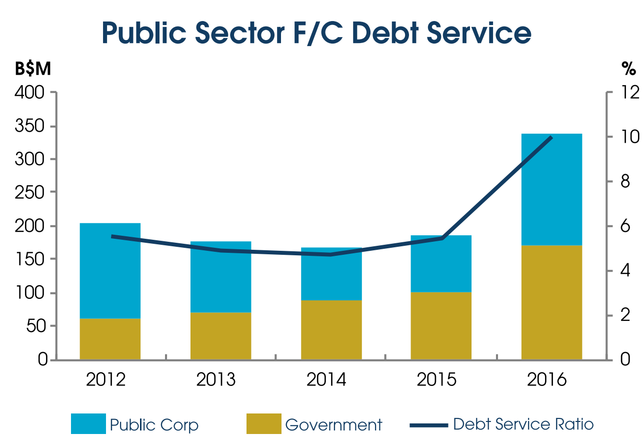


Foreign Currency Debt

Public sector foreign currency debt grew by $61.0 million (2.4%) to $2,644.5 million in 2016, as new drawings outpaced amortization payments and changes in the debt stock related to exchange rate fluctuations. The Government's debt obligations—which accounted for 65.9% of the aggregate—expanded by $55.9 million (3.3%) to $1,743.2 million, while the public corporations' segment rose slightly by $5.1 million (0.6%) to $901.3 million.

Foreign currency debt service payments firmed by $152.8 million (82.8%) to $337.4 million, as both the Government and public corporations repaid domestic obligations. The Government's component rose by $69.3 million (68.3%) to $170.7 million and the public corporations' portion doubled to $166.7 million. At end-2016, the Government's debt service to total revenue ratio firmed by 3.8 percentage points to 9.1%, while the debt service ratio stood at 10.0%, a gain of 4.6 percentage points over the prior year.

In terms of creditor profile, the majority of foreign currency debt was held by non-resident investors, including international financial institutions and insurance firms (39.4%), followed by private capital markets (34.0%), banks (13.2%), multilateral institutions (10.7%) and



bilateral agencies (2.7%). At end-December, the average maturity of the debt stood at 12.1 years, a slight decline from the 12.9 years recorded in 2015. By currency, the bulk of the debt (85.1%) was denominated in US dollars, with the euro, Swiss Franc and Chinese Yuan accounting for much smaller proportions, of 8.4%, 3.8% and 2.7%, respectively.

Table 7: Debt Indicators (B$ Million)

	2014p	2015p	2016p
A. External Debt	2,100.5	2,185.3	2,370.7
% of GDP	24.4	24.7	26.2
B. Internal F/C Debt	352.5	398.2	273.8
% of GDP	4.1	4.5	3.0
C. Total F/C Debt	2,453.0	2,583.5	2,644.5
% of GDP	28.5	29.2	29.3
D. Debt Service Ratio[1]	4.7	5.4	10.0
E. Direct Charge	5,582.1	5,914.0	6,313.3
% of GDP	64.8	66.8	69.9
F. National Debt	6,284.7	6,669.4	7,042.4
% of GDP	72.9	75.3	77.9

SOURCE: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Reports
2016 GDP obtained from the IMF's July 2016 Article IV Report
[1]Excludes refinancing activities. Ratio for 2016 includes the repayment of a public corporation's internal US$57.0 million bond.

MONEY, CREDIT AND INTEREST RATES

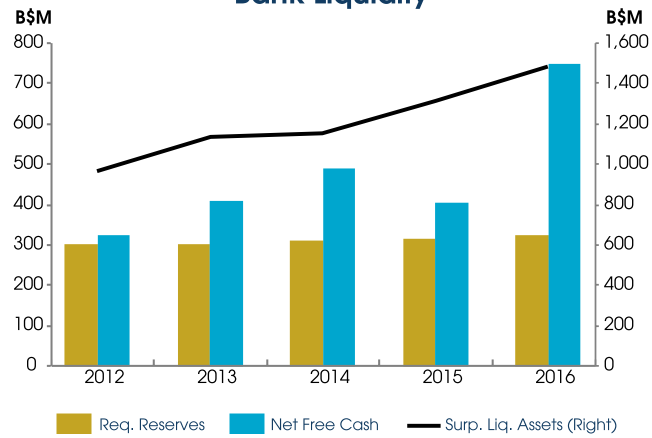
Monetary Sector

Monetary expansion outpaced credit growth during 2016, culminating in a further boost to bank liquidity and external reserves. In this regard, flows impacting liquidity and reserves included net foreign currency inflows from public sector foreign currency borrowing and real sector activities, and the onset of re-insurance claim settlements following Hurricane Matthew. Central Bank financing to Government also boosted bank liquidity trends. Meanwhile, banks recorded increased net profit in the twelve months to September 2016, attributed to lower provisioning for loan losses and decreases in operating costs. In addition, banks' credit quality indicators improved significantly during the year, reflecting the sale of several tranches of one institution's non-performing loan portfolio, sustained debt restructuring activities and the early impact of the Government's new MRP.

Liquidity

Banking sector liquidity remained at robust levels in 2016, with average net free cash balances—a narrow measure—expanding by $198.0 million (43.6%) to $651.9 million. Balances improved throughout most of the year, with an initial month-end peak of $755.6 million in August. Reserves fluctuated below this mark until strengthening further over November and December to a year-end position of $750.5 million. This equated to a higher 11.5% of Bahamian dollar deposits, compared with 6.5% in the previous year.

Bank Liquidity

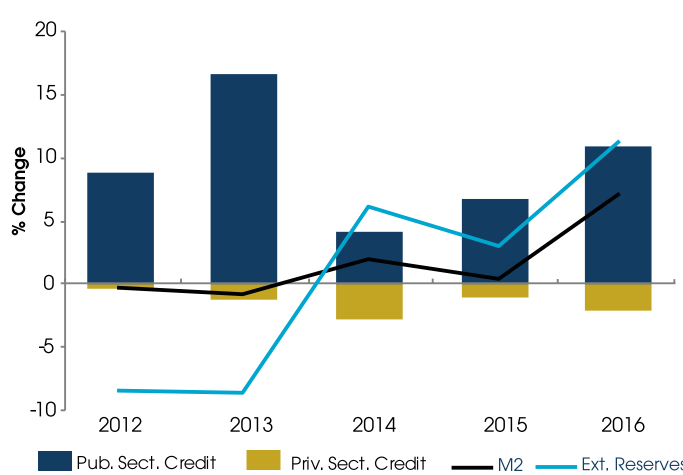


Domestic banks' broader measure of liquidity—which includes holdings of Government securities—averaged $1,474.4 million per month, a 13.2% increase from last year and peaked at $1,552.8 million in July. By year-end, overall liquidity stood at $1,481.3 million, for an annual gain of 12.5%, following last year's 13.8% increase, and exceeded the statutory requirement by 134.8%, up from 126.1% in 2015.

Money Supply

Overall money supply (M3) grew by $556.3 million (8.7%) in 2016, a turnaround from a $15.3 million (0.2%) contraction in the prior year, for an aggregate stock of $6,930.1 million. The narrow money (M1) component, expanded at an accelerated pace of $389.4 million (18.8%), relative to $74.9 million (3.8%) last year, as the

Monetary Developments



growth in demand deposits quickened to $355.5 million (19.5%) and gains in currency in circulation advanced to $33.9 million (13.7%).

Similarly, the growth in broad money (M2) strengthened to $436.5 million (7.1%), from the year earlier $21.7 million (0.4%) increase, associated with a private sector-led acceleration in savings deposits. Specifically, the expansion in savings balances strengthened to $147.3 million (12.8%), from $80.8 million (7.6%) in the previous year. In addition, the drawdown in fixed balances tapered to $100.2 million (3.4%), from $134.0 million (4.3%) a year earlier, while foreign currency deposits—mainly those related to the private sector—recovered by $119.8 million (63.8%), after a $37.0 million (16.5%) reduction in 2015, reflecting re-insurance inflows related to Hurricane Matthew and resumed payments to residents from a major foreign investment project.

As a proportion of the overall money stock (M3), Bahamian dollar fixed deposits comprised the largest share (41.4%), followed by demand (31.5%) and savings (18.7%) balances. Foreign currency deposits and currency in active circulation represented smaller shares, of 4.4% and 4.0%, respectively.

Table 8: Flow of Bank Credit (B$ Million)

	Outstanding as at 2014	Absolute Changes 2015	Absolute Changes 2016	Outstanding as at 2016
Destination				
Government (net)	2,021.4	176.6	353.4	2,551.4
Central Bank	520.9	(27.2)	222.9	716.6
Domestic Banks	1,500.5	203.8	130.5	1,834.8
Rest of Public Sector	474.9	(6.6)	(62.0)	406.3
Central Bank	4.6	4.3	0.0	8.9
Domestic Banks	470.3	(10.9)	(62.0)	397.4
Private Sector	6,367.8	(68.0)	(129.0)	6,170.8
Domestic Banks	6,367.8	(68.0)	(129.0)	6,170.8
Consumer	2,272.4	9.8	89.2	2,371.4
Mortgages	2,899.7	(32.4)	(150.4)	2,716.9
Other Loans	1,195.7	(45.4)	(67.8)	1,082.5
Financing				
Liabilities (Net of Government)	6,390.5	(16.7)	556.3	6,930.1
Currency	232.8	13.8	33.9	280.5
Total Deposit liabilities	6,157.7	(30.5)	522.4	6,649.6
Demand deposits	1,944.6	32.9	448.5	2,426.0
Savings deposits	1,074.2	88.0	153.0	1,315.2
Fixed Deposits	3,138.9	(151.4)	(79.1)	2,908.4
International reserves	787.7	24.2	92.1	904.0
Other net external liabilities	(502.1)	(29.6)	306.3	(225.4)
Capital and surplus	2,510.1	141.1	109.0	2,760.2
Other (net)	249.1	(27.8)	(104.5)	116.8

SOURCE: Central Bank of The Bahamas

Domestic Credit

The expansion in bank lending in 2016 was dominated by flows to the public sector, related in part to financing for hurricane recovery efforts in the latter half of the year. However, overshadowed by the sale of non-performing mortgages, credit to the private sector contracted.

Total domestic credit expanded by $162.4 million (1.8%), outpacing 2015's $102.0 million (1.2%) gain—with the bulk of the expansion concentrated in Bahamian dollars (95.3%). Growth in the net claims on the Government doubled to $353.4 million (16.1%), from $176.6 million (8.7%) a year earlier (Table 8), owing mainly to hurricane relief loan financing and holdings of new securities. Conversely, claims on the rest of the public sector declined further by $62.0 million (13.2%), from $6.6 million (1.4%) in the prior year, largely reflecting the repayment of a public entity's bond.

The contraction in private sector credit was markedly higher at $129.0 million (2.0%), compared to $68.0 million (1.1%) in 2015. However, this was dominated by restructuring activities, including the sale of a portion of one entity's non-performing loan portfolio to a private non-bank. By sectoral distribution, the dominant personal loans category—representing 79.8% of total Bahamian dollars—declined by $58.8 million, continuing a $25.0 million (0.5%) decrease noted in the prior year. Lending for "miscellaneous" purposes also declined significantly by $55.9 million, while more muted reductions were recorded for professional & other services ($8.1 million), manufacturing ($4.6 million), entertainment & catering ($4.3 million) and private financial institutions ($2.7 million). Decreases of less than $2.0 million were also registered for agriculture, tourism and mining & quarrying. In contrast, overall credit growth was noted for construction, fisheries, distribution and transport, by $35.8 million, $4.0 million, $1.7 million and $0.5 million, respectively.

The significant mortgage sell-off (totalling $126.9 million) underpinned the reduction in housing loans of $148.7 million (5.2%), and was mainly responsible for the decrease in the personal category. In contrast, accretions to consumer credit accelerated to $90.2 million (4.0%), from the prior year's $8.8 million (0.4%) growth, while overdrafts rose by $0.3 million (0.6%), although below the $3.9 million (7.0%) gain in the previous year.

A further disaggregation of consumer credit, revealed increased lending for miscellaneous purposes ($76.2 million), debt consolidation ($12.5 million), education ($11.1 million), home improvements ($7.7 million), credit cards ($7.0 million) and travel ($4.4 million), while more modest gains of less than $1.0 million were posted for medical and furnishings & domestic appliances. Conversely, net repayments occurred for land purchases, by $23.3 million, private cars, by $5.3 million, commercial vehicles, by $0.4 million and taxis & rented cars, by $0.2 million.

Interest Rates

During 2016, the weighted average interest rate spread on domestic banks' loans and deposits widened by 37 basis points to 11.25%. Given the persistently high liquidity levels, the weighted average deposit rate declined by 17 basis points to 1.24%, while the associated loan rate rose by 20 basis points to 12.49%.

In terms of lending, the increase in loan rates was due solely to a rise in the overdrafts component, by 77 basis points to 11.13%. In contrast, declines were registered for average rates for residential and commercial mortgages, and for consumer loans, by 26, 19 and 23 basis points, to 6.22%, 7.76% and 14.03%, respectively.

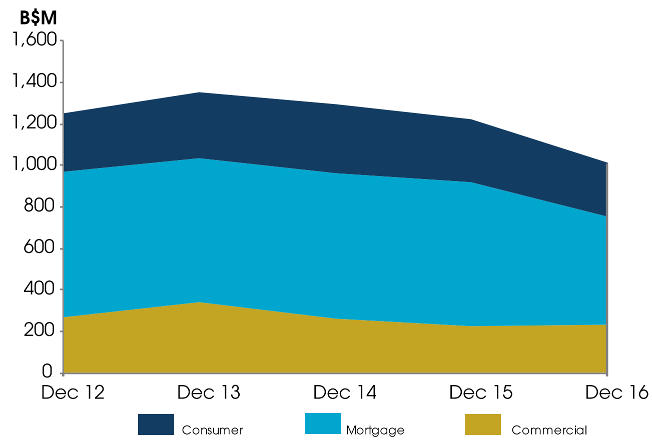
Broad-based reductions were recorded for deposit rates, as the average rate paid on savings balances fell by one basis point to 0.82%, while the average range on fixed maturities shifted to 0.97%-1.87% from 1.09%–1.71% in the preceding year. Similarly, demand deposit rates fell marginally by two basis points to 0.28%.

In other interest rate developments, on 22nd December, the Central Bank cut the Discount Rate by 50 basis points, to 4.00%, and this was followed by a corresponding reduction in the commercial banks' Prime rate to 4.25%, which took effect on 3rd January, 2017. This cut in the policy rate was implemented in an effort to provide access to credit for mainly commercial and residential projects, given the improving outlook for net foreign currency inflows to the economy. In addition, the average 90-day Treasury bill rate increased by 96 basis points to 1.64%.

Net Foreign Assets

The banking system's net foreign assets improved by $398.3 million to $678.5 million, a turnaround from a $6.2 million (2.2%) contraction in the previous year. This largely corresponded to banks' net foreign liabilities, which were reduced by $306.3 million (57.6%) to $225.4 million, vis-à-vis growth of $30.5 million (6.1%) in 2015. The second component, the external reserves, expanded by $92.0 million (11.3%) to $904.0 million, extending the $24.3 million (3.1%) gain in the prior period.

Private Sector Arrears by Loan Category



With regard to the external reserves, growth corresponded to sustained or more favourable support from both the public and private sectors. An analysis of the monthly trends showed that balances were initially boosted in January by Government's foreign currency loan proceeds, and climbed steadily over the following months, supported by receipts from the tourism sector, to peak at $1,052.5 million in July. In line with the seasonal increase in foreign currency demand during the holiday period, balances generally trended downwards in the remaining months. Average monthly levels of external reserves reached $961.8 million, a gain of $95.2 million over the prior year.

In the underlying foreign currency transactions affecting the reserves, the Central Bank's net purchase expanded to $61.0 million from $10.0 million in 2015. Notably, the $119.8 million growth in gross purchases to $1,018.8 million, outpaced a $68.8 million rise in sales to $957.7 million. In particular, the net sale to the public corporations—primarily for fuel purchases—declined sharply by $47.8 million to $287.5 million, benefiting from the falloff in international oil prices, while the net purchase from commercial banks and the Government, increased only slightly by $2.7 million and $0.5 million to $278.6 million, and $70.0 million, respectively.

At end-December, the stock of external reserves stood at an estimated 16.8 weeks of total merchandise imports, relative to 13.3 weeks at end-December 2015. However, "usable" reserves—which net out 50.0% of the Central Bank's demand liabilities—fell by $54.6 million to $243.7 million, given the expansion in liabilities during the year.

BANKING SECTOR PERFORMANCE

Credit Quality

During the review period, banks' credit quality indicators improved significantly, owing in large measure to the sale of several tranches of one institution's non-performing

Table 9: Commercial Banks' Financial Soundness Indicators

	2014	2015 (%)	2016
Capital Adequacy			
Regulatory capital/RWA	32.8	33.3	28.6
Regulatory Tier 1 capital/RWA	31.2	31.6	27.0
Asset Quality			
NPLs/private sector loans	16.2	15.1	12.3
NPLs to capital	39.1	34.2	27.6
Earnings & Profitability			
Return on assets	(1.2)	1.9	1.5*
Return on equity	(4.6)	7.0	5.6*
Liquidity			
Liquid assets to total domestic assets	22.6	24.1	26.3

SOURCE: Central Bank of The Bahamas
*YTD - September 2016

mortgage portfolio, as well as entities' sustained loan restructuring measures and the early results from the Government's MRP. As a consequence, total private sector loan arrears contracted sharply by $209.0 million (17.1%) to $1,010.6 million, nearly three times larger than 2015's $73.8 million (5.7%) reduction. In addition, the attendant ratio of arrears to total private sector loans, narrowed by 3.3 percentage points to 17.1%, extending the 1.1 percentage point decline in 2015.

The decrease in total delinquencies was mainly concentrated in the non-performing component—arrears in excess of 90 days and on which banks have stopped accruing interest. These contracted by $177.5 million (19.6%) to $729.1 million, more than double the $71.6 million (7.3%) falloff in the prior year, and represented a lower 12.3% of total private sector loans, compared to 15.1% in 2015. Similarly, arrears in the 31-90 day range decreased by $31.5 million (10.1%) to $281.5 million, in contrast to a slight $2.2 million (0.7%) increase in the preceding year, with the corresponding ratio narrowing by 46 basis points to 4.8% of total private sector loans.

An analysis by loan type, showed that the improvement in credit quality was concentrated in the mortgage component. Such amounts fell by $176.2 million (25.3%) to $521.1 million, after a $1.1 million reduction in the prior year. The corresponding delinquency ratio declined by 5.4 percentage points to 19.4%. Similarly, consumer loan arrears fell by $39.8 million (13.4%) to $257.7 million, following a $35.0 million (10.5%) falloff last year. This represented a 2.0 percentage point decrease in the relevant ratio to 10.8% of total loans. In contrast, commercial loan arrears grew by $6.9 million (3.1%) to $231.8 million, after a $37.7 million (14.4%) decline in 2015, with the associated delinquency ratio firming by 1.2 percentage points to 27.9%.

Capital Adequacy and Provisions

Indicative of the improvement in loan arrears, both the capital ratio and the level of loan loss provisioning declined slightly during the year. At end-2016, the ratio of capital to total risk weighted assets (RWA) stood at 28.6%, a fall of 4.7 percentage points, year-on-year (Table 9); although it remained well above the prudentially prescribed target and trigger ratios of 17.0% and 14.0%, respectively. In addition, banks reduced their provisions for bad debts, by $18.3 million (3.5%) to $512.1 million, a turnaround from the prior year's increase of $29.2 million (5.8%), resulting in the ratio of provisions to total loans decreasing by 33 basis points to 8.0%. In contrast, given the reduction in loan delinquencies, the ratio of provisions to both arrears and NPLs, firmed by 7.2 and 11.7 percentage points, to 50.7% and 70.2%, respectively. Loan write-offs—mainly mortgages—amounted to $170.9 million, while recoveries totalled $27.7 million.

Bank Profitability

Buoyed by lower provisioning for bad debts and higher miscellaneous—mainly fee-based—income, domestic banks' profitability expanded during the twelve months to September—the latest available data. Net income advanced by $75.9 million (56.1%) to $211.4 million, reflecting in part an expansion in the net interest margin by 1.7% ($9.0 million) to $541.7 million, as interest income firmed by 0.3% ($1.7 million) to $622.5 million, while interest expense contracted by 8.3% ($7.3 million) to $80.8 million. In contrast, a reduction in earnings from commission & foreign exchange by 13.7% ($4.0 million) to $25.1 million, slowed the growth in the gross earnings margin to 0.9% ($5.0 million), vis-à-vis a gain of 3.0% ($16.3 million) in the previous year, for an ending balance of $566.8 million.

Operating costs grew marginally by 0.6% ($2.2 million) to $357.9 million, underpinned by a rise in other "miscellaneous" operating outlays—including professional services, Government fees and maintenance—of 8.0% ($12.4 million), which eclipsed declines in staffing costs, of 4.8% ($8.3 million) and occupancy costs, of 6.4% ($1.9 million). Accordingly, the net earnings margin rose by just $2.8 million (1.4%) to $208.9 million, relative to the three-fold ($139.9 million) expansion in 2015, when banks restructured their operations. Further, bad debt provisioning decreased by $48.1 million, and "other" fee-based income, firmed by $23.8 million. As a result of these developments, transactions from these activities reversed to a net income of $2.4 million from a net loss of $70.7 million last year.

Corresponding to these trends, the interest margin ratio widened marginally by one basis point to 5.39%, while the commission & forex income ratio narrowed by four basis points, to 0.25%, resulting in the gross earning margin ratio falling by a similar magnitude to 5.64%. However, the net earnings margin stabilized at 2.08%, owing largely to a three basis point decrease in the operational cost ratio to 3.56%. After accounting for "non-core" operations, the net income ratio firmed by 74 basis points to 2.10%.

CAPITAL MARKET DEVELOPMENTS

Domestic capital market activity was relatively brisk on the Bahamas International Securities Exchange (BISX) over the year, reflecting the introduction of two new debt issues by a telecommunications company to finance its expansion plans. As a result, the volume of shares traded surged by 86.0% to 5.4 million and the associated value advanced by 83.2% to $35.5 million. In addition, amid gains in the majority of share prices, the BISX All Share Index—a market capitalization weighted index—increased by 6.3% to 1,938.2 points, although lower than the 9.9% rise recorded in 2015, while market capitalization of listed firms expanded by 10.8% to $4.0 billion, exceeding the prior year's 4.1% gain.

During the year, the number of publicly traded securities on the exchange rose by three to 52, and comprised 20 common shares, 13 preference shares and 19 debt tranches.

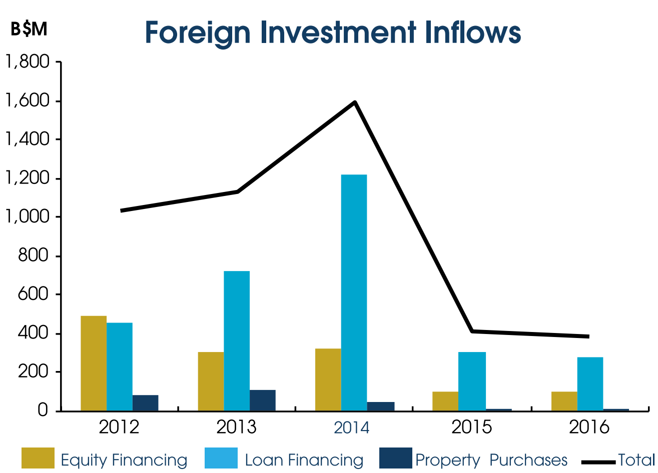


Table 10: Balance of Payments Summary (B$ Million)

	2014p	2015p	2016p
I. CURRENT ACCOUNT	(1,885.3)	(1,203.2)	(1,106.3)
i) Merchandise Trade (net)	(2,510.3)	(2,433.5)	(2,149.6)
Exports	833.9	520.5	444.3
Imports	3,344.2	2,954.0	2,593.9
of which: Oil	798.1	480.4	433.6
ii) Services (net)	997.0	1,617.6	1,228.1
Travel	2,104.8	2,299.2	2,261.3
Other	(1,107.9)	(681.6)	(1,033.2)
iii) Income (net)	(438.1)	(402.6)	(421.3)
iv) Current Transfers (net)	66.2	15.3	236.5
II. CAPITAL AND FINANCIAL ACCOUNT	1,508.5	349.8	22.9
i) Capital Account (Transfers)	(8.9)	(18.9)	(13.8)
ii) Financial Account	1,517.4	368.7	36.7
of which: Direct Investment	251.3	76.1	73.7
III. NET ERRORS AND OMISSIONS	422.8	877.6	1,175.4
IV. CHANGES IN EXTERNAL RESERVES[1]	(46.0)	(24.3)	(92.0)

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

INTERNATIONAL TRADE AND PAYMENTS

Preliminary data on the external sector for 2016, indicated that the current account deficit narrowed by an estimated $96.9 million (8.1%) to $1,106.3 million (Table 10), reflecting mainly a surge in current transfers linked to re-insurance inflows following the hurricane, and a decrease in the merchandise trade deficit. In addition, the surplus on the capital and financial account contracted sharply by $326.9 million to $22.9 million, due predominately to a reversal in domestic bank flows from a net receipt to a net payment.

The estimated merchandise trade deficit narrowed by $302.6 million (11.8%) to $2,263.2 million, owing primarily to a $354.9 million (12.1%) contraction in imports, which outpaced the $52.3 million (14.0%) reduction in exports. Specifically, net payments for non-oil imports fell by $255.8 million (12.3%) to $1,829.6 million. In addition, reflecting the persistent decline in global oil prices, the fuel component decreased by $46.8 million (9.7%) to $433.6 million. In terms of the various products, the average cost per barrel of aviation fuel declined by 52.8% to $93.04; motor gas, by 16.9% to $66.74; jet fuel, by 15.6% to $57.72; and gas oil, by 15.7% to $58.25; however, the average price of propane firmed by 3.3% to $35.48 per barrel.

The surplus on the services account contracted by $389.5 million (24.1%) to $1,228.1 million, as the passage of the hurricane contributed to a $37.9 million (1.7%) falloff in net travel receipts to $2,261.3 million. In addition, Government services transactions reversed to a net payment of $208.7 million, from a net inflow of $29.8 million, due to the reclassification of public sector accounts, while net outflows for other "miscellaneous" services increased sharply by $196.8 million (61.1%) to $518.8 million. Similarly, net payments for transportation, insurance services and royalty & license fees, firmed by $6.2 million (2.4%), $12.9 million (9.1%) and $5.2 million (29.5%) to $264.4 million, $154.8 million and $22.9 million, respectively. In contrast, with work on the Baha Mar project remaining stalled throughout the year, net outflows for construction-based services slowed by $105.0 million (76.4%) to $32.4 million, while net receipts from offshore companies' local expenses, edged-up by $3.1 million (1.8%) to $168.8 million.

The estimated deficit on the income account widened by $18.6 million (4.6%) to $421.3 million, largely attributed to a $46.3 million (13.8%) increase in investment income outflows to $382.4 million. In terms of the components, net private sector interest and dividend payments firmed by $39.5 million (14.5%) to $311.4 million, as the outflows of both commercial banks and non-banks increased by $27.0 million (70.8%) and $12.5 million (5.3%) to $65.2 million and $246.2 million, respectively. Similarly, net outflows for official transactions expanded by $6.8 million (10.5%) to $71.0 million, underpinned by a $7.5 million (9.4%) gain in the Government's net interest payments. In a slight offset, the Central Bank's investment income firmed marginally by $0.7 million (4.7%) and the net repatriation of employees' earnings slowed by $27.6 million (41.5%) to $38.9 million.

Buoyed by hurricane-related re-insurance inflows, net receipts from current transfers firmed to $236.5 million, from a mere $15.3 million last year. Specifically, other "miscellaneous" transfers reversed to a $273.1 million net inflow, from a $2.4 million net outflow a year ago, while net worker remittance payments firmed by $42.7 million to $155.0 million. Comparatively, the Government's net inflows declined by $11.7 million (9.0%) to $118.4 million.

The capital and financial account surplus fell significantly to $22.9 million, from $349.8 million last year. In this vein, other "miscellaneous" investments recorded a $15.4 million net outflow, in contrast to the $305.0 million net receipt a year ago, as a shift in international fund flows, led to domestic banks' net short-term transactions reversing to a net outflow of $306.3 million, from a net inflow of $29.6 million in the previous year. Further, private sector loan-based financing inflows narrowed by $84.7 million (48.6%) to $89.5 million. In contrast, the public sector's net inflows doubled to $201.4 million, reflecting in part the receipt of proceeds from the Government's US$100.0 million equivalent loan. Further, net direct investment inflows fell slightly, by $2.4 million (3.1%) to $73.7 million, amid a $7.6 million (18.0%) increase in net outflows for real estate purchases to $49.9 million, which countered the $5.3 million (4.4%) gain in equity net inflows to $123.6 million. In addition, net portfolio investments abroad rose by $9.3 million (74.9%) to $21.7 million, as entities increased their external equity investments under the Bank's BDR facility, while outward migrant transfers decreased by $5.1 million (26.9%) to $13.8 million.

Against this backdrop, and after making the relevant adjustments for net errors and omissions, the overall surplus—which also represents the change in the Central Bank's external reserves—strengthened to $92.0 million from $24.3 million in 2015.

DOMESTIC ECONOMIC OUTLOOK FOR 2017

The Bahamian economy is expected to expand modestly during the coming year, as the phased opening of the multi-billion dollar Baha Mar project should provide some impetus to the tourism sector. In addition, construction activity will benefit from the preparatory work to complete the resort, along with several other varied-scale foreign investment projects, and sustained domestic hurricane rebuilding developments. As a result of the expected increase in output, employment conditions are projected to improve gradually over the near-term, particularly in the two named sectors. Inflationary pressures are likely to stay subdued, despite expected modest gains in fuel costs following the decision by several major crude oil producers to limit output.

In the fiscal sector, the success of the Government's fiscal consolidation efforts will depend heavily on positive contributions from its measures to strengthen revenue collections. However, pressures on expenditures in the aftermath of the hurricane are likely to persist for an extended period, thereby limiting its ability to constrain expenditure growth.

Near-term monetary conditions are likely to feature sustained buoyant liquidity levels, as banks maintain their conservative lending stance and consumers continue to reduce their outstanding debts. However, a modest uptick in private sector credit is anticipated, owing in part to the post hurricane fiscal and monetary policy measures, which were enacted to increase access to funding for rebuilding. Meanwhile, the downward trend in loan delinquencies is expected to be maintained, assisted by the

Government's revised MRP and further potential sales of delinquent mortgages. In this environment, banks are forecasted to sustain their robust capital levels, thereby mitigating any risk to financial stability.

The outlook for external reserves will depend heavily on the performance of the tourism sector, as new developments come on stream, and the extent of the demand for foreign currency to facilitate a variety of current payments during the year, particularly fuel purchases. Nevertheless, on average, reserve balances are expected to remain above international benchmarks.

Downside risks to the projections reflect concerns around the US political economy, particularly the adverse effects of potential trade restrictions on global economic growth, as well as an unexpected increase in global oil prices. Similarly, any further disruptions to the Baha Mar project timetable for completion, could dampen the economic outlook for 2017.

The Central Bank of The Bahamas

FINANCIAL STATEMENTS

For the Year ended December 31, 2016
and Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of The Central Bank of The Bahamas

Our opinion
In our opinion, the financial statements present fairly, in all material respects the financial position of The Central Bank of The Bahamas as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000, as amended.

What we have audited
The Central Bank of The Bahamas financial statements comprise:

- the statement of financial position as at December 31, 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity and reserves for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of The Central Bank of The Bahamas in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information
Management is responsible for the other information. The other information comprises the information presented in The Central Bank of the Bahamas' complete Annual Report 2016 (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 International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing The Central Bank of The Bahamas' 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 Central Bank of The Bahamas or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Central Bank of The Bahamas' financial reporting process.

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

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

- Identify and assess the risks 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 Central Bank of The Bahamas' 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 Central Bank of The Bahamas' 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 Central Bank of The Bahamas 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.

Other matter

This report, including the opinion, has been prepared for and only for The Central Bank of The Bahamas in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants
Nassau, The Bahamas

May 1, 2017

Statement of Financial Position

As at December 31, 2016
(Expressed in Bahamian dollars)

	Note	2016 $	2015 $ Restated (Note 32)	1 January 2015 $ Restated (Note 32)
ASSETS				
EXTERNAL ASSETS	5			
Cash and deposits with banks	3	254,773,638	206,593,351	155,210,814
Marketable securities issued or guaranteed by foreign governments	6	550,511,272	521,657,183	544,913,338
International Monetary Fund:				
Bahamas Reserve Tranche	7	25,925,814	8,675,061	9,069,925
Special drawing rights – holdings		72,744,523	75,006,457	78,473,884
		903,955,247	811,932,05	787,667,961
DOMESTIC ASSETS				
Cash on hand	3	40,358	1,927,734	55,450
Bahamas Government Treasury bills	14	223,890,162	126,611,122	119,657,414
Advances to Bahamas Government	9	135,360,599	135,360,599	135,235,783
Bahamas Government Registered Stocks	10	372,647,953	261,122,528	316,537,255
Loans to Bahamas Development Bank	11	3,634,843	3,723,110	4,207,035
Bahamas Development Bank bonds	8	4,150,545	4,103,587	4,055,697
Bridge Authority bonds	12	486,601	473,505	472,385
Clifton Heritage Authority bonds	13	638,423	638,434	638,434
Currency inventory		8,023,844	7,173,950	7,097,251
Retirement benefit asset – Employees	29	4,063,775	3,519,122	1,556,553
Receivables and other assets		11,806,918	11,274,292	16,700,560
Property, plant and equipment	4	12,882,409	14,318,878	10,991,951
		777,626,430	570,246,861	617,205,768
TOTAL ASSETS		**1,681,581,677**	**1,382,178,913**	**1,404,873,729**

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

Statement of Financial Position (Continued)

As at December 31, 2016
(Expressed in Bahamian dollars)

	Note	2016 $	2015 $ Restated (Note 32)	1 January 2015 $ Restated (Note 32)
LIABILITIES				
DEMAND LIABILITIES				
Notes in circulation	15	400,075,161	365,921,592	354,148,708
Coins in circulation		25,648,024	23,259,871	21,301,243
Deposits by commercial banks	16	866,319,539	591,087,668	607,745,338
Deposits by Bahamas Government and Bahamas Government agencies		27,859,918	46,730,659	74,421,172
Deposits by international agencies	17	255,274	255,261	255,443
Accounts payable and other liabilities		5,949,521	8,843,423	5,250,314
Investment Currency Market payable		7,782,800	6,660,600	5,914,733
Health insurance subsidy benefit for retirees	30	2,951,833	2,850,014	2,841,282
Retirement benefit liability - Governors and Deputy Governors	31	4,277,451	4,127,467	4,109,062
		1,341,119,521	1,049,736,555	1,075,987,295
OTHER LIABILITIES				
International Monetary Fund:	7			
Special drawing rights allocation		167,319,042	172,417,722	180,265,829
TOTAL LIABILITIES		**1,508,438,563**	**1,222,154,277**	**1,256,253,124**
EQUITY AND RESERVES				
Authorised and fully paid capital	18	3,000,000	3,000,000	3,000,000
Exchange equalisation account	18	14,225,479	12,222,982	7,975,948
Contingency reserve		750,000	750,000	750,000
Other reserves		10,389,415	10,389,415	10,389,415
Building fund	18	10,680,403	10,680,403	10,680,403
General reserve	18	134,097,817	122,981,836	115,824,839
TOTAL EQUITY AND RESERVES		**173,143,114**	**160,024,636**	**148,620,605**
TOTAL LIABILITIES, EQUITY AND RESERVES		**1,681,581,677**	**1,382,178,913**	**1,404,873,729**

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

Director

Director

1st May 2017

Date

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

Statement of Comprehensive Income

For the year ended December 31, 2016
(Expressed in Bahamian dollars)

	Note	2016 $	2015 $ Restated (Note 32)
INCOME			
Interest income:	19		
Foreign investments		15,957,999	15,229,784
Domestic investments		17,649,955	13,771,449
Loans		1,058,358	1,104,339
		34,666,312	30,105,572
Interest expense		(155,364)	(89,592)
Net interest income		**34,510,948**	**30,015,980**
Net foreign exchange gain		2,008,419	3,888,076
Net trading gains		332,958	-
Other income		5,075,226	3,490,232
Total income		**41,927,551**	**37,394,288**
EXPENSES			
Staff costs	20	18,480,666	18,925,451
General and administrative	20	8,774,681	7,768,745
Depreciation	4	2,380,329	1,703,687
Total expenses		**29,635,676**	**28,397,883**
NET INCOME		**12,291,875**	**8,996,405**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to net income			
Actuarial gain on defined benefit pension plan for employees		865,230	2,196,771
Actuarial gain on group insurance subsidy		2,662	123,652
Actuarial (loss)/gain on defined pension plan benefit for Governors and Deputy Governors		(41,289)	87,203
Total other comprehensive income		**826,603**	**2,407,626**
TOTAL COMPREHENSIVE INCOME		**13,118,478**	**11,404,031**

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

Statement of Changes in Equity and Reserves

For the year ended December 31, 2016
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	General Reserve $	Total $
Balance at January 1, 2014 – Restated (Note 32)	**3,000,000**	**2,167,901**	**750,000**	**10,389,415**	**6,980,403**	**116,753,453**	**140,041,172**
Correction of Error (Note 32)	-	-	-	-	-	(3,697,753)	(3,697,753)
Restated equity and reserves at the beginning of the year	**3,000,000**	**2,167,901**	**750,000**	**10,389,415**	**6,980,403**	**113,055,700**	**136,343,419**
Comprehensive income							
Net income	-	-	-	-	-	14,843,913	**14,843,913**
Other comprehensive income							
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	5,808,047	-	-	-	(5,808,047)	-
Appropriation to building fund	-	-	-	-	3,700,000	(3,700,000)	-
Actuarial loss on defined benefit pension plan for employees (Note 29)	-	-	-	-	-	(2,296,711)	**(2,296,711)**
Actuarial loss on health insurance subsidy benefit for retirees (Note 30)	-	-	-	-	-	(270,016)	**(270,016)**
Total comprehensive income	-	5,808,047	-	-	3,700,000	2,769,139	**12,277,186**
Balance at December 31, 2014 – Restated (Note 32)	**3,000,000**	**7,975,948**	**750,000**	**10,389,415**	**10,680,403**	**115,824,839**	**148,620,605**
Balance at January 1, 2015 – Restated (Note 32)	**3,000,000**	**7,975,948**	**750,000**	**10,389,415**	**10,680,403**	**115,824,839**	**148,620,605**
Comprehensive income							
Net income – Restated (Note 32)	-	-	-	-	-	8,996,405	**8,996,405**
Other comprehensive income							
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	4,247,034	-	-	-	(4,247,034)	-
Actuarial gain on defined benefit pension plan for employees (Note 29)	-	-	-	-	-	2,196,771	**2,196,771**
Actuarial gain on health insurance subsidy benefit for retirees (Note 30)	-	-	-	-	-	123,652	**123,652**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors – Restated (Note 31 and Note 32)	-	-	-	-	-	87,203	**87,203**
Total comprehensive income	-	4,247,034	-	-	-	7,156,997	**11,404,031**
Balance at December 31, 2015 – Restated (Note 32)	**3,000,000**	**12,222,982**	**750,000**	**10,389,415**	**10,680,403**	**122,981,836**	**160,024,636**

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

Statement of Changes in Equity and Reserves (Continued)

For the year ended December 31, 2016
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	General Reserve $	Total $
Balance at January 1, 2016	**3,000,000**	**12,222,982**	**750,000**	**10,389,415**	**10,680,403**	**122,981,836**	**160,024,636**
Comprehensive income							
Net income	-	-	-	-	-	12,291,875	12,291,875
Other comprehensive income							
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	2,002,497	-	-	-	(2,002,497)	-
Actuarial gain on defined benefit pension plan for employees (Note 29)	-	-	-	-	-	865,230	865,230
Actuarial gain on health insurance subsidy benefit for retirees (Note 30)	-	-	-	-	-	2,662	2,662
Actuarial (loss) on defined benefit pension plan for Governors and Deputy Governors (Note 31)	-	-	-	-	-	(41,289)	(41,289)
Total comprehensive income	-	2,002,497	-	-	-	11,115,981	13,118,478
Balance at December 31, 2016	**3,000,000**	**14,225,479**	**750,000**	**10,389,415**	**10,680,403**	**134,097,817**	**173,143,114**

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

Statement of Cash Flows

For the year ended December 31, 2016
(Expressed in Bahamian dollars)

	Note	2016 $	2015 $ Restated (Note 32)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		**12,291,875**	**8,996,405**
Adjustments for non-cash items:			
Discount earned on marketable securities - net	6	(955,404)	(1,007,238)
Depreciation	4	2,380,329	1,703,687
Loss/(Gain) on disposal of property, plant and equipment - net	4	1,294	(24,912)
Interest income		(33,710,811)	(29,098,334)
Gain on Sale of Marketable securities		(325,242)	-
Interest expense		155,364	89,592
(Increase)/Decrease in operating assets			
Currency inventory		(849,894)	(76,699)
International Monetary Fund		3,141,573	3,861,928
Deposits with banks – with original contractual maturities greater than three months		(55,000,000)	-
Retirement benefit asset		320,582	234,202
Receivables and other assets		(532,626)	5,426,268
Increase/(Decrease) in operating liabilities			
Notes in circulation		34,153,569	11,772,884
Coins in circulation		2,388,153	1,958,628
Deposits by commercial banks		275,231,871	(16,657,670)
Deposits by Bahamas Government and Bahamas Government agencies		(18,870,741)	(27,690,513)
Deposits by international agencies		13	(182)
Investment Currency Market payable		1,122,200	745,867
Health insurance subsidy benefit for retirees		104,481	132,384
Retirement benefit liability – Governors and Deputy Governors		108,695	105,608
Accounts payable and other liabilities		(2,893,902)	3,593,109
International Monetary Fund		(5,150,566)	(7,847,303)
Net cash from/(used in) operating activities		**213,110,813**	**(43,782,289)**

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

Statement of Cash Flows (Continued)

For the year ended December 31, 2016
(Expressed in Bahamian dollars)

	Note	2016 $	2015 $ Restated (Note 32)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of held-to-maturity marketable securities	6	(157,368,242)	(76,518,945)
Proceeds from maturities/redemptions of held-to-maturity marketable securities	6	130,000,000	100,373,000
Purchase of property, plant and equipment	4	(945,154)	(5,030,614)
Proceeds from sale of property, plant and equipment		-	24,912
Purchase of Bridge Authority bonds	12	(12,900)	(1,100)
Purchase of Bahamas Government Registered Stock	10	(231,075,500)	(13,332,400)
Proceeds from sales and maturities of Bahamas Government Stock	10	120,625,100	68,298,300
Repayments of loans by Bahamas Development Bank	11	150,000	450,000
Purchase of Bahamas Government Treasury bills	14	(1,125,506,349)	(372,596,255)
Proceeds from the sale and maturities of Bahamas Government Treasury bills	14	1,028,671,936	365,601,483
Interest received		31,596,536	29,859,125
Net cash (used in)/from investing activities		**(203,864,573)**	**97,127,506**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of SDRs	7	(18,160,422)	-
Interest paid		(103,478)	(90,396)
Net cash used in financing activities		**(18,263,900)**	**(90,396)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(9,017,660)**	**53,254,821**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		208,521,085	155,266,264
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**199,503,425**	**208,521,085**

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

Notes to the Financial Statements
December 31, 2016

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 (the Act). The Act establishes the structure, governance and funding of the Bank. The Bank's principal business is the provision of Central Banking facilities for the Commonwealth of The Bahamas. In accordance with the Act, it is the duty of the Bank to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the Bahamian economy; in collaboration with the financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and to advise the Minister on any matter of financial or monetary nature referred by him to the Bank for its advice. Its main place of business is located at Frederick Street, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

i) Compliance with IFRS

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

ii) Historical cost convention

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 2 (d), (m), 29, 30 and 31.

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

Standards and amendments and interpretations to published standards that became effective for the Bank's financial year beginning on January 1, 2016 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.

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

With the exception of the following standards, amendments or interpretations, the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Bank's accounting policies or financial statements in the financial period of initial adoption.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* (IFRS 9) addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Bank's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39.

For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Bank has not yet assessed the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after January 1, 2018.

IFRS 15 Revenue from contracts with customers

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Bank has not yet assessed the full impact of adopting IFRS 15.

IFRS 16 Leases

IFRS 16 *Leases* addresses the recognition, measurement and disclosure of leases, and replaces the current guidance in IAS 17 *Leases*. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts on the [consolidated] statement of financial position, instead, the classification of leases as either operating leases or finance leases as is required by IAS 17. Lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset in their income statement under IFRS 16. The new standard requires to change the cash flow statement because the lease contacts been classified as operating leases are no longer applicable under operating cash flows in full and interest on lease liability will be only entitled to classify under operating cash flows. Cash payment on principle portion are required to classify within financing activities on the cash flow statement. Lessor accounting remains substantially the same as in IAS 17. The Bank has not yet assessed the full impact of adopting IFRS 16, which is effective for annual periods on or after January 1, 2019.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IAS 7 Cash flow statements

IAS 7 *Cash flow statements* (IAS 7) amendment introduces an additional disclosure requirement that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This includes changes arising from; a) cash flows, such as drawdowns and repayments of borrowings; and b) non-cash changes, such as acquisitions, disposals and unrealised exchange differences. The Bank has not yet assessed the full disclosure impact of adopting the amendment of IAS 7, which is effective for financial periods beginning on or after January 1, 2017.

(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.

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, in accordance with Sections 32(2)(a) and 32(2)(b) of the Act, the gain/(loss) is appropriated from the general reserve to an exchange equalisation account within equity and reserves.

(c) Financial assets

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

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Notes to the Financial Statements (Continued)

December 31, 2016

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

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. 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 the International Monetary Fund asset balances and have been so designated by management.

ii) Available-for-sale financial assets

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

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

iii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Marketable securities issued or guaranteed by foreign governments and Clifton Heritage Authority bonds are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at 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.

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than, (a) those that the Bank intends to sell immediately or in the short term, (b) those that the Bank, upon initial recognition, designates as available-for-sale, or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale. Loans and receivables are measured at amortised cost.

Accounts set out below are classified as loans and receivables originated by the Bank and not held-for-trading:

- Advances to Bahamas Government
- Loans to Bahamas Development Bank
- Bahamas Government Registered Stocks
- Bahamas Development Bank bonds
- Bridge Authority bonds
- Employee loans and other receivables

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.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

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. Loans and receivables and HTM investments are subsequently carried at amortised cost using the effective interest method, less provisions for impairment.

Gains or losses arising from sales and changes in fair value of financial assets 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 at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as a part of net income in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised as a part of net income in the statement of comprehensive income. When a financial asset is uncollectible, it is written off against the related allowance account. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of accounts previously written off are recognised directly in the statement of comprehensive income as a part of net income.

(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 is 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%

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) 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.

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.

(g) 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)

(g) 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.

(h) 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.

(i) 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.

(j) Investment currency market payable

The Bank maintains a market in investment currency, prescribed for facilitating direct investment and foreign currency securities acquisitions outside The Bahamas. The investment currency attracts a deposit of 10.0%. Such deposits are treated as financial liabilities, recognised initially at fair value and subsequently measured at amortised cost. The financial liabilities are derecognised when repaid to investors and funds are repatriated to the country.

The purchase of investment currency attracts a 2.5% surcharge to facilitate the transaction. This fee is recognised upon completion of the investment currency purchase and is recognised in 'Other income' in the statement of comprehensive income.

(k) 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 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.

Other income and expenses are recognised on the accrual basis.

(l) Leases

The Bank is the lessee

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the statement of comprehensive income as a part of net income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial period in which termination takes place.

2. Summary of Significant Accounting Policies (Continued)

(m) Employee benefits

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

Defined Benefit Plan

The Bank's retirement plan has a contributory defined benefit plan with participants being permanent employees who have been employed on or before December 31, 2013 and have not attained age 55. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. The defined benefit obligation is calculated annually by independent actuaries. Remeasurements are recognised in other comprehensive income when they occur. Past service cost is recognised immediately in the period of a plan amendment or curtailment. Contributions are made by employees at 5% of basic salary and the difference by the Bank, which amounted to 12% (2015: 14.80%).

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.

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

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

Health insurance subsidy for retirees

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

Defined Benefit Plan for Governors and Deputy Governors

Governors 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.

2. Summary of Significant Accounting Policies (Continued)

(n) Cash and cash equivalents

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

(o) 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.

(p) Fiduciary items

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

(q) Corresponding figures

Corresponding figures have been reclassified to conform with changes in presentation in the current year as follows:

Property, Plant and Equipment – Reclassification of balances under Office Equipment, Computer Software, and Office Furniture and Fittings.

International Monetary Fund – Disclosure of movements in the reserve tranche.

Related Party Transactions – Disclosure of defined benefit obligation for key management personnel.

Liquidity Risk – Employee and other receivables balances were reclassified to its appropriate maturity category.

3. Cash and Deposits with Banks

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

	2016 $	2015 $
External Assets		
Cash on hand	4,000	4,000
Cash in vault	2,625,554	1,873,774
Cash and deposit with banks	252,144,084	204,715,577
	254,773,638	206,593,351
Domestic Assets		
Cash on hand	40,358	1,927,734
	254,813,996	208,521,085
Less: Deposits with banks with original contractual maturities greater than three months	(55,310,571)	-
	199,503,425	**208,521,085**

Notes to the Financial Statements (Continued)

December 31, 2016

4. Property, Plant and Equipment

	Land $	Buildings & Renovations $	Office Equipment $	Computer Software $	Office Furniture & Fittings $	Other Fixed Assets $	Total $
COST							
As at January 1, 2016	2,452,938	14,619,568	7,692,983	11,089,230	656,977	352,197	**36,863,893**
Additions	-	471,455	364,103	25,418	44,428	39,750	**945,154**
Disposals/Retirement	-	(30,222)	(97,190)	-	(639)	(72,178)	**(200,229)**
As at December 31, 2016	**2,452,938**	**15,060,801**	**7,959,896**	**11,114,648**	**700,766**	**319,769**	**37,608,818**
ACCUMULATED DEPRECIATION							
As at January 1, 2016	-	7,887,150	6,232,146	7,726,515	566,397	132,807	**22,545,015**
Charge for the year	-	866,430	486,751	889,871	75,361	61,916	**2,380,329**
Transfer	-	-	72,551	-	(72,551)	-	**-**
Disposals/Retirement	-	(30,223)	(95,896)	-	(639)	(72,177)	**(198,935)**
As at December 31, 2016	**-**	**8,723,357**	**6,695,552**	**8,616,386**	**568,568**	**122,546**	**24,726,409**
NET BOOK VALUE							
As at December 31, 2016	**2,452,938**	**6,337,444**	**1,264,344**	**2,498,262**	**132,198**	**197,223**	**12,882,409**
COST							
As at January 1, 2015	2,452,938	14,770,688	11,895,963	7,480,167	6,580,933	254,920	**43,435,609**
Additions	**-**	103,248	923,010	3,743,647	41,879	218,830	**5,030,614**
Disposals/Retirement	-	(254,368)	(5,125,990)	(134,584)	(5,965,835)	(121,553)	**(11,602,330)**
As at December 31, 2015	**2,452,938**	**14,619,568**	**7,692,983**	**11,089,230**	**656,977**	**352,197**	**36,863,893**
ACCUMULATED DEPRECIATION							
As at January 1, 2015	-	7,795,954	10,771,982	7,281,446	6,376,748	217,526	**32,443,656**
Charge for the year	-	405,119	599,240	579,651	82,843	36,834	**1,703,687**
Disposals/Retirement	-	(254,368)	(5,139,074)	(134,584)	(5,965,653)	(108,649)	**(11,602,328)**
Transfer	-	(59,555)	(2)	2	59,555	-	-
As at December 31, 2015	**-**	**7,887,150**	**6,232,146**	**7,726,515**	**553,493**	**145,711**	**22,545,015**
NET BOOK VALUE							
As at December 31, 2015	**2,452,938**	**6,732,418**	**1,460,837**	**3,362,715**	**103,484**	**206,486**	**14,318,878**

Notes to the Financial Statements (Continued)

December 31, 2016

5. External Assets

External assets comprise those assets defined by Section 18(1) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At year end, external assets represented 67.4% (2015: 77.6%) of such liabilities.

6. Marketable Securities Issued or Guaranteed by Foreign Governments

Section 18(1) of the Act requires that marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years, shall at no time constitute more than 30% in value of the Bank's external assets. At December 31, 2016, marketable securities held by the Bank, which mature after 5 years, constituted 31.61% (2015: 23.27%) of the Bank's external assets. The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass the above deviation.

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

	2016 $	2015 $
Beginning balance	518,401,865	541,248,682
Purchases at nominal value	159,425,000	77,000,000
Discount on purchases	(2,056,758)	(481,055)
Redemptions/maturities	(130,000,000)	(100,373,000)
Gain on redemption/maturities	325,242	-
Discount earned	978,233	1,055,524
Amortised premium	(22,829)	(48,286)
Total		547,050,753
	518,401,865	
Add: Accrued interest	3,460,519	3,255,318
Ending balance	**550,511,272**	**521,657,183**

These securities bear interest at rates varying between 1.125% and 4.75% (2015: 1.375% and 4.75%).

7. International Monetary Fund

Background

The International Monetary Fund (IMF) is an organisation of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The Bahamas was admitted as a member of the IMF on August 21, 1973.

Quota, Subscriptions and Reserve Tranche

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).

As of December 31, 2016, The Bahamas was assigned a quota of SDR 182,400,000 (2015: SDR 130,300,000) which represents 0.04% (2015: 0.05%) of the total quota allocated by the IMF.

7. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (continued)

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 43,326,727 and SDR 114,832,392 (2015: SDR 33,519,522 and SDR 85,526,142) 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.

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:

	2016		2015	
	SDR	**$**	**SDR**	**$**
Quota	182,400,000	245,206,113	130,300,000	180,455,668
Subscription payments in promissory notes	(158,159,119)	(212,618,327)	(119,045,664)	(164,965,217)
Subscription payments in local currency	(4,955,601)	(6,661,972)	(4,994,056)	(6,815,390)
Reserve tranche	**19,285,280**	**25,925,814**	**6,260,280**	**8,675,061**

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

	2016		2015	
	SDR	**$**	**SDR**	**$**
Beginning balance	6,260,280	8,675,061	6,260,280	9,069,925
Purchase of SDRs	13,025,000	18,160,422	-	-
Currency movement0	-	(909,669)	-	(394,864)
Total	**19,285,280**	**25,925,814**	**6,260,280**	**8,675,061**

7. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation

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

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

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

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

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

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 month debt in the money markets of the basket of five (5) SDR international currencies.

SDR Holdings

	2016		2015	
	SDR	$	SDR	$
Beginning balance	54,123,129	75,000,076	54,159,903	78,467,140
Remuneration and other charges	(38,168)	(51,910)	(36,774)	(50,959)
Currency movement	-	(2,240,035)	-	(3,416,105)
Total	54,084,961	72,708,131	54,123,129	75,000,076
Add: Accrued interest		36,392		6,381
Ending balance		**72,744,523**		**75,006,457**

SDR Allocation

	2016		2015	
	SDR	$	SDR	$
Beginning balance	124,413,351	172,403,385	124,413,351	180,250,688
Currency movement	-	(5,150,566)	-	(7,847,303)
Total	124,413,351	167,252,819	124,413,351	172,403,385
Add: Accrued interest		66,223		14,337
Ending balance		**167,319,042**		**172,417,722**

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.

The interest rate, which is the same on both SDR Holdings and allocation, varied between 0.05% and 0.228% (2015: 0.06% and 0.13%) during the period.

8. Bahamas Development Bank Bonds

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

	2016	2015
	$	$
Balance	4,000,000	4,000,000
Add: Accrued interest	150,545	103,587
Total	**4,150,545**	**4,103,587**

These bonds bear interest at the Bahamian dollar prime rate of 4.75% (2015: 4.75%) with $2,000,000 maturing on August 1, 2025 and November 1, 2025, respectively.

9. Advances to Bahamas Government

Sections 28(3) and 28(4) of the Act require that advances to the Government, which may be outstanding at any one time, shall not exceed the lesser of either (a) 10% of the annual average ordinary revenue of the Government over the three preceding years, for which the accounts have been laid before Parliament, or (b) the estimated ordinary revenue of the Government for the year.

At the year end date, advances to the Government were 9.47% (2015: 9.67%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2016	2015
	$	$
Beginning balance	134,657,052	134,657,052
Add: Accrued interest	703,547	703,547
Ending balance	**135,360,599**	**135,360,599**

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

Rate	**2016**	**2015**
	$	$
0.356%	19,069,444	19,069,444
0.395%	20,000,000	20,000,000
0.483%	5,000,000	5,000,000
0.512%	5,000,000	5,000,000
0.540%	60,000,000	60,000,000
0.638%	20,000,000	20,000,000
0.840%	5,587,608	5,587,608
	134,657,052	**134,657,052**

10. Bahamas Government Registered Stocks

The movement in Bahamas Government Registered Stocks are as follows:

	2016	2015
	$	$
Beginning balance	257,993,900	312,959,800
Purchases	231,075,500	13,332,400
Redemptions/maturities	(120,625,100)	(68,298,300)
Total	368,444,300	257,993,900
Add: Accrued interest	4,203,653	3,128,628
Ending balance	**372,647,953**	**261,122,528**

Bahamas Government Registered Stocks bear interest at rates ranging between 2.95% and 6.00% (2015: 3.50% and 6.00%).

11. Loans to Bahamas Development Bank

This balance is comprised of two Government Guaranteed loan facilities made available in accordance with Section 29(1)(f) of the Act.

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

	2016	2015
	$	$
Beginning balance	3,700,000	4,150,000
Repayments	(150,000)	(450,000)
Total	3,550,000	3,700,000
Add: Accrued interest	84,843	23,110
Ending balance	**3,634,843**	**3,723,110**

The loans bear interest at 2.00% (2015: 2.00%), with $300,000 and $3,250,000 maturing on October 21, 2018 and October 28, 2024, respectively.

12. Bridge Authority Bonds

The movements in the Bridge Authority bonds are as follows:

	2016	2015
	$	$
Beginning balance	465,900	464,800
Purchases	12,900	1,100
Total	478,800	465,900
Add: Accrued interest	7,801	7,605
Ending balance	**486,601**	**473,505**

These bonds bear interest at rates ranging from 1.25% to 1.63% (2015: 1.00% to 1.63%) per annum over the Bahamian dollar prime rate with $445,300, $14,000 and $19,500 maturing on March 24, 2019, 2024 and 2029, respectively.

Notes to the Financial Statements (Continued)

December 31, 2016

13. Clifton Heritage Authority Bonds

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

	2016	2015
	$	$
Balance	634,600	634,600
Add: Accrued interest	3,823	3,834
Total	**638,423**	**638,434**

14. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 99.46% and 99.74% (2015: 99.5% and 99.82%) maturing 91 to 182 days from acquisition.

	2016	2015
	$	$
Beginning balance	126,538,783	119,544,011
Purchases	1,125,506,349	372,596,255
Redemptions/maturities	(1,028,671,936)	(365,601,483)
Total	223,373,196	126,538,783
Add: Discount earned	516,966	72,339
Ending balance	**223,890,162**	**126,611,122**

15. Notes in Circulation

In accordance with the Act, the Bank has the sole authority to issue banknotes for circulation in The Bahamas. A breakdown, by denomination, is presented below.

	2016	2015
	$	$
0.50	737,313	676,676
1.00	23,509,536	22,702,973
3.00	1,972,440	1,943,823
5.00	11,503,120	11,036,815
10.00	17,753,390	15,997,260
20.00	59,900,280	57,299,060
50.00	116,723,650	108,690,150
100.00	167,895,600	147,495,000
Other bank notes	79,832	79,835
	400,075,161	**365,921,592**

16. Deposits by Commercial Banks

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

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

17. 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.

18. 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, 2016, and 2015, the Bank's paid up capital was equal to the authorised capital of $3,000,000.

To comply with section 32(2)(a) of the Act, the table below presents the performance of the Bank excluding from the calculation any profit or loss arising from any revaluation of any assets or liabilities of the Bank occasioned by any change in the value of the currency of The Bahamas or any foreign currency.

	2016 **$**	**2015** **$** **Restated (Note 32)**
Net income	12,291,875	8,996,405
Appropriation of foreign exchange gain	(2,002,497)	(4,247,034)
Net income per the Act	10,289,378	4,749,371
Other comprehensive income	826,603	2,407,626
Total comprehensive income stated in accordance with the Act	11,115,981	7,156,997

Exchange equalisation account - Under the terms of Sections 32(2)(a) and 32(2)(b) of the Act, 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.

General reserve - Section 7(2) of the Act requires that, at the end of any year where the amount in the general reserve exceeds twice the authorised capital of the Bank or 15% of its demand liabilities, whichever is greater, the excess shall be paid to the Consolidated Fund, unless the Minister of Finance determines otherwise.

The balance of the general reserve at the year end amounted to $134,097,817 (2015: $122,981,836 (restated)) equivalent to 10% (2015: 11.72%) of demand liabilities.

Notes to the Financial Statements (Continued)
December 31, 2016

19. Income

	2016 $	2015 $
Interest on foreign investments		
Demand deposits	171,857	32,274
Fixed deposits	1,845,521	433,739
Marketable securities	13,875,771	14,726,096
Interest Income on SDR	64,850	37,675
	15,957,999	15,229,784
Interest on loans		
Loans to Bahamas Development Bank	72,425	79,263
Government advances	703,547	703,548
Staff	282,386	321,528
	1,058,358	1,104,339
Interest on domestic investments		
Bahamas Development Bank bonds	190,000	190,000
Bahamas Government Registered Stocks	13,715,757	12,938,558
Bridge Authority bonds	28,396	28,027
Bahamas Government Treasury bills	3,682,485	581,548
Clifton Heritage bonds	33,317	33,316
	17,649,955	13,771,449
Interest expense on IMF allocation	(155,364)	(89,592)
Net foreign exchange gain	2,008,419	3,888,076
Net trading gain	332,958	-
Other income		
Allocated bank license fees	3,700,000	1,850,000
Bank statutory fines	86,445	663,319
Commission on foreign currency sales	676,953	489,947
Premium on Investment Currency Market	322,796	198,967
Other	289,032	287,999
	5,075,226	3,490,232
Total income	**41,927,551**	**37,394,288**

20. Expenses

	2016 $	2015 $ Restated (Note 32)
Staff costs		
Salaries, wages and gratuity	13,580,752	13,945,063
Defined benefit plan	1,387,810	1,605,461
Group insurance plan	1,375,116	1,347,433
Staff training	481,584	441,954
National insurance	450,332	428,014
Health insurance subsidy	231,433	248,490
Responsibility allowance	190,300	215,591
Former Governors' retirement benefit	277,445	318,616
Defined contribution plan	185,272	148,460
Other	320,622	226,369
	18,480,666	**18,925,451**
General and administrative		
Currency	2,293,502	2,147,373
Professional fees	1,922,177	1,299,680
Utilities	839,590	976,106
Repairs and maintenance	823,162	940,900
Rent	531,020	499,927
Insurance	216,898	253,749
Cash shipment	259,556	243,959
Subscription and membership fees	117,259	171,115
Stationery and office supplies	58,246	103,265
Directors' remuneration	58,025	57,000
Other	1,655,246	1,075,671
	8,774,681	**7,768,745**

21. 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.

Notes to the Financial Statements (Continued)

December 31, 2016

22. Commitments & Contingencies

(a) **Contingencies**

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

(b) **Commitments**

i) Leases

The Bank leases office space with lease terms of between three to five years. At year-end, the Bank was committed to the following payments:

	2016 $	2015 $
Not later than one year	53,383	527,616
Later than one year but not later than five years	91,075	-

ii) 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:

	2016 $	2015 $
Not later than one year	2,787,878	5,050,812
Later than one year but not later than five years	2,716,000	3,459,736

Notes to the Financial Statements (Continued)
December 31, 2016

23. Concentration of Assets and Liabilities

	2016 $	2015 $
EXTERNAL ASSETS		
Geographic Region		
North America	80.35%	78.43%
Europe	15.34%	16.64%
Other	4.31%	4.93%
	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	99.99%	99.99%
Other	0.01%	0.01%
	100.00%	100.00%
Industry		
Financial Sector	33.33%	39.24%
Government Sector	66.67%	60.76
	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

Section 29(1)(c) of the Act requires that the total amount of Government issued or guaranteed securities held at any time by the Bank, which mature beyond five (5) years after their date of issue, shall not exceed 20% of the demand liabilities of the Bank. At the statement of financial position date, such securities held by the Bank, which matured beyond five years after their date of issue, was 18.96% (2015: 26.23%) of demand liabilities. The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass any deviation as occurred in 2015.

The Act further requires that any holdings of Government issued or guaranteed securities should not have maturities extending beyond 20 years from the date of their acquisition. The Bank held no securities maturing beyond 20 years, at either December 31, 2016 or 2015.

24. 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.

The Bank provides certain services to the Government of The Bahamas, in accordance with its mandate under Sections 26 to 29 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

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:

	2016 $	2015 $
Senior officials' salaries and short-term benefits	1,865,107	1,648,248
Directors' remuneration	58,025	57,000
Post-employment benefits	157,385	161,856
	2,080,517	**1,867,104**

(b) Other assets include secured loans to employees totalling $10,275,952 (2015: $10,222,628), of which the following relates to key management personnel:

	2016 $	2015 $
Beginning of the year	1,015,188	1,118,461
Advances during the year	55,238	36,227
Repayments during the year	(103,970)	(139,500)
End of the year	**966,456**	**1,015,188**

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

	2016 $	2015 $ Restated (Note 32)
Defined benefit pension plan for Employees	2,658,196	2,368,909
Defined benefit pension plan for Governors and Deputy Governors	826,524	2,068,005
Gratuity	25,200	13,921
End of the year	**3,509,920**	**4,450,835**

Notes to the Financial Statements (Continued)

December 31, 2016

25. Fiduciary Assets and Liabilities

Section 24 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, 2016 the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $95,250,622 (2015: $93,412,574). These amounts are excluded from the statement of financial position.

26. Financial Instruments

Categories of Financial Instruments

December 31, 2016	Loans & Receivables (amortised cost) $	Fair Value Through Profit or Loss $	Held-to-Maturity (amortised cost) $	Available-for-Sale $	Total Carrying Amount $
EXTERNAL ASSETS					
Cash and deposits with banks	254,773,638	-	-	-	254,773,638
Marketable securities issued or guaranteed by foreign governments	-	-	550,511,272	-	550,511,272
International Monetary Fund:					
Bahamas reserve tranche	-	25,925,814	-	-	25,925,814
Special drawing rights - holdings	-	72,744,523	-	-	72,744,523
DOMESTIC ASSETS					
Cash on hand	40,358	-	-	-	40,358
Bahamas Development Bank bonds	4,150,545	-	-	-	4,150,545
Advances to Bahamas Government	135,360,599	-	-	-	135,360,599
Bahamas Government Registered Stock	372,647,953	-	-	-	372,647,953
Loans to Bahamas Development Bank	3,634,843	-	-	-	3,634,843
Bridge Authority Bonds	486,601	-	-	-	486,601
Clifton Heritage Authority Bonds	-	-	638,423	-	638,423
Bahamas Government Treasury Bills	-	-	-	223,890,162	223,890,162
Employee loans and other receivables	10,513,599	-	-	-	10,513,599
Total	**781,608,136**	**98,670,337**	**551,149,695**	**223,890,162**	**1,655,318,330**

Notes to the Financial Statements (Continued)

December 31, 2016

26. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2016			
DEMAND LIABILITIES			
Deposits by commercial banks	-	866,319,539	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	-	27,859,918	27,859,918
Deposits by International agencies	-	255,274	255,274
Accounts payable and other liabilities	-	5,949,521	5,949,521
Investment Currency Market payable	-	7,782,800	7,782,800
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	167,319,042	-	167,319,042
Total	**167,319,042**	**908,167,052**	**1,075,486,094**

26. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Loans & Receivables (amortised cost) $	Fair Value Through Profit or Loss $	Held-to-Maturity (amortised cost) $	Available-for-Sale $	Total Carrying Amount $
December 31, 2015					
EXTERNAL ASSETS					
Cash and deposits with banks	206,593,351	-	-	-	206,593,351
Marketable securities issued or guaranteed by foreign governments	-	-	521,657,183	-	521,657,183
International Monetary Fund:					
Bahamas reserve tranche	-	8,675,061	-	-	8,675,061
Special drawing rights - holdings	-	75,006,457	-	-	75,006,457
DOMESTIC ASSETS					
Cash on hand	1,927,734	-	-	-	1,927,734
Bahamas Development Bank bonds	4,103,587	-	-	-	4,103,587
Advances to Bahamas Government	135,360,599	-	-	-	135,360,599
Bahamas Government Registered Stock	261,122,528	-	-	-	261,122,528
Loans to Bahamas Development Bank	3,723,110	-	-	-	3,723,110
Bridge Authority Bonds	473,505	-	-	-	473,505
Clifton Heritage Authority Bonds	-	-	638,434	-	638,434
Bahamas Government Treasury Bills	-	-	-	126,611,122	126,611,122
Employee loans and other receivables	10,470,570	-	-	-	10,470,570
Total	**623,774,984**	**83,681,518**	**522,295,617**	**126,611,122**	**1,356,363,241**

Notes to the Financial Statements (Continued)
December 31, 2016

26. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2015			
DEMAND LIABILITIES			
Deposits by commercial banks	-	591,087,668	591,087,668
Deposits by Bahamas Government and Bahamas Government agencies	-	46,730,659	46,730,659
Deposits by International agencies	-	255,261	255,261
Accounts payable and other liabilities	-	8,843,423	8,843,423
Investment Currency Market payable	-	6,660,600	6,660,600
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	172,417,722	-	172,417,722
Total	**172,417,722**	**653,577,611**	**825,995,333**

27. 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.

	2016		2015	
	Carrying Value $	Fair Value $	Carrying Value $	Fair Value $
FINANCIAL INSTRUMENTS				
Marketable securities issued or guaranteed by foreign governments	550,511,272	557,597,025	521,657,183	538,534,325
Bahamas Government Registered Stocks	372,647,953	372,647,953	261,122,528	261,122,528
Loans to Bahamas Development Bank	3,634,843	3,655,321	3,723,110	3,154,075
Bridge Authority bonds	486,601	510,244	473,505	500,705
Clifton Heritage Authority bonds	638,423	664,009	638,434	665,910
TOTAL	**927,919,092**	**935,074,552**	**787,614,760**	**803,977,543**

27. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

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

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

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

Fair value hierarchy and measurements

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

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

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

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

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

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.

27. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

The following table categorizes into three levels the inputs 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, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
International Monetary Fund:				
Bahamas reserve tranche	25,925,814	-	-	25,925,814
Special Drawing rights - holdings	72,744,523	-	-	72,744,523
Available-for-sale financial assets				
Bahamas Government Treasury bills	-	223,890,162	-	223,890,162
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	167,319,042	-	-	167,319,042

	Fair value measurements as at December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
International Monetary Fund:				
Bahamas reserve tranche	8,675,061	-	-	8,675,061
Special Drawing rights - holdings	75,006,457	-	-	75,006,457
Available-for-sale financial assets				
Bahamas Government Treasury bills	-	126,611,122	-	126,611,122
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	172,417,722	-	-	172,417,722

27. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

Level 3

The Bank does not have a level three classification at December 31, 2016 and 2015.

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, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Cash and deposits with banks	254,813,996	-	-	254,813,996
Loans and receivables				
Bahamas Development Bank bonds	-	4,150,545	-	4,150,545
Advances to Bahamas Government	-	135,360,599	-	135,360,599
Bahamas Government Registered Stocks	-	372,647,953	-	372,647,953
Loans to Bahamas Development Bank	-	3,655,321	-	3,655,321
Bridge Authority bonds	-	510,244	-	510,244
Employee loans and other receivables	-	10,513,599	-	10,513,599
Held-to-maturity investments				
Marketable securities issued or guaranteed by foreign governments	557,597,025	-	-	557,597,025
Clifton Heritage Authority bonds	-	664,009	-	664,009

	Fair value measurements as at December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
Other financial liabilities				
Deposits by commercial banks	-	866,319,539	-	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	-	27,859,918	-	27,859,918
Deposits by international agencies	-	255,274	-	255,274
Accounts payable and other liabilities	-	5,949,521	-	5,949,521
Investment Currency Market payable	-	7,782,800	-	7,782,800

Notes to the Financial Statements (Continued)
December 31, 2016

27. 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, 2015			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
		Restated (Note 32)		Restated (Note 32)
FINANCIAL ASSETS				
Cash and deposits with banks	208,521,085	-	-	208,521,085
Loans and receivables				
Bahamas Development Bank bonds	-	4,103,587	-	4,103,587
Advances to Bahamas Government	-	135,360,599	-	135,360,599
Bahamas Government Registered Stocks	-	261,122,528	-	261,122,528
Loans to Bahamas Development Bank	-	3,154,075	-	3,154,075
Bridge Authority bonds	-	500,705	-	500,705
Employee loans and other receivables	-	10,470,570	-	10,470,570
Held-to-maturity investments				
Marketable securities issued or guaranteed by foreign governments	538,534,325	-	-	538,534,325
Clifton Heritage Authority bonds	-	665,910	-	665,910
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
Other financial liabilities				
Deposits by commercial banks	-	591,087,668	-	591,087,668
Deposits by Bahamas Government and Bahamas Government agencies	-	46,730,659	-	46,730,659
Deposits by international agencies	-	255,261	-	255,261
Accounts payable and other liabilities	-	8,843,423	-	8,843,423
Investment Currency Market payable	-	6,660,600	-	6,660,600

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 has not experienced any changes since the year ended December 31, 2011.

28. 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.

Credit risk

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

Exposure to credit risk

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

	2016	**2015**
	$	**$**
Cash and deposits with banks		
Aaa	42,434,226	63,879,348
Aa2	-	35,000,000
A1	47,999,400	-
AA	-	50,000,000
A2	77,166,058	55,093,176
A3	10,063,507	-
Baa1	-	743,054
Baa3	74,480,893	-
	252,144,084	204,715,578

28. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2016 $	2015 $
Bahamas Development Bank Bonds		
Baa3	4,105,545	4,103,587
Advances to Bahamas Government		
Baa3	135,360,599	135,360,599
Bahamas Government Registered Stock		
Baa3	372,647,953	261,122,528
Loans to Bahamas Development Bank		
Baa3	3,634,843	3,723,110
Bridge Authority Bonds		
Baa3	486,601	473,505

	2016 $	2015 $
Receivables and Other Assets	10,513,599	10,470,570
Available-for-sale Securities		
Baa3	223,890,162	126,611,122
Held-to-maturity Investments		
Aaa	550,511,272	521,657,183
Baa3	638,423	638,434
	551,149,695	522,295,617
International Monetary Fund		
Bahamas reserve tranche	25,925,814	8,675,061
Special drawing rights - holdings	72,744,523	75,006,457
	98,670,337	83,681,518
	1,652,603,418	**1,352,557,734**

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.

Notes to the Financial Statements (Continued)

December 31, 2016

28. Risk Management (Continued)

Currency risk (continued)

***(BSD equivalent)**

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

	BSD Restated (Note 32)	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2016							
Financial Assets							
Cash and deposits with banks	40,358	254,749,649	248	880	22,861	-	254,813,996
Marketable securities	-	550,511,272	-	-	-	-	550,511,272
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	25,925,814	25,925,814
Special drawing rights - holdings	-	-	-	-	-	72,744,523	72,744,523
Domestic financial assets	755,386,496	-	-	-	-	-	755,386,496
Total financial assets	**755,426,854**	**805,260,921**	**248**	**880**	**22,861**	**98,670,337**	**1,659,382,101**
Financial Liabilities							
Notes in circulation	400,075,161	-	-	-	-	-	400,075,161
Coins in circulation	25,648,024	-	-	-	-	-	25,648,024
Deposits by commercial banks	866,319,539	-	-	-	-	-	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	27,859,918	-	-	-	-	-	27,859,918
Deposits by international agencies	-	255,274	-	-	-	-	255,274
Accounts payable and other liabilities	5,949,521	-	-	-	-	-	5,949,521
Investment Currency Market payable	7,782,800	-	-	-	-	-	7,782,800
Health insurance subsidy benefit	2,951,833	-	-	-	-	-	2,951,833
Retirement benefit liability - Governor and Deputy Governors	4,277,451	-	-	-	-	-	4,277,451
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	167,319,042	167,319,042
Total financial liabilities	**1,340,864,247**	**255,274**	**-**	**-**	**-**	**167,319,042**	**1,508,438,563**
Net on-balance sheet position	**(585,437,393)**	**805,005,647**	**248**	**880**	**22,861**	**(68,648,705)**	**150,943,538**

Notes to the Financial Statements (Continued)

December 31, 2016

28. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD Restated (Note 32)	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2015							
Financial Assets							
Cash and deposits with banks	1,927,734	206,588,485	3,498	727	641	-	208,521,085
Marketable securities	-	521,657,183	-	-	-	-	521,657,183
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	8,675,061	8,675,061
Special drawing rights - holdings	-	-	-	-	-	75,006,457	75,006,457
Domestic financial assets	552,925,475	-	-	-	-	-	552,925,475
Total financial assets	**554,853,209**	**728,245,668**	**3,498**	**727**	**641**	**83,681,518**	**1,366,785,261**
Financial Liabilities							
Notes in circulation	365,921,592	-	-	-	-	-	365,921,592
Coins in circulation	23,259,871	-	-	-	-	-	23,259,871
Deposits by commercial banks	591,087,668	-	-	-	-	-	591,087,668
Deposits by Bahamas Government and Bahamas Government agencies	46,730,659	-	-	-	-	-	46,730,659
Deposits by international agencies	-	255,261	-	-	-	-	255,261
Accounts payable and other liabilities	8,843,423	-	-	-	-	-	8,843,423
Investment Currency Market payable	6,660,600	-	-	-	-	-	6,660,600
Health insurance subsidy benefit	2,850,014	-	-	-	-	-	2,850,014
Retirement benefit liability - Governor and Deputy Governors	4,127,467	-	-	-	-	-	4,127,467
International Monetary Fund: Special drawing rights allocation	-	-	-	-	-	172,417,722	172,417,722
Total financial liabilities	**1,049,481,294**	**255,261**	**-**	**-**	**-**	**172,417,722**	**1,222,154,277**
Net on-balance sheet position	**(494,628,085)**	**727,990,407**	**3,498**	**727**	**641**	**(88,736,204)**	**144,630,984**

28. Risk Management (Continued)

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

	Average Rate		Year-end Spot Rate	
	2016	2015	2016	2015
USD1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.2987	1.4752	1.2343	1.5285
EUR 1	1.0638	1.0869	1.0545	1.1097
SDR 1	1.3957	1.3989	1.3443	1.3857

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

Currency	Weight
USD	41.73%
EUR	30.93%
JPY	10.92%
GBP	8.09%
CNY	8.33%
	100%

At December 31, 2016, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 6,200,000 (2015: BSD 5,840,000) 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.

Certain of the Bank's financial assets and liabilities are exposed to interest rate risk. Marketable securities carry an average yield of 2.48% (2015: 2.55%); however, if these securities had a reduced average yield of 1.98% (2015: 2.33%), 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 $939,123 (2015: $1,150,600). Had the yield been tilted towards the higher end of the spectrum, to 2.13% (2015: 2.77%), income for the year and equity at year end would have increased by $939,123 (2015: $1,150,600).

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 $1,341,647 (2015: $1,106,979), 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 $1,341,647 (2015: $1,106,979).

Notes to the Financial Statements (Continued)
December 31, 2016

28. Risk Management (Continued)

Interest rate risk (Continued)

	December 31, 2016 $	December 31, 2015 $
Fixed Rate Instruments		
Financial assets	1,225,859,401	998,048,953
Financial liabilities	-	-
Variable Rate Instruments		
Financial assets	409,334,131	345,915,985
Financial liabilities	167,319,042	172,417,722

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.

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 (Continued)

December 31, 2016

28. 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, 2016						
Financial Assets						
Cash and deposits with banks	142,488,346	57,015,078	55,310,572	-	-	254,813,996
Marketable securities issued or guaranteed by foreign governments	-	-	19,805,031	301,051,375	305,823,016	626,679,422
International Monetary Fund:						
Bahamas reserve tranche	25,925,814	-	-	-	-	25,925,814
Special drawing rights – holdings	72,744,523	-	-	-	-	72,744,523
Bahamas Development Bank bonds	-	-	190,000	760,000	4,760,000	5,710,000
Advances to Bahamas Government	135,360,599	-	-	-	-	135,360,599
Bahamas Government Registered stock	-	-	27,414,440	176,061,866	341,104,498	544,580,804
Bahamas Government Treasury Bills	103,209,000	121,224,000	-	-	-	224,433,000
Loans to Bahamas Development Bank	-	-	71,000	566,000	3,445,000	4,082,000
Bridge Authority bonds	-	28,836	-	493,850	45,011	567,697
Clifton Heritage Authority bonds	-	-	33,317	133,266	751,208	917,791
Currency inventory	8,023,844	-	-	-	-	8,023,844
Retirement benefit asset	-	-	-	-	4,063,770	4,063,770
Employee and other receivables	244,110	2,379	64,640	2,639,037	7,563,433	10,513,599
Total financial assets	**487,996,236**	**178,270,293**	**102,889,000**	**481,705,394**	**667,555,936**	**1,918,416,859**

Notes to the Financial Statements (Continued)
December 31, 2016

28. 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, 2016						
Financial Liabilities						
Notes in circulation	400,075,161	-	-	-	-	400,075,161
Coins in circulation	25,648,024	-	-	-	-	25,648,024
Deposits by commercial banks	866,319,539	-	-	-	-	866,319,539
Deposits by Bahamas Government and Bahamas Government agencies	27,859,918	-	-	-	-	27,859,918
Deposits by International agencies	255,274	-	-	-	-	255,274
Accounts payable and other liabilities	5,949,521	-	-	-	-	5,949,521
Investment Currency Market Payable	7,782,800	-	-	-	-	7,782,800
Retirement benefit liability - Governors and Deputy Governors	4,277,451	-	-	-	-	4,277,451
Health insurance subsidy benefit	-	-	-	-	2,951,833	2,951,833
International Monetary Fund: Special drawing rights allocation	167,319,042	-	-	-	-	167,319,042
Total financial liabilities	**1,505,486,730**	**-**	**-**	**-**	**2,951,833**	**1,508,438,563**
Net on-balance sheet position	**(1,017,490,494)**	**178,270,293**	**102,889,000**	**481,705,394**	**664,604,103**	**409,978,296**

28. 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, 2015						
Financial Assets						
Cash and deposits with banks	208,521,085	-	-	-	-	208,521,085
Marketable securities issued or guaranteed by foreign governments	-	36,561,250	75,068,780	277,410,625	200,132,500	589,173,155
International Monetary Fund:						
Bahamas reserve tranche	8,675,061	-	-	-	-	8,675,061
Special drawing rights – holdings	75,006,457	-	-	-	-	75,006,457
Bahamas Development Bank bonds	-	-	190,000	950,000	4,760,000	5,900,000
Advances to Bahamas Government	135,360,599	-	-	-	-	135,360,599
Bahamas Government Registered stock	-	-	25,450,687	103,291,872	261,372,938	390,115,497
Bahamas Government Treasury Bills	209,000	111,324,000	15,348,900	-	-	126,881,900
Loans to Bahamas Development Bank	-	-	-	450,000	3,250,000	3,700,000
Bridge Authority bonds	-	-	-	450,616	22,889	473,505
Clifton Heritage Authority bonds	-	-	-	-	638,434	638,434
Currency inventory	7,173,950	-	-	-	-	7,173,950
Retirement benefit asset	-	-	-	-	3,519,122	3,519,122
Employee and other receivables	254,371	2,367	64,305	2,625,342	7,524,185	10,470,570
Total financial assets	**435,200,523**	**147,887,617**	**116,122,672**	**385,178,455**	**481,220,068**	**1,565,609,335**

Notes to the Financial Statements (Continued)

December 31, 2016

28. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $ Restated (Note 32)	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2015						
Financial Liabilities						
Notes in circulation	365,921,592	-	-	-	-	365,921,592
Coins in circulation	23,259,871	-	-	-	-	23,259,871
Deposits by commercial banks	591,087,668	-	-	-	-	591,087,668
Deposits by Bahamas Government and Bahamas Government agencies	46,730,659	-	-	-	-	46,730,659
Deposits by International agencies	255,261	-	-	-	-	255,261
Accounts payable and other liabilities	8,843,423	-	-	-	-	8,843,423
Investment Currency Market Payable	6,660,600	-	-	-	-	6,660,600
Retirement benefit liability - Governors and Deputy Governors	4,127,467	-	-	-	-	4,127,467
Health insurance subsidy benefit	-	-	-	-	2,850,014	2,850,014
International Monetary Fund: Special drawing rights allocation	172,417,722	-	-	-	-	172,417,722
Total financial liabilities	**1,219,304,263**	**-**	**-**	**-**	**2,850,014**	**1,222,154,277**
Net on-balance sheet position	**(784,103,740)**	**147,887,617**	**116,122,672**	**385,178,455**	**478,370,054**	**343,455,058**

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.

Notes to the Financial Statements (Continued)
December 31, 2016

29. Retirement Benefit Plans

Defined Contribution Plan

	2016	2015
	$	**$**
Amount recognised as an expense (Note 20)	185,272	148,460

Defined Benefit Plan

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

	2016	2015
	$	**$**
Present value of obligation at start of year	52,100,389	51,968,296
Interest cost	2,539,401	2,536,623
Current service cost	2,039,638	2,177,962
Benefits paid	(2,624,720)	(2,471,657)
Actuarial (gain) on obligation due to experience	(780,852)	(1,216,536)
Actuarial (gain) on obligation due to demographic assumption changes	-	(894,299)
Present value of obligation at end of year	**53,273,856**	**52,100,389**
Fair value of plan assets at start of year	55,619,511	53,524,848
Interest income	2,752,999	2,659,962
Contributions paid – both employees' and employer's	1,514,024	1,826,322
Benefits paid	(2,624,720)	(2,471,657)
Administrative costs	(8,561)	(5,900)
Return on plan assets, excluding interest income	84,378	85,936
Fair value of plan assets at end of year	**57,337,631**	**55,619,511**

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

	2016	2015
	$	**$**
Present value of funded obligations	53,273,856	52,100,389
Fair value plan assets	(57,337,631)	(55,619,511)
	(4,063,775)	**(3,519,122)**

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

	2016	2015
	$	**$**
Cash	389,987	440,761
Interest receivable	664,584	636,040
Bahamas Government Registered Stocks	55,215,400	53,773,900
Other bonds	379,245	380,100
Equity securities	700,000	400,000
Accounts payable	(11,585)	(11,290)
Total	**57,337,631**	**55,619,511**

29. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

	2016	2015
	$	$
Current service cost	1,592,847	1,722,899
Administrative cost	8,561	5,900
Net interest income	(213,593)	(123,338)
	1,387,815	**1,605,461**
Remeasurements recognised in OCI	**(865,230)**	**(2,196,771)**

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

	2016	2015
	$	$
Net assets at beginning of year	(3,519,122)	(1,556,553)
Net expense recognised in net income	1,387,815	1,605,461
Employer contributions	(1,067,238)	(1,371,259)
Remeasurements recognised in OCI	(865,230)	(2,196,771)
	(4,063,775)	**(3,519,122)**

The Bank intends to contribute approximately 18.7% of gross payroll to the plan during 2017 (2016: actual 12%).

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

	2016	2015
	$	$
Discount rate	5.00%	5.00%
Expected rate of salary increase at age 18	4.00%	4.00%
Expected rate of salary increase at age 59	4.00%	4.00%
Cost of living adjustment for active employees	1.25%	1.25%

The actual return on plan assets during the year was $2,837,372 (2015: $2,745,898).

Sensitivity and other results

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

	2016	2015
	$	$
Pensioners	13,587,222	13,437,255
Vesting actives	39,657,475	36,161,657
Deferred actives	29,159	27,770
Unvested actives	-	2,473,707
	53,273,856	52,100,389

The pensioner liability of $13,587,222 (2015: $13,437,255), consists of $1,303,997 (2015: $2,611,596) relating to assumed cost of living adjustments.

The liability for actives of $39,657,476 (2015: $38,635,364), consists of $1,334,331 (2015: $1,298,634) relating to assumed cost of living adjustments and $7,728,854 (2015: $7,748,658) relating to assumed future salary increases.

29. Retirement Benefit Plans (Continued)

Sensitivity and other results (continued)

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2016 for 1% changes in discount rate and salary increases.

	2016		2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	$	$	$	$
Discount	(7,567,124)	9,612,999	(7,496,237)	9,546,726
Future salary increases	2,483,569	(2,235,029)	2,507,891	(2,250,153)

If all members lived one year longer than projected, the liability at year-end would be $54,399,683 (2015: $53,192,385).

The weighted average duration of the defined benefit obligation at December 31, 2016 is 15.9 years (2015: 16.1 years).

30. Health Insurance Subsidy Benefit for Retirees

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

	2016	2015
	$	$
Present value of obligation at start of year	2,850,014	2,841,282
Interest cost	139,327	139,161
Current service cost	92,106	109,329
Benefits paid	(126,952)	(116,106
Actuarial gain on obligation due to experience	(2,662)	(68,281)
Actuarial gain on obligation due to demographic assumption change	-	(55,371)
Present value of obligation at end of year	**2,951,833**	**2,850,014**
Contribution paid – employees' and employers' contributions	126,952	116,106
Benefits paid	(126,952)	(116,106)
	-	-

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

	2016	2015
	$	$
Current service cost	92,106	109,329
Net interest cost	139,327	139,161
	231,433	**248,490**
Remeasurements recognised in OCI	**(2,662)**	**(123,652)**

30. Health Insurance Subsidy Benefit for Retirees (Continued)

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

	2016	2015
	$	$
Net liability at beginning of year	2,850,014	2,841,282
Net expense recognised in net comprehensive (loss)/income	231,433	248,490
Employer contributions	(126,952)	(116,106)
Remeasurements recognised in OCI	(2,662)	(123,652)
	2,951,833	**2,850,014**

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

	2016	2015
	$	$
Discount rate	5.00%	5.00%
Rate of Medical Subsidy Increases	0.00%	0.00%

Sensitivity and Other Results

The benefit obligation as at year-end comprises:

	2016	2015
	$	$
Pensioners	1,432,784	1,320,621
Actives	1,519,049	1,529,393
Total	**2,951,833**	**2,850,014**

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2016 for 1% changes in discount rate.

	2016		2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	$	$	$	$
Discount rate	(343,681)	(335,081)	(340,931)	423,951

If all members lived one year longer than projected, the liability would be $3,023,635 (2015: $2,918,680).

The weighted average duration of the defined benefit obligation at December 31, 2016 is 12.9 years (2015: 14.1 years).

31. Retirement Benefit Plan for Governors and Deputy Governors

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

	2016 $	2015 $ Restated (Note 32)
Present value of obligation at start of year	4,127,467	4,109,062
Interest cost	202,155	201,234
Current service cost	75,290	73,124
Benefits paid	(168,750)	(168,750)
Actuarial loss/(gain) on obligation due to experience	41,289	(87,203)
	4,277,451	**4,127,467**

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:

	2016 $	2015 $ Restated (Note 32)
Present value of funded obligations	4,277,451	4,127,467

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

	2016 $	2015 $ Restated (Note 32)
Current service cost	75,290	73,124
Net interest expense	202,155	201,234
	277,445	**274,358**
Remeasurements recognised in OCI	**41,289**	**(87,203)**

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

	2016 $	2015 $ Restated (Note 32)
Net liability at beginning of year	4,127,467	4,109,062
Net expense recognised in net income	277,445	274,358
Employer contributions	(168,750)	(168,750)
Remeasurements recognised in OCI	41,289	(87,203)
	4,277,451	**4,127,467**

31. Retirement Benefit Plan for Governors and Deputy Governors (continued)

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

	2016 $	2015 $ Restated (Note 32)
Discount rate at end of year	5.00%	5.00%
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:

	2016 $	2015 $ Restated (Note 32)
Pensioners	3,450,927	2,059,462
Actives - Vested	-	1,449,784
Actives - Unvested	826,524	618,221
	4,277,451	4,127,467

The pensioner liability of $3,450,927 (2015: $2,059,462 (restated)) consists of $859,385 (2015: $473,111 (restated)) relating to assumed cost of living adjustments.

The liability for actives of $826,524 (2015: $618,221 (restated)) consists of $194,842 (2015: $580,492 (restated)) relating to assumed cost of living adjustments and $1,072,791 (2015: $1,058,984(restated)) of the benefit obligation is due to salary increases, $213,406 (2015: $585,873 (restated)) for actives and $859,385 (2015: $473,111 (restated)) for pensioners.

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2016 for 1% changes in discount rate and salary increases.

	2016		2015 (Restated, Note 32)	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(379,207)	452,921	(376,509)	450,033
Future salary increases	428,617	(365,772)	423,700	(361,312)

If all members lived one year longer than projected, the liability at year-end would be $4,475,700 (2015: $4,321,525 (restated)).

The weighted average duration of the defined benefit obligation at December 31, 2016 is 9.7 years (2015: 9.9 years (restated)).

Notes to the Financial Statements (Continued)

December 31, 2016

32. Correction of error in accounting for Retirement Benefit Plan for Governors and Deputy Governors

In March 2017, management, after being advised by the Actuary, undertook a detailed review of the Governors and Deputy Governors retirement plan and discovered that the accounting treatment of the Bank's financial obligation for Governors and Deputy Governors was misstated.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	31 December 2015 As previously reported $	Correction of Error $	31 December 2015 Restated $	31 December 2014 As previously reported $	Correction of Error $	1 January 2015 Restated $
Statement of Financial Position (Extract)						
Accounts payable and other liabilities	9,295,592	(452,169)	8,843,423	5,661,623	(411,309)	5,250,314
Retirement benefit liability - Governor and Deputy Governors	-	4,127,467	4,127,467	-	4,109,062	4,109,062
Total Liabilities	**1,218,478,979**	**3,675,298**	**1,222,154,277**	**1,252,555,371**	**3,697,753**	**1,256,253,124**
General reserve	126,657,134	(3,675,298)	122,981,836	119,522,592	(3,697,753)	115,824,839
Total Equity	**163,699,934**	**(3,675,298)**	**160,024,636**	**152,318,358**	**(3,697,753)**	**148,620,605**

32. Correction of error in accounting for Retirement Benefit Plan for Governors and Deputy Governors (Continued)

Statement of Comprehensive Income (Extract)	31 December 2015 As previously reported $	Correction of Error $	31 December 2015 Restated $
Staff Costs	18,860,703	64,748	18,925,451
Total expenses	**28,333,135**	**64,748**	**28,397,883**
Net income	**9,061,153**	**(64,748)**	**8,996,405**
Other Comprehensive Income			
Actuarial gain on defined pension plan	-	87,203	87,203
Total other comprehensive income	**2,320,423**	**87,203**	**2,407,626**

Statement of Cash Flows (Extract)	31 December 2015 As previously reported $	Correction of Error $	31 December 2015 Restated $
Net income	**9,061,153**	**(64,748)**	**8,996,405**
Increase / (Decrease) in operating liabilities			
Accounts payable and other liabilities	3,633,969	(40,860)	3,593,109
Retirement benefit liability - Governor and Deputy Governors	-	105,608	105,608
	3,633,969	64,748	3,698,717
Net cash used in operating activities	**(43,782,289)**	-	**(43,782,289)**

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