2009

The Central Bank of The Bahamas

ANNUAL REPORT and STATEMENT of ACCOUNTS

For the Year Ended 31 December 2009

OUR 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.

OUR 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.

OUR VALUES

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

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

19th April, 2010

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 2009. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

Wendy Craigg

Wendy M. Craigg
Governor

The Rt. Hon. Hubert A. Ingraham
Prime Minister and Minister of Finance
Office of the Prime Minister
Cecil Wallace-Whitfield Centre
Cable Beach
Nassau, N.P., Bahamas

ABOUT THE BANK

Under the Central Bank of The Bahamas Act, 2000, the Bank is mandated to promote and maintain monetary stability and balance of payments conditions, conducive to the orderly development of the economy; in collaboration with other financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and to advise the Minister on any matter of a financial or monetary nature referred by him to the Bank for its advice.

In its monetary role, a central objective of the Bank is to ensure that adequate support is maintained for the fixed parity of the Bahamian dollar against the US currency. To do so, the Bank has to maintain adequate foreign reserves against the stock of its demand liabilities to banks and the public to support the dollar 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.

The Bank's supervision regime, through its prudential oversight of regulated entities, is a critical part of the infrastructure to maintain high standards of service, conduct and management in the banking sector. The Bank's involvement in the payments system is also an integral component of its overall mandate to ensure stability of and confidence in the financial system.

Other key activities undertaken by the Bank include the issuance and redemption of currency, administration of exchange controls, as well as public sector debt and foreign reserves management.

Directors and Senior Officials
At December 31, 2009

DIRECTORS

Mrs. Wendy M. Craigg – Chairman
Mr. Philip Stubbs
Dr. Duane Sands
Mr. Wayne Aranha
Mr. Colin Callender

SENIOR OFFICIALS

Mrs. Wendy M. Craigg	-	Governor
Mr. Michael F. Lightbourne	-	Deputy Governor
Mr. Stanislaw J. Bereza	-	Inspector, Banks & Trust Companies
Mr. Bert A. Sherman	-	Senior Manager
Ms. Cecile M. Sherman	-	Manager, Banking
Mrs. Sylvia L. Carey	-	Manager, Human Resources
Mrs. Cassandra C. Nottage	-	Manager, Banking Supervision
Ms. Rochelle A. Deleveaux	-	Legal Counsel & Secretary to the Board
Mr. Gerard L. Horton	-	Manager, Exchange Control
Mr. John A. Rolle	-	Manager, Research
Mr. Keith T. Jones	-	Manager, Accounts
Mr. Errol L. Bodie	-	Manager, Information Technology
Mr. Ian B. Fernander	-	Manager, Administration
Ms. Cleopatra Rolle	-	Manager, Internal Audit

STRATEGIC PLAN, 2009 – 2013

GOALS	OBJECTIVES
1. Effective Monetary Policy	• Improve forward looking policy analysis • Enhance operational framework for implementing monetary policy • Strengthen research & data publication • Improve coordination between fiscal and monetary policy
2. Safety & Soundness of Financial System	• Maintain legal and regulatory compliance with international norms and standards • Develop the banking & trust sector • Strengthen and improve effectiveness of supervision
3. Meaningful Contribution to National Economic Policymaking	• Conduct research in broad economic areas; and participate on national advisory committees
4. Secure, Efficient and Modern Payment System	• Implement comprehensive oversight mechanisms
5. Prudent Foreign Exchange Management	• Efficient investment of external reserves. • Effective administration of exchange controls
6. Operational Efficiency	• Human resource development • Modernization of information systems • Enhance BCP arrangements • Comprehensive facilities management • Improve internal controls

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FOREWORD

The year 2009 was a challenging one for the Bank, as the Bahamian economy, experienced the rapid spread of the global financial crisis to the real sector. The resultant adverse impact on tourism, which provides the bulk of our foreign exchange earnings, and foreign investment flows, translated into a contraction in domestic demand, higher rates of unemployment, and a widening fiscal deficit. External stability was maintained, as the downward adjustment in demand, alongside Government's external borrowings and a US$178.8 million increase in SDR allocations under the IMF's global initiative, bolstered foreign exchange reserves and related indicators.

While the domestic banking system remained stable, with capital ratios well in excess of international standards, commercial banks did experience a significant increase in loan delinquencies—well in excess of recent norms. The Bank responded by enhancing its monitoring of banks' loan modification and restructuring programmes, and instituted quarterly credit meetings with commercial banks.

To provide strategic direction and a coherent framework to guide the Bank's operations and support activities, the Bank, through an internal effort, prepared a five year Strategic Plan covering the years 2009-2013. During 2009, we made significant strides in achieving our objectives, that already took into consideration the more complex and unsettling economic trends shaping our operational environment which has challenged us to re-examine our activities.

In support of the Bank's goal to ensure the safety and soundness of the financial system, important progress was made in reorganizing the bank supervision function to support the full implementation of a risk-based supervision framework, to fill gaps in the supervisory process and improve operational efficiency. We believe that the creation of separate Commercial Banking, Authorization and Examination Units, will allow the Bank to better focus on priority issues. The Bank's key monetary policy role will benefit from the macroeconomic estimation framework developed, as well as the recently devised stress testing model and risk assessment framework for the commercial banks.

To ensure that our regulatory regime remains compliant with international best practices, we undertook a comprehensive review of our banking sector laws, and have prepared amendments to the governing legislation and draft legislation that would strengthen the Bank's oversight of payment systems, which are vitally important to the efficient functioning of the economy. In line with our commitment to streamline and simplify exchange control administrative arrangements, we worked with commercial banks to increase delegated limits for current account transactions, and to simplify the approval process.

Going forward, the Bank intends to continue to develop its resources to ensure that we are able to deal effectively with the more complex operating environment. Key areas for 2010 will include progress towards the eventual implementation of a credit bureau for The Bahamas. The recent global financial crisis underscores the need for financial institutions to properly manage their credit risk and to have the means to assess the creditworthiness of their customers. It is anticipated that the introduction of a privately-owned credit bureau in The Bahamas should benefit the local economy through reduced borrowing costs and increased access to loans by individuals and businesses that have good credit scores. The Bank intends to develop and launch a comprehensive public communication plan for this project in the coming months.

I acknowledge, with thanks, the positive response of the Bank's staff to what has certainly been a more demanding operational environment; and I look forward to their continued dedication as we seek to achieve the various strategic objectives we have established for ourselves.

Wendy Craigg

Governor

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

The Bank's corporate governance framework is set out in the Central Bank of The Bahamas Act, 2000 (the Act), which defines, inter alia, *the roles and responsibilities of the Board of Directors, the Governor and the Deputy Governor.*

Board of Directors

During 2009, the Board of Directors, chaired by the Governor, continued to provide policy and administrative direction to the Bank. In July 2009, Messrs. Lennox McCartney and Gregory Cleare completed their terms of service as external directors. New appointments to the Board were Messrs. Philip Barrington Stubbs, Colin Callender, Q.C. and Wayne Aranha.

On appointment to the Board, each member is required, under the Act, to sign a declaration of secrecy in relation to the affairs of the Board and the Central Bank. Board Members are indemnified by the Bank against personal civil liability in respect of any act done in good faith while carrying out, or intending to carry out their duties under the Act.

By statute, the Board is required to meet monthly and, during 2009, the Board met on twelve (12) occasions. Four (4) Directors form a quorum and, in the absence of the Governor, the Deputy Governor is entitled to exercise a vote. During its meetings, the Board receives regular reports on monetary and financial developments, monthly financial statements and reports comparing actual against approved budget, substantial financial contracts for the procurement of goods and services, and detailed briefings on the Bank's activities and decisions.

Audit Committee

In January 2009, the Board approved the Audit Committee Charter, formally establishing the Audit Committee as a sub-committee of the Board. The Committee consists of three (3) non-executive Board Members, Mr. Philip Stubbs (Chairman), Mr. Wayne Aranha and Mr. Colin Callender, Q.C. The Heads of Internal Audit and the Accounts Department normally attend the meetings of the Committee, which reviews internal control and risk management issues, liaises with the external auditors and makes recommendations to the Board regarding financial reporting and the effectiveness of the internal audit function. The Committee also plays an active role in monitoring the implementation of recommendations made by either the internal auditors or by the external auditors in their management letter to the Bank. During 2009, the Committee held thirteen (13) meetings, including two (2) with the external auditors.

Accountability & Transparency

Transparency is an important aspect of the Bank's governance framework. As required by the Act, the Bank prepares a report of its activities during the year, which is submitted to the Minister of Finance within four (4) months after the end of each fiscal year. Copies of this report are laid before Parliament. Monthly balance sheet information is also provided to the Minister and published in the Gazette. In addition, the Bank releases Monthly Economic and Financial Development Reports (MEFD), Quarterly Economic Reviews (QER) and Quarterly Statistical Digests (QSD). These are all available on the Bank's website.

To support the desired level of coordination between monetary and fiscal policy, and to keep the Minister informed regarding the Bank's performance of its statutory obligations, the Governor meets monthly with him or his designee.

Strategic Planning

The Board approved Strategic Plan, 2009-2013, sets out the goals, objectives and strategies that continued to underlie the Bank's activities during 2009.

As provided for in the Plan, the Board, in December 2009, conducted the first annual assessment of the Bank's progress in implementing the Plan's goals, using the agreed set of performance indicators and benchmarks. The main focus areas of the Plan remained on target for completion within the agreed timeframes, and the Board approved alterations in target dates, as required.

The Bank's work programme for 2010 will be guided by the various activities outlined in the Plan.

BOX I. Key Strategic Outcomes For 2009

Goal 1 – Effective Monetary Policy

- Prepared quarterly quantitative forecasts for use by the Monetary Policy Committee (MPC). Efforts are ongoing to improve the estimation framework to ensure the robustness of the results, prior to wider dissemination.
- Improved research, data publication and communication.
- Implemented quarterly survey of business sentiment.
- Commenced comprehensive review of balance of payments methodology.

Goal 2 – Safety and Soundness of the Financial System

- Undertook comprehensive review of banking sector laws, aimed at ensuring regime compliant with international best practices.
- Advanced work on drafting amendments to the Banks and Trust Regulations Act (BTCRA) to ensure that the process of levying administrative fines is embedded in the legal framework and supported by comprehensive guidance; and to ensure that fit and proper requirements are continuous.
- Completed self-assessment with respect to the Basel Core Principles and established work plan to address identified gaps.
- Made notable progress in the development of the supervisory risk assessment framework.
- Developed internal framework for stress testing of the domestic banking system’s capital adequacy.
- Undertook structural review of the Bank Supervision Department to better align resources with the risk-based approach to supervision. Out of this exercise came the establishment of the Commercial Banking Unit, the Authorization Unit and the Bank Examination Unit.

Goal 3 – Meaningful Contribution to National Economic Policymaking

- Provided advice and comments on a number of economic proposals.
- Prepared research papers on issues of national significance.

Goal 4 – Secure, Efficient and Modern Payment System

- Completed the drafting of legislation to promote oversight of the payment system and payment instruments.
- Commenced plans to establish a Payment Unit within the Research Department.

Goal 5 – Prudent Foreign Exchange Management

- Undertook several projects to achieve greater efficiency in the administration of exchange controls, covering proposals for increased limits under delegated authority to banks, elimination of forms, streamlining of documentation requirements, and automation of reporting.

Goal 6 – Operational Efficiency

- Made enhancements to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) architecture and infrastructure to provide for more robust business continuity arrangements.
- Implemented IT Security Policy and Awareness Programme.
- Expanded content management and document imaging to all major operational units.

Bank Management

The executive management of the Bank comprises the Governor, the Deputy Governor and Department/Unit Heads. Internal governance is carried out with the support of several committees, either directly chaired by the Governor or under delegated authority to other officers. These committees remain active in providing clear advice on matters pertaining to the Bank's core functions and overall operational practices and procedures, and the implementation of the Strategic Plan, as approved by the Board.

Monetary Policy

In 2009, the Bank's Monetary Policy Committee (MPC) remained focused on monitoring the macro-economic environment, to ensure that its monetary policy stance remained consistent with maintaining the fixed peg of the Bahamian dollar to the US dollar, and the stability of the financial sector. The MPC met a total of twelve (12) times to deliberate on developments in the real and financial sectors.

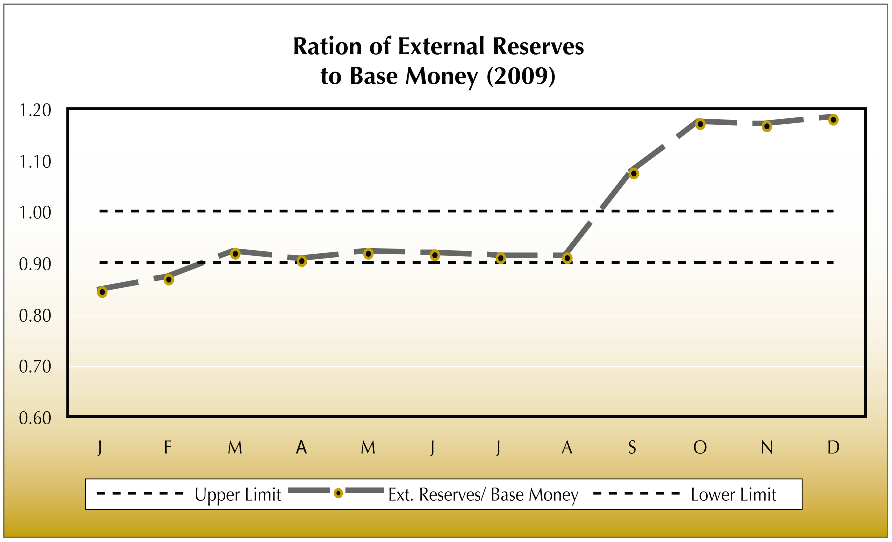
The Committee, in its decision making process, considered the the global financial climate and, in particular, the impact of the recession in the United States' market on The Bahamas' principal sources of private foreign exchange inflows, i.e., foreign direct investment and tourism. The observed slowing in private sector credit growth, due to reduced domestic demand and banks' more cautious lending position, given the rising levels of arrears, mitigated the downward pressure on external reserves.

The key external reserve performance indicator tracked by the Central Bank, the ratio of external reserves to base money, remained within and even exceeded the Bank's established band of 90% to 100%, between March and December 2009. The uptrend in the ratio between April and August reflected the impact of the Government's internal foreign currency borrowings. The ratio exceeded the 100% upper bound in the latter part of the year, buoyed by the increase in the IMF's Special Drawing Right (SDR) allocations under a global initiative, equivalent to US$178.8 million, along with the receipt of proceeds from the Government's US$300 million external bond issue.

The Committee maintained its intense surveillance of banks' credit exposure and asset quality indicators and, through the Bank Supervision Department, sought to make certain that banks maintained high levels of capital and adequate provisions against losses in their loan portfolios. Based on the Bank's stress testing exercises to determine the resilience of the financial sector in the face of adverse shocks, the commercial banks'

BOX II: Key Management Committees

COMMITTEES	MEETING FREQUENCY	PURPOSE
Executive Management	**Weekly**	**Considers management and day-to-day operations of the Bank.**
Monetary Policy	**Monthly**	**Discusses economic and monetary developments and decides on issues relating to the formulation and implementation of monetary policy.**
Investment	**Weekly**	**Maintains oversight and management of the country's external assets, and provides input into the investment recommendations for the Staff Pension Fund and Voluntary Savings Plan, and dormant accounts and sinking funds under the Bank's management.**
Policy Advisory	**Monthly**	**Considers supervisory and regulatory policy initiatives applicable to the banking industry, money transmission businesses, and private trust companies.**
Pension Administrative	**Quarterly**	**Considers matters relating to the administration of the Bank's pension plan, including financial statements and actuarial reports.**
Selection and Appointment	**As necessary**	**Undertakes final screening and makes appointment recommendations of candidates applying for position vacancies at the Bank.**
Tenders	**As necessary**	**Oversees the procurement process for significant items, starting with the request for proposal, and culminating with the recommendations for vendor selection.**



balance sheets appeared to be well protected against these adverse developments.

The MPC acknowledged that, while the domestic financial sector remained resilient during 2009, there were several risks going forward, emanating mainly from the uncertainty related to the sustainability of the global recovery underway, and the corresponding implications for the timing, strength and durability of the domestic upturn. In light of these developments, and guided by the principal policy objective, the Committee decided to leave monetary policy unchanged during 2009.

RISK MANAGEMENT

Risk management is integral to the Bank's daily operations, with managements' efforts directed towards ensuring that detailed procedure manuals, proper segregation of duties and clear delineation of roles and responsibilities are in place and ingrained in departmental processes. The Board and the Audit Committee contribute to the review and enhancement of strategies and controls which mitigate risks and reinforce accountability. Findings from a recent enterprise risk assessment have been included in the various activities for the Bank's Strategic Plan and also used to inform the internal audit process.

The Bank continued to strengthen its business continuity arrangements, to ensure its readiness and response capability to unforeseen events that may interrupt operations. Importantly, measures have been taken to mitigate risks associated with the operations of payments systems through the enhancement of IT-related recovery capabilities of the Bank's SWIFT arrangements. Succession planning remained a priority of the Bank, and significant progress has been made with the preparation of a formal plan, complete with a development programme for persons selected for the various talent pools.

INTERNAL AUDIT

Internal Audit (IA) remains an essential plank of the Bank's internal control framework, through its independent and objective evaluation and reporting on the effectiveness of controls, risk management, and governance processes. In so doing, it assists the Bank in its pursuit of efficiency and excellence. In January 2009, the Board approved the Internal Audit Charter, formalizing the mission, authority and responsibilities of this function within the Bank. To maintain independence, the Head of Internal Audit reports functionally to the Audit Committee and operationally to the Governor. The Internal Audit Manager meets monthly with the Audit Committee. IA efforts are framed within the context of a risk-driven annual audit plan which is approved by the Board. In 2009, the IA Unit concluded reviews of processes in the Accounts, Administration, Banking, and Human Resources Departments.

CURRENCY, BANKING SERVICES, AND PAYMENT SYSTEMS

Currency Operations

The Central Bank, through its Banking Department, is responsible for maintaining the stock of Bahamian dollar notes and coins and for issuing banknotes that the public can use with confidence. As such, considerable attention is given to the design, minting, and printing of currency; the issuance and redemption of banknotes, and the issuance of coins. Banknotes have a face value of $0.50, $1, $3, $5, $10, $20, $50 and $100; and coins are most commonly circulated as 1¢, 5¢, 10¢, 15¢, and 25¢. In terms of value, the $100 banknote accounts for the largest share of currency, at 39.1% of the total.

During 2009, both the value of the Bank's currency liabilities and amounts held in active circulation by the public contracted, by 1.2% each to $319.8 million and $319.2 million, respectively. On average, currency in circulation fell, month-on-month, by 3.3% to $279.4 million—equivalent to an estimated

3.7% of GDP, up from 2.8% in 2008. This ratio is understated to the extent that there is significant co-circulation of US dollars in the system, arising primarily from tourism-related activities.

In keeping with its commitment to mitigate risks of counterfeiting, through the introduction of new designs with enhanced security features, the Bank, in December 2009, introduced the redesigned $100 banknote—the last denomination in the CRISP (Counterfeit Resistant Integrated Security Product) series of banknotes. The Bank continues to investigate possible enhancement to banknote security features and to strengthen the public's understanding of counterfeit detection and banknote authentication, through a series of semi-annual training sessions with retailers and cash handlers, and the provision of educational material.

Daily Exchange Rate Fixing

In 2009, the Bank's buying and selling rates for US dollars from/to commercial banks remained unchanged at US$1.00 = B$1.00 and US$1.00 = B$1.0025, respectively, and at par for cash transactions. Foreign exchange rates for the quotation of Sterling were obtained each business day from the international market, at 9:00 a.m. and 11:30 a.m., and at other appropriate intervals, depending on the dollar value of transactions and market volatility. For Pound Sterling sales, the Bank maintained a policy of adding a commission of 50 basis points to the mid-rate. The highest bid and offer Pound Sterling/Bahamian dollar rates, of 1.6987 and 1.7072 respectively, were employed on August 5th and the lowest, of 1.3743 and 1.3812, on January 21st.

Relations with the Public Sector

As official registrar and transfer agent for Government debt, the Bank continued to oversee and facilitate the issuance, redemption and servicing of Bahamas Government Registered Stocks (bonds) and Treasury bills, alongside debt securities issued by the Bahamas Development Bank, Bahamas Mortgage Corporation, the Clifton Heritage Authority and the Bridge Authority.

For Treasury bills, the statutory ceiling on the maximum outstanding remained capped at 25 percent of the lesser of ordinary revenues, as provided in the most recent approved budgetary estimates, or the average revenue of the latest three years for which audited accounts have been tabled in Parliament. The issuance of an additional $13.8 million in Treasury bills during 2009 increased the outstanding stock to $244.3 million, and a total of $126.5 million was rediscounted. The average tender rate (on rollover maturities) was marginally higher by 2 basis points at 98.89%, which corresponded to an 11 basis points reduction in the average discount rate, to 2.81% at end-December 2009.

During 2009, the outstanding value of Government bonds rose by 9.6% to $2,268.9 million; two new issues, totalling $257.2 million, were floated, and a scheduled $60.0 million was redeemed. The new issues featured a maximum maturity of 28 years and stable effective coupon rates, at spreads of 0.03125% to 1.25% above the commercial banks' Prime Rate.

There were no changes in the profile of outstanding Bridge Authority bonds ($28.0 million), which carry maturities ranging from 2010 – 2029 and variable yields of Prime plus a margin of 1.000% - 1.625% per annum. Similarly, the stock of Clifton Heritage Authority bonds outstanding was stable at $24.0 million, and set to mature between 2020 and 2035, bearing variable yields of Prime plus a margin of 0.2500% - 0.7500% per annum.

Relations with Banks

In accordance with Section 19 of the Act, banks are required to maintain "Statutory Reserves" against their Bahamian dollar deposit liabilities. Since inception, in 1974, the reserves ratio has remained at 5.0%, with a minimum of 80% being held in deposit balances at the Bank. Consistent with the mild growth in the Bahamian dollar deposit base, required reserves increased by 2.8% to $238.9 million. Institutions also maintained balances to facilitate cheque clearing arrangements, which continued to be managed by the Bank.

Payment and Settlement Developments

The Bank recognizes the importance of stable, secure and efficient payment and settlement systems to financial stability, and continued to move forward with initiatives aimed at upgrading the country's infrastructure.

Since May 2004, the Bank has operated the Bahamas Interbank Settlement System (BISS), which accommodates real time gross settlement of high value and time critical payments between clearing banks and their customers. During 2009, the total volume of large value settlements through the BISS rose by 17.1% to 53,227, corresponding to a 6.8% gain in value to $10.8 billion. Partly reflecting the increased

BOX III. Draft Payment Legislative Proposals

Payments System Act	**Authorizes the Bank to designate systemically important payment systems and license electronic money issuers; it will also provide the necessary legal framework for cheque truncation and the electronic processing of payments.**
Payment System (Oversight) Regulations	**Highlights the ongoing requirements which are to be met by the operators, clearing houses and settlement institutions of designated payment systems in The Bahamas, including the requirement to submit annual audited financial statements to the Central Bank.**
Payment Systems (National Payments Committee [NPC]) Byelaws	**Provides for the formal operations of the NPC to act as an advisory body to the Bank in its oversight of payment systems. Byelaws also include provisions setting out the criteria for becoming a member of the NPC, the ongoing requirement for members, the procedures for meeting of the NPC and the process for appealing a decision of the governing council of the NPC.**

usage of ATM and debit card facilities, the volume of retail cheques cleared among banks fell by 6.3% to 3.5 million, with the value lower by 15.5% at $7.3 billion. The Bank facilitated a daily cheque clearing facility in which all commercial banks participated.

During 2009, further progress was achieved towards the implementation of the Automated Clearing House (ACH) system[1], including user acceptance testing, securing the readiness of the infrastructure and completing the preparation of various corporate governance documents. The Bank participated actively in the various ACH implementation committees (Legal Requirements Working Group, Operations Working Group, and the Rules and Standards Committee). Once launched, the ACH will change the modalities for cheque clearing and local money transfers, decreasing processing time and reducing costs, to the benefit of clearing banks, merchants and the general public.

Priority emphasis was placed on strengthening the governance framework for payments systems in The Bahamas. In November 2009, the Bank began consultations with relevant industry stakeholders with respect to the draft payment legislation. Once enacted, the Payment Systems Act, Payment Systems (Oversight) Regulations and Payment Systems (National Payments Committee) Byelaws, will enhance the legislative framework for the Bank's oversight and supervision of payment systems and payment instruments. Plans are also underway for the establishment of a Payments Unit in the Research Department, which will have oversight responsibilities for regulating and establishing policy guidelines for payment systems operating in The Bahamas.

In other payments related activity, commercial banks continued to issue credit cards under the brand names of Visa and MasterCard, along with the Bahamian dollar denominated card, SunCard. Over the past five years, the number of cards issued increased by 10.7% to 123,047 by end-2009, while the level of debt outstanding firmed by almost 50% to $278.7 million.

DORMANT ACCOUNTS ADMINISTRATION

Section 20 of the BTCRA, provides for the transfer to the Central Bank of dormant balances, defined as deposit accounts in respect of which "no transaction has taken place, or no statement of account has been requested or no written acknowledgement has been received from the customer during a period of seven years". Utilizing the recently implemented Dormant Account Web Reporting System (DARS), forty-eight (48) institutions reported dormant accounts totalling approximately $5.1 million; and the Bank processed approximately $1.2 million in claims, compared to $0.3 million in 2008.

As at end-2009, the outstanding stock of dormant account balances administered by the Bank, totalled the equivalent of B$41.4 million, net of claims settled since 1989, when the first transfers were received.

FOREIGN RESERVES MANAGEMENT

The Bank manages the country's official foreign exchange reserves, in accordance with the provisions of the Act and the policies and guidelines prescribed by the Board. Reserve management objectives are: preservation of capital, through the management and control of risks; liquidity, to ensure that commitments

[1] The ACH was formally launched on January 22nd 2010.

are met in a timely manner and at no significant cost, and maximization of yield—consistent with the safety and liquidity objectives. With respect to portfolio composition, the Bank maintains two structural tranches—a liquidity tranche, which includes working capital requirements, and an investment tranche, informed by forecasted liquidity needs. The external reserves are invested predominantly in US government paper, debt securities issued by qualifying supranational bodies, and money market instrument of, or accounts held with, at least A1 rated credit institutions.

Against the backdrop of heightened risk in financial markets, the Bank enhanced its oversight of foreign reserves management, especially its credit exposures with counterparties.

EXCHANGE CONTROL ARRANGEMENTS

During 2009, the Bank continued to oversee and take steps to rationalize the administration of exchange controls, and to administer the 2006 capital account liberalization programme—inclusive of both the non-sponsored Bahamian Depository Receipt (BDR) programme (in which broker/dealers facilitate residents' investments in BISX-traded domestic instruments backed by foreign securities), and the facility which allows the National Insurance Board (NIB) to invest in high quality foreign assets.

Reflecting the general volatility in external markets, only two of the five BISX-listed broker/dealers participated in the BDR facility in 2009, applying to the Bank for a consolidated allotment of US$4.19 million, compared with an allocated US$10.80 million in 2008. Conversely, NIB's purchase was stable at US$12.5 million for 2009, bringing the total acquisitions over the period of the programme to $53.13 million. These amounts are recorded in the balance of payments as outward investments of residents.

A joint task force of Central Bank and commercial bank representatives completed a project aimed at simplifying the administrative framework for current account transactions, covering both residents and temporary residents. Proposed measures included the elimination of manual forms at the service points, the streamlining of document requirements, the convergence in the current account regime for residents and temporary residents and an adjustment in delegated limits for gifts and business travel. Concurrently, the Bank finalized work to facilitate the electronic reporting of foreign currency sales by commercial banks[2].

The Investment Currency Market (ICM) continued to be a key mechanism by which residents obtained foreign currency to facilitate overseas investments. In 2009, the ICM bid and offer rates were unchanged, at 12.5% and 10.0%, respectively, and the market recorded a significant increase in activity, linked to an outward investment in the financial services sector. The ICM opening balance of $4,648,797.08 was replenished to the extent of $5,500,000.00, as sales of $9,954,561.57 surpassed purchases of $103,000.00, for a year-end balance of $297,235.51.

Authorized Dealers (commercial banks) and Authorized Agents remained important in the execution of Exchange Control arrangements. At end-2009, the number of Authorized Dealers operating domestically remained unchanged at eight (8), while the number of Agents fell by one (1) to fourteen (14). The list of institutions is published on the Central Bank's website.

ECONOMIC ANALYSIS, STATISTICS & RESEARCH

The Bank, through its Research Department, continued to collect, analyse and disseminate information on macroeconomic and financial trends, in line with the overall objective of providing timely, high quality information to the public. The Department conducted its Annual Banking and Financial Sectors surveys, the results of which were published in the QER for the first quarter of 2009. In line with one of its strategic planning objectives, the Department launched its survey of Business Sentiments and Expectations, and the key results were noted in the June 2009 MEFD report; it is anticipated that a similar survey for consumers will be implemented by mid-2010. All of the Bank's economic and statistical publications are disseminated to the public via its website.

Research staff continued to provide critical support to the Bank's MPC through the presentation of several policy briefs, such as quarterly updates on developments in the tourism sector, an assessment of the long-term impact of US policy actions, and updates on the economic outlook for the domestic economy.

Efforts to enhance the skill sets of staff included presentation of six papers at the Department's In-house Roundtable forums, which formed the basis for the draft third edition

[2] These measures were implemented in January, 2010 and a copy of the press release along with the summary list of delegated authority limits, is available on the Bank's website.

of the Bank's Annual Working Paper Series. Staff also contributed to the body of knowledge available on the Caribbean, by publishing two papers in the Journal of Business Finance and Economics in Emerging Economies entitled, "Does Capital Account Liberalization make Caribbean Economies more or less Susceptible to Sudden Stops?" and "Fiscal Discipline in the Achievement of Fiscal and Debt Sustainability in The Bahamas".

LEGAL ISSUES

The Bank, through its Legal Unit, conducted reviews on various aspects of its governing legislation, drafted new legislation and regulations to underpin the Bank's role in the payments system, and played a key role in monitoring The Bahamas' compliance with best practices in the area of anti-money laundering and combating of financial crimes. The Bank's legal staff also participated in the various ACH payment working groups, ensuring that governing arrangements are consistent with international standards.

PRUDENTIAL SUPERVISION AND REGULATION

Prudential supervision is aimed primarily at maintaining the stability and integrity of the financial system. The Bank conducts risk-based supervision over banks and trust companies, private trust companies and their registered representatives, and money transmission businesses to ensure the soundness of their operations. Ongoing assessments are made of their compliance with the Banks' regulatory requirements and norms.

Supervisory Developments

During 2009, considerable progress was achieved in the reorganisation of the Bank Supervision Department—as detailed in the Bank's five-year Strategic Plan—to support the full implementation of a risk-based supervision framework, fill gaps in the supervisory process and improve operational efficiency. The reorganisation exercise was informed by the end-to-end review of the Department's structure, supervisory process and procedures, undertaken by an external consultant, in 2009. Several reorganizational changes ensued from this assessment, including the creation of separate Commercial Banking, Authorisation and Examination Units, and enhancements to the Policy Unit.

Work continued in the revision of the on-site examination manual, and notable progress was made in

BOX IV. Organisational Restructuring

Commercial Banking Unit (CBU)

The CBU was created in July 2009 to focus on the supervision of systemically important firms. The work plan for the Unit includes an expanding programme of stress testing for individual firms and the system, and quarterly meetings with firms on credit and other prudential risk issues. The CBU team has also been active in improving the coverage of regulatory reporting to the Bank, particularly in the area of asset quality—including loan restructuring—and beginning the process of re-aligning supervisory guidelines in the context of lessons learned from the global financial crisis, such as the increased focus on a more forward looking provisioning policy. Over the course of 2010, efforts will focus on the deployment of the risk assessment program, which is an integral part of the enhanced Risk-based Supervision Framework (RBF) that was piloted with a small number of commercial banks in 2009.

Authorization Unit

A dedicated Authorisation Unit, inclusive of the existing Administration Unit, was established in December 2009, to achieve greater operational efficiency and consistency in the processing of requests for both firms and individuals, to oversee the supervision of non-bank Money Transmission Businesses, Private Trust Companies (PTCs), Registered Representatives of PTCs, and to carry out the non-supervisory functions of the Department. The authorisation process was reviewed and separated from the mainstream supervision process, and the Unit is expected to be fully functional by end-June 2010.

Examination Unit

To better align the examination function with the RBF and to integrate fully the on-site and off-site supervision processes, a review and redesign exercise culminated with the creation of an Examination Unit. A more transparent review of examination findings is now in place to ensure a consistent approach to identifying and mitigating material risks in licensees. Resources have been enhanced through the recruitment of several highly qualified and experienced industry specialists, and a new operating model was developed—one which envisages a much closer integration of the on-site examination process and the examiners within the supervisory process, and with the scope of reviews determined by the risk assessment process, in which both on-site staff and supervisory relationship managers participate. By design, on-site examiners will play a more active role in broader aspects of the risk assessment and risk mitigation surveillance of licensees, as well as in the training and development of supervisors in their areas of specialist skills.

the development of the credit risk manual, which are both expected to be completed in 2010. Other areas identified for more comprehensive documentation are the AML/KYC/CFT, liquidity and treasury risks.

Policy Unit

The resources of the Policy Unit were strengthened during 2009, to provide enhanced focus to a number of important work streams, including a comprehensive review of the supervisory guidelines and other elements of the international regulatory framework, which are being revised in response to lessons learnt from the global financial crisis, and work on the market risk project, an important precursor to Basel II implementation. The Unit will also support the implementation of the RBF, the creation of a crisis management plan for the banking system, as well as the development of a macro-prudential framework and tools to support stress-testing and other analyses.

Offsite Reviews

Credit Quality of Domestic Banks

In 2009, the Bank continued to closely monitor the credit quality position of domestic banks, paying particular attention to key trends, including the growth in total loan arrears, non-performing loans and provisioning levels. The analysis produced by the Bank Supervision Department was utilized by the MPC in its discussions and deliberations. This oversight was further enhanced in August 2009, as the commercial banks were required to report on loans that were restructured due to financial difficulty. Building on efforts that began in 2008, the CBU increased its regular contacts with the commercial banks, and held expanded discussions with senior management on governance and credit risk controls, firms' customer assistance programs, liquidity and provisioning strategies, delinquency management and collection policies. Despite the decline in credit quality during 2009, which affected profitability across the board, banks continued to show resilience by maintaining average capital adequacy levels well above the minimum standards.

Credit Risk/Reviews

As part of its mandate, the CBU undertakes critical monthly credit risk assessments, based on prudential returns covering large exposures, loan arrears and non-performing loans, and sectoral exposure. Given the deterioration in credit quality, banks were reminded to adopt a forward-looking posture for provisioning, which could exceed 1.0% of a firm's on and off-balance sheet credit portfolio, based on historical loss experience and an assessment of future economic trends in the markets in which they operate. Consequently, firms were expected to increase specific provisions, when incidences of impairment became evident. Despite the potential risk of financial loss, resulting from failure of the debtors to honour their obligations, the portfolios of banks remained well collateralized, with mortgage books representing approximately 46% of total loans.

Stress Testing

Stress testing is now an integral part of the Bank's ongoing discussions with the commercial banks, and an important risk management tool that firms are required to apply, amid a more difficult economic environment. Considerable progress was achieved in developing the framework to conduct credit stress testing on the commercial banks—in line with international best practices. The framework has provided the Bank with an additional important macro-prudential monitoring tool to assess fully credit risk, liquidity risk and foreign exchange risk, and the impact of projected macro-economic trends on the domestic banking sector, including individual bank resilience tolerance levels. In mid-2009, commercial banks participated in a Bank organized seminar which was facilitated by a consultant, who also assisted the Bank with refining the analytical framework and the associated database and templates.

Capital Adequacy

The Bank monitored, very closely, capital proposals contemplated by the Basel Committee, in the wake of the global financial crisis and its impact on the real economy. To ensure that banks maintained sufficient levels of capital, to act as a buffer against the systemic risk associated with the significant credit concentration in The Bahamas, the Bank, in November 2009, set higher minimum risk-weighted target and trigger ratios, of 17% and 14%, respectively, for all commercial banks. With average risk weighted capital adequacy ratios across the domestic banking sector of approximately 24% at end-2009, and well above the international minimum capital standards of 8%, the revision did not present an immediate challenge for the majority of banks. As an additional prudent measure, to ensure a sufficient capital buffer, the Bank also urged domestic banks to adopt a more forward looking posture in respect of future dividend payments, supported by a comprehensive risk assessment undertaken by the Board of Directors.

Regulated Entities

During 2009, the number of bank and trust licences rose by one (1) to 272 [see Table [1]], reflecting an increase in the number of public bank licences, by two (2), and nominee trust licences, by eighteen (18)—net of the nineteen (19) licences that were revoked. Growth in nominee trust licences reflected firms' compliance with the Central Bank's licensing policy on nominee activities, which sought to enhance consolidated supervision of banks and trust companies in The Bahamas.

Of the 272 licensees, the number operating through physical presence remained at 241. A further thirty (30) licensees, being branch operations of firms from predominantly G-10 countries—also unchanged from 2008—continued with approved restrictive management arrangements. During 2009, the Bank approved the registration of twelve (12) PTCs, bringing the total to 50. Additionally, one (1) Financial and Corporate Service Provider was approved to act as a Registered Representative, with the total now standing at three (3); while three (3) additional licensees advised the Bank of their intention to act as Registered Representatives of PTCs, for a total of eleven (11). No new non-bank Money Transmission Businesses (MTBs) were licensed, leaving the total at two (2).

TABLE 1: Regulated Entities

	2007	2008	2009
Bank and Trusts	**245**	**271**	**272**
Banks & Trusts	**87**	**82**	**72**
Banks	**48**	**45**	**47**
Trusts	**110**	**144**	**153**
Non-Bank Money Transmission Business	**-**	**2**	**2**
Private Trust Companies	**7**	**38**	**50**
Registered Representatives - Licensees	**5**	**8**	**11**
Registered Representatives - Non-licensees	**2**	**2**	**3**

Source: The Central Bank of The Bahamas

On-site Examination Programme

Following on AML/KYC/CFT themed examinations of the seven (7) commercial banks, which occurred in 2008, the Bank hosted a half-day roundtable session in early February 2009 to discuss the findings of these examinations. Common issues flagged with the firms included the important question of requirements for enhancing systems' capabilities for centralised monitoring, and the differentiation of monitoring processes for higher risk accounts, and the need for an independent risk-based audit process. Follow-up discussions were held with individual firms in March 2009, and one of the items identified for implementation involved the production of a guidance note incorporating the elements required for monitoring AML/KYC/CFT. The Policy Unit will be conducting a benchmarking exercise to inform the drafting of this guidance note.

A fundamental review was undertaken of the on-site examination process to ensure closer alignment with the RBF. Subsequently, modifications were carried out to internal procedures, including augmenting examination templates, guidance and reporting formats. A risk scoring system for identified issues was formalized to enable the management of the firms to better understand and respond to recommendations. To achieve greater consistency in the consideration of examination findings covering the assessment, mitigation and communication of risks, a more transparent peer review process, including both senior examiners and supervisory relationship managers, has been established.

As part of the revamped examination framework, the Bank undertook prudential visits to five (5) commercial banks, assessing the key areas of credit and treasury/liquidity risks. Full scope visits were also carried out at a number of major international banks, more limited focused reviews of processes and procedures for managing reputational risk at fifteen (15) smaller firms, and follow-up visits made to confirm the implementation of recommendations arising from previous examinations. In addition, several visits were initiated in response to enquiries from regulators in Panama, Peru and Switzerland.

The prudential reviews of the commercial banks indicated a strong commitment to developing and maintaining robust credit and liquidity risk management processes, in the face of a difficult and deteriorating operating environment. Following on from these visits, the on-site examination team, along with other senior members of the

Bank Supervision Department, worked closely with the newly established CBU to support and accelerate the development of processes and management information systems required for the enhanced monitoring of arrears and non-performing loans. These visits also suggested that maintaining robust risk management processes in Family Island locations, in both the areas of credit and reputational risk, was equally as important as those in New Providence. However, given the issues of scale and economic conditions, maintaining such processes would be challenging, thus the Examination Unit is planning to undertake a number of exploratory reviews in selected locations in the first half of 2010 to further inform this process. Another issue identified in the course of the visits was the need to ensure that appropriate aggregation of risk positions and oversight at the portfolio level, for transactions originating in The Bahamas, are achieved and enhanced.

The reputational risk examinations indicated that important progress, particularly in terms of systems capabilities, had been made at a number of firms to support compliance with the Bank's Minimum Physical Presence Requirements. Based on the examinations conducted, the Bank observed the need for the improvement in the skill sets of Senior Officers in several small international firms charged with policing due diligence processes.

In 2009, a total of 44 onsite examinations were completed, compared to 56 in 2008 and 80 in 2007. It is notable that a large number of these visits were follow-up and special scope examinations. Over the year, 30 examination reports were finalised, while 11 were at the final stage of drafting. To assist with the overall administration of the examination process, a comprehensive system was created in Lotus Notes [Table 2].

Joint Examinations with the Securities Commission

In 2009, the Bank undertook three (3) joint examinations with the Securities Commission of The Bahamas (the Commission), and two further visits are planned for the first quarter of 2010. Going forward, the Department will continue to ensure that the joint examinations achieve the maximum synergies between the Bank's and the Commission's on-site processes, and that appropriate reliance is placed on the reviews by both regulatory partners, with minimum duplication.

Domestic and International Regulatory Cooperation

Domestic and international co-operation with other regulatory bodies continued to be conducted within the established frameworks. 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 six domestic regulators for the banks and trust companies, the securities industry, insurance companies, credit unions and financial and corporate service providers. The Financial Intelligence Unit and Attorney General's Office also participated regularly in the GFSR forum. Sub-committees of the GFSR continued working towards developing recommendations to the Government with respect to reporting on international wire transfers and the implementation of a fixed threshold-reporting regime in The Bahamas. The GFSR has also undertaken a review of the domestic non-profit sector, to determine if there are any gaps in the AML/KYC/CFT regime and to make appropriate recommendations to the Government.

On the regional level, Bank Supervision's senior management participated in a crisis preparedness programme for regional regulators in April 2009, jointly sponsored by the Caribbean Group of Banking Supervisors (CGBS) and the Caribbean Regional Technical Assistance Centre (CARTAC), and facilitated by the Toronto Centre. The programme focused on increasing participants' knowledge and awareness of tools to improve the state of crisis preparedness in their countries, and to deal with the systemic consequences of a bank failure. Following an initial meeting at end 2008, senior management also participated in a meeting of the CGBS Technical Working Group on the Development of a Regional

TABLE 2: Onsite Examinations Conducted

	2007	2008	2009
Examinations			
Domestic Licensees	**3**	**7**	**5**
Other Licensees	**75**	**45**	**15**
Follow-up /Special focus	**2**	**4**	**24**
Total	**80**	**56**	**44**
Reports			
Finalized Reports	**41**	**19**	**30**
Reports in Progress	**5**	**8**	**11**
Total	**46**	**27**	**41**

Source: The Central Bank of The Bahamas

Financial Crisis Management Plan. The focus of this meeting was to discuss the way forward for developing a regional banking sector crisis management plan. The meeting also considered a policy document that had been prepared on this topic and undertook a review of the existing Memorandum of Understanding (MOU) among the regulators to assess which areas needed to be revised or enhanced. Having decided that the development of national crisis plans is a prerequisite for the construction of any regional cross-border arrangements, the working group agreed that countries should work towards first completing their respective national arrangements, by June 2010, with an outside date of November 2010 for the completion of the regional plan. The group also undertook to work together on developing a common set of early warning indicators for prudential distress in banks. A review of the action plan was conducted at the January 2010 CGBS Steering Committee meeting held in Curacao, Netherland Antilles. Prior to this forum, the Bank also participated in regional supervisory colleges for the major systemically important banks with regional cross-border operations.

At the international level, the Bank continued to cooperate with its bank regulatory partners to ensure that The Bahamas is not used by undesirable parties to escape proper oversight, and equally to ensure that institutions established and based in The Bahamas comply fully with internationally accepted standards and norms. In a coordinated effort to achieve comprehensive oversight of domestic banks with regional cross-border operations, the Bank participated in two supervisory colleges for two systemically important banks, which were led and hosted by the Canadian Office of the Superintendent of Financial Institutions (OSFI). The two colleges brought together key executives of the firms and relevant supervisors to promote a better understanding of their respective business models and risk mitigation strategies. Supervisors shared their strategies and coordinated plans for the respective groups.

The Offshore Group of Banking Supervisors (OGBS) held two meetings (Technical and the Plenary) in 2009, in London and Jersey, respectively. Senior management contributed to discussions at these meetings on topical issues, such as the G-20 offshore initiatives, recent Basel Committee initiatives following the 2008 global financial crisis, and common issues arising out of the Financial Action Task Force (FATF). The Association of Supervisors of the Americas held its Plenary Meeting in Peru, in November 2009, which was attended by a senior member of the Department's staff.

Regarding information requests, the Bank received and responded to 17 requests from 11 foreign regulatory authorities in 2009 (see Table [3]). The corresponding statistics for 2008 were 3 requests from 2 British dependent territories.

Membership in International and Regional Bodies

The Bank, represented by senior banking supervisory staff and the Legal Unit, continued to participate in discussions relating to regional and cross-border bank supervision in the following groups:

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

A number of staff also served on various technical working groups and committees within these organisations.

Current Issues in Bank Supervision

In response to the global financial crisis, the international supervisory community developed a programme of actions designed to increase resilience in the financial system. The most recent update on the implementation of these actions was the progress report of the Financial Stability Board (FSB)[3] to G20 Finance Ministers on 7th November, 2009.

The FSB's agenda to increase resilience in the financial system is extensive and includes, *inter alia*;

- Strengthening the global capital framework by building stronger buffers into the financial system—including capital, liquidity and provisioning;
- Making global liquidity more robust, and increasing bank resilience to system-wide liquidity shocks;
- Implementing sounder risk management practices;
- Strengthening accounting standards;
- Addressing cross-border resolutions and systemically important financial institutions;
- Strengthening adherence to international supervisory standards; and

[3] The Financial Stability Board (FSB), established in April 2009 as the successor to the Financial Stability Forum (FSF), snd promotes international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance.

TABLE 3: Requests for Cooperation from Foreign Regulatory Authorities in 2009

Country	No. of Requests	Completed	Outstanding*
Belize	3	3	
British Virgin Islands	3	3	
Germany	1	1	
Guatemala	1	1	
Guyana	2	2	
Hong Kong	1	1	
Panama	2	1	1
Peru	1	1	
Portugal	1	1	
Turks & Caicos Islands	1	1	
United Kingdom	1	1	
Total Requests	17	16	1

Source: The Central Bank of The Bahamas
*In these cases, data has been provided but additional "follow-up" is required and requests were still being processed at year end.

- Other issues:
  - * Developing a macro-prudential framework and tools;
  - * Achieving an appropriate level of consistency across national and regional oversight arrangement for hedge funds;
  - * Strengthening oversight of credit rating agencies (CRAs);
  - * Encouraging the development of a broad set of principles setting out good practices in the operation of supervisory colleges and information sharing;
  - * Crisis management; and
  - * Monitoring legislative and regulatory measures planned at national and regional levels.

The existing Bahamian legal and regulatory framework already incorporates and/or makes provision for many of the issues that have been highlighted by the global standard-setting bodies. However, the Bank is cognisant of comments and guidance papers issued by the relevant standard-setting bodies and continuously monitors developments within the domestic banking industry and international markets that would impact firms operating within and from within The Bahamas, and the banking legislative and regulatory framework. Where relevant, adjustments to the Bank's work programme for 2010 and beyond—as detailed in the Bank's five-year Strategic Plan—have and will be made to ensure that the legal and regulatory framework in The Bahamas complies with the applicable international regulatory standards and best practices, as well as to strengthen The Bahamas' position as a stable and reputable financial centre.

Development and Implementation of a Risk-Based Supervision Framework

The Bank's risk-based supervision framework project team continued to develop and pilot the RBF in 2009, with the completion of initial risk assessments and supervisory programmes for a number of bank licensees. The key features of the framework were determined, and the mapping of existing on-site and off-site processes into the framework completed and tested. Piloting of the RBF was undertaken with the domestic commercial banks and a desk-based pilot has commenced with six (6) international firms. Along with the implementation of the RBF in the second half of 2010, a key priority for the project team in the first quarter of 2010 will be to complete work on the questionnaires on the various risk areas of the firms, so as to prepare comprehensive guidance for full implementation. Thereafter, the team will prepare and deliver a structured training programme for supervisory relationship teams on the use of the framework. Another paramount objective is developing a communication and rollout strategy for the industry, which will be launched in the second quarter of 2010.

As part of the implementation programme for the RBF and, consistent with practice, the Bank held supervisory meetings with a number of international firms. In each case, the pre-informed agenda for these meetings included a discussion of the impact of the global market disruption and domestic economic downturn on their operations and their business strategy and projections going forward. The meetings were intended to encompass all material issues arising from both off-site monitoring of prudential indicators and the on-site examinations. In addition, the Bank asked the firms to submit, in advance of the meetings, recent relevant internal risk reports for their operations in The Bahamas, as well as internal audit reviews and the external auditor's management letter. The meetings provided an essential stocktaking of the range of risk issues and planned mitigating actions to prepare the groundwork for and support the full implementation of the RBF.

Implementation of Basel II

As discussed in the previous section, the Bank has made substantial progress on the development of the RBF, which is a central component for the eventual implementation of Pillar II of Basel II (Supervisory Review Process). In 2010, the Bank intends to restart work on the Market Risk component of Basel I. A project team will be established to ensure that substantial progress is made by year-end 2010. As a part of this effort, the Bank plans to conduct a follow-up survey to gather information on the extent to which firms will be affected by the implementation of the market risk component. It is intended that the results will assist in implementing an approach to the market risk capital charge, which is appropriate to the products and trading activities in the jurisdiction.

Strategic Focus in 2010

Strengthening the Resilience of the Banking Sector

The financial crisis has clearly confirmed that capital adequacy, effective liquidity planning and strong risk management are essential for safe and sound banking—and, by extension, financial system stability. To address the failures revealed by the crisis, the Basel Committee is introducing a number of fundamental reforms to the international regulatory framework to strengthen bank-level regulation, which will help raise the resilience of individual banking institutions to periods of stress. The Bank, therefore, plans to undertake a comprehensive review of the capital adequacy standards, with a view to making appropriate changes where necessary; in the interim, the Bank has already introduced higher risk weighted asset ratios for commercial banks and has begun to review reinstituting the gearing ratio, in line with the evolving Basel Committee standards. This exercise will also include examining the composition of allowable regulatory capital, in light of recent experience and proposed limitations by the Basel Committee on secondary capital.

An equally important lesson of the global financial crisis was the inaccurate and ineffective management of liquidity risk. Therefore, the Bank plans to review its liquidity risk management guidance—an important corollary to the capital adequacy review—to ensure that firms continue to maintain a robust framework for liquidity risk management, in line with revised Basel Committee standards. This will also include consideration for the development and implementation of a common set of monitoring metrics to assist the Bank in identifying and analysing liquidity risk trends, at both the individual bank and systemic levels.

Banking Resolution—Dealing with Weak/Failing Banks and Resolving Cross Border Banks

The global financial crisis has illustrated the importance of effective cross-border and national crisis management plans, to avoid the disruption and potential contagion effects that could result from a disorderly failure of systemically important and transnational institutions. Some of the events during the crisis revealed gaps in intervention techniques and the absence in many countries of an appropriate set of resolution tools. An effective resolution regime would allow authorities to act quickly to maintain financial stability, preserve continuity in critical functions and protect depositors.

The Bank plans to address this issue on three fronts. In the first instance, it has commenced a comprehensive review of the domestic legislative framework for dealing with problem banks to ensure the availability of the tools necessary to respond appropriately to all types of financial firms which are experiencing problems. These tools will allow for the orderly resolution of the problems and assist in the maintenance of financial stability, minimise systemic risk, protect consumers, limit moral hazard and promote market efficiency. The second aspect of this work will entail assisting the Government and other domestic regulatory partners in creating a national framework to coordinate the resolution of the legal entities of financial groups and financial conglomerates within The Bahamas. In the third segment, the Bank will work with regional partners to develop a crisis preparedness plan to facilitate the coordinated dissolution of financial institutions active in multiple jurisdictions (see section on Domestic and International Regulatory Cooperation).

New Guidelines and Regulatory/Legislative Initiatives

The Bank is responsible for ensuring that the legal framework and its guidance for the prudential regulation and supervision of its licensed banks and trust companies remain relevant and current. The Bank's work in this respect continued, with the issuance of three (3) revised guidelines. In addition, several legislative initiatives affecting the banking sector were concluded.

Guidelines

During 2009, the Bank issued the following revised Guidelines for Licensees.

1. *The Prevention of Money Laundering and Countering the Financing of Terrorism*, (released 1st May 2009):

- Replaced the original AML/KYC/CFT Guidelines issued in October 2005, and remedied deficiencies identified in the mutual evaluation of the anti-money laundering and combating the financing of terrorism regime of The Bahamas conducted by the Caribbean Financial Action Task Force ("CFATF") during May and June 2006.
- Incorporated additional revisions to reflect changes to the AML/CFT legislation and the implementation of new Wire Transfers Regulations, which were enacted in early 2009, to enhance compliance of The Bahamas with the Financial Action Task Force's (FATF) Special Recommendation VII (dealing with wire transfers).

2. *Revised Minimal Physical Presence Guidelines Released 17th July 2009 and the Guidelines on Minimum Standards for the Outsourcing of Material Functions (the Outsourcing Guidelines):*

- Adjusted Central Bank requirements in respect of the retention of certain records/documents at licensee's premises in The Bahamas, to permit them to be kept as "originals or certified copies in paper or electronic form or on microfilm". However, where firms decide to keep certified copies (paper, electronic or on microfilm) of records/documents, the certifier must be a senior member of management. Although the retention requirements were relaxed, records must be made available to local staff of the institution, the Bank and the external auditors on an immediate and "real-time" basis.

3. *Revised Outsourcing Guidelines, Released 27th August 2009:*

- Clarified the circumstances when a firm must seek the prior approval of the Bank with respect to material outsourcing arrangements. All licensees are required to carry out a self-assessment to ensure that all material outsourcing arrangements comply with the enhanced guidance.
- Firms given until 31st March, 2010 to ensure compliance in instances where no prior Bank approval was received to outsource material functions. For those functions that had the Bank's approval, but which may not meet all of the requirements of the revised guidance, firms were allowed leeway to correct such deficiencies when undertaking substantial amendment, renewal, or extension of the agreement, whichever was earliest.
- Required the Board to provide an annual attestation to the Bank, via the Annual Corporate Governance Certificate, that the outsourcing arrangement complies with relevant statutory requirements related to client confidentiality (particularly Section 19 of the BTCRA) statutory requirements on anti-money laundering and record keeping procedures and practices, other applicable Bahamian legal requirements and other guidelines issued by the Central Bank.
- Included a new requirement for senior management to maintain a centralised list of all material outsourcing arrangements, the minimum information that should be included on this list, which should be a part of senior management's reports to the Board of Directors or head office, as appropriate.
- Required licensees to document the due diligence undertaken during the selection process and assess this due diligence periodically and that information used for due diligence evaluation be current, i.e., no more than twelve (12) months old.

Regulatory/Legislative Initiatives

The domestic regulatory framework for banks and trust companies was further enhanced with the enactment of the Banks and Trust Companies (Temporary Business Continuity) Regulations, which came into force on 18th February, 2009. The Regulations exempt foreign banks and trust companies from the licensing requirements of the BTCRA and allow them to establish temporary operations in The Bahamas where a natural disaster or other serious event in their home country disrupts their business operations. To avail itself of this exemption, a foreign bank or trust company must, *inter alia,* enter into a written agreement with a licensee of the Bank for the use of the licensee's equipment (by or on behalf of the foreign licensee) while operating temporarily in The Bahamas, and must be registered with the Bank. With the coming into force of these Regulations, the Bank withdrew its Guidance to Financial Service Licensees on Hurricane Related Disruptions issued on 21st June 2007.

Another long-awaited piece of legislation—the Financial Transactions Reporting (Wire Transfers) Regulations, 2009—also entered into force during the year. These Regulations implement the Financial Action Task Force's (FATF) Special Recommendation VII (SR VII) on wire transfers and require originator information (name, address and account number) to accompany and remain with fund transfers and related messages throughout the payment chain.

Finally, the following pieces of legislation relevant to the financial services sector were also concluded in 2009:

- Financial and Corporate Service Providers (Amendment) Act, 2008
- Financial Transactions Reporting (Amendment) Act, 2008
- Financial Intelligence Unit (Amendment) Act, 2008
- Securities Industry (Amendment) Act, 2008
- International Business Companies (Amendment) Act, 2008
- Financial and Corporate Service Providers (Licence) (Amendment) Order, 2009
- Financial Intelligence (Transactions Reporting) (Amendment) Regulations, 2009
- Financial Transactions Reporting (Amendment) Regulations, 2009
- Security Industry (Amendment) Regulations, 2009

Consultation Papers

During the year, the Bank issued two (2) consultation papers, the first of which covered proposed "Guidelines for Assessing the Fitness and Propriety of Money Laundering Reporting Officers in The Bahamas", which have been agreed among the Group of Financial Services Regulators (GFSR). These Guidelines contain a common set of criteria, which the GFSR proposes that each financial sector regulator adopt to assess the fitness and propriety of individuals nominated to serve as Money Laundering Reporting Officers (MLROs) in financial institutions operating in and from within The Bahamas. The practical effect of this proposal is that the regulatory framework in The Bahamas will be moving to an "approved" regime for MLROs.

As the regulator of banks and trust companies in The Bahamas, the Bank continuously reviews the effectiveness of the various regulatory tools at its disposal, including the legislative instruments which set out the parameters of the Bank's authority. In this respect, the Bank, led by its Legal Unit, undertook a review of the BTCRA and proposed several amendments to strengthen the regulatory framework, through providing the Bank with more flexibility and wider powers to address supervisory issues. These proposals, as issued for public consultation, are summarised in Box V.

The Bank Supervision Department plans to hold at least two briefing sessions with industry professionals in 2010, prior to the implementation of the revised RBF National Crisis Preparedness Plan, Basel II and other programmes.

Deposit Insurance Corporation (DIC)

The Central Bank has statutory responsibility for the Deposit Insurance Fund for Bahamian dollar deposits in the banking system. The DIC insures Bahamian dollar deposits up to a maximum of $50,000.00 to any single depositor in each of its thirteen (13) member institutions, which do not hold any equity position in the Corporation.

The DIC assesses the depository institutions at an annual premium equal to one-twentieth of one per cent (0.05%) of deposits, averaged over March 31 and September 30 of the preceding year. Based on average total insurable Bahamian dollar deposits in banks, of $5.1 billion, during 2008, relative to $4.7 billion in 2007, premiums levied and

BOX V. Legislative Amendments

Banks and Trust Companies Regulation Act, 2000

The proposed amendments to the Banks and Trust Companies Regulation Act (the Act) seek to augment and strengthen the existing regulatory framework of the Bank as follows:

Amendment of section 8: **Will remove the requirement for licensees to publish their annual audited financial statements in the Gazette, while giving the Central Bank the discretion to allow licensees to publish these statements in such manner and form as the Bank determines.**

Amendment of section 12: **Will, *inter alia,* remove the requirement for licensees to obtain the Bank's prior approval for the appointment of auditors and replace this requirement with subsequent notice of the appointment. Under the proposed amendment, however, the Bank retains the right to require the removal of an auditor of a licensee. This proposed amendment will also expand the rights and duties of auditors and former auditors of licensees and require them to provide the Inspector with written notice of specified matters including any fact or matter of which the auditor or former auditor has/had become aware in the ordinary course of an audit and which is of material significance to the discharge of the Inspector's functions under the Act; and the auditor's intention to resign before expiration of his term as auditor or not to seek reappointment as auditor.**

Amendment of section 18: **Will expand the Bank's sanctioning and enforcement powers to empower the Bank to appoint a receiver-manager of a licensee where it is desirable for the licensee to be operated by the receiver-manager as a going concern and also authorizes the Bank to appoint a temporary manager of any licensee which, in the Bank's opinion, is *inter alia*, carrying on business in a manner detrimental to the public interest.**

Insertion of new section 18A and 18D: **Will expressly distinguish between the surrender of a licence granted under the Act and a revocation of such licence and permit licensees to surrender their licences provided certain specified pre-conditions are met. The insertion of section 18D will authorize the Bank to publish specified enforcement actions which it has taken.**

Insertion of new section 23(3): **Will extend the time for commencing prosecutions for summary offences committed under the Act from the current maximum of six months from the commission of the offence (as provided under the Criminal Procedure Code) to the later of either twelve months from the date of the commission of the offence or within three months of the date on which the Attorney General forms the view that there is sufficient evidence to justify the prosecution of the offence under the Act.**

collected in 2009 amounted to $2.5 million compared to $2.4 million in 2008. The accumulated assets of the Fund rose to $16.4 million from $13.1 million at end-2008, of which some 88.4% was invested in Government bonds.

INFORMATION TECHNOLOGY

The Bank continued to leverage information technology in its efforts to improve operational efficiency, including enhancing the technical infrastructure to meet business continuity objectives. A major task completed was the upgrade to the SWIFT and Real Time Gross Settlement (RTGS) systems, to support the implementation of the Bahamas Automated Clearing House (BACH) secondary IT systems; and progress was also made in the development of a secondary site to host several key IT systems. In support of the Bank's governance structure, a new IT Security Policy and a compendium of IT procedural documents were approved by the Board of Directors and implemented in 2009.

Several new systems were developed for various business areas. Following the successful implementation of the document imaging project, which enhanced the Bank's Exchange Control and Bank Supervision correspondence management systems, the solution was further deployed throughout the Bank. This project was also integrated with the development of an Enterprise Contact Management Solution, the Bank's procurement system, and facilitated enhancements to the correspondence management system for all Departments—which are expected to be completed in 2010.

Efforts continued on revamping the proposed Online Reporting and Information Management System (ORIMS) solution, a system which will allow the Bank to more effectively capture, store and report data from its reporting constituents. With the assistance of CARTAC, the Bank has reconfigured and phased the implementation of this critical project, and anticipates completing several key sub-assignments by end-2010.

STAFF TRAINING AND DEVELOPMENT

Staff training and development remained an important focus for the Bank and, through on-going training initiatives, employees were able to develop their technical and professional skills. During the year, a total of fifty-six (56) employees participated in local training events, forty-five (45) attended local meetings or conferences, thirty-five (35) participated in overseas training courses/seminars and twenty-four (24) travelled overseas for meetings and conferences. Annual employment orientation sessions continue to help employees integrate themselves into the Bank's culture and working environment.

Within the overall training effort, ongoing emphasis was placed on enhancing capacity within the Bank Supervision Department in the areas of bank examination and analysis, credit risk analysis and advanced risk management. This department's technical and policy staff benefited from eighteen (18) overseas and local training workshops, courses and seminars facilitated by leading organizations, including the Financial Stability Institute; the Caribbean Group of Banking Supervisors (CGBS); the Toronto Leadership Institute; the United States Federal Reserve System; OSFI, Canada; the Financial Services Authority, United Kingdom; and ASBA. Subjects and areas covered included risk-focused supervision, credit risk management, bank examination and analysis and other topical regulatory issues, such as financial crisis preparedness, AML examination techniques, IT examination techniques, and bank management. An in-house Credit Risk Management session, facilitated in November 2009 by an industry risk expert, provided focussed training in this area for a broad cross-section of Bank Supervision staff and complemented other in-house training sessions with local industry experts.

To strengthen skills in the areas of economic analysis, forecasting and statistical compilation methodologies, a number of staff of the Research Department participated in various regional workshops and policy seminars. The Bank also granted an in-service award to a member of the Department to pursue post-graduate studies overseas.

Staff of the Legal Unit benefitted from attending several international conferences and workshops aimed at keeping abreast of current information and trends relating to the prevention of money laundering, payment systems and other topical legal issues. Events attended included the IX Meeting of Central Bank Legal Advisors and the Inter-American Bar Association's XLV Conference. Staff of the Unit also made presentations to industry stakeholders relating to the prevention of money laundering and terrorism financing, as well as pending and enacted amendments to financial services legislation.

The Information Technology Department and IA Unit found e-learning to be a very useful tool in keeping abreast of trends in their respective areas and becoming more proficient in executing their duties, while training for the Banking Department included local SWIFT courses.

In 2010, the Bank will embark upon a formal cross-training programme with a view to ensuring that there is adequate coverage of critical areas of its operations and capacity building; while simultaneously assisting employees to gain a better appreciation of the inter-relationships between jobs.

STAFF COMPLEMENT AND RELATIONS

At end-2009, the Bank's staff complement stood at 235, exclusive of six (6) contractual on-site Examiners [Table 4]. The Bank recruited twelve (12) employees during the year; four (4) employees voluntarily separated and there were four (4) retirements—with one person being re-engaged on a contractual basis. The increase in head count was primarily in response to identified needs within the bank supervision function. One member of the senior management team was also seconded to an international organization.

Apart from three (3) persons who work in the Freeport Office, which deals with exchange control matters only, the Bank's staff operate from the Nassau Office.

In 2009, the Bank filled the key position of Manager, Internal Audit and Corporate Governance, which had been vacant for approximately two (2) years. In January, the Bank recognized twelve (12) long-serving employees with ten, twenty and thirty-year awards during its Annual Awards Presentation Ceremony. During the year, it was also saddened by the death of one of its staff members.

TABLE 4: Employees

	2007	2008	2009
Accounts	10	9	10
Administration	29	30	29
Banking	27	26	26
Bank Supervision	51	51	54
Internal Audit	2	2	3
Information Technology	11	12	13
Exchange Control	35	34	33
Governor's Office	8	8	8
Human Resources	9	9	9
Legal Unit	5	5	5
Research Department	23	23	23
Security	21	22	22
TOTAL	231	231	235

SOURCE: The Central Bank of The Bahamas

COMMUNITY RELATIONS AND OUTREACH

In continuing its educational outreach programme, the Bank hosted a number of school visits and provided work experience opportunities for several students. The Bank also continued its participation in the Ministry of Education's Annual Careers Fair and, as a second phase of its regular Summer Employment Programme, launched a Junior Professionals Summer Employment Programme, which targeted high performing students with an interest in pursuing a career in central banking. Several of the Bank's staff also made presentations to student groups on the role and functions of the Central Bank.

The Bank celebrated the 26th anniversary of its Annual Art Competition & Exhibition in 2009. In the context of this milestone, organisers changed the format of the presentation to feature two separate categories, one for high school students and the second for professional artists—those over the age of 18. The new format attracted nearly one hundred participants, with the seasoned artists producing more complex artworks around a central theme; while the high school competition highlighted the efforts and talents of the younger entrants. The Bank's gallery was also the venue for some ten (10) exhibitions by local artists.

HEALTH & SAFETY IN THE WORKPLACE

In pursuit of its objective to promote a safe and healthy work environment, the Bank delivered Fire & Safety Training for security personnel and Basic First Aid, CPR certification and re-certification for Incident Wardens.

The Bank also carried out maintenance work to its main premises and historical properties (Balcony House, Verandah House and the Great House). A major project was the installation of a replacement high capacity air conditioning unit to the Bank's Main Building.

FINANCIAL HIGHLIGHTS

The Central Bank's financial statements for the year ended 31 December 2009, along with comparative figures for 2008, are shown on pages 41 to 80 of this Report.

Total assets increased by $255.0 million (31.4%) to $1,066.4 million. External assets represented 76.5% of this amount, and were higher by $253.0 million (44.9%) at $815.9 million. Nearly 71% of the gain was attributed to the US$178.8 million in Special Drawing Rights (SDRs) issued by the IMF between August and September, which brought the Banks' balance to $179.0 million at year-end. Reflecting residual foreign exchange earnings from real sector activities and public sector borrowings, foreign cash and deposit balances grew by $65.1 million to $270.9 million, and holdings of marketable securities rose by $8.8 million to $356.2 million, to account for 43.7% of total foreign assets.

Domestic assets, at $237.6 million, exceeded the 2008 level by $2.6 million. Reflecting the buoyancy in bank liquidity, the Banks' holdings of central Government paper declined by $20.5 million to $105.8 million. However, advances to Government increased by $25.4 million to $97.9 million.

The Bank's demand liabilities grew by $72.7 million to $741.2 million. The currency component, at 43.1% of the total, declined by $3.7 million; while liabilities due to banks, which include their statutory reserve balances and other excess funds utilized, in part, for cheque clearing purposes, increased by $53.3 million. Deposits held for Government and its agencies also advanced by $22.0 million.

Given the ongoing weak domestic economic conditions and depressed global interest rates, total comprehensive income for the year, inclusive of the impact of the changes in accounting policy for currency expense and provisions for ICM transactions, was substantially lower at $3.2 million, compared to $10.4 million in 2008. Total income was reduced by 20.5% to $24.4 million. Notably, interest income on foreign investments declined by $5.6 million to $14.5 million, and interest earned on domestic investments, at 31.2% of the total, was down by $1.4 million to $7.6 million. Expenses grew by $1.00 million to $21.2 million. Staff costs rose by $0.8 million to $12.9 million; general and administrative outlays, by $0.6 million to $6.5 million, while depreciation expenses declined by $0.4 million.

ACKNOWLEDGMENT

The Board of Directors extends its sincere appreciation to all Bank staff for their continuous dedication and service during the past year. The Bank's gratitude is also extended to several regional and international agencies, especially the Caribbean Regional Technical Assistance Centre (CARTAC), for their continued support and assistance in building capacity within the Bank.

BOX VI. Strategic Focus For 2010

During 2010, the Bank will continue to:

1 **Strengthen the Framework for Monetary Policy**
- Develop its macroeconomic forecasting and policy model.
- Explore issues relating to financial stability.
- Continue to produce and publish research papers on critical issues.
- Prepare for the establishment of a Payments Unit.
- Develop an online reporting system.
- Develop quarterly balance of payments forecasts.

2 **Strengthen the Banking and Trust Sector**
- Commence work towards the establishment of a credit bureau.
- Build out its stress testing model to include liquidity risks.

3 **Strengthen and Improve the Supervisory Regime**
- Full roll-out of revised risk-based supervisory process.
- Prepare annual report on banking supervisory activities.
- Assist in the creation of a national financial crisis preparedness plan.

4 **Maintain Legal/Regulatory Compliance**
- Roll out market risk component of Basel I.
- Review legal framework for managing problem banks.

OUR ENVIRONMENT

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indicators revealed that the weakness in the Bahamian economy deepened in 2009, with real GDP likely to have contracted by upwards of 4.0%, relative to a 1.7% decline in 2008. The effects of the global economic recession—particularly in the United States—on the domestic market, was most pronounced in the main tourism sector, which accounts for an estimated 40% of real output. Activity declined sharply, owing mainly to reduced stopover traffic, which elicited the implementation of several discount programmes by hoteliers to support operations. Similarly, construction output weakened, as evidenced by a halving in domestic mortgage activity for new buildings and enhancements, and reduced foreign investments inflows, amid the persistent difficulties in global credit markets. In this context, the unemployment rate rose strongly, from 8.7% in 2008 to 14.2% in 2009—the highest rate in over a decade. However, domestic inflation eased from the recent 2008 peak, benefitting from the moderation in international fuel prices and the general weakening in domestic demand.

The adverse consequences of this environment were most evident on the fiscal situation. Government's tax revenues plummeted during FY2008/09, in comparison to the previous fiscal period and, alongside higher interest payments and consumption spending, contributed to a widening of the overall deficit, to an estimated 5.0% of GDP[4]. The corresponding increase in both domestic and foreign currency borrowings—trends which were maintained during the first half of FY009/10—elevated the debt to GDP ratio, to an estimated 53.6% from 42.5% in the previous fiscal year [Table 5].

Despite the negative effects of the recession on foreign exchange earnings, both liquidity and external reserves registered notable gains in 2009, underpinned, *inter alia*, by public sector foreign currency borrowings. However, amid the elevated levels of unemployment and weakened business activity, banks' credit quality indicators deteriorated sharply, resulting in increased provisions against loan losses and a corresponding decline in profitability. Bank lending was also sharply curtailed, as consumers were reluctant to increase debt, and banks adopted a more cautious approach to perceived higher credit risk in their lending activities.

On the external side, the slowdown in consumer demand, combined with lower commodity prices and reduced outflows for construction related and other "miscellaneous" services, led to an improvement in the current account deficit. In contrast, the surplus on the capital and financial account contracted to some extent, associated with the sharp fall-off in inward foreign investment flows and a reversal in commercial banks' transactions to a net outflow. These developments overshadowed the proceeds from Government's US$300 million foreign debt issue and a US$178.8 million increase in

TABLE 5: Selected Economic Indicators (% Change)

	2006	2007	2008	2009
Real GDP	4.3	0.7	(1.7)	(4.5)**
Unemployment Rate	7.6	7.9	8.7	14.2
Occupied Hotel Room Nights	(1.9)	(4.4)	(3.3)	(13.5)*
Hotel Occupancy (%)	68.4	65.5	54.1	49.4 *
Total Arrivals	(1.0)	(2.7)	(4.5)	5.7
Mortgage Disbursements	22.5	(10.5)	11.2	(26.9)
Electricity Generation (mwh)	1.8	6.1	1.4	n/a
Retail Price Index	1.8	2.5	4.5	2.1
Debt/GDP Ratio (%)	39.7	41.0	42.5	53.6

SOURCE: The Central Bank of The Bahamas
* Preliminary;
** Bahamas Government's estimate

[4] Based on GDP estimates in the Government's mid-year 2009/10 Budget Communication.

Special Drawing Right (SDR) allocations, under an IMF global initiative to bolster liquidity.

REAL SECTOR

Tourism

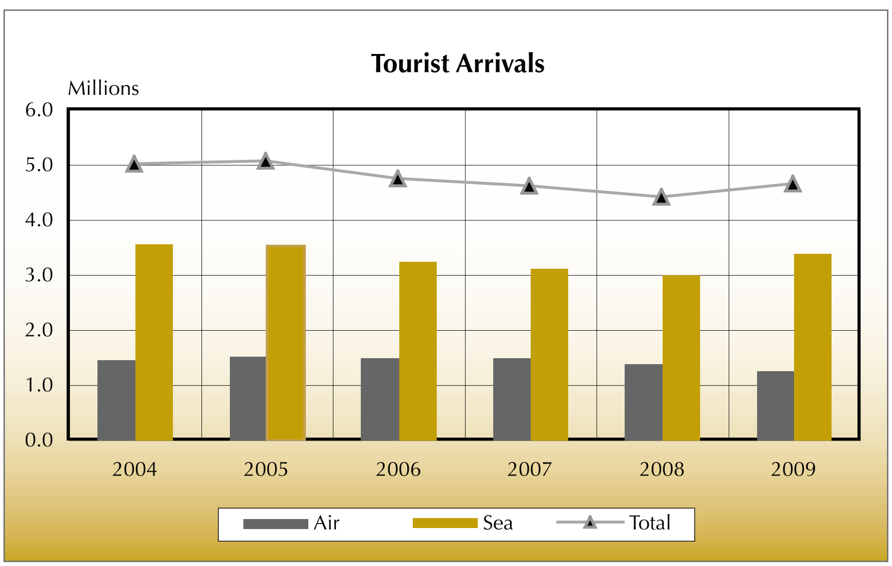
Preliminary indications are that tourism output contracted sharply in 2009, as the global economic recession adversely impacted the high value-added stopover segment of the market. However, a modest offset was provided by continuing gains in the more "budget conscious" cruise sector.

Total arrivals increased by 5.7% to 4.6 million, in contrast to a 4.5% decline in 2008. Sea visitors, at 67.5% of the total, rebounded by 13.1% to 3.4 million from a 3.6% falloff. This outcome benefitted, in part, from the favourable diversion of traffic in the first half of the year, following health concerns in other foreign ports, as well as increased demand by travellers for lower cost vacations. Despite some support to long-stay visitors from the hosting of two international events, air arrivals—which comprise the bulk of the key stopover segment—declined by 10.1% to 1.3 million, extending 2008's 6.4% downturn.

The cruise-led improvement in total arrivals was broad-based across the major domestic ports of call. In New Providence, total visitors rose by 7.3%, reflecting a 16.3% increase in sea passengers which outweighed the 6.6% decline in the air segment. The smaller Grand Bahama and Family Island destinations also experienced gains of 3.7% each.

Hotel sector indicators reflected the downturn in the stopover market segment, which prompted many resorts to reduce rates through the provision of various incentive schemes. Initial annual data for the sector showed that overall revenues decreased by an estimated 16.8% to $336.8 million, based upon a 4.7 percentage point reduction in average occupancy rates to 49.4%, combined with a 8.3% falloff in average daily room rates to $197.71.

Recent data signalled some stabilization in stopovers and corresponding hotel earnings, and improving medium-term prospects, benefitting from the ongoing global economic recovery and expanded airline capacity. The reopening of an important Family Island resort and several renovation projects also increased job opportunities in the sector. However, tourism output is expected to continue to be adversely affected by the general reduction in spending patterns by visitors from key source markets.



Prices

Amid softening in global oil and other commodity prices, consumer price inflation, as measured by changes in the average Retail Price Index, eased to 2.1% in 2009 from 4.5% in 2008. This outcome was primarily explained by a 0.1% decline in average housing costs—the largest component—vis-à-vis a 3.5% increase in 2008. Moderations in average price increases were also posted for other goods & services, furniture & household operation and medical care & health, by 4.0, 3.6 and 2.7 percentage points, to 3.5%, 3.2% and 2.3%, respectively. More modest slowing in average price gains, of less than 2 percentage points, was achieved for food & beverages, recreation, entertainment & services, as well as transport & communications, to contrast with a slight uptrend in average cost increases for both education and clothing and footwear.

The broad-based decline in global oil prices, from the year-earlier peak, translated into lower fuel costs domestically. Despite a modest uptick over the year, the average monthly price of automobile fuel remained well below 2008's levels; the cost of diesel fell by 38% to $3.03 per gallon and gasoline, by 22.2% to $3.83 per gallon. Similarly, the average fuel surcharge applied by the Bahamas Electricity Corporation was 47.8% lower, year-on-year in December, at 10.0¢ per KWH.

Construction

For 2009, construction activity remained anemic, amid the ongoing adverse effects of the global recession on foreign investment inflows and the pace of domestic building projects.

As an indication of activity, total mortgage disbursements for new construction, as well as repairs & additions to existing buildings—as reported by banks, insurance companies and the Bahamas Mortgage Corporation—declined by 16.4% to $272.1 million. Both the residential (89.4% of total) and commercial components (10.6%) receded by 16.3% and 17.5%, respectively. A less robust forward looking perspective was also signalled by mortgage commitments, which fell by 14.4% in number to 1,212 and the corresponding value, by 18.7% to $184.0 million.

FISCAL OPERATIONS

Overview

The deterioration in the domestic economy negatively impacted Government's revenue performance during FY2008/09 and over the first six months of FY2009/10. When combined with increased capital expenditure, as part of a series of fiscal stimulus measures, the result was a marked worsening in the overall deficit.

FY2008/09 Performance

Data for FY2008/09 indicated a more than two-fold deterioration in the overall deficit, to $361.3 million, in comparison to $150.8 million in FY2007/08 and a budgeted estimate of $165.7 million. This outturn was occasioned by a $99.9 million (7.0%) narrowing in revenue to $1,324.2 million—15.6% less than estimated. In addition, total expenditure advanced by $110.6 million (7.0%) to $1,685.5 million, but was 2.9% below budget, due to lower than projected spending for capital activities.

Tax revenue, which accounted for the bulk (85.3%) of total receipts, contracted by 10.8% ($137.5 million) to $1,129.9 million, underperforming budget estimates by a sizeable 20.2%. As the downturn in the global economy continued to constrain domestic demand, international trade and transaction taxes contracted by 14.3% to $594.8 million (22.0% below budget estimates). Based partly on a reclassification exercise, import and stamp taxes declined by 28.4% and 89.7%, respectively; while excise taxes were 20.0% below budget, at $187.2 million. In line with the downturn in stopover visitors, tourism tax receipts narrowed by 14.2% to $39.5 million, owing to contractions in both hotel occupancy (20.1%) and departure (5.9%) taxes. Declines were also registered for motor vehicle taxes (2.6%) and other non-financial stamp taxes (24.7%), whereas revenue gains were posted for property taxes (16.7%) and for business and professional licence fees (9.8%).

Non-tax receipts expanded by 23.9% to $194.2 million over FY2007/08, and exceeded the budgeted amount by 36.5%. Income-related collections, at $92.5 million, doubled both the previous year's level and budget allocations, buoyed by a timing-related increase in public sector dividend payments. In contrast, fines, forfeits & administrative fees fell by 4.9% to $100.8 million, which surpassed the budget estimates by 9.8%. The fall-off in receipts from the sale of Government property was lower at $0.9 million from $3.9 million and a budgeted $2.4 million.

On the expenditure side, recurrent spending, at 84.4% of total outlays, firmed by 5.9% to $1,422.7 million, although 4.1% less than budgeted. Gains in both wages & salaries and payments for purchases of goods and services elevated consumption expenditures, by 6.5% to $895.3 million, but were 5.7% below budget. Transfer payments advanced by 4.8% to $527.3 million, boosted by growth in both interest payments (7.8%) to $154.2 million, and subsidies & other transfers (3.6%) to $373.1 million.

Capital expenditures contracted by 20.9% to $139.8 million, an estimated 25.9% below budget projections. The decline was mainly attributed to a more than 50.0% narrowing in asset acquisitions to $26.6 million; while outlays linked to infrastructure projects and transfers to non-financial public enterprises were modestly lowered to $110.9 million and $2.3 million, respectively.

Government relied on both domestic and foreign currency financing to meet its operational requirements in FY2008/09. Of the total, an estimated $246.1 million comprised Bahamian dollar borrowings—mainly in the form of long-term bonds. There was also a foreign currency borrowing of $211.1 million from domestic banks; while external loan financing amounted to $56.6 million.

First Six Months of FY2009/10

The sustained effects of the domestic recession continued to negatively impact Government's operations over the first half of FY2009/10, resulting in a further widening in the overall deficit relative to the

TABLE 6: Fiscal Indicators (B$ Millions)					
	FY2006/07 Actual	FY2007/08 Actual	FY2008/09 Actual	FY2009/10 Approved Estimates	FY2009/10 Preliminary[1] Estimates
Government Revenue	1,338.2	1,424.1	1,324.2	1,400.0	628.9
% of GDP	17.8	18.8	18.2	18.9	8.5
Government Expenditure	1,521.0	1,575.0	1,685.5	1,688.6	805.1
% of GDP	20.3	20.8	23.1	22.8	10.9
Surplus/(Deficit)	(182.8)	(150.8)	(361.3)	(288.6)	(176.3)
% of GDP	(2.4)	(2.0)	(5.0)	(3.9)	(2.4)

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1] July - December, 2009

comparative fiscal period, by 30.3% to $176.3 million. Growth in spending of 6.4% to $805.1 million surpassed the 1.2% expansion in revenue to $628.9 million.

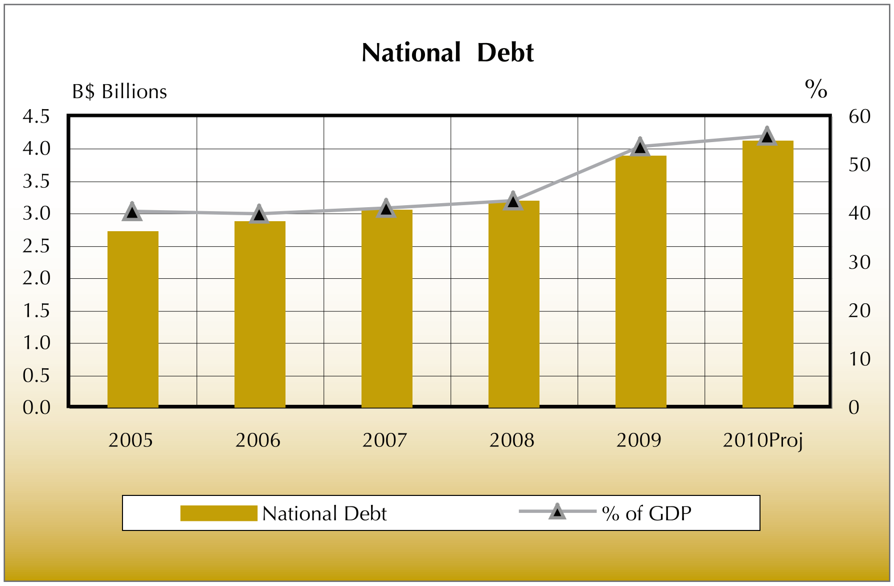
Reflecting the weakness in consumer spending, tax receipts (at 79.4% of the total) fell by 12.2% to $499.3 million, as gains in property taxes (14.7%) were outpaced by contractions in taxes on services (25.5%), business and professional licences (23.8%), and international trade & transactions (10.7%). Further, other "miscellaneous" taxes fell by 25.1%; and non-financial stamp taxes declined by 21.3%, due mainly to a significant reduction in collections from property sales.

Non-tax revenue grew nearly threefold to $129.5 million, as a result of a one-time receipt of proceeds relating to the sale of a business entity, as well as dividends from a public corporation, which boosted income from other sources by $83.3 million. In contrast, fines, forfeits & administrative fees were lower by 15.0% at $41.9 million.

Expenditures advanced by 6.4% to $805.1 million, with the 36.3% rise in capital outlays to $80.4 million outpacing the marginal 0.1% retreat in current spending to $665.2 million. Recurrent outlays registered a relatively unchanged position for both purchases of goods & services ($114.9 million) and personal emoluments ($286.2 million), the latter accounting for 43.0% of the total. Transfer payments fell by 0.3% to $264.1 million, led by a broad-based 4.7% drop in subsidies & other transfers to $180.5 million. However, the rising stock of Government debt boosted interest payments, by 10.6% to $83.6 million.

Growth in capital expenditure was primarily associated with infrastructure projects. Some offsets were provided by the 64.7% decline in outlays for the acquisition of assets, to $3.1 million, on account of lower spending for land (57.7%) and other purchases (68.8%).

Budgetary financing for the first six months of FY2009/10 consisted of $165.0 million in Bahamian dollar borrowings, comprising Government bonds ($150.0 million) and loans and advances ($15.0 million). No new internal foreign currency debt was incurred; however, external borrowings included US$300.0 million in Government bonds—the majority of which



was utilized to repay foreign currency advances from the domestic banks—and US$10.2 million in loans.

For calendar year 2009, the Direct Charge on the Government expanded by $553.7 million (20.0%) to $3,320.3 million—equating to an estimated 45.6% of GDP. Bahamian dollar claims, which accounted for 78.8% of the total, increased by $236.1 million to $2,615.5 million. Disaggregated by creditor composition, the majority of Bahamian dollar debt was held by domestic banks (34.0%), followed by other entities (30.6%)—which include the private sector—and then the public corporations (27.7%) and the Central Bank (7.7%).

Government's contingent liabilities were higher by $134.5 million (30.1%) at $581.0 million in 2009, elevating the National Debt by $688.2 million (21.4%) to $3,901.3 million by end-December 2009. This compares with a $142.6 million (4.6%) increase in 2008 to $3,213.1 million. As a ratio to GDP, the National Debt firmed by an estimated 11.1 percentage points to 53.6%, significantly above the 1.5 percentage point increase in 2008.

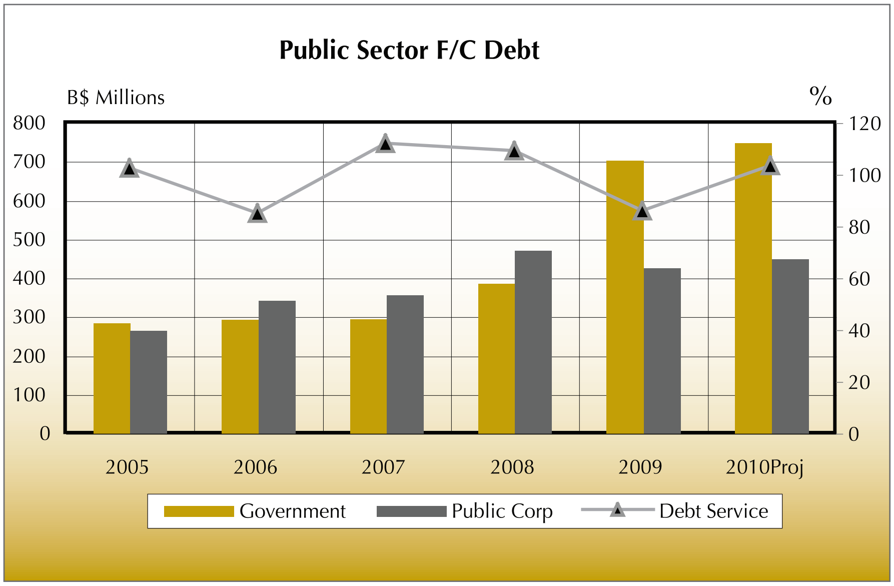


TABLE 7: Debt Indicators (B$ Millions)

	2006p	2007p	2008p	2009p	Projections 2010**
a. External Debt	**334.0**	**336.8**	**443.1**	**766.6**	**798.5**
% of GDP	**4.6**	**4.5**	**5.9**	**10.5**	**10.8**
b. Internal F/C Debt	**302.2**	**317.6**	**416.8**	**365.8**	**386.7**
% of GDP	**4.2**	**4.2**	**5.5**	**5.0**	**5.2**
c. Total F/C Debt	**636.2**	**654.4**	**859.9**	**1,132.4**	**1,185.2**
% of GDP	**8.7**	**8.7**	**11.4**	**15.5**	**16.0**
d. Debt Service Ratio*	**2.7**	**3.3**	**3.1**	**2.9**	**3.3**
e. Direct Charge	**2,386.3**	**2,636.0**	**2,766.6**	**3,320.3**	**3,347.0**
% of GDP	**32.8**	**35.2**	**36.6**	**45.6**	**45.2**
f. National Debt	**2,887.1**	**3,070.5**	**3,213.1**	**3,901.3**	**3,913.0**
% of GDP	**39.7**	**41.0**	**42.5**	**53.6**	**52.8**

SOURCE: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Reports
*Excludes refinancing activities
**Based on contractual obligations and planned borrowing

Foreign Currency Debt

In 2009, public sector foreign currency debt grew by $272.5 million (31.7%) to $1,132.4 million (15.5% of estimated GDP), due to new borrowings of $848.8 million, which exceeded amortization payments of $576.3 million. Government's obligations, at 62.2% of the total, increased by $317.7 million (82.0%) to $704.9 million; whereas the public corporations' share fell by $45.2 million (9.6%) to $427.5 million.

Approximately 95% of the foreign currency debt was held by private capital markets (53.0%), commercial banks (31.0%) and multilateral institutions (11.2%). The average maturity of the debt rose by 32 months to 14.9 years.

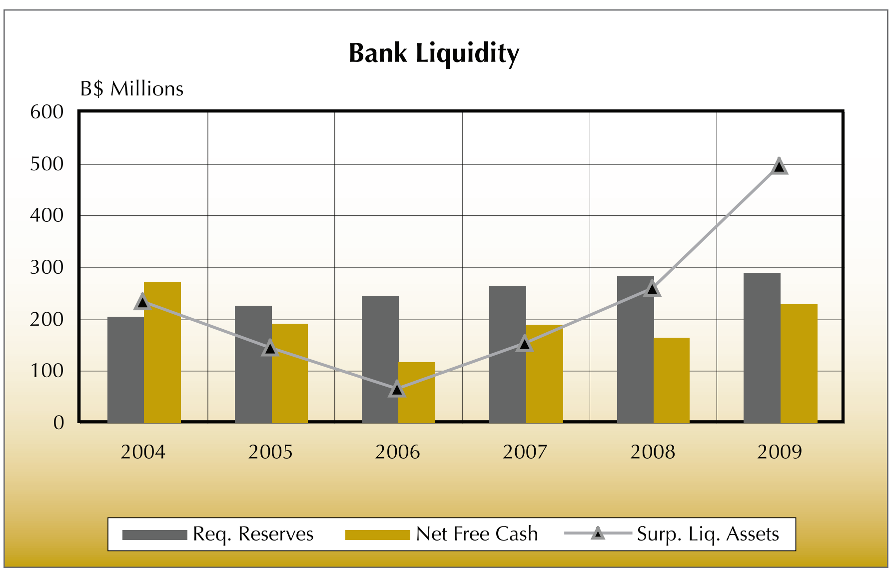
Inclusive of significant refinancing operations by the public sector, total debt service broadened by $508.7 million to $617.7 million, with higher respective shares for both the Government (44.0%) and public corporations (56.0%). However, adjusted for refinancing activities, the debt service, as a proportion of goods and non-factor payments, moderated by 0.2 percentage points to 2.9% and Government debt service represented 2.7% of total revenue, down from 3.4% a year earlier.

MONEY, CREDIT AND INTEREST RATES

In monetary developments, both liquidity and external reserves registered strong growth in 2009, owing to a combination of public sector foreign currency borrowings, the slow pace of credit growth, and several one-off transactions. However, the deterioration in economic conditions and resulting hike in unemployment caused banks' credit quality indicators to worsen significantly, resulting in a doubling in provisions against bank losses, which negatively impacted profitability levels. The weighted average interest rate spread narrowed, as the decline in the weighted average lending rate outpaced the contraction in the corresponding deposit rate.

Liquidity

Average monthly liquidity, as measured by banks' free cash balances, rose by 0.8% to $236.2 million, although below the 22.6% advance in 2008, as banks increased their holdings of Government paper. At year-end, liquidity stood higher by 39.3% at $229.5 million, and represented an increased 4.0% share of Bahamian dollar deposit liabilities, up from 2.9%. Average monthly surplus liquid assets—a broader measure of liquidity—strengthened by 64.9% to $447.2 million at end-2009, with a near doubling in the year-end balance to $494.1 million. Consequently, the excess over the statutory minimum requirement was elevated to 53.2% from 28.3% in 2008.



Money Supply

Money supply growth slowed in 2009, amid the general weakness in economic activity. Narrow money (M1)—which accounted for 21.3% of the overall stock—grew by $9.1 million (0.7%) to $1,283.6 million, in contrast to a $25.8 million (2.0%) decline in 2008. This outturn was occasioned by a 1.0% increase in currency in active circulation and a 0.7% rise in demand deposits.

The expansion in broad money (M2) abated sharply to $77.8 million (1.4%) from $285.4 million (5.2%) in 2008, as savings balances declined by $24.9 million (2.4%), following a $28.3 million (2.9%) increase in 2008. In addition, gains in fixed deposits were sharply lower at $93.6 million (2.7%) from $282.9 million (9.0%), as the build-up of private balances tapered, and public sector deposits contracted. Total Bahamian dollar deposits were slightly higher at $5,723.1 million by end-December 2009, and were dominated by fixed balances (62.9%).

Residents' foreign currency deposits advanced by $30.5 million (15.1%), extending the $1.3 million (0.6%) growth in 2008. As a result of these developments, accretions to overall money (M3) moderated appreciably, by $178.4 million to $108.3 million (1.8%), for an end-year stock of $6,032.3 million.

Domestic Credit

Reflecting the slowdown in private sector demand and a net repayment by public corporations, domestic credit growth slackened to $130.6 million (1.7%) in 2009 from $474.8 million (6.4%) a year earlier. Gains in the Bahamian dollar component were more than halved, to $175.3 million (2.5%) from $449.4 million (6.7%) in 2008; while foreign currency claims declined by $44.6 million (5.9%), in contrast to a year-earlier $25.3 million (3.5%) upturn.

The expansion in private sector credit was markedly lower at $59.1 million (0.9%) from $318.4 million (5.1%) in 2008. By sectoral distribution, personal loans—which accounted for 76.8% of claims—increased marginally by 1.1%, compared to an 8.0% gain in 2008. Housing loans, at 53.9% of the portfolio, grew at a sharply reduced increment of $140.6 million to $123.7 million (4.8%). Net repayments were registered for both consumer credit and personal overdrafts, which contracted by 2.3% ($51.0 million) and 2.1% ($2.2 million), in contrast to respective year-earlier gains of 6.5% and 33.8%.

An analysis of consumer credit, which constituted 43.5% of private sector claims, revealed broad-based

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

	OUTSTANDING AS AT 2007	ABSOLUTE CHANGES 2008	ABSOLUTE CHANGES 2009	OUTSTANDING AS AT 2009
DESTINATION				
Government (net)	866.8	57.2	99.9	1,023.9
Central Bank	332.3	(133.5)	(17.9)	180.9
Domestic Banks	534.5	190.7	117.8	843.0
Rest of Public Sector	349.1	99.2	(28.4)	419.9
Central Bank	7.5	(0.2)	(0.3)	7.0
Domestic Banks	341.6	99.4	(28.1)	412.9
Private Sector	6,218.4	318.4	59.1	6,595.9
Consumer	2,108.3	136.1	(51.0)	2,193.4
Mortgages	2,506.3	199.6	128.6	2,834.4
Other Loans	1,603.8	(17.2)	(18.5)	1,568.1
FINANCING				
Liabilities (Net of Government)	5,637.3	286.7	108.3	6,032.3
Currency	223.7	(17.9)	2.0	207.8
Total Deposit liabilities	5,413.6	304.6	106.3	5,824.5
International reserves	454.2	108.7	253.0	815.9
Other net external liabilities ( ) = increase	(667.6)	(36.2)	21.9	(681.9)
Capital and surplus	1,657.8	209.8	175.0	2,042.6
Other (net)	74.2	(50.8)	(124.7)	(101.3)

SOURCE: The Central Bank of The Bahamas

decreases for almost all categories, led by private car ($32.1 million), “miscellaneous” ($26.6 million), credit card ($15.6 million), travel ($13.2 million) and home improvement ($7.5 million) loans. Decreases of under $3.0 million were posted for the remaining categories; while gains in debt consolidation loans receded by $44.8 million to $53.5 million, suggesting that most of the initiatives had already been taken by borrowers to contain their debt exposures.

For other private sector credit categories, notable net repayments were registered for distribution ($30.8 million), tourism ($13.6 million) and professional & other services ($7.6 million). In marked contrast, “miscellaneous” loans firmed by $49.8 million and construction loans, by $4.6 million.

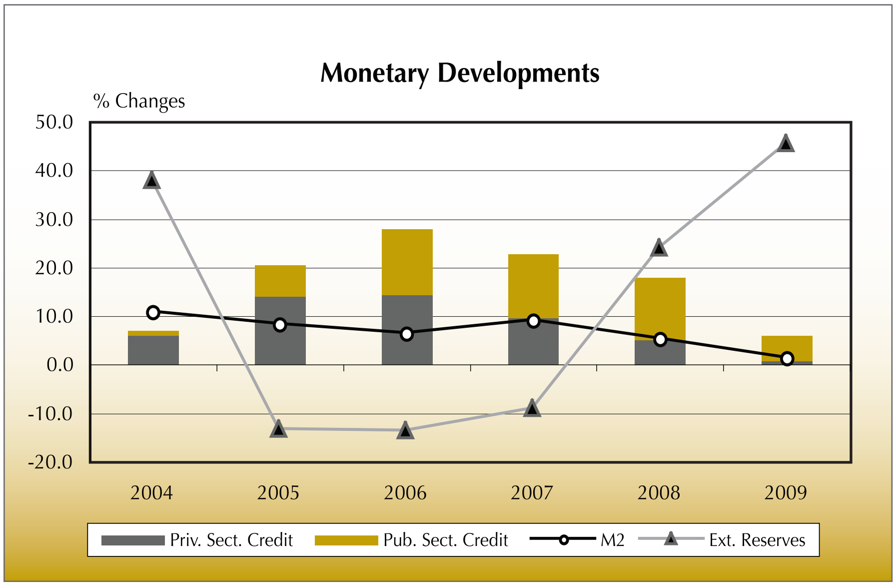
The banking sector’s claims on the public corporations fell by 6.3% ($28.4 million), to reverse last year’s expansion of $99.2 million (28.4%); whereas Government’s net indebtedness grew by 10.8% ($99.9 million).

Interest Rates

In interest rate developments, the weighted average spread on commercial banks’ loan and deposit rates narrowed by 24 basis points to 6.79 percentage points. The decline in the corresponding loan rate, by 37 basis points to 10.58%, surpassed the 13 basis point decrease in the deposit rate to 3.79%.

Lending rates registered broad-based contraction, with average consumer loan rates receding by 34 basis points to 12.69%; commercial mortgages, by 12 basis points to 8.60% and residential mortgages, by 11 basis points to 8.25%. Conversely, the average overdraft rate advanced by 22 basis points to 11.67%.

Strong liquidity conditions exerted a moderating influence on average deposit rates. Savings rates decreased, on average, by 5 basis points to 2.15%;



and returns on fixed deposits shifted downwards, although the range widened incrementally by 8 basis points to 3.55% - 4.37%.

In terms of other key rates, the average 90-day Treasury bill rate declined by 12 basis points to 2.62%, while the benchmark rates—the Central Bank's Discount Rate and commercial banks' Prime—held steady at 5.25% and 5.50%, respectively.

Net Foreign Assets

The financial system's external balance sheet position was reversed, from a net foreign liability of $140.9 million in 2008, to a net asset of $134.0 million at end-2009.

External reserves posted a strengthened gain of $253.0 million (44.9%) vis-à-vis $108.7 million (23.9%) in 2008, partly bolstered by the receipt of $178.8 million in SDRs from the IMF. Reserve balances, which averaged $716.9 million over the year, reached a record month-end peak of $840.5 million in November and showed the typical seasonal trend, of a net foreign currency purchase in the first half of the year, followed by a net sale in the second half.

Foreign currency transactions of the Central Bank, however, evidenced the ongoing weakness in real sector foreign exchange generating activities, with the net purchase lower by 35.7% at $57.1 million. In particular, transactions with commercial banks were strongly reversed, to a net sale of $121.2 million from a net receipt of $195.7 million in 2008; but were offset by an 18.4% hike in the net purchase from Government to $285.0 million—which was linked to borrowing proceeds. The Bank's net sale to other customers, mainly public corporations, expanded by 23.2% to $267.0 million. By end-2009, external reserves, at $815.9 million, approximated 20.7 weeks of non-oil merchandise imports, compared to 13.1 weeks in 2008. By law, the Central Bank is required to keep, at a minimum, external balances equivalent to 50.0% of its demand liabilities. After discounting for this requirement, "useable reserves" stood at $450.2 million, nearly double the $233.0 million recorded in December 2008.

By contrast, domestic banks' net foreign liability position was reduced by $21.9 million (3.1%) to $681.9 million, in contrast to a year-earlier $36.2 million hike, which was partly associated with increased claims on the public sector.

COMMERCIAL BANKING SECTOR DEVELOPMENTS

Despite the ongoing adverse effects of the global economic recession, the banking sector remained relatively stable during 2009. Commercial banks continued to address the problems of rapidly rising arrears and non-performing loans, through their assistance programmes to borrowers, tightened lending policies, and increased provisioning.

Credit Quality

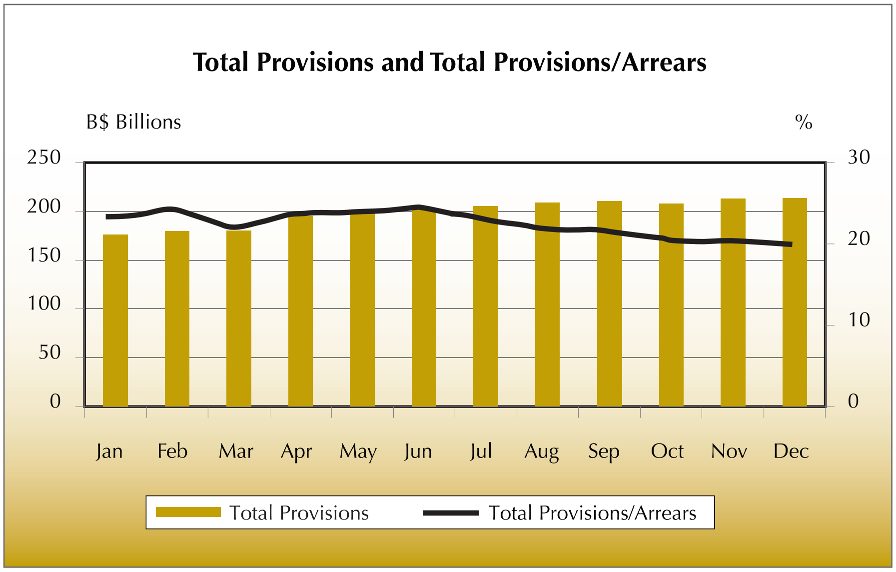
Commercial banks' credit quality indicators deteriorated significantly over the year, as subdued economic activity and the resultant elevated levels of unemployment constrained the ability of households and businesses to service their debts. The total value of private sector loans in arrears of over 30 days grew by $324.3 million (42.4%) to $1,090.1 million, with a corresponding rise in the arrears rate to 17.8% from 12.7% in 2008. A breakdown of arrears by average age revealed that the bulk of the deterioration was in the non-performing segment—loans more than 90 days past due and on which banks stopped accruing interest—signalling a lengthening in the average age of delinquencies. Consequently, 31-90 day arrears grew by $115.7 million (29.1%) and the ratio to total loans advanced by 1.8 percentage points to 8.4%. Non-accrual loans surged by $208.6 million (56.7%), and by 3.3 percentage points to 9.4% of total loans.

The largest increase in delinquencies was noted for mortgages, which rose by $167.2 million (45.9%) to $531.5 million—equivalent to a 5.2 percentage point hike in the arrears rate to 18.5%. Lower gains of 34.4% to $323.0 million were posted for consumer loan arrears, translating into a firming in the corresponding arrears rate, to 14.7% vis-à-vis 10.8% in 2008. Similarly, the value of commercial loan arrears increased by 46.2% to $235.6 million, representing 22.8% of the respective portfolio compared to 15.5% last year.

As a result of the worsening credit portfolios, domestic banks increased provisions against loan losses, by $44.4 million (26.3%), which equated to 3.4% of total claims compared to 2.7% in December 2008. Partly reflecting the high quality of the underlying assets used to support outstanding loans, the ratio of provisions to arrears and non-performing loans contracted by 2.5 and 8.9 percentage points, to 19.6% and 37.1%, respectively.

Capital Adequacy

Data compiled by the Central Bank showed that, despite shrinking profit margins, as a result of heightened provisions, banks maintained healthy capital resources to absorb any significant losses arising from loan defaults. Banks' ratio of



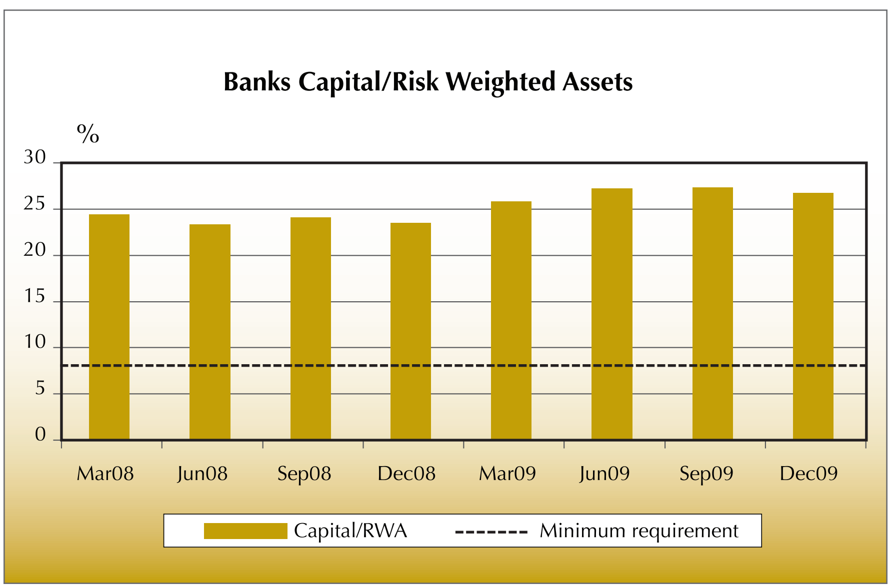
capital to risk weighted assets—a core financial soundness indicator—was, on average, above 25% in 2009, significantly higher than the Central Bank's upwardly revised requirements.

Bank Profitability

The marked slowdown in domestic demand, coupled with the increased provisioning because of the worsening quality of the loan portfolio, negatively impacted banks profitability. Based on data for the twelve-months through September 2009, net income contracted by $75.7 million (26.2%) to $213.6 million over the comparable period in 2008.

Reflecting reduced growth in consumer loans, which typically attract higher rates, interest income contracted by 1.4% ($10.9 million). However, with a sharper 9.9% ($28.0 million) decline in interest expense, the net interest margin widened by 3.6% to $489.6 million. Earnings from commission and foreign exchange transactions fell further, by 19.0% to $24.4 million; and the net operating earnings margin narrowed by 1.4% ($3.6 million) to $245.9 million, reflecting a broad-based 5.9% hike in operating expenses. A near two-fold expansion in bad debt provisions, combined with a 14.5% contraction in other "miscellaneous" income, generated a deficit of $32.3 million on non-core activities, in contrast to income of $39.7 million in 2008.

These developments translated into weakened profitability ratios to average domestic assets over the review period. The gross earnings margin tightened by 19 basis points to 5.61%, reflecting reductions in both the interest margin and commission and forex income ratios, by 9 basis points to 5.34% and 0.27%, respectively. Conversely, the operating cost ratio firmed by 5 basis points to 2.93%, contributing to the 23 basis point decline in the net earnings margin to 2.68%. This outturn, combined with a surge in the non-operating cost ratio, buoyed the 1.08 percentage point fall-off in the net income ratio to 2.33%.



CAPITAL MARKET DEVELOPMENTS

Capital market activity was relatively subdued in 2009, as the downturn in the domestic economy negatively impacted investor sentiment and reduced annual trading volumes and values relative to 2008. The volume of securities traded on the Bahamas International Securities Exchange (BISX)—inclusive of a significant share purchase in 2008—declined by 53.6% to 4.5 million shares. Net of this transaction, share values decreased by a more modest 2.2%, with a corresponding loss in value of 27.2% to $23.0 million. The benchmark BISX All Share Price Index fell by 8.6% to 1,565.4 points, which was below the year-earlier decrease of 17.1%.

Over the year, the total number of securities publicly traded on the exchange remained at twenty-four (24), inclusive of nineteen (19) common shares, one preference share and four debt tranche listings.

INTERNATIONAL TRADE AND PAYMENTS

External sector developments during 2009 were strongly influenced by the global recession. Although tourism receipts contracted, the reduction in fuel imports, as a result of more favourable global oil price trends, combined with the moderation in domestic demand, resulted in a narrowing in the estimated current account deficit, by 20.4% to $927.0 million—which represented 12.7% of estimated GDP. The surplus on the capital and financial account declined by 3.9% to $1,072.9 million, in the context of scaled-back foreign investment inflows.

The estimated trade gap narrowed by 16.5% to $1,874.3 million, compared to the 4.1% deterioration in 2008. This outturn mainly reflected the beneficial pass-through effects of lower international oil prices on fuel imports, which fell by 42.7% to $667.9 million, with price declines broadly based across the major oil categories. Also, softness in domestic demand led to non-oil imports declining by an estimated 2.0% to $1,437.1 million.

The estimated surplus on the services account fell by 5.8% to $1,074.4 million, as weakness in stopover visitors occasioned an 8.2% ($151.2 million) decline in net travel receipts—the largest category. Offshore companies reduced their local expenditures by 23.2% to $179.6 million; while the net outflows under Government service rose by 54.4% to $87.0 million, partly reflecting increased payments for infrastructural projects. With a significantly lower level of foreign investment activity, net construction and other "miscellaneous" outflows receded by 39.8% and 24.3% to $20.7 million and $317.0 million, respectively. The net transportation outflow also fell by 13.0% to $267.9 million, with smaller decreases posted for net insurance and royalty payments.

Buoyed by a firming in private sector outflows, the deficit on the income account almost doubled to $209.5 million. Specifically, net private sector interest and dividend payments increased more than two-fold, to $142.5 million, as commercial banks' transactions switched to a net remittance of $72.6 million from a net inflow of $40.6 million in 2008. This outcome overshadowed the 31.5% decline in the non-bank net remittance to $69.9 million. Amid the record low external interest rate environment, the balance on official transactions was reversed, to a net outflow of $9.6 million from a year-earlier net inflow of $2.1 million. Specifically, the Central Bank's foreign investment income was lowered by $7.1 million to $15.5 million; however Government's interest payments rose by $4.6 million to $25.1 million, and non-resident income outflows advanced by $1.3 million to $57.4 million.

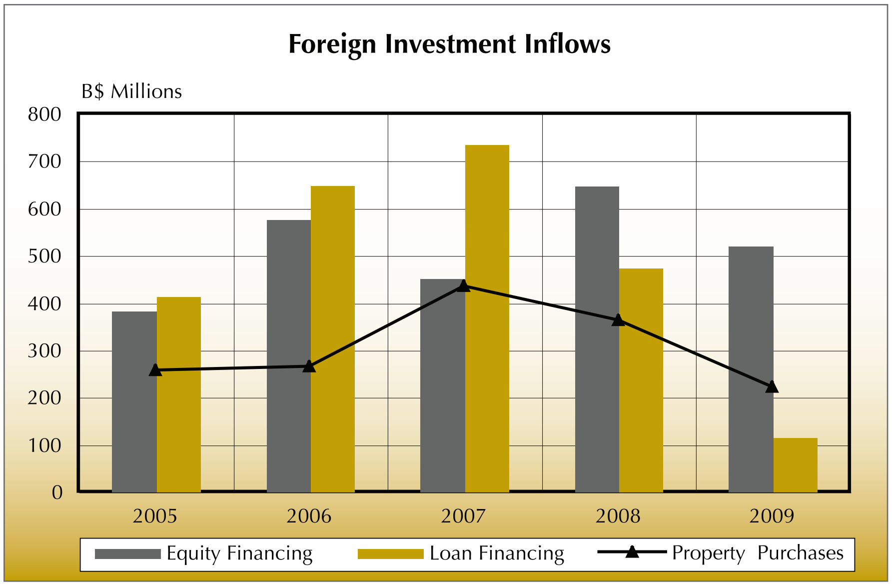
The current transfers' surplus improved by an estimated 47.0% to $82.3 million, owing to increases in the net Government inflow, by 40.3% to $88.3 million, and declines in workers' net remittances, by 11.7% to $7.2 million.

The deterioration in the surplus on the capital and financial account

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

		2007p	2008p	2009p
I.	CURRENT ACCOUNT	(1,314.3)	(1,164.8)	(927.0)
	i) Merchandise Trade (net)	(2,154.4)	(2,243.2)	(1,874.2)
	Exports	801.9	955.8	665.8
	Imports	2,956.3	3,199.0	2,540.1
	of which: Oil	802.1	1,166.4	667.9
	ii) Services (net)	1,019.7	1,140.4	1,074.4
	Travel	1,809.8	1,848.6	1,697.4
	iii) Income (net)	(231.4)	(118.0)	(209.5)
	iv Current Transfers (net)	51.8	56.0	82.3
II.	CAPITAL & FINANCIAL ACCOUNT	999.5	1,116.7	1,072.9
	i) Capital Account (Transfers)	(75.7)	(76.3)	(31.7)
	ii) Financial Account	1,075.2	1,193.0	1,104.6
	of which: Direct Investment	746.2	838.9	653.6
III.	NET ERRORS AND OMISSIONS	269.1	156.8	107.1
IV.	CHANGES IN EXTERNAL RESERVES[1]	45.7	(108.7)	(253.0)

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



was associated with a lower financial account inflows, which negated the decline in the capital account deficit. The surplus on the financial account receded by $88.4 million to $1,104.6 million, as direct investments contracted by almost one quarter to $653.6 million, on account of lower equity investments and land purchases. In contrast, other "miscellaneous" investment inflows advanced by $88.7 million to $467.8 million, supported by Government's receipt of proceeds from a US$300 million external bond issue and the allocation of approximately US$178.8 million in SDRs under an IMF global initiative. However, the reduction in private entities' outstanding foreign currency liabilities facilitated a $21.9 million net repayment by domestic banks, a turnaround from the $36.2 million in short-term inflows recorded in 2008. Other private sector transactions—related mainly to loan financing—registered a net repayment of $10.9 million, reversing the previous year's $236.5 million net receipt. Net outward portfolio investments decreased by $8.3 million to $16.8 million, as the increase in debt security holdings steadied at $12.5 million; while equity security investments declined by $8.2 million to $4.3 million. Net capital transfers abroad fell by over 50% to $31.7 million.

Adjusting for net errors and omissions, the overall balance in 2009, which represents the change in the Central Bank's external reserves, advanced by $144.3 million to $253.0 million.

DOMESTIC ECONOMIC OUTLOOK FOR 2010

Looking ahead, 2010 is anticipated to be another year of weak domestic output, although the rate of contraction is projected to slow from the previous year's level. In this environment, activity in the tourism sector is expected to remain relatively subdued, with modest short-term improvements in the key stopover market segment anticipated to accrue from the recovery in the main United States market. Equity financed foreign investment projects are poised to provide a stable contribution to construction activity, alongside a number of large-scale public sector projects.

In the monetary sector, robust liquidity conditions are likely to persist, amid timid consumer demand; however, loan delinquencies are set to remain above trend during 2010. Current account indicators are projected to hold steady at recent lows, in line with the softness in domestic demand and moderated payments for oil imports. Amid difficult access conditions characterizing global credit markets, foreign investment inflows are expected to recover slowly towards "pre-crisis" levels, thereby constraining the gains in the traditional capital account surplus.

On the fiscal side, Government's overall deficit and corresponding debt indicators are projected to remain relatively high throughout FY2009/10 and into the next fiscal period, stemming from the sustained weakness in tax receipts combined with potential growth in expenditure, linked to various planned capital projects.

INTERNATIONAL ECONOMIC DEVELOPMENTS

After a deep synchronized downturn in late 2008 and early 2009, the global economy showed signs of recovery in the latter half of the year, buoyed by strong expansionary fiscal and monetary policies and a massive inventory restocking cycle. Private consumption and investment demand, however, remained weak, amid sustained job losses. Investors' positive assessment of economic prospects fostered appreciable gains in world equity markets, while currency markets were dominated by weakened demand for the US Dollar, in the context of emerging concerns over the widening US fiscal deficit. Commodity markets registered broad-based price declines, with gold being a notable exception; and inflation rates remained relatively benign, partly reflecting the widening gap between potential and actual output among the major economies.

According to IMF estimates, real GDP in the advanced economies contracted by 3.2%, compared to an expansion of 0.5% in 2008. Following real output growth of 0.4% in 2008, the United States' economy contracted by 2.4%, although exiting from recession in the second half of the year, after achieving an annualized rise of 2.2% and 5.7% in the third and fourth quarters, respectively. The downturn in 2009 mainly reflected depressed consumer spending and business and inventory investments, although buoyed by improvements in exports, residential investment and government expenditures. Fuelled by massive policy stimulus and favourable credit conditions, which underpinned strong sales of durable goods and increased investments, the Chinese economy expanded by 10.7% in the fourth quarter, and by 8.7% for the year, following a 9.6% advance in 2008. A 12.1% recovery in exports hoisted Japan out of recession, with real output growing by an average annualized 2.0% in the second half of 2009, although registering an overall contraction of 6.0%, up from 2.0% in 2008. The United Kingdom was one of the last major economies to emerge from recession, posting an anaemic 0.3% rebound in real GDP in the fourth quarter, but the protracted downturn in the industrial sector resulted in the economy declining by an annualized 4.8% in 2009, in contrast to a 0.5% expansion in 2008. In the euro zone, real output fell by 4.1% in 2009, relative to a 0.6% growth a year earlier; however, improvements in the dominant German and French economies in the latter half of the year resulted in the euro zone emerging from recession in the third quarter.

Labour markets weakened during 2009, as businesses reduced the size of their workforce to limit costs and sustain operations. In the United States, the unemployment rate rose by 2.6 percentage points to 10.0% in 2009, reflecting an additional 2.1 million job losses, mainly in the construction, manufacturing, and wholesale trade sectors. Similar deteriorating conditions elevated the euro area's unemployment rate, to 9.9% from 8.2% in 2008; and the United Kingdom's unemployment rate firmed by 1.6 percentage points to 7.8%. China's jobless rate steadied at an estimated 4.3%, as fiscal stimulus measures supported the creation of an estimated 10 million new jobs; while broad-based job losses in Japan resulted in a modest uptick in the jobless rate to 5.1%.

Generally subdued consumer spending contained inflationary pressures in 2009, despite some firming in oil prices. Higher fuel costs elevated the rate of increase in average consumer prices in the United States, to 2.7% from 0.1% in 2008. For the United Kingdom, average consumer prices firmed by 2.9%, compared to 3.1% a year earlier, and broad-based declines in transport and communication prices reduced the 12-month average rate of inflation in the euro area, by 3.0 percentage points to 0.3%. Deflation was the dominant theme among the major Asian economies, with consumer prices in China falling by an estimated 0.7% during 2009, and average consumer prices in Japan, by 1.7%.

Commodity prices rallied strongly in 2009. The cost of crude oil, which plummeted nearly 70% from its peak mid-2008 level to close 2008 at $39.53 per barrel, rebounded to $77.85 at end-December. Movements were largely influenced by signs of recovery in global demand, particularly in Asia, weakness in the US dollar, and production cuts implemented to equalize demand and supply conditions. Conversely, sluggish consumer demand was behind the 18.9% decline in non-fuel commodity prices, in contrast to a 7.5% advance in 2008. In the context of higher inflationary fears, interest rates and pent-up demand, mainly in Asia, gold attained record prices—firming by 24.4% to $1,096.95 per troy ounce in 2009. Silver prices also grew by 48.2% to $16.88 per troy ounce.

Monetary policy stances remained aggressively stimulative in most major economies, and global policymakers pledged their commitment to maintaining the supportive policies until a durable self-sustained recovery is secured.

In the United States, the Federal Reserve continued its efforts to improve the functioning of credit markets, by injecting liquidity into the system through the launch of various facilities, including the Term Asset-Backed Securities Loan Facility (TALF), and swap arrangements with several central banks. To support the nascent recovery, the Fed's main policy rate—the Fed funds rate—was left unchanged in the range of 0-0.25%. The Bank of England reduced its bank rate on three consecutive occasions during the first quarter, to a historic low, and agreed to purchase up to an estimated £200 billion in private sector and Government debt to support credit market activity by end-2009.

The European Central Bank (ECB) lowered its key marginal lending facility rate, by 1.25 percentage points to 1.75%, and its deposit facility rate, by 0.75 percentage points to 0.25%. In Japan, the uncollateralized overnight call rate was maintained at 0.1% throughout 2009, and the Bank implemented a number of initiatives to provide impetus to credit markets, including the purchase of corporate debt securities. The Peoples Bank of China, in conjunction with the Government, and through its public disclosures, encouraged financial institutions to target lending to strategic sectors of the economy, such as the relocation of industrial enterprises and agriculture.

In currency market developments, the US dollar strengthened during the final quarter of 2009, but finished the year lower vis-à-vis most major currencies, reflecting negative sentiments against the US economy and its mounting national debt and fiscal deficit. The dollar recorded its largest depreciation against the Canadian currency, at 13.7% to CDN$1.05; and fell by 9.5% relative to the pound sterling, to £0.62. Similarly, the dollar retreated against the Swiss Franc and the euro, by 3.2% and 2.5% to CHF1.04 and €0.70, respectively. In contrast, given the reliance of the major Asian economies on exports, the dollar advanced marginally by 0.02% to 6.83 Chinese Yuans and by 2.6% vis-à-vis the Japanese Yen to ¥93.07.

Global equity markets were highly volatile during 2009, although rebounding sharply from early losses, as investors focused on the anticipated economic recovery in 2010 and beyond, and better than expected corporate earnings. In the United States, the S&P 500 index surged by 23.5%, and the Dow Jones Industrial Average gained 18.8%. Among the European stock indices, the United Kingdom's FTSE 100, France's CAC 40 and Germany's DAX rallied by 22.1%, 22.3% and 23.9%, respectively. In Japan, the Nikkei 225 appreciated by 19.0%, while China's strong growth momentum underpinned an 80.0% boost in the Shanghia SE Composite Index.

Weakness in global demand conditions supported improvements in the external accounts of most major economies. For the United States, the deficit on the goods and services balance narrowed by almost 50% to $380.7 billion, as the 23.3% contraction in imports—mainly industrial supplies and capital goods—outstripped the 15.0% drop in exports. Similarly, the goods and services deficit in the United Kingdom narrowed by £4.4 billion to £33.8 billion, reflecting a fall-off in imports. China's current account surplus fell 35% to $284.1 billion in 2009, amid the collapse in global demand, which reduced exports; and Japan's current account surplus shrank 18.9% to ¥13.28 trillion, as the surplus in the income account was adversely impacted by lower global interest rates. In the euro zone, the balance on the goods account was reversed, to a surplus of €18.7 billion from a deficit of €53.1 billion, based on a 23.5% (€353.0 billion) reduction in imports, which outweighed a 19.5% (€281.2 billion) decline in exports.

The Central Bank of The Bahamas

FINANCIAL STATEMENTS

For The Year Ended December 31, 2009
And Independent Auditors' Report

BDO Bahamas
P O Box N 10144
Nassau, Bahamas

Deloitte & Touche
P O Box N 7120
Nassau, Bahamas

INDEPENDENT AUDITORS' REPORT

To the Directors of the Central Bank of The Bahamas:

Report on the financial statements

We have audited the financial statements of the Central Bank of The Bahamas (the "Bank") which comprise the statement of financial position as of December 31, 2009, and the related statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank for the year ended December 31, 2008, were audited by other auditors whose report dated April 19, 2010, expressed an unqualified opinion on those financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Central Bank of The Bahamas Act, 2000. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of The Bahamas as of December 31, 2009, 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.

Deloitte & Touche

Chartered Accountants
Nassau, Bahamas
19 April, 2010

BDO

Chartered Accountants
Nassau, Bahamas
19 April, 2010

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	Restated 2008	Restated January 1, 2008
ASSETS				
PROPERTY, PLANT AND EQUIPMENT	6	$ 12,846,047	$ 13,209,026	$ 14,565,722
EXTERNAL ASSETS	7			
Cash and deposits		225,889,428	205,828,879	59,540,754
Other deposits (maturing over 3 months)		45,039,869	-	-
Marketable securities issued or guaranteed by foreign governments	8	356,181,606	347,389,540	384,710,396
International Monetary Fund:				
Bahamas reserve tranche	9	9,814,181	9,643,124	9,893,418
Special drawing rights		179,009,638	66,569	90,099
		815,934,722	562,928,112	454,234,667
DOMESTIC ASSETS				
Bahamas Development Bank bonds	10	4,119,945	4,064,317	-
Advances to Bahamas Government	11	97,905,809	72,431,539	73,412,547
Bahamas Government registered stocks	12	105,802,118	126,274,640	134,282,446
Loans to Bahamas Development Bank	13	6,225,698	6,499,269	6,776,126
Bridge Authority bonds	14	809,289	794,090	770,903
Clifton Heritage Authority bonds	15	638,981	638,865	637,973
Bahamas Government Treasury bills	16	-	6,352,896	144,098,022
Currency inventory		10,254,646	7,166,972	3,668,532
Staff pension account	31	3,734,294	3,414,812	2,869,020
Receivables and other accounts		8,169,060	7,448,018	7,289,859
		237,659,840	235,085,418	373,805,428
TOTAL ASSETS		$ 1,066,440,609	$ 811,222,556	$ 842,605,817

(Continued)

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	Restated 2008	Restated January 1, 2008
LIABILITIES, EQUITY AND RESERVES				
DEMAND LIABILITIES				
Notes in circulation	17	$ 301,996,894	$ 305,961,648	$ 317,146,751
Coins in circulation		17,831,103	17,600,463	16,798,735
Deposits by commercial banks	18	374,673,465	321,378,833	339,096,999
Deposits by Bahamas Government and Bahamas Government agencies		36,566,946	14,517,803	26,041,541
Deposits by international agencies	19	247,277	358,537	426,966
Accounts payables and other accruals		2,501,680	2,586,852	4,274,800
Provision for Investment Currency Market		1,255,696	-	-
Provision for payment into the Consolidated Fund		6,118,113	6,118,113	-
		741,191,174	668,522,249	703,785,792
OTHER LIABILITIES				
International Monetary Fund allocation of special drawing rights	20	195,112,834	15,780,878	16,261,326
EQUITY AND RESERVES				
Authorized and fully paid capital		3,000,000	3,000,000	3,000,000
Exchange equalization account	21	(238,345)	(138,510)	(227,646)
Contingency reserve		750,000	750,000	750,000
Other reserves		9,799,944	9,799,944	9,799,944
Building fund	21	6,980,403	6,980,403	-
General reserve	21	109,844,599	106,527,592	109,236,401
		130,136,601	126,919,429	122,558,699
TOTAL LIABILITIES, EQUITY AND RESERVES		$ 1,066,440,609	$ 811,222,556	$ 842,605,817

See notes to financial statements. (Concluded)

The financial statements, as approved by the Board of Directors and authorized for issuance on April 19, 2010, are signed on its behalf by:

Governor

Director

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	Restated 2008
INCOME			
Interest on foreign investments	22	$ 14,505,036	$ 20,083,631
Interest on loans	22	1,270,883	772,965
Interest on domestic investments	22	7,601,243	8,972,384
Unrealized exchange (loss) gain	22	(99,835)	89,136
Interest expense		(214,965)	(413,607)
Other income	22	1,322,830	1,161,310
Total income		24,385,192	30,665,819
EXPENSES			
Staff costs	23	12,913,543	12,087,225
General and administrative	23	6,527,221	5,929,544
Depreciation	6	1,758,712	2,185,362
Total expenses		21,199,476	20,202,131
NET INCOME		3,185,716	10,463,688
OTHER COMPREHENSIVE INCOME			
Actuarial gains on defined benefit pension scheme	31	31,456	15,155
TOTAL COMPREHENSIVE INCOME		$ 3,217,172	$ 10,478,843

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CHANGES IN EQUITY AND RESERVES

YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Authorized and Fully Paid Capital	Exchange Equalization Account	Contingency Reserve	Other Reserves	Building Fund	General Reserve	Total
Balance at January 1, 2008 (as previously stated)	$ 3,000,000	$ (227,646)	$ 750,000	$ 9,799,944	$ -	$ 105,567,869	$118,890,167
Change in accounting policy (Note 5)	-	-	-	-	-	3,668,532	3,668,532
Balance at January 1, 2008 (restated)	3,000,000	(227,646)	750,000	9,799,944	-	109,236,401	122,558,699
Transfer to the Consolidated Fund	-	-	-	-	-	(6,118,113)	(6,118,113)
Transfer from General reserve to building fund	-	-	-	-	6,980,403	(6,980,403)	-
Transfer of unrealized exchange gain	-	89,136	-	-	-	(89,136)	-
Net income (restated)	-	-	-	-	-	10,463,688	10,463,688
Other comprehensive income Actuarial gains on defined benefit pension scheme	-	-	-	-	-	15,155	15,155
Balance at December 31, 2008 (restated)	3,000,000	(138,510)	750,000	9,799,944	6,980,403	106,527,592	126,919,429
Transfer of unrealized exchange loss	-	(99,835)	-	-	-	99,835	-
Net income	-	-	-	-	-	3,185,716	3,185,716
Other comprehensive income Actuarial gains on defined benefit pension scheme	-	-	-	-	-	31,456	31,456
Balance at December 31, 2009	$ 3,000,000	$ (238,345)	$ 750,000	$ 9,799,944	$6,980,403	$ 109,844,599	$130,136,601

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	Restated 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		$ 3,185,716	$ 10,463,688
Adjustments for non-cash items:			
Amortization of premiums on marketable securities	8	442,993	1,607,595
Depreciation	6	1,758,712	2,185,362
Interest income		(24,579,833)	(32,298,181)
Interest expense		214,965	413,607
Net cash used in operating activities before changes in operating assets and liabilities		(18,977,447)	(17,627,929)
(Increase) decrease in operating assets:			
Currency inventory		(3,087,674)	(3,498,440)
International Monetary Fund - special drawing rights		217,830	(206,624)
Receivables and other accounts		(1,096,433)	(708,729)
(Decrease) increase in operating liabilities:			
Notes in circulation		(3,964,754)	(11,185,103)
Coins in circulation		230,640	801,728
Deposits by commercial banks		53,294,632	(17,718,166)
Deposits by Bahamas Government and Bahamas Government agencies		22,049,143	(11,523,738)
Deposits by international agencies		(111,260)	(68,429)
Investment Currency Market provision		1,255,696	-
Payables and other accounts		(132,455)	(1,616,481)
Net cash from (used in) operating activities		49,677,918	(63,351,911)

(Continued)

See notes to financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

(Expressed in Bahamian dollars)

	Notes	2009	Restated 20008
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	8	$(186,544,380)	$ (35,883,088)
Proceeds from maturities/redemptions of marketable securities	8	176,481,305	71,500,000
Purchase of property, plant and equipment	6	(1,395,733)	(828,666)
Advances (made to) repaid by Bahamas Government	11	(25,000,000)	-
Purchase of Bridge Authority bonds	14	(14,900)	(22,300)
Purchases of Bahamas Government registered stocks	12	(17,693,900)	(3,307,400)
Proceeds from sales and maturities of Bahamas Government registered stocks	12	37,808,845	11,056,400
Repayments of loans by Bahamas Development Bank	13	325,000	275,000
Purchase of Clifton Heritage Authority bonds	15	-	(900)
Purchase of Bahamas Government Treasury bills	16	(162,200,384)	(296,535,817)
Proceeds from the sale and maturities of Bahamas Government Treasury bills	16	168,527,514	433,669,686
Purchase of Bahamas Development Bank bonds	10	-	(4,000,000)
Purchase of other deposits (maturing over 3 months)		(45,039,869)	-
Interest received		25,209,450	34,182,262
Net cash (used in) from investing activities		(29,537,052)	210,105,177
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interest paid		(167,682)	(485,074)
NET INCREASE IN CASH AND CASH EQUIVALENTS		19,973,184	146,268,192
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		206,020,094	59,751,902
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 225,993,278	$ 206,020,094
CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:			
Cash and deposits		$ 225,889,428	$ 205,828,879
Cash on hand (included in receivables and other accounts)		103,850	191,215
		$ 225,993,278	$ 206,020,094

(Concluded)

See notes to financial statements.

1. GENERAL INFORMATION

The Central Bank of The Bahamas (the "Bank") was established under the Central Bank of The Bahamas Act Chapter 321, and was continued under the Central Bank of The Bahamas Act, 2000 (the Act). Its main place of business is located at Frederick Street, Nassau, Bahamas. The Bank's principal business is the provision of central banking facilities for the Commonwealth of The Bahamas. In accordance with the Act, it is the duty of the Bank to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the Bahamian economy.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements, but that have had no effect on the amounts reported, are set out in section 2.2.

2.1 Standards affecting presentation and disclosure

IAS 1 Presentation of Financial Statements (revised 2007 and 2008).

IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IFRS 7 Financial Instruments: Disclosures (amended 2009).

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Bank has elected not to provide comparative information for these expanded disclosures in the current year, in accordance with the transitional reliefs offered in these amendments. The Standard enhances disclosures on fair value and liquidity risk.

2.2 STANDARDS AND INTERPRETATIONS ADOPTED WITH NO EFFECT ON FINANCIAL STATEMENTS

IAS 16	Property, Plant and Equipment - Amendments resulting from May 2008 Annual Improvements to IFRSs - May 2008	Annual periods beginning on or after January 1, 2009
IAS 19	Employee Benefits - Amendments resulting from May 2008 Annual Improvements to IFRSs - May 2008	Annual periods beginning on or after January 1, 2009
IAS 36	Impairment of Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs - May 2008	Annual periods beginning on or after January 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments resulting from May 2008 Annual Improvements to IFRSs - May 2008	Annual periods beginning on or after January 1, 2009

2.3 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

IFRS 9	Financial Instruments - November 2009	January 1, 2013
IAS 1	Presentation of Financial Statements - Amendments resulting from April 2009 Annual Improvements to IFRSs - April 2009	Annual periods beginning on or after January 1, 2010
IAS 7	Statement of Cash Flows - Amendments resulting from April 2009 Annual Improvements to IFRSs - April 2009	Annual periods beginning on or after January 1, 2010
IAS 17	Leases - Amendments resulting from April 2009 Annual Improvements to IFRSs - April 2009	Annual periods beginning on or after January 1, 2010
IAS 24	Related Party Disclosures - Revised definition of related parties - November 2009	Annual periods beginning on or after January 1, 2011
IAS 32	Financial Instruments: Presentation - Amendments relating to classification of rights issues - 2009	Annual periods beginning on or after February 1, 2010
IAS 36	Impairment of Assets - Amendments resulting from April 2009 Annual Improvements to IFRSs - April 2009	Annual periods beginning on or after January 1, 2010
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items - July 2008	Annual periods beginning on or after July 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for embedded derivatives when reclassifying financial instruments - March 2009	Annual periods ending on or after June 30, 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments resulting from April 2009 Annual Improvements to IFRSs - April 2009	Annual periods beginning on or after January 1, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

b. Basis of preparation

The financial statements have been prepared under the historical cost convention.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

i. Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

d. Leases

The Bank as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

e. Foreign currency translation

i. Functional currency and presentation currency

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

ii. Transactions and balances

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

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

f. Borrowing costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Retirement benefit plan

The Bank's retirement plan is a contributory defined benefit plan with participants being permanent employees who joined the Bank prior to age 55. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Bank's pension obligations and the fair value of the plan's assets are amortized over the expected average remaining working lives of the participating employees. Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. Contributions are made by employees at 5% and the difference by the Bank, which amounted to 8.2% (2008 restated:8.2%).

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

h. Fiduciary items

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

i. Property, plant and equipment

Property, plant and equipment 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 other operating expenses during the financial period in which they occur.

Depreciation is provided in equal annual installments so as to write off the cost of assets, other than land which is not depreciated, over their estimated useful lives. The following rates are used:

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in other operating expenses in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

k. Financial instruments

Financial assets and financial liabilities are recognized on the Bank's statement of financial position when the Bank has become a party to the contractual provisions of the instrument.

l. Financial assets

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

For those financial assets carried at fair value, they are ranked into Levels 1 to 3, based on the degree to which the fair value is observable:

Level 1 - Fair value measures are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Classification of financial assets

The Bank classifies its financial assets in the following categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Loans and receivables

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

Accounts set out below are classified as loans and receivables originated by the Bank and not held-for-trading. These amounts are stated at amortized cost, using the effective interest rate method less any provision for impairment.

- Advances to Bahamas Government
- Loans to Bahamas Development Bank
- Bahamas Government registered stocks
- Bahamas Development Bank bonds
- Bridge Authority bonds
- Bahamas Government Treasury bills

Section 29(1)(c) of the Act requires that the total amount of Government issued or guaranteed securities held at any time by the Bank, which mature beyond five years after their date of issue, shall not exceed 20% of the demand liabilities of the Bank. At the financial position date, such securities held by the Bank, which matured beyond five years after their date of issue, was approximately 15.08% (2008 restated: 19.88%) of demand liabilities, excluding provision of payment into the Consolidated Fund.

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, 2009 or 2008 restated.

ii. 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, and are stated at amortized cost, using the effective interest rate method. Such investments are subject to review for impairment.

Financial assets at amortized cost and the effective interest method

Debt instruments are measured at amortized cost, if both of the following conditions are met:

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

b. the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis in investment revenue.

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 on points 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.

m. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from date of acquisition and demand deposits.

n. Impairment of financial assets

Financial assets that are measured at amortized cost are assessed for indicators of impairment at the end of each reporting period.

The Bank assesses at each year end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment is decreased and the decrease is recognized in the statement of comprehensive income.

o. Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

p. Currency inventory

Banknotes and coins are recorded at cost upon receipt of stock and are placed into inventory. They are subsequently expensed when issued into circulation (see Note 5).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. 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.

r. Financial liabilities

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

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, where applicable. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

s. Derecognition of financial liabilities

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

t. Investment Currency Market provision

A provision account has been established to recognize the Banks' obligations to investors, who might redeem premiums paid upon repatriation of foreign currency previously purchased.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such accounting estimates and judgments are disclosed in Notes 2 (g), (j) and (n).

5. CHANGE IN ACCOUNTING POLICY

With respect to costs incurred in connection with the acquisition of notes and coins, the Bank changed its accounting policy from recognizing these costs in the period that notes and coins are purchased to a policy that recognizes them as an asset in the first instance and charging the statement of comprehensive income as the notes and coins are issued into circulation. Management is of the opinion that the newly adopted policy provides reliable and more relevant information, because it more appropriately allocates the costs to the periods benefited.

This change has been applied retrospectively. As a result, the following adjustments have been made to the 2008 financial statements:

As of January 1, 2008 restated:

- Increase in currency inventory: $3,668,532
- Increase in opening General reserve: $3,668,532

As of December 31, 2008 restated:

- Net increase in currency inventory: $3,498,440
- Net decrease in currency expense: $3,498,440

6. PROPERTY, PLANT AND EQUIPMENT

	Land $	Building and Renovations $	Office Equipment $	Computer Software $	Office Furniture and Fittings $	Other Fixed Assets $	Total $
COST							
As of January 1, 2009	2,452,938	12,650,562	10,340,938	6,855,075	3,406,046	383,507	36,089,066
Additions	-	117,925	448,898	713,175	115,735	-	1,395,733
As of December 31, 2009	2,452,938	12,768,487	10,789,836	7,568,250	3,521,781	383,507	37,484,799
ACCUMULATED DEPRECIATION							
As of January 1, 2009	-	5,108,237	7,802,367	6,545,655	3,082,965	340,816	22,880,040
Charge for the year	-	431,002	807,598	341,115	147,230	31,767	1,758,712
As of December 31, 2009	-	5,539,239	8,609,965	6,886,770	3,230,195	372,583	24,638,752
NET BOOK VALUE							
As of December 31, 2009	2,452,938	7,229,248	2,179,871	681,480	291,586	10,924	12,846,047
COST							
As of January 1, 2008 (restated)	2,452,938	12,442,248	10,116,131	6,734,705	3,317,490	498,658	35,562,170
Transfers in (out)*	-	150,657	(136,618)	15,698	85,414	(115,151)	-
Additions	-	57,657	663,195	104,672	3,142	-	828,666
Disposals	-	-	(301,770)	-	-	-	(301,770)
As of December 31, 2008 (restated)	2,452,938	12,650,562	10,340,938	6,855,075	3,406,046	383,507	36,089,066
ACCUMULATED DEPRECIATION							
As of January 1, 2008 (restated)	-	4,584,580	6,772,119	6,366,668	2,903,469	369,612	20,996,448
Transfers in (out)*	-	106,845	292,043	(371,068)	44,120	(71,940)	-
Charge for the year	-	416,812	1,039,975	550,055	135,376	43,144	2,185,362
Disposals	-	-	(301,770)	-	-	-	(301,770)
As of December 31, 2008 (restated)	-	5,108,237	7,802,367	6,545,655	3,082,965	340,816	22,880,040
NET BOOK VALUE							
As of December 31, 2008 (restated)	2,452,938	7,542,325	2,538,571	309,420	323,081	42,691	13,209,026

*Transfer of assets are reclassifications within the asset classes.

7. 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 approximately 111% (2008 restated: 84.98%) of such liabilities, excluding provision of payment into the Consolidated Fund.

8. 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, 2009, marketable securities held by the Bank, which mature after 5 years, constituted 22.24% (2008 restated:13.62%) of the Bank's external assets.

The movement in marketable securities is as follows:

	2009	Restated 2008
As at beginning of year	$ 343,307,401	$ 380,531,908
Purchases	186,544,380	35,883,088
Redemptions/maturities	(176,481,305)	(71,500,000)
Amortization of premium	(442,993)	(1,607,595)
End of year	352,927,483	343,307,401
Add: Accrued interest	3,254,123	4,082,139
Total	$ 356,181,606	$ 347,389,540

The fair value of these securities at the year end date was $356,847,794 (2008 restated: $359,421,252). These securities bear interest at rates varying between 1.88% and 6.50% (2008 restated: 2.50% and 6.50%).

9. INTERNATIONAL MONETARY FUND

Bahamas Tranche

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

	2009		Restated 2008	
	SDR (Millions)	$	SDR (Millions)	$
Quota	130	204,270,075	130	200,697,126
Subscription payments in promissory notes	(119)	(187,104,584)	(119)	(184,392,113)
Subscription payments in currency	(5)	(7,351,310)	(5)	(6,661,889)
Reserve tranche	6	9,814,181	6	9,643,124

9. INTERNATIONAL MONETARY FUND (Continued)

The reserve tranche was purchased from the Government of The Bahamas in 1976. Subsequent to that purchase, the Bank has funded 25% of each increase in the IMF subscriptions of The Bahamas by issuing interest-free promissory notes which are payable on demand. In the opinion of the Directors, it is not probable that an outflow of resources employing economic benefits will be required to settle these promissory notes, which total $67,184,256 (2008 restated: $55,513,853). Consequently, this amount is regarded as a contingent liability and is not recognized in the Bank's statement of financial position.

10. BAHAMAS DEVELOPMENT BANK BONDS

These bonds bear interest at the Bahamian prime rate of 5.5% (2008 restated: 5.5%).

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

	2009	Restated 2008
As at beginning of year	$ 4,000,000	$ -
Purchases	-	4,000,000
End of year	4,000,000	4,000,000
Add: Accrued interest	119,945	64,317
Total	$ 4,119,945	$ 4,064,317

11. 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 10.0% (2008 restated: 7.4%) of the lesser of such revenues.

Rate	2009	Restated 2008
0.00%	$ 37,018,608	$ 37,018,608
0.08%	5,969,000	5,969,000
1.09%	19,000,000	19,000,000
2.25%	10,000,000	10,000,000
2.69%	25,000,000	-
	$ 96,987,608	$ 71,987,608

11. ADVANCES TO BAHAMAS GOVERNMENT (Continued)

The advances are repayable on demand and the movements are as follows:

	2009	Restated 2008
As at beginning of year	$ 71,987,608	$ 71,987,608
Additions	25,000,000	-
End of year	96,987,608	71,987,608
Add: Accrued interest	918,201	443,931
Total	$ 97,905,809	$ 72,431,539

12. BAHAMAS GOVERNMENT REGISTERED STOCKS

The movement in Bahamas Government Registered Stock is as follows:

	2009	Restated 2008
As at beginning of year	$ 124,636,000	$ 132,385,000
Purchases	17,693,900	3,307,400
Redemptions/maturities	(37,808,845)	(11,056,400)
End of year	104,521,055	124,636,000
Add: Accrued interest	1,281,063	1,638,640
Total	$ 105,802,118	$ 126,274,640

Bahamas Government Registered Stock bear interest at rates ranging between 5.53% and 8.75% (2008 restated: 5.53% and 8.75%).

13. LOANS TO BAHAMAS DEVELOPMENT BANK

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

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

		2009		**Restated 2008**
As at beginning of year	$	6,475,000	$	6,750,000
Repayments		(325,000)		(275,000)
End of the year		6,150,000		6,475,000
Add: Accrued interest		75,698		24,269
Total	$	6,225,698	$	6,499,269

The loans bear interest at 2.00% (2008 restated: 2.00%) with $1,275,000 and $4,875,000 maturing on October 21, 2018 and October 28, 2024, respectively.

14. BRIDGE AUTHORITY BONDS

These bonds bear interest at rates ranging from 1.00% to 1.50% (2008 restated: 1.00% to 1.50%) per annum over the Bahamian prime rate. The actual rates ranged between 6.5% to 7.0% at December 31, 2009 and 2008.

The movement in the Bridge Authority bonds is as follows:

		2009		**Restated 2008**
As at beginning of year	$	780,100	$	757,800
Purchases		14,900		22,300
End of year		795,000		780,100
Add: Accrued interest		14,289		13,990
Total	$	809,289	$	794,090

15. CLIFTON HERITAGE AUTHORITY BONDS

The Bank is the registrar for the Clifton Heritage Authority bonds guaranteed by The Bahamas Government. The bonds, which mature on May 20, 2025, bear interest at 6%. The movement in the Clifton Heritage Authority bonds is as follows:

	2009	Restated 2008
As at beginning of year	$ 634,600	$ 633,700
Purchases	-	900
End of year	634,600	634,600
Add: Accrued interest	4,381	4,265
Total	$ 638,981	$ 638,865

16. BAHAMAS GOVERNMENT TREASURY BILLS

	2009	Restated 2008
As at beginning of year	$ 6,327,130	$ 143,460,999
Purchases	162,200,384	296,535,817
Redemptions/maturities	(168,527,514)	(433,669,686)
End of year	-	6,327,130
Add: Accrued interest	-	25,766
Total	$ -	$ 6,352,896

17. NOTES IN CIRCULATION

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

Notes	**2009**	**Restated 2008**
$ 0.50	$ 630,994	$ 628,089
$ 1.00	19,323,680	18,723,872
$ 3.00	1,799,001	1,744,323
$ 5.00	9,399,065	8,734,050
$ 10.00	13,613,610	13,778,100
$ 20.00	46,403,600	46,568,020
$ 50.00	85,682,200	86,049,650
$ 100.00	125,062,700	129,653,500
Other banknotes	82,044	82,044
	$ 301,996,894	$ 305,961,648

18. DEPOSITS BY COMMERCIAL BANKS

Deposits by commercial banks consist of 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.

19. DEPOSITS BY INTERNATIONAL AGENCIES

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

20. INTERNATIONAL MONETARY FUND ALLOCATION OF SPECIAL DRAWING RIGHTS

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. An additional allocation and a special allocation were granted in August and September of 2009, totalling SDR 114,183,351, bringing the total allocation to SDR 124,413,351 (2008 restated: SDR 10,230,000). The Special Drawing Rights allocation bore interest during the year at rates varying between 0.23% and 0.58% (2008 restated: 0.82% and 3.09%), include accrued interest of $71,203 (2008 restated: $23,920) and is repayable on demand.

21. EQUITY AND RESERVES

Capital management - The Bank's objectives when managing capital, which is a broader concept than 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements outlined in Sections 6 and 7 of the Act;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide central banking facilities for The Commonwealth of 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. Provision is made in Sections 6(1) and 6(2) of the Act for the paid up portion of the authorized capital of the Bank to be increased each year by an amount from the Consolidated Fund, at such times and in such amounts as the Board, with the approval of the Minister, may determine.

At December 31, 2009, the Bank's paid up capital was equal to the authorized capital of $3,000,000.

Exchange equalization account - Under the terms of Sections 32(2)(a) and 32(2)(b) of the Act, this account represents the net unrealized profits or losses arising from the revaluation of foreign currency assets and liabilities of the Bank at the statement of financial position date.

Building fund - Profit for the year ending December 31, 2008 of $6,980,403 before restatement, was transferred to a fund for construction of a building in the near future.

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

The balance of the General reserve at the year end amounted to $109,844,599 (2008 restated: $106,527,592) equivalent to 14.94% (2008 restated: 16.08%) of demand liabilities, excluding a provision of nil (2008 restated: $6,118,113) to be paid into the Consolidated Fund.

22. INCOME

	2009	Restated 2008
Interest on foreign investments		
Demand deposits	$ 43,494	$ 517,073
Fixed deposits	1,427,280	5,478,867
Marketable securities	13,034,262	14,085,608
Caribbean Development Bank bond	-	2,083
	14,505,036	20,083,631
Interest on loans		
Loans to Bahamas Development Bank	116,569	131,843
Government advances	913,073	438,802
Staff	241,241	202,320
	1,270,883	772,965
Interest on domestic investments		
Bahamas Development Bank bond	220,000	195,055
Bahamas Government Registered Stocks	6,746,080	7,417,143
Bridge Authority bonds	52,399	51,350
Local Treasury Bills	544,584	1,270,776
Clifton Heritage bonds.	38,180	38,060
	7,601,243	8,972,384
Unrealized exchange (loss) gain	(99,835)	89,136
Interest expense	(214,965)	(413,607)
Other income		
Bank statutory fines	71,357	68,641
Commission on foreign currency sales	699,801	624,695
Premium on Investment Currency Market	(11,626)	186,932
Other	563,298	281,042
	1,322,830	1,161,310
Total income	$ 24,385,192	$ 30,665,819

23. EXPENSES

	2009	Restated 2008
Staff costs		
Salaries and wages	$ 10,315,770	$ 9,860,894
Group insurance plan	1,041,296	960,503
Staff pension fund	503,534	226,584
Staff training	295,552	327,946
National Insurance	263,945	261,728
Responsibility allowance	194,375	101,094
Other	299,071	348,476
	$ 12,913,543	$ 12,087,225
General and administrative		
Currency (printing and shipping)	$ 1,105,572	$ 1,097,147
Professional fees	1,546,416	1,373,493
Utilities	844,805	1,044,027
Repairs and maintenance	678,101	477,538
Rent	493,494	448,773
Insurance	214,404	218,235
Stationery and office supplies	126,345	134,801
Subscription and membership fees	173,329	147,559
Directors' remuneration	38,750	33,750
Other	1,306,005	954,221
	$ 6,527,221	$ 5,929,544

24. THE DEPOSIT INSURANCE CORPORATION

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

In the opinion of the Directors, the Bank does not have the power to govern the financial and operating policies of the Deposit Insurance Corporation so as to attain benefits from its activities. Consequently, the Deposit Insurance Corporation is not treated as a subsidiary in these financial statements.

Additionally, the Directors do not consider that the investment in the Deposit Insurance Corporation will be recoverable, and consequently the Bank has made a full provision against this investment.

25. COMMITMENTS & CONTINGENCIES

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

2010	$ 515,593
2011	66,042
2012	66,042
More than 3 years	110,069
Total	$ 757,746

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 and financial position.

26. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities:

	2009	Restated 2008
EXTERNAL ASSETS		
Geographic Region		
North America	91.19%	88.72%
Europe	8.81%	11.02%
Other	0%	0.26%
Industry		
Financial Sector	100.00%	100.00%
OTHER ASSETS		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Government Sector	100.00%	100.00%
DEMAND LIABILITIES		
Geographic Region		
Bahamas	99.97%	99.95%
Other	0.03%	0.05%
Industry		
Financial Sector	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

27. RELATED-PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of The Bahamas corporations and agencies. However, transactions that the Bank has with such related entities are at amounts and terms established and agreed upon by the parties.

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

The Bank's senior officials are regarded to be its key management personnel.

The following balances and transactions relate to key management personnel:

a) Compensation

	2009	Restated 2008
Salaries and short-term employees benefits	$ 1,756,689	$ 1,473,656

b) Loans

	2009	Restated 2008
Beginning of the year	$ 783,624	$ 725,058
Advances during the year	40,948	286,933
Repayments during the year	(143,801)	(228,367)
End of the year	$ 680,771	$ 783,624

c) Post-employment pension and medical benefits

	2009	Restated 2008
Pension payments	$ 620,804	$ 673,783
Gratuity	94,522	67,551
End of the year	$ 715,326	$ 741,334

28. FIDUCIARY ITEMS

The Bank held, in a fiduciary capacity, assets consisting of bank accounts and liabilities of dormant retail customers of $54,190,908 (2008 restated: $47,060,395); these amounts are excluded from the statement of financial position.

Dormant retail customer accounts, which are received in foreign currencies, are invested in the same currency. These currencies are converted to Bahamian Dollars at the rate of exchange prevailing at the date of accepting their funds, and listed as a memorandum account in the trial balance. Foreign currency deposits are repaid by liquidating investments in the same currency, which does not involve currency conversion.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

With the exception of marketable securities, whose fair value is as stated in Note 8, the Directors consider that all of the Bank's financial assets and liabilities are carried at amounts approximating their fair value including financial assets classified as loans and receivables, with an aggregate carrying value of $211,391,870 (2008 restated: $216,416,751).

30. FINANCIAL RISK MANAGEMENT

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

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

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

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

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the statement of financial position date. Credit exposures arise principally in loans and advances, debt securities and other bills in the Bank's asset portfolio. The credit risk management, and control are monitored by the Investment Committee and regular reports to the Board of Directors.

The Directors do not consider that the Bank is exposed to any significant credit risk because its financial assets consist primarily of cash and securities issued or guaranteed by either foreign Governments or The Bahamas Government.

Market risk

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

30. FINANCIAL RISK MANAGEMENT (Continued)

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

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank's exposure to foreign exchange risk is largely limited, as fluctuations in the prevailing foreign currency exchange rates are transferred to the exchange equalization account in accordance with Sections 32(2)(a) and 32(2)(b) of the Act.

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 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 3.87% (2008 restated: 4.62%); however, if these securities had a reduced average yield of 2.99% (2008 restated: 3.17%), 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 $3,047,168 (2008 restated: $5,256,681). Had the yield been tilted towards the higher end of the spectrum, to 4.02% (2008 restated: 4.80%), income for the year and equity at year end would have increased by $539,345(2008 restated: $644,040).

At December 31, 2009, should interest rates have risen by 75 basis points, with all other variables remaining constant, the increase in equity and net income for the year would amount to approximately $1,983,991, arising from funds placed on cash and deposits (2008 restated: $1,159,837). If interest rates had decreased by 75 basis points, the decrease in equity and net income for the year would amount to approximately $1,983,991 (2008 restated: $1,159,837).

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.

30. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk management process

The Bank's liquidity 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 regulatory requirements; and
- managing the concentration and profile of debt and financial instrument maturities.

The table below analyses financial assets and liabilities of the Bank into relevant maturity rankings, based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts in the table are the undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Up to 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
As of December 31, 2009						
Period of maturity						
Financial Assets						
Cash and deposits	$ 60,741,343	$ 165,148,085	$ -	$ -	$ -	$225,889,428
Other deposits (maturing over 3 months)	-	-	45,039,869	-	-	45,039,869
Marketable securities issued or guaranteed by foreign gov'ts	10,167,153	5,122,778	20,112,292	139,315,501	181,463,882	356,181,606
International Monetary Fund:						
Bahamas reserve tranche	9,814,181	-	-	-	-	9,814,181
Special drawing rights	179,009,638	-	-	-	-	179,009,638
Bahamas Development Bank bond	-	-	-	-	4,119,945	4,119,945
Advances to Bahamas Gov't	97,905,809	-	-	-	-	97,905,809
Bahamas Gov't registered stocks	-	409	7,120	201,053	105,593,536	105,802,118
Loans to Bahamas Development Bank	-	-	-	-	6,225,698	6,225,698
Bridge Authority bonds	-	-	-	403,420	405,869	809,289
Clifton Heritage Authority bonds	-	-	-	-	638,981	638,981
Staff pension fund	-	-	-	-	3,734,294	3,734,294
Receivables and other accounts	6,888,730	-	-	-	1,280,330	8,169,060
Total financial assets	364,526,854	170,271,272	65,159,281	139,919,974	303,462,535	1,043,339,916

30. FINANCIAL RISK MANAGEMENT (Continued)

	Up to 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
As of December 31, 2009						
Period of maturity						
Liabilities						
Notes in circulation	$ 301,996,894	$ -	$ -	$ -	$ -	$ 301,996,894
Coins in circulation	17,831,103	-	-	-	-	17,831,103
Deposits by commercial banks	374,673,465	-	-	-	-	374,673,465
Deposits by Bahamas Gov't and Bahamas Gov't agencies	36,566,946	-	-	-	-	36,566,946
Deposits by international agencies	247,277	-	-	-	-	247,277
Payables and other accounts	2,501,680	-	-	-	-	2,501,680
Provision for Investment Currency Market	1,255,696	-	-	-	-	1,255,696
International Monetary Fund allocation	195,112,834	-	-	-	-	195,112,834
Total financial liabilities	930,185,895	-	-	-	-	930,185,895
Net liquidity gap, December 31, 2009	$(565,659,041)	$ 170,271,272	$ 65,159,281	$ 174,589,766	$ 268,792,743	$ 113,154,021

30. FINANCIAL RISK MANAGEMENT (Continued)

	Up to 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
As of December 31, 2008 (restated)						
Period of maturity						
Financial Assets						
Cash and deposits	$105,665,945	$ 100,162,934	$ -	$ -	$ -	$205,828,879
Marketable securities issued or guaranteed by foreign gov'ts	5,075,521	25,232,174	148,275,306	92,109,068	76,697,471	347,389,540
International Monetary Fund:						
Bahamas reserve tranche	9,643,124	-	-	-	-	9,643,124
Special drawing rights	66,569	-	-	-	-	66,569
Bahamas Development Bank bonds	-	-	-	-	4,064,317	4,064,317
Advances to Bahamas Gov't	72,431,539	-	-	-	-	72,431,539
Bahamas Gov't registered stocks			101	63,584	126,210,955	126,274,640
Loans to Bahamas Development Bank	-	-	-	125,469	6,373,800	6,499,269
Bridge Authority bonds	-	-	-	-	794,090	794,090
Clifton Heritage Authority bonds	-	-	-	-	638,865	638,865
Bahamas Gov't Treasury bills	-	6,352,896	-	-	-	6,352,896
Staff pension fund					3,414,812	3,414,812
Receivables and other accounts	6,657,937	-	-	-	790,081	7,448,018
Total financial assets	199,540,635	131,748,004	148,275,407	92,298,121	218,984,391	790,846,558

30. FINANCIAL RISK MANAGEMENT (Concluded)

	Up to 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
As of December 31, 2008 (restated)						
Period of maturity						
Liabilities						
Notes in circulation	$305,961,648	$ -	$ -	$ -	$ -	$305,961,648
Coins in circulation	17,600,463	-	-	-	-	17,600,463
Deposits by commercial banks	321,378,833	-	-	-	-	321,378,833
Deposits by Bahamas Gov't and Bahamas Gov't agencies	14,517,803	-	-	-	-	14,517,803
Deposits by international agencies	358,537	-	-	-	-	358,537
Payables and other accounts	2,586,852	-	-	-	-	2,586,852
International Monetary Fund allocation	15,780,878	-	-	-	-	15,780,878
Total financial liabilities	678,617,497	-	-	-	-	678,617,497
Net liquidity gap, December 31, 2008 (restated)	$ (478,644,379)	$ 131,748,004	$148,275,407	$ 92,298,121	$218,984,391	$112,661,544

31. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN

The changes in the Present Value of the Obligation and in Fair Value of Plan Assets are as follows:

	2009	Restated 2008
Present value of obligation at start of year	$ 31,734,047	$ 29,949,990
Interest cost	1,945,170	1,812,940
Current Service Cost	1,308,411	1,317,278
Past Service Cost - non-vested benefits	-	-
Past Service Cost - vested benefits	-	-
Benefits paid	(1,245,913)	(785,910)
Actuarial (gain) loss on obligation	2,727,126	(560,251)
Present value of obligation at end of year	$ 36,468,841	$ 31,734,047
Fair value of plan assets at start of year	$ 39,592,536	36,976,991
Expected return on plan assets	2,469,114	2,411,059
Contributions - both employees' and employer's & VC	1,072,493	1,018,358
Benefits paid	(1,245,913)	(785,910)
Actuarial (gain) loss on plan assets	36,906	(27,962)
Fair value of plan assets at end of year	$ 41,925,136	$ 39,592,536

The actuarial loss at December 31, 2009 represented 7.48% (2008 gain: 1.77%) of the plan liabilities; and the actuarial gain (2008 restated: loss) was 0.08% (2008 restated: 0.07%) of the plan assets.

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

	2009	Restated 2008
Present value of funded obligations	$ (36,468,841)	$ (31,734,047)
Fair value of plan assets	41,925,136	39,592,536
	5,456,295	7,858,489
Unrecognized actuarial gains	(1,722,001)	(4,443,677)
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	$ 3,734,294	$ 3,414,812

31. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN (Continued)

Summary of plan investments, in accordance with IAS19:

	2009	Restated 2008
Bahamas Government registered stock	$ 40,566,600	$ 38,299,300
Other bonds	472,000	312,200
Shares	300,000	450,000
Total investments	$ 41,338,600	$ 39,061,500

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

	2009	Restated 2008
Current service cost	$ 911,500	$ 941,306
Interest cost	1,945,170	1,812,940
Expected return on plan assets	(2,469,114)	(2,411,059)
Net actuarial (gain) recognised in year	(31,456)	(15,155)
	$ 356,100	$ 328,032

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

	2009	Restated 2008
Net assets at beginning of year	$ 3,414,812	$ 3,100,458
Net expense recognized in the income statement	(356,100)	(328,032)
Employer contributions	675,582	642,386
	$ 3,734,294	$ 3,414,812

31. CONTRIBUTORY DEFINED RETIREMENT BENEFIT PLAN (Continued)

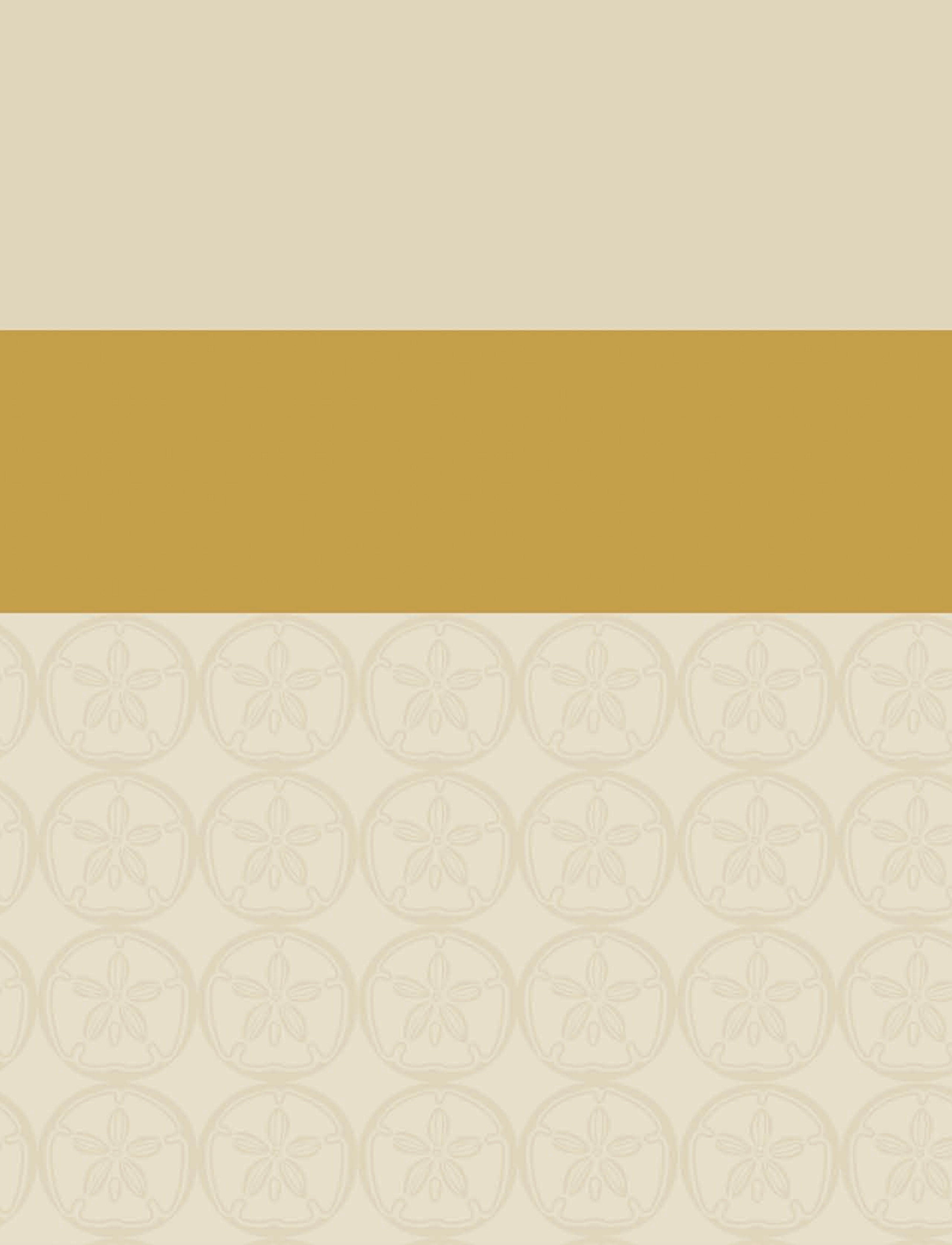
The Bank intends to contribute approximately 10.0% of gross payroll to the plan during 2010 (2009: actual 8.5%). Principal actuarial assumptions used at the statement of financial position date are as follows:

	2009	Restated 2008
Discount rate	5.75%	6.00%
Expected return on plan assets	6.25%	6.25%
Expected rate of salary increase at age 18	6.75%	6.75%
Expected rate of salary increase at age 59	3.00%	3.00%
Average expected remaining working lives of employees (years)	15.1	15.4

The actual return on plan assets during the year was $2,506,020 (2008 restated: $2,383,097). The expected return on plan assets has been arrived at using a weighted average return approach.

32. CORRESPONDING FIGURES

The corresponding figures disclosed in Note 30 for liquidity risk have been restated to replace the presentation of maturity schedules for Notes 8, 10, 11, 12 and 13. This change does not have any financial impact on the financial statements.



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