2019

CENTRAL BANK OF THE BAHAMAS

ANNUAL REPORT

& Statement of Accounts
For the Year Ended
December 31, 2019

MISSION

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

VISION

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

VALUES

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

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

April 27, 2020

Dear Deputy 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 2019. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

John A. Rolle
Governor

The Hon. K. Peter Turnquest
Deputy Prime Minister & Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

ABOUT THE BANK

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

MONETARY POLICY

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

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

PUBLIC DEBT & SINKING FUND MANAGEMENT

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

PAYMENTS

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

CURRENCY

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

FINANCIAL STABILITY

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

CONTENTS

FOREWORD

The performance of the Bahamian economy was modestly positive in 2019, supported by expansionary impulses from tourism and foreign direct investments. However, the passage of Hurricane Dorian in September left the Abaco market temporarily offline and Grand Bahama with weather-related loss of hotel capacity. Monetary and credit trends were dominated by the receipt of re-insurance inflows which, along with net tourism receipts, contributed to robust growth in bank liquidity and external reserves. Further, credit quality metrics showed ongoing improvement, as banks sustained their restructuring efforts, supplemented by hurricane relief measures and loan write-offs.

In terms of the fiscal outturn, the deficit narrowed for FY2018/19, attributed to a VAT-led increase in aggregate revenue. However, in the aftermath of the storm, during the first half of FY2019/20, the deficit widened, as unplanned spending related to the rebuilding of key infrastructure and social assistance resulted in a rise in expenditure.

Foreign reserves, the main target of monetary policy, remained at robust levels throughout 2019. The Bank's Monetary Policy Committee (MPC) therefore supported continued policy accommodation; and temporary relaxation of lending guidelines for households and businesses on islands damaged by the storm. Private sector credit trends nevertheless remained subdued, reflecting banks' conservative lending posture and consumers' efforts to deleverage.

There was also scope in 2019 to remove exchange control approval requirements from residential real estate transactions involving non-residents. These are not assessed to pose any material net outflow for the country. Rather, the opportunity exists to make these activities more investor friendly.

The MPC also continued to monitor the elevated liquidity levels in the banking system, with a focus on absorbing some of the excess through sales of the Bank's holdings of Government debt. Against this backdrop, in 2019, the Bank also advanced the Bahamas Government Central Securities Depository (CSD) initiative, as part of a modernisation project to integrate these bond market operations into the Bahamas International Securities Exchange (BISX) trading platform.

The Bank remained committed to its supervisory and regulatory agenda in 2019, employing risk-based supervision, with widening focus on non-bank entities. Supervisory capacity strengthened for anti-money laundering (AML)/counter financing of terrorism (CFT) and other financial crimes risks, with greater emphasis on identifying trends and emerging risks. The Bank also introduced an engagement and communication strategy, to sustain correspondent banking relationships, releasing an inaugural newsletter to keep correspondents informed of The Bahamas' AML efforts.

The Bahamas' second Financial Sector Assessment Programme (FSAP) mission, led by the IMF, was conducted in January 2019. The assessment, consisted of a series of comprehensive reviews of the main components of the financial sector, predominantly banking, and to a lesser extent, the insurance and securities activities. It concluded that there were no threats to the stability of the Bahamian financial sector. The FSAP report also acknowledged the many strategic initiatives undertaken since the 2012 Mission, which helped to strengthen the overall regulatory and supervisory framework for the banking and trust sectors.

The Bahamas is in the lead among countries around the world to develop and issue a Central Bank digital currency (CBDC) for general or retail use. Under the caption, Project Sand Dollar, the pilot was launched in Exuma in December, extending to Abaco in February 2020. This initiative is expected to provide the country with a modernized, interoperable payments infrastructure, accessible to all residents. In addition to the targeted full integration of micro, small and medium-sized businesses into the digital payments ecosystem, it will also enable universal access to banking services; help to reduce unrecorded economic activities; and help suppress money laundering and other illicit activities more easily perpetrated with cash.

The Bank concluded the licensing process for the first credit bureau operator for The Bahamas in December 2019. This positions the jurisdiction to strengthen the information quality upon which lending decisions are made and, in the process, increase the overall ease of access to credit.

Other notable milestones in 2019 included continued upgrade of the security and durability features of Bahamian banknotes; added progress on modernising the information technology environment and stronger staff engagement on information security awareness and practices.

The Bank's most valuable assets are its staff. Our strategic objectives could not have been advanced without their consistent hard work and dedication. As colleagues, I would like to thank them and the Board of Directors for their cooperation and support. I also look forward to their continued commitment in the future.

Governor

DIRECTORS AND SENIOR OFFICIALS

AT DECEMBER 31, 2019

DIRECTORS Pictured from left: Mr. Robert Adams; Mr. Russell Miller; Mr. John A. Rolle, Chairman; Mr. Thomas Dean; Mr. Derek Rolle, Deputy Governor.

SENIOR OFFICIALS

Pictured standing from left: Dr. Allan S. Wright, Manager, Research; Mr. Errol L. Bodie, Manager, Information Technology; Mr. Ian B. Fernander, Manager, Capital Development; Mr. Jermaine H. Campbell, Manager, Currency; Ms. Karen V. Rolle, Deputy Inspector, Banking Supervision; Mr. Keith T. Jones, Manager, Finance; Mr. Ricardo H. Barry, Manager, Facilities Services. Seated from left: Mr. Gevon R. Moss, Manager, Human Resources; Mrs. Cleopatra B. Davis, Manager, Banking; Mr. John A. Rolle, Governor; Mr. Derek S. Rolle, Deputy Governor; Mrs. Rochelle A. Deleveaux-McKinney, Legal Counsel & Board Secretary. Inset: Mr. Charles W. Littrell, Inspector, Banking Supervision; Mrs. Tamieka V. Watson, Manager, Exchange Control; Mrs. Nakeisha S. Burrows, Manager, Internal Audit.

2019 AT A GLANCE

- Indications are that the domestic economy registered a modest growth in 2019, following a gain of 1.6% in 2018, despite disruptions from the passage of Hurricane Dorian in the latter half of the year. The outturn was sustained by growth in the tourism sector and positive contributions from construction, which benefitted from several varied-scaled foreign investment-led projects and rebuilding activities after the hurricane.
- Domestic inflation remained relatively contained, although a hike in the value added tax (VAT) rate in earlier periods and the uptick in global oil prices contributed to some firming.
- The jobless rate in New Providence fell to 10.7% in the 12-months to November, 2019 from 11.0% in the prior year. Hurricane-induced dislocation and labour migration invalidated comparative assessments for Abaco and Grand Bahama.
- The fiscal deficit to GDP ratio reduced to an estimated 1.7% in FY2018/19 from 3.4% in FY2017/18, supported by a VAT-led growth in aggregate revenue, which outperformed the rise in total expenditure.
- At end-December, the Government's Direct Charge to GDP ratio firmed to 61.1% from 60.4% in 2018. The National Debt to GDP ratio increased during 2019 by 0.4 percentage points to an estimated 66.8%.
- External reserves expanded by $561.8 million to $1,758.1 million during the year, given re-insurance inflows and net tourism contributions. The import cover ratio firmed to 37.9 weeks, from 22.3 weeks in 2018—exceeding the 12 weeks benchmark.
- The Central Bank launched, Project Sand Dollar, the digital currency pilot, in Exuma on the 27th December, 2019.
- The Bank continued with its exchange control liberalization efforts, announcing the relaxation of controls on non-residents' purchases and sales of residential real estate.
- In January 2019, the Bank coordinated the IMF's second Financial Sector Assessment Programme (FSAP) mission to The Bahamas, which confirmed the stability of the Bahamian financial sector and provided further recommendations to strengthen the regulatory framework.
- On the 7th December, 2019, the Bank issued a credit bureau license to CRIF Information Services Bahamas Limited.

STRATEGIC FOCUS FOR 2020

IMPROVE THE MONETARY POLICY FRAMEWORK

- Expand the Bank's economic forecasting capacity through recruiting and training new staff, and upgrading of existing competencies.
- Promote continued, targeted liberalization of exchange control measures, while maintaining foreign exchange market and exchange rate stability.
- Strengthen economic surveillance systems, including compilation and dissemination of international transactions data and macro-prudential indicators.

STRENGTHEN SUPERVISORY AND REGULATORY SYSTEMS

- Continue to upgrade the risk-based supervisory framework (Basel III) for banks and trust companies; and strengthen prudential oversight systems for domestic credit unions.
- Improve oversight frameworks for the assessment and suppression of risks related to money laundering, terrorism financing, proliferation and other financial crimes; ensure internationally compliant systems within supervised financial institutions for such ends; and enhance the Bank's contribution to national initiatives to defend against such risks.
- Mitigate and diffuse the financial effects of de-risking by correspondent banks through the promotion of financial inclusion of persons and legal activities.
- Continue to advance legal reform proposals for Government's consideration to strengthen the protection of depositor provisions and the financial sector crisis management framework.

PROMOTE PAYMENTS SYSTEM AND FINANCIAL MARKETS INFRASTRUCTURE DEVELOPMENT

- Continue with payments system modernization initiatives to provide inclusive access to electronic payments capabilities throughout The Bahamas; advance the development of the central bank digital currency, inclusive of supporting policy frameworks.
- Continue to advance the modernization of the Government bond market infrastructure through establishment of the securities depository, with integration of the framework with the domestic stock exchange; support preparatory efforts to list and trade Government domestic debt on the stock exchange.

STRENGTHEN EXTERNAL RELATIONS, PUBLIC EDUCATION AND FINANCIAL INCLUSION EFFORTS

- Build public relations capacity through social media presence and regular policy dialogue with the public, promoting greater transparency and understanding of monetary and financial sector policies.
- Maintain financial literacy and public education campaigns, drawing on international best practices.

ENHANCE OPERATIONAL EFFICIENCY AND CORPORATE GOVERNANCE

- Continue to leverage increased use of technology and automation in the Bank's operations; strengthen workplace information security practices and standards.
- Strengthen the Bank's disaster recovery and business continuity systems.
- Enhance internal support structures for Board oversight of the Bank's policies and operations.
- Conclude legal proposals on enhancing public transparency and accountability with the Bank's operations.

POLICY ADVISORY CAPACITY

- Develop domestic policy proposals on consumer financial protection, literacy and financial inclusion; advance efforts to establish an office of financial sector ombudsman.
- Improve the technical framework for fiscal policy advice, including public debt management.

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

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

BOARD OF DIRECTORS

The Board of Directors exercises overall oversight of the Bank's management and operations, inclusive of strategic planning, financial and accounting practices and procedures, risk management and succession planning. The Board establishes policies that govern these activities.

Appointed by the Governor General, on the advice of the Minister of Finance, the Board is comprised of the Governor (Chair) and up to four independent directors. During 2019, the Bank welcomed new Director Mr. Russell Miller whose appointment took effect from 1st July, 2019. Mr. Robert Adams and Mr. Thomas Dean, were re-appointed to serve as Directors with effect from 1st July 2019. The Bank also bade farewell to Mr. L. Edgar Moxey whose tenure ended on 30th June, 2019. The Bank wishes to thank Mr. Moxey for his valuable contribution to the deliberations of the Board.

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

There is statutory provision for the appointment of two Deputy Governors, who may attend Board meetings, but are only eligible to vote in cases where—in the absence of the Governor—he or she chairs the Board meeting. Currently, only one Deputy Governor has been appointed.

The Board met on twelve occasions in 2019. In addition to oversight on ongoing procurement activities and operations policies, the Board had regular discussions on domestic and international economic and financial conditions, their implications for the external reserves; Management's progress on the Bank's Strategic Plan; the evolving state of international correspondent banking relationships; as well as supervision and oversight of The Bahamas' anti-money laundering and countering the financing of terrorism frameworks. The Board also monitored developments on the Bank's regulatory reform agenda.

ACCOUNTABILITY & TRANSPARENCY

The Bank is mandated by statute and best practices to maintain a high degree of transparency and accountability in its operations. In furtherance of these obligations, the Bank furnished the Minister of Finance with a report of its activities for 2019, which was subsequently laid before Parliament. Monthly balance sheet information was also provided to the Minister and published in the Gazette.

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

Information on domestic, economic and financial developments was published in the Bank's Monthly Economic and Financial Developments (MEFD) reports, Quarterly Economic Reviews (QER) and Quarterly Statistical Digests (QSD). These publications, along with other public communications were disseminated via the Bank's website.

During the year, the Governor and senior officers of the Bank gave official speeches on various topics, including domestic economic conditions and prospects, developments in the regulatory and supervisory space, exchange control liberalization measures, and updates on the Bank's strategic projects.

RISK MANAGEMENT

The Bank's approach to risk management is governed by internationally established standards, sound central banking principles and a robust governance structure.

Internal Audit

As a part of the Bank's risk management structure, the Internal Audit (IA) Unit supports both the Audit Committee of the Board of Directors and Management, evaluating the adequacy and effectiveness of the Bank's system of internal controls, risk management and governance processes. The operations of IA are steered by a Board-approved Internal Audit Charter and a risk-driven Annual Audit Plan. To maintain independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

The IA Unit, as part of its 2019 work programme, completed and issued internal audit and special project reports, which focused on strengthening several of the Bank's critical processes. The Unit examined the Bank's core operations, support activities, and internal programmes aimed at supporting and sustaining sound governance. These reviews serve to mitigate risks inherent in the business; enhance existing internal controls; and strengthen operational effectiveness and efficiency.

The IA Unit also continued to support various working committees of the Bank, geared toward encouraging and sustaining a strong internal control and compliance environment.

Information Security

The Bank has continued to address data protection, cyber security and other risks related to the security of information assets.

Toward this end, the Information Security Unit (ISU) remained focused on developing an information security program aligned with the strategic direction of the Bank and global best practices. This includes work to establish a Cybersecurity Operations Centre (CSOC) for continuous monitoring of information technology (IT) systems, scheduled for inauguration in 2020. The ISU also concentrated on further development of security policies to support the Bank's IT modernization strategy, preparing for and conducting security risk assessments, and strengthening the incident response management process. Further, critical emphasis remained on procuring the attestations that the security posture for key operating systems were maintained in compliance with agreed external stakeholder requirements for payments and financial transactions.

The Bank continued to improve and mature its vulnerability management and security events management process; strengthen its security posture around critical IT infrastructure and applications, high-risk users and data loss prevention.

Staff training and awareness are mandatory for some components of the information security programme. This training makes use of both virtual instructions and in-house seminars and lectures, to heighten awareness to cybersecurity risks and to promote conscious security practices. In this regard, the Bank hosted its sixth annual Information Security Awareness Month and Fair in June 2019, which also exposed students and members of the public to information security principles.

BANKING OPERATIONS

Currency Operations

The Bank is responsible for the design and issuance of Bahamian banknotes, coins and numismatic products, and upholding public confidence in the integrity of the process.

The Bank continued to release new designs in the family of Counterfeit Resistant Integrated Security Product (CRISP) Evolution (CE) banknotes into circulation. The CE $1/2 and CE $3 were released during the first quarter of 2019; and the CE $50, in October 2019. Production of the $50 bill incorporated security enhancements and substrate durability features from a collaborative

Table 1: Bank Note Security Tiers

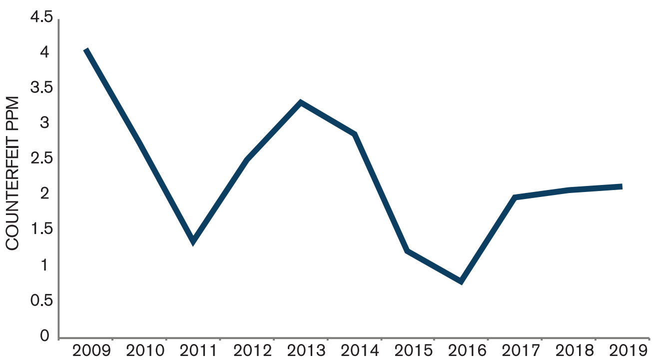
Denomination	Public Consumption
$1/2, $3	Novelty
$1, $5	Low Value
$10, $20	Transactional
$50, $100	Value Storage

Source: Central Bank of The Bahamas

manufacturing across several currency note producers. Remaining denominations in the family, the CE $5 is scheduled for a third quarter 2020 release, and the CE $100, for 2021.

In the area of anti-counterfeit training and awareness, the Bank complemented its workshops with online tools to build private sector capacity on the authentication of Bahamian banknotes. Targeted workshops were facilitated for large merchants, retailers and commercial banks. Such training has assisted in maintaining relatively low incidences of counterfeit banknotes, at 2.135 parts per million (ppm) in 2019.

Counterfeit Parts per Million (PPM) Notes in Circulation 2009 - 2019



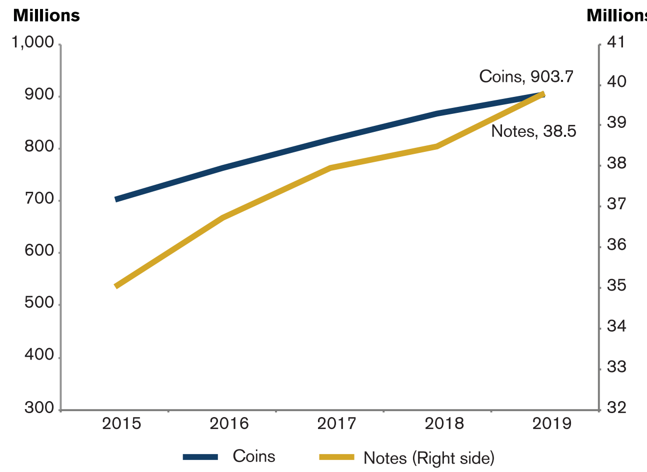
The Bank began an aggressive marketing campaign for the pending demonetisation of the one cent (1¢) coin, scheduled for end-2020. At the end of 2019, the 1¢ coin accounted for 80.0% of coins in circulation (720 million pieces). The policy to demonetize the penny follows after steady decline in the purchasing value of the coin and increased cost of production. The Bank estimates that annual savings from its elimination will approach $0.5 million. Public education focuses on the timeline for redemption of coins in circulation, and the rules on rounding of totals for point of sales transactions settled with cash. Check and electronic payments would not be subject to rounding.

By value, the highest value of coins in circulation at end 2019 was the 25¢ piece (39.0% of the value), followed by the 1¢ piece (24.0%), the 10¢ piece (23.0%) and the 5¢ piece (11.0%). Although having circulation use, the 15¢ piece (1.0% of value) is also attractive as a tourist souvenir piece. While there was a heightened issuance of 1¢ coins, this tapered in the final months. Similarly, the Bank continued to see a general rise in the demand for circulation coins and expects this trend to persist in 2020.

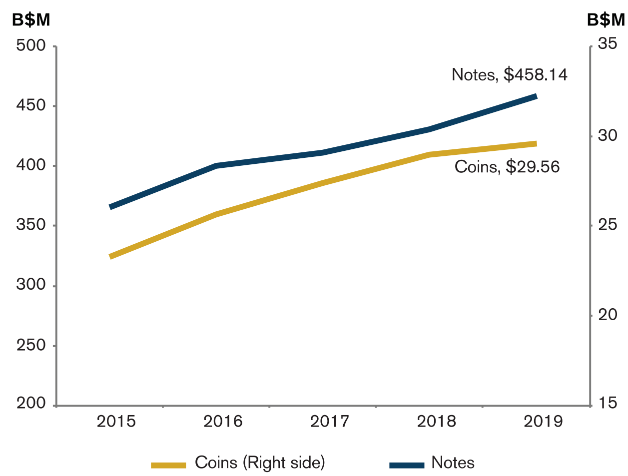
As for banknotes, the $1 accounted for 63.0% of instruments in circulation. By value, however, the $100 and $50 bills accounted for approximately 75.0% of circulating liabilities.

During 2019, there was an increase of 2.0% and 7.0%, respectively, in the total volume and value of banknotes and coins issued, when compared to 2018. Total $1 banknotes issued decreased by 12.0%, while new issues for this denomination rose by almost 50.0%, year over year. In the case of the $50 banknotes, total issuance increased by 10.0% and new banknotes issued were higher by almost 133.0%. The overall decline in the issuance of $1 banknotes could be attributed to substrate change, which now has this denomination lasting longer in circulation, while changes in commercial banks' operating processes; which integrate higher denominations, accounts for the increase in the $50 issuance.

Quantity of Notes and Coins in Circulation



Value of Notes and Coins in Circulation



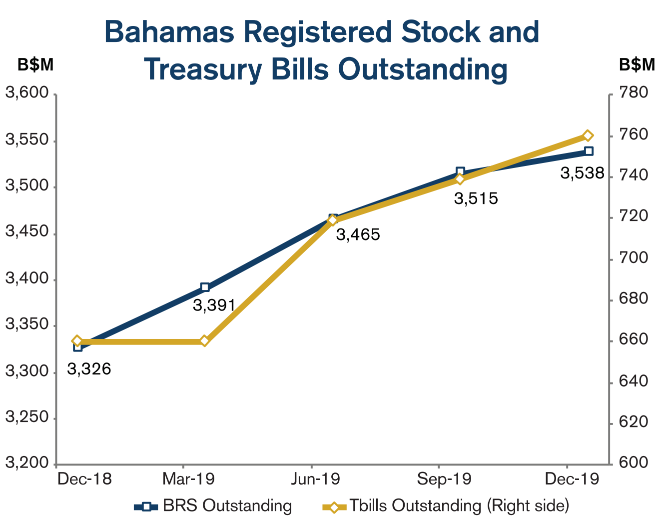
The Bank continued to grow the numismatic programme. Highlights included the December 2019 releases of the 2019 Bahamas Conch Shell $250, 1.1 ounce gold proof coin and the $100 Atlantic Marlin, ¼ ounce gold proof coin. Both coins were produced by the Royal Mint, England, in limited mintages of 100 pieces. The Bank also tendered for minting of the 2020 gold proof and silver proof coins, which were scheduled for second and fourth quarter releases, respectively.

During the year, an arrangement was finalized with the United States Federal Reserve Bank to import and subsequently supply US dollar banknotes to commercial banks. The programme commenced in December 2019 and was established to offset currency supplies previously imported through correspondent banking arrangements. Such services have been withdrawn from banks throughout the Caribbean and the Americas.

Public Debt Administration (Domestic)

The Central Bank continued to act as registrar and transfer agent for Government and public corporations' domestic debt securities. The corporations' outstanding debt balances, with the exception of The Bridge Authority (TBA), remained constant during 2019, as there were no maturities. The Bridge Authority outstanding debt securities decreased to $22.0 million, following a $7.0 million maturity. Year-end liabilities remained at $62.0 million for the Educational Loan Authority (ELA); $24.0 million for the Clifton Heritage Authority (CHA); $41.0 million for the Bahamas Development Bank (BDB) and $160.0 million for the Bahamas Mortgage Corporation (BMC).

In line with the establishment of the Bahamas Registered Stocks (BRS) initial public offering (IPO) calendar, in 2019, the Bank and the Ministry of Finance agreed on the refinancing approach for Government debt obligations for the 2019/20 fiscal year maturities. In this context, the Bank facilitated 13 BRS IPOs totalling $551.6 million. Proceeds from these offerings settled $390.4 million in bond maturities. Alongside deficit financing needs, outstanding balances also rose by $212.0 million to $3.5 billion.



Outstanding Treasury bills (T-bills) increased further by $100.0 million (15.2%) to $760.0 million in 2019, as two taps or net issuances were facilitated during June and October.

T-bill yields converged slightly over the year. The 91-day yield rose by 16 basis points to 1.70%, whereas the 182-day rate decreased by 8 basis points to 1.82%.

The market's demand, in the form of subscriptions to medium and long-term Government debt issuance, rose over the course of 2019. New investor participation increased further by 30.0% after growth of 23.0% in 2018. This was primarily observed in subscriptions to the outer-end maturities, as the 30-year tranche—offering the highest return in each issuance—was consistently oversubscribed. The lowest absorption rate for this tranche was 119.0%. Interest in the 3-year tranche (which concentrated a lower share of issuance values) increased particularly strongly over the year, up by 227.0% over the final two quarters of 2019, primarily driven by investors aged 50 years and over.

E-Payments - Digital Currency Initiative

The digital currency project advanced through to the launch of the pilot, Project Sand Dollar, in Exuma, on the 27th December, 2019. This payments system modernization initiative intensified the Bank's plans to broaden financial services access for the unbanked and underbanked persons. The digital currency is to provide a strictly domestic, interoperable platform for electronic payments (See Box 2).

Payments and Business Innovation

In 2019, three areas were targeted for improvement to the payments network in The Bahamas. These were (i) increasing the resilience of the SWIFT and Real Time Gross Settlement (RTGS) payment systems, (ii) strengthening security around critical assets that support those networks, and (iii) supporting business continuity through enhanced disaster preparedness.

Given the number of international clients that depend on SWIFT and the increasing maintenance demands placed on IT, SWIFT provides dedicated resources for ongoing systems monitoring; support and training for IT personnel; and first-level crisis response. To take advantage of these facilities, the Bank enrolled in the SWIFT Alliance Managed Operations (AMO) Programme, finalizing the arrangements in August 2019.

The Bank also continued its work with SWIFT's Customer Security Programme (CSP). The SWIFT CSP not only assists but mandates that clients use the payments network more responsibly and with safety and cyber security foremost in view. During 2019, the Bank remained in full compliance with CSP requirements. Much of the practices deployed for the SWIFT environment have been replicated within the RTGS environment.

BOX 1

MONETARY POLICY IN 2019

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

During 2019, the MPC met monthly to deliberate on developments in the international and domestic environment. The Committee's discussions were framed around several interrelated domestic economic and financial trends, as well as emerging challenges. Specifically:

- **The sustained** mildly positive domestic economic growth in 2019, with tourism output supported by ongoing gains in the high value-added stopover arrivals.
- **The impact** of Hurricane Dorian on the key foreign exchange earnings sectors, given reduced capacity in Grand Bahama and the Abaco market being temporarily offline.
- **Trends in** external reserves, which included a large influence from re-insurance inflows and the pending drawdown as import spending on rebuilding intensifies.
- **Sustained weakness** in private sector credit, amid elevated levels of bank liquidity.
- **Improvement in** banks' credit quality indicators, partly reflecting the growth in the domestic economy and aggressive collection efforts.

In assessing the external risks to the domestic economy, the Committee noted several important themes. On the positive side, there was the sustained strengthening in the United States' economy, which supported positive tourism outturn. However, it was noted that several developments could have adverse implications for the global growth outlook, notably geopolitical tensions, the ongoing trade dispute between the US and China and uncertainties from the United Kingdom's withdrawal from the European Union. The Committee also took into consideration the sharp build-up in external reserves from re-insurance inflows following the passage of Hurricane Dorian, which were earmarked to finance increased imports for restoration of lost infrastructure.

Given the Bank's mission to maintain satisfactory external reserves to sustain the fixed exchange rate, the Committee maintained strict monitoring of two key external reserve adequacy indicators, namely the corresponding ratio to base money and the import reserve cover. External balances exhibited seasonal accumulation in the first five months of the year; albeit, the traditional drawdown in the latter half of the year to facilitate imports and other current transfers were offset by re-insurance inflows from the hurricane. As a result, the ratio of reserves to base money remained above 90% throughout 2019, even exceeding the 100% target in some months. Specifically, during the months of May to October, the ratio exceeded 100%, peaking at 113.4% in August. The ratio fell in the ensuing months, with the coverage closing 2019 at 95.4%, the lowest for the year.

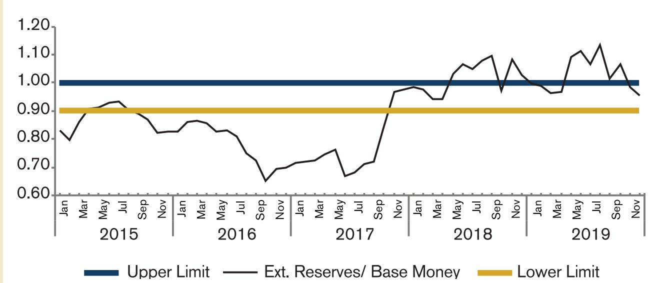
With reference to the more broadly tracked total external reserve coverage in weeks of annual current year's merchandise imports indicator, the ratio rose from 22.3 weeks at end-2018, to 27.9 weeks in the first quarter, 2019. The ratio continued to trend upwards in 2019, exceeding 30.0 weeks in the subsequent periods, peaking at 37.9 weeks at the end of the year. The strengthening in this indicator was buttressed by net foreign currency inflows from re-insurance proceeds and real sector activities.

The Committee also monitored key financial soundness indicators during the year. In particular, as banks maintained their cautious lending posture, liquidity levels remained elevated, while average capital levels remained well in excess of the regulatory target and trigger ratios of 17.0% and 14.0%, respectively. Further, credit quality improvement largely reflected the growth in the domestic economy, debt restructuring and aggressive debt collection efforts, which led to the reduction in NPLs over the year.

The MPC determined that foreign exchange markets continued to operate sustainably following recent exchange control liberalisation measures, and assessed that the Bank's gradual approach remained appropriate. In September, the Bank removed the exchange control approval from non-resident investments in residential real estate. This posed no material foreign exchange outflow risks. Rather, it helped to streamline the process, and divert more of the Bank's own resources towards reviewing high-value commercial investment projects.

Given the modest economic growth, constrained credit demand and adequate levels of external reserves, the MPC determined that the Bank would keep its accommodative policy stance unchanged throughout the year.

Ratio of External Reserves to Base Money



BOX 2

PROJECT SAND DOLLAR

The Central Bank launched its digital currency, Project Sand Dollar, in Exuma on the 27th December, 2019, and extended the reach to Abaco in February 2020. This followed extensive planning around the design considerations, and requirements for a fit to the archipelagic challenges in supplying financial services in The Bahamas.

The Central Bank's financial inclusion objectives target a provision of the entire population with access to digitally enabled payment services; universal access to banking services through digital channels; a reduction in the size of unrecorded economic activities and full integration of micro, small and medium-sized businesses into digital commerce. Concurrently, the Bank aims to strengthen national defences against money laundering and other illicit activities that are more easily perpetuated by cash. The establishment of more enabled access to digital financial services also aligns with the Government's overall agenda to deliver more services through such channels.

Appropriate policy and legislative reforms will accommodate the functional aspects of a digital currency. The draft Central Bank of The Bahamas Bill, 2020, anticipates this framework, and will provide for the development of regulations to govern the digital instrument. The regulatory framework will include safeguards to satisfy Exchange Control Regulations; monitoring and controls against money laundering and terrorist financing, and specifications to ensure complementary, as opposed to material substitution for existing banking services. Aside from financial integrity safeguards, the Bank will develop resilient mechanisms to preserve financial stability and maintain financial institutions' primary role in the financial intermediation process.

In preparation for the pilot, the Bank engaged extensively with the Exuma community and its stakeholders on how the digital currency would work; and educated and prepared businesses and consumers for the enrolment process. The Bank also hosted various community events in partnership with key local stakeholders to discuss the overall vision of the project, potential use cases for digital payments, the promotion of financial inclusion and access for all.

The pilot started on the 27th December, 2019, and was extended to Abaco on the 28th February, 2020, providing the opportunity to address financial and payments system recovery challenges in the aftermath of Hurricane Dorian.

After internalizing the lessons from the pilot, the Bank expects to make sand dollars accessible to all residents of the archipelago.

In 2019, the Bank sought to increase the operational reliability of the payments infrastructure, through increased safeguards against outages. This included a full payment systems disaster recovery test with simultaneous failover of both the SWIFT and RTGS platforms.

The Centralised Securities Depository (CSD) initiative also advanced, preparing for the 2020 integration with the Bahamas International Securities Exchange (BISX). In particular, BISX will host the trading of Government Securities, with the Bank continuing to maintain the register of holders of Government debt. Testing with BISX has focused on developing a seamless, automated messaging infrastructure for market trades.

PAYMENTS & SETTLEMENT SYSTEMS

Oversight

The Payments Unit, continued to strengthen the oversight of the domestic payments and settlement systems, while ensuring the efficiency, reliability and security of the infrastructure. In particular, quarterly meetings were held with members of the Bahamas Automated Clearing House (BACH), which process small value transactions of less than $150,000. These meetings focused on matters related to collateral and settlement issues of the commercial banks, internal audits and other significant developments that emerged during the year. Similar meetings were held with key stakeholders of the Central Bank-owned Bahamas Inter-Bank Settlement System (BISS), which facilitates real time settlement of large value payments greater than $150,000. Emanating from such discussions were feedback on operational efficiency, as well as the ongoing development of the BISS.

Subsequent to the release of the Payment Instruments (Oversight) Regulations, 2017, and corresponding General Information and Application Guidelines for Providers of Electronic Retail Payments Instruments and Electronic Money Products, two additional licenses were issued for the provision of electronic payment services in 2019, bringing the total number of licensees to three. The goal is to promote reduced dependency on the use of cash in the domestic economy, acceleration of financial inclusion initiatives and more efficient provision of services by non-deposit taking institutions.

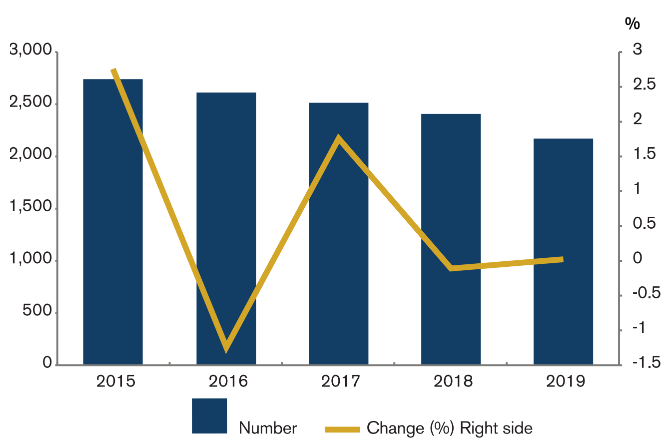
Market Developments

Despite some recent annual fluctuations, data continues to reveal increasing volumes of domestic electronic payments transactions in The Bahamas. This reflects the supporting role of the ACH and RTGS in settlements, and efforts by commercial banks to promote greater use of online banking and ATMs in place of in-branch services.

Real Time Gross Settlement (RTGS)

Transactions cleared through the BISS-RTGS increased during 2019. The total volume of transactions processed expanded by 18.9% to 136,815, albeit a moderation from the 24.9% gain in 2018. Similarly, the corresponding value firmed by 7.2% to $32.0 billion, extending the 2.5% growth of the previous year. RTGS participants include 7 clearing banks that process direct interbank transactions, X9 (cheques) and NACHA (direct credits) payments. Operations facilitate seven daily settlement windows, commencing at 8:15 a.m. and ending at 4:45 p.m.

Cheques Cleared



Cheques

The use of cheques sustained a downward trajectory—with the exception of large value transactions. The number of processed instruments fell by 9.8% to 2.2 million in 2019, extending the 4.2% reduction to 2.4 million in 2018. However, the associated value of these payments edged up by 0.2%, virtually unchanged at $7.2 billion during the review year.

NACHA Payments

Payments processed by the BACH, in accordance with the globally accepted National Automated Clearing House Association (NACHA) format, trended higher during 2019. The volume of these transactions rose by 8.8% to 3.2 million, with the equivalent value increasing by 8.2% to $3.7 billion.

Retail Payments Services

Advances in technology continued to promote an expansion in the volume of electronic payments notwithstanding the dominance of cash usage.

Automated Teller Machines (ATMs) are installed throughout the country, with a number of locations outside of bank branches, and in areas of high customer transit, such as supermarkets and gas stations. Some machines—specifically those located in high tourist traffic areas—are configured to dispense both Bahamian and US currency. As banks continue to shift away from over-the-counter services, the number of ATMs in operation rose by 0.8% to 385, tempering the 5.5% increase to 382 in 2018. While the volume of transactions declined by 3.9% to 11.1 million, the associated value grew by 9.2% to $2.1 billion.

Debit cards, are issued locally by all commercial banks. International brands, such as Visa and MasterCard, allow both domestic and foreign transactions. The number of debit card transactions rose by 7.3% to 15.0 million, while the related value of these transactions increased by 13.7% to $1.9 billion.

Credit cards issued by local banks are commonly associated with international payment companies such as Visa and MasterCard. Most personal cards carry limits ranging from $500-$5,000; $5,000-$10,000 and over $10,000. For select high net worth individuals, there is scope for negotiating even higher limits. The number of cards issued or renewed by banks decreased by 9.2% to 259,988, after a 10.2% expansion the previous year. However, the value of unpaid balances grew by 9.6% to $273.0 million. The increase was largely related to cards with limits over $10,000, which more than doubled to 30,311, with growth in the corresponding value of credit outstanding of 18.4% to $95.3 million. In addition, the number of cards within a balance cap of $5,000-$10,000 doubled to 43,855, while the associated value of unpaid balances firmed by 4.3% to $69.3 million. However, the number of cards possessing a limit of under $5,000 narrowed by 26.0% to 185,822; while the corresponding value rose by 6.2% to $108.4 million.

Internet Banking

Commercial banks continued to provide various internet-banking services to customers which afford them the ability to, *inter alia*, check their account balances, make transfers between personal and third party bank accounts, pay utility bills and purchase foreign currency. Among institutions, the range of internet services vary and some banks assess a fee for these facilities. The number of total users, inclusive of residential, business, public sector and other users, stood at 78,988 accounts. This was not directly comparable to 2018 as banks purged several thousand inactive accounts.

Table 2: Dormant Account Balances

Currency	Account Balances 2018	Account Balances 2019	No. of Accounts 2019	% of Total Balances (2019)
	($'000)			
Australian $	78.5	70.2	2	0.1
Bahamian $	17,527.4	20,230.4	35,695	22.0
Canadian $	3,053.8	6,376.3	467	6.9
Swiss Franc	1,542.2	1,604.3	19	1.7
Euro	1,386.2	3,256.2	46	3.5
UK (Sterling)	639.3	615.9	130	0.7
Hong Kong $	904.5	908.7	1	1.0
US$	50,712.7	58,765.3	7,528	64.0
TOTALS	**75,844.6**	**91,827.3**	**43,888**	**100.0**

Source: Central Bank of The Bahamas

FOREIGN RESERVES MANAGEMENT

External reserve balances ended the year up by 46.7% to $1.7 billion, due largely to the final quarter inflows of reinsurance settlements and growth in net tourism receipts. The net tourism receipts peaked in the first half of the year.

The invested external balances retained an overweighing of liquidity in deposits and short-term securities. This anticipated a net drawdown in resources to fund hurricane rebuilding activities in 2020. The investment strategy also benefitted from the Board-approved amended Investment Policy Guidelines, which in 2018 authorised a placement of a portion of the portfolio with an external manager. As such, the Bank deposited $100.0 million with a selected manager in 2019, also subject to the overall approved approach to preservation of capital and liquidity maintenance. The Guidelines were further amended in December 2019 to permit investments in low-risk sub-sovereign debt issues, and in liquid, low-risk, pooled classes of private capital market instruments, now internationally recognized as eligible exposures for central banks' foreign reserves.

At end-2019, the liquidity tranche in foreign reserves stood at $896.0 million (52.0% of balances), compared to $362.0 million (31.0%) of the outstanding reserves in 2018. Accordingly, the investment tranche measured $675.0 million (39.0%) compared to $667.0 million (62.0%) at end 2018. At the close of 2019, there were no exposures to private sector instruments or sub-sovereigns.

As to currency composition, the bulk of the reserves remained denominated in US dollar deposits or instruments (100%).

DORMANT ACCOUNT ADMINISTRATION

With the passing of the amendment to the Banks and Trust Companies Regulation Act (2018) (BTCRA), the dormant account regime saw a number of changes in 2019. Under the amended regime, the definition of accounts that may be classified as 'dormant', now include, in addition to deposits held with financial institutions, bank drafts, money orders, certified cheques, credit card balances, loan balances, collateral held on loans, custody accounts, safety deposit boxes and investment securities. In addition, the amendment earmarked funds that would meet the criteria to be escheated to the Government. On immediate transfer to the Central Bank, are balances that are $500 or less; and ten years after transfer, balances of more than $500.

In agreement with the above, during March 2019, approximately $40.5 million was transferred to the Government. Table 2 shows the overall balance of dormant accounts as at December 31, 2019, inclusive of the funds transferred to the Government during March, 2019.

EXCHANGE CONTROL ARRANGEMENTS

In consultation with the Government and the Minister of Finance, there was continued gradual liberalization of exchange control measures. Effective 1st October 2019, the Bank implemented the removal of the requirement of exchange control approvals on residential real estate transactions involving non-residents. The permission also applies to the right to convert and remit sale proceeds when divestment from real estate assets occurs. Controls, affecting approvals on commercial real estate transactions were retained, but only at the development stage for residential development projects.

Efforts also concentrated on improving the administrative processes for applications submitted to the Exchange Control Department (ECD). In this regard, the Bank is developing a comprehensive online portal for all submissions. This will eliminate the flow of requests now received by email.

On portfolio investment outflows, trends diverged between foreign exchange usage by the collective investment schemes versus direct portfolio purchases through the Investment Currency Market (ICM). In particular, the BISX-listed Bahamas Deposit Receipt (BDR) program, which facilitates pooled investments in foreign securities, continued to have modest participation. In 2019, of the $35.0 million annual allocation, only one sponsoring broker-dealer participated in the programme, utilizing $8.7 million. This decreased from $13.7 million in the previous year, when four licensed broker-dealers participated. However, residents increased outward capital investments via the ICM, amounting to approximately $49.5 million in 2019, compared to $42.3 million in 2018. The premium bid and offer rates for investment currency remained at 5.0% and 2.5%, respectively.

In terms of foreign currency approvals for current account payments, amounts authorised for non-oil merchandise and credit/debit cards totalled a combined $2.6 billion; and outflows for service payments (including transportation, royalty and franchise fees) accounted for $1.6 billion. Payments for oil imports, reached $587.0 million; while travel (including for medical reasons) accounted for just under $334.0 million; dividends and profit remittances, $295.0 million; insurance services remittances and remittances for interest payments, $129.2 million and $130.0 million, respectively. Further, residents remitted in excess of $135.0 million as gifts to non-residents, while loan repayments totalled $171.4 million.

The ECD also conducted training sessions with authorized dealers (commercial banks) and money transmission businesses (MTBs) on new liberalization measures and reporting requirements, in order to ensure compliance with the enhanced delegation of authority. At the end of 2019, there were eight authorized dealers, 15 authorized agents and five MTBs.

As part of the Bank's initiative to go paperless, the Exchange Control Department is now electronically distributing all responses to correspondences and approval forms.

ECONOMIC ANALYSIS, STATISTICS AND RESEARCH

The Bank, through its Research Department, remained committed to providing the public with comprehensive, accurate and timely information on domestic economic and financial developments. In this context, during the year, the Department authored a publication on Natural Disasters in the Caribbean, which was presented at the regional Annual Monetary Studies Conference, held in St. Kitts and Nevis.

The Department also actively continued with training initiatives to improve the technical expertise of staff. In this regard, in April, the Department, in conjunction with the Caribbean Centre for Latin American and Monetary Studies a (CEMLA) and the International Monetary Fund (IMF), hosted a regional workshop, entitled, "Network Analysis".

During the year, staff also participated in several external training events. These included the Alliance for Financial Inclusion's (AFI) Meeting of the Financial Inclusion Data Working Group in Egypt, CEMLA's II Meeting of the Fintech Forum in Mexico, ECB Seminar on Market Infrastructure and Payments in Germany, AFI's Global Policy Forum in Rwanda, CARICOM Fintech Work Group Meeting, Regional Payments Week in Curacao and the Regional Consultative Group for the Americas Non-Bank Financial Intermediation Working Group Meeting in Mexico.

The Department continued to play a pivotal role in the Bank's outreach programme, with staff facilitating regular presentations to schools from the primary to the tertiary levels, on the role and functions of the Central Bank and its monetary policy instruments. Furthermore, in line with its mandate, the Department provided economic and financial data to a variety of multilateral organizations, such as the International Monetary Fund (IMF), the Bank for International Settlement (BIS), the Caribbean Economic Research Team (CERT), the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB). Staff also fielded a number of requests from members of the public to provide information and facilitated presentations on various economic topics.

PRUDENTIAL SUPERVISION & REGULATION

Profile of Regulated Activities and Entities

The Bank's supervisory responsibilities cover a range of licensed activities under the Banks and Trust Companies Regulations Act, 2000 and various subsequent amendments, the Credit Union Act, 2015, Payments System Act, 2012, and the Credit Reporting Regulations Act, 2018.

In 2019, the number of banks and trust companies decreased by 10 to 221 (See Table 3). The total number of private trust companies (PTCs) rose by six to 142 at end-2019. Meanwhile, financial and corporate service providers, that act as registered representatives (RRs) increased by one to six, while two additional Supervised Financial Institutions (SFIs) advised the Bank of their intentions to act as RRs of PTCs, increasing the number to 25.

Specific to banks and trust companies, as at end-2019, the Central Bank's licensed international banks and trust companies decreased to 198, from 215 in 2018, representing 90.0% of the SFIs operating from within The Bahamas. These consist primarily of subsidiaries and branches of larger international banks. Over the years, the Government's tax reform policies including implementation of the OECD's Common Reporting Standard (CRS) and other regulatory changes–continued to impact the asset base of international SFIs. On average, asset levels have been declining; however, the fiduciary category recorded growth, precipitated by the licensing of three new public trust companies in 2019. While SFIs have experienced a contraction in their European-based clientele, there has been a general shift to new markets, such as Latin America (LATAM).

As at end-2019, the number of commercial banks remained unchanged at eight – comprising three locally-owned banks, one US bank and four Canadian-owned banks. The total domestic assets of commercial banks and trust companies stood at $10.7 billion, an increase of $0.7 billion (7.4%) over the previous year. The four Canadian banks continued to account for approximately two-thirds of the total domestic banking assets. During 2019, commercial banks' branch networks decreased by 10 to 66.

Table 3: Regulated Entities

	2017	2018	2019
Banks and Trusts Companies	**242**	**231**	**221**
Banks & Trusts	55	54	50
Banks	30	29	24
Trusts	157	148	147
Non-Licensee Reg. Representative	5	5	6
Licensee Registered Representatives	21	23	25
PTC (Registered)	121	136	142
Non-Bank MTB	5	5	5
Non-Bank MTA	12	20	21
MTB Branches	36	79	116
Cooperative Credit Unions	10	10	10
Payment Services Providers	--	1	3
Memo Items:			
Assets of Domestic Banks (B$Bil)	19.08	17.43	18.44
% change	2.9%	-8.6%	5.8%
Assets of International Banks (B$Bil)	168.45	166.00	167.85
% change	2.1%	-1.5%	1.1%

Source: Central Bank of The Bahamas

Non-bank money transmission businesses (MTBs) remained at five, while related agents increased to 21. The number of financial co-operative credit unions remained at 10, inclusive of The Bahamas Cooperative League Limited. The number of standalone retail payment service providers grew by two to three. In addition, the Bank issued a license to the new credit bureau, CRIF Information Services Bahamas Limited on 7th December, 2019.

Supervisory and Regulatory Developments

For the year 2019, the Bank continued its robust monitoring of all Supervised Financial Institutions (SFIs), which included international and domestic banks, cooperative credit unions and money transmission service providers. The Bank deployed strengthening measures, building upon its prudential and anti-money laundering (AML)/counter financing of terrorism (CFT) supervisory initiatives. Areas of particular focus for 2019 included: the IMF's Financial Sector Assessment Programme (FSAP); lifting the Bank's engagement and supervision for AML/CFT; and rollout of an engagement and communication strategy with correspondent banks.

A notable measure of the strength of the Bank's supervisory regime is in part captured through external assessments. Accordingly, in January 2019, The Bahamas underwent the International Monetary Fund's (IMF's) FSAP mission, which focused principally on the banking sector and covered areas such as: (i) vulnerabilities and resilience; (ii) quality of the financial stability policy framework; (iii) assessment of macro-prudential risks and policies; (iv) analysis of interconnectedness among financial markets and institutions (including non-banks) and cross-border exposures and spill-overs; and, (v) financial safety nets, including the evaluation of crisis preparedness and crisis management frameworks. Thematic focuses also addressed emergent policy issues in the Bahamian domestic and international sectors, against emerging threats and opportunities facing the sector.

The outcome of the FSAP mission to The Bahamas was published on the IMF's website on the 1st July, 2019. The published reports acknowledged the effective supervisory programme that the Bank has in place, as well as the many strategic initiatives undertaken over the past few years, that have helped to strengthen the overall regulatory and supervisory framework for the banking and trust sector. The Bank's robust supervisory programme resulted in The Bahamas being rated as either compliant or largely compliant with all 29 of the Basel Core Principles. The Bank is strategically prioritising remedial measures to address recommendations made by the IMF for reforms of the financial sector.

The continuous enhanced supervision for AML/CFT risk was an area of key priority in 2019, with risk based supervision being rolled-out to the non-bank SFIs, namely credit unions and money transmission service providers. In addition, the Bank expanded its training and external engagement strategies with the execution of the AML/CFT Risk Management Seminar, in collaboration with the Group of Financial Services Regulators (GFSR), under the theme "The Evolving Landscape of AML/CFT in The Bahamas" in June 2019. The seminar was attended by 345 industry practitioners across the financial services sector, inclusive of representatives from banks and trust companies, broker/dealers, lawyers, accountants, web shops and money transmission businesses.

Table 4: Applications for Approved Persons

	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019
Total Applications	25	27	17	16	9	23	12
Incomplete Packages - Requiring Follow up	72%	44%	29%	63%	78%	78%	67%
Average Days from Receipt to Final - if Followed up	24.2	27.4	26.6	23.2	27.1	29.9	20.8
Average Days from Receipt to Final - if Complete	8.4	10.5	10.8	9.0	6.0	8.0	9.3

Source: Central Bank of The Bahamas

The Bank also hosted a seminar, facilitated by the Association of Supervisors of Banks of the Americas (ASBA), on "Efforts in Reducing the Negative Impact of Loss of Correspondent Banking Relationships in The Caribbean". As a precursor to the ASBA seminar, the Bank issued a Correspondent Banking Survey to all SFIs to obtain updated information on the de-risking challenges faced by the sector and the enhanced monitoring. While de-risking continues to remain a viable threat to banks within this jurisdiction, to date SFIs have been able to maintain at least one correspondent banking relationship. Some of the home-supervised banks, that is, those without a foreign parent, remain most vulnerable to pressures posed by correspondent banks. In addition, the Bank gathered an inventory of correspondent bank contacts to engage these banks and to inform of the AML/CFT supervisory environment and the realities of the sector. Against these challenges, the Bank has also observed that the terms and conditions imposed by correspondent banks upon Bahamian respondents may be more onerous than the respondents would prefer, nevertheless the level of compliance and responsiveness remained on average high across the industry.

Supervisory Effectiveness

There continued to be focus upon more effective supervisory intervention and refining of administrative processes.

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

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

The core determinant on whether the Bank is effective in achieving its prudential mission, is its ability to rapidly and effectively resolve directives and requirements. From the 31st March, 2018 to 30th September, 2019, the stock of outstanding directives was reduced from 21 to two. However, two new directives were issued during this period, resulting in a total of four outstanding directives. Of the remaining four directives, as of 30th September, 2019, two were classified as too new to assess, while two were progressing more slowly by comparison. Notably, SFIs are generating a substantial rate of closed requirements and are generally on track with outstanding requirements. Table 4 outlines the success since 2018 in decreasing the average time taken to process an "approved persons" application.

AML/CFT and Other Oversight

As part of the continuous supervision of AML/CFT, the Bank collects risk assessments from SFIs. The submissions provide an improved understanding of SFIs' views of their money laundering/terrorist financing (ML/TF) risks and related control environments. These risk assessments are collected on an annual basis.

During 2019, the Bank issued a set of AML Data Returns for completion by banks and trust companies, credit unions and money transmission businesses. These new returns will improve the Bank's ability to assess AML/CFT risks on both a macro and micro-level, and identify ML/TF trends and emerging risks.

The Bank has commenced annual interviews with money laundering reporting officers and compliance officers. In September, the Bank also issued its inaugural newsletter to correspondent banks, to inform them of the AML work The Bahamas has completed since the mutual evaluation report (MER) by the Caribbean Financial Action Task Force (CFATF) in 2017. Looking forward, the Bank intends to continue improving its AML/CFT supervisory regime, by, among other methods, deploying automated tools to monitor the approximately 1.0 million wire transfers departing or entering The Bahamas every year.

Representatives from the Bank participated in The Bahamas' Identified Risk Framework Steering Committee (IRFSC), which meets weekly to discuss AML/CFT work within the jurisdiction and address remediation efforts regarding the deficiencies noted in The Bahamas' 2017 MER. Further, work continued with The Bahamas' Group of Financial Services Regulators on several AML initiatives, including issuing a national AML Publication for 2018 and providing AML training opportunities for a cross-section of institutions in the financial services industry.

Work continues to streamline the collection of data and enhance data analytic capabilities through the use of the Online Reporting and Information Management System (ORIMS). In addition to the issuance of the new AML data return for all SFIs, the Bank has completed the on-line Financial Data Return for Registered Representatives. With the implementation of this electronic return, financial data returns and statutory returns for all SFIs are received through the ORIMS portal, improving efficiency in data collection and the quality of supervision. This automation should also reduce industry costs in complying with data requirements.

Examinations Programme

Over the course of 2019, the Bank conducted a total of 25 on-site examinations and seven discovery review meetings (See Table 5). The risk areas examined during the year focused primarily on money laundering, terrorist and proliferation financing (ML/TF) risk and corporate governance. SFIs examined were those that had not been assessed in the past three to five years in the applicable risk area. The Bank also undertook two joint special AML examinations with the Securities Commission of The Bahamas, utilizing the Protocol for the Joint On-site Examinations by the Central Bank and the Securities Commission of The Bahamas which were formalized in January 2012.

Table 5: On-site Examinations Conducted

	2017	2018	2019
Examinations			
Domestic Licensees	4	6	2
Other Licensees	14	11	17**
"Follow-up /Special Focus/ Regulator Initiated"	0	5*	3*
Discovery Reviews	11*	0	7*
Financial Credit Unions	1	0	3
Total	**30**	**22**	**32**
Reports			
Finalized Reports	22	18	19
Reports in Progress	2	2	3
Total	**22**	**20**	**22**

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

Offsite-examinations continued to utilize the primary supervisory tools to monitor and supervise the international firms, via AML/CFT risk analyses, financial analyses, prudential meetings, discovery review meetings, annual meetings with internal auditors (local and international) and on-site examinations.

The Bank maintained enhanced monitoring of commercial banks to detect and address any emerging risk issues, given their systemic importance. Several of the institutions' risk ratings were updated to reflect the key risks impacting their operations. The process primarily encapsulated an assessment of key business risks and control environment, supplemented with the analysis of financial and non-financial regulatory returns and periodic risk management meetings with senior management and independent risk and control functions.

Supervisory cooperation and communication, via supervisory colleges, regional teleconferences and other bi-lateral exchanges played a pivotal part in the ongoing monitoring of the commercial banks during the course of the year.

Domestic SFI Risks

Credit Quality

The Bank continued with its oversight of credit risk in the domestic banking system through its monitoring of the top 20 non-performing loans (NPLs) of each domestic commercial bank. In addition, half-yearly and ad hoc meetings were held with senior bank executives to discuss strategies deployed to reduce their NPLs. The predominant elements of the supervisory monitoring included periodic reviews of the credit risk structure, that is, collateral-based and other lending, specific provisions, performing and non-performing trends, concentration and diversification of credit risk portfolio, underwriting process and overall performance of the credit portfolio.

During late August to early September, 2019, Abaco and Grand Bahama were hardest hit by Hurricane Dorian. In the aftermath, the Central Bank temporarily relaxed lending guidelines to commercial banks in order to facilitate access by households and businesses to credit facilities on those islands. In turn, the commercial banks introduced moratoriums on loan repayments and other concessions. The above dispensations coupled with the fact that, collectively, Abaco and Grand Bahama represented only 14.0% of commercial banks' total credit exposure, helped curb growth in NPLs during the year.

The industry's NPLs sustained a downward trend and were lowered by 12.2% or $63.0 million in 2019, based on rates reported as at 31st December, 2018 to 31st December, 2019. This reduction was due primarily to asset sales in the residential and commercial real estate distressed property portfolios of certain domestic banks. More broadly, some domestic banks continued to provide concessions to existing customers through debt consolidation and restructuring.

Stress Tests of NPLs

Credit stress tests remained the primary tool to assess the resilience of the banking system, while liquidity and interest rate risks are subject to ongoing monitoring. The credit risk stress test is designed to assess the strength of capital or total loss absorbing capacity of those SFIs which are designated as domestic systemically important banks (or "DSIBs"), to significant changes in the level of NPLs, driven by extreme but plausible shocks to the Bahamian economy. Broad observations from consolidated results are provided relative to liquidity and interest rate risk stress tests.

During 2019, the credit stress scenarios used to assess the level of capital deficiency, if any, for credit risk shocks remained constant. The forecasted NPLs are subject to shocks of 100%, 150% and 200% for forecasted years 2019 through 2021, the impact of which affects the statement of income, with increases (or decreases) in expenses driven mainly by changes in interest income and provisions for impaired loans; and the resultant impact on the level of banks' total eligible capital.

Consolidated credit risk stress tests conducted in 2019 consistently showed that, at all levels of shocks, which depleted banks' capital levels up to 8.0%, no capital injection was required. Test results indicate that at all times, capital levels remained well above the established trigger and target ratios of 14.0% and 17.0%, respectively, at an average capital to risk-weighted assets ratio of 33.0% and 37.0%.

Commercial Banks' earnings would be negatively impacted due to increases in loan loss provisioning levels and the loss in interest income at varying levels of shocks to the NPLs. In light of the foregoing, banks are expected to curtail the aforementioned negative impact on earnings by seeking to supplement earnings with other non-interest income sources.

Interest and Liquidity Shocks

Stress test results continued to show that commercial banks are less vulnerable to interest rate risk in their banking books, given the infrequent movement in the Bahamian dollar Prime lending rate and the continued robust levels of eligible capital, among other reasons.

Liquidity stress test results continued to indicate that systemic risk of near-term depletion of liquidity is negligible, due to the high level of liquid assets across the banking system.

Capital Adequacy

Despite periodic dividend payments to shareholders, commercial banks' capital levels remained robust. At the 31st December, 2019, the capital to risk-weighted ratio stood at 28.6% and the common equity tier 1 capital to risk-weighted ratio stood at 26.7%, well above the established regulatory target and trigger ratios of 17.0% and 14.0%, respectively.

Credit Unions

Supervisory objectives for the credit union sector centred around a risk-based approach, inclusive of AML/KYC, corporate governance and credit risks management. This included ongoing monitoring of credit unions' remediation efforts, on-site examinations of operations, and assessment of financial returns. A possible emerging risk among the sector might be the delayed transition to International Financial Reporting Standard 9 (IFRS 9).

At end-2019, the total assets within the industry stood at $476.0 million, higher by 5.6% over 2018. The membership ended at 44,109 vis-à-vis 44,559 recorded in the previous year.

Money Transmission Businesses

An enhanced regulatory and supervisory regime commenced for MTBs during 2019, with heightened supervisory focus on reputational (KYC/AML/CFT) and operational (people, processes, systems) risk management. Owing to recent expansions within the sector, particularly, money transfer agents (MTAs) and branches, the Bank suspended the acceptance of license applications for new MTBs, effective the 29th November, 2019. The Bank will review its position at the end of 2020, relative to the moratorium currently in effect.

Basel II and III Implementation Programme

Alongside its Basel II/III Implementation program, the Bank also reviewed its approach to prudential regulation with a view toward developing a more streamlined prudential framework, with a higher value placed on simplicity. The end goal is the development of a simplified rulebook that is super-equivalent to the Basel Committee's rule text and appropriately optimized to the Bahamian context.

The Bank will also focus on implementing the remaining elements of the Basel III framework, including the Capital Buffers, the Leverage Ratio, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), and a Domestic Systemically Important Banks (D-SIB) framework. Amendments to the relevant guidelines and supervisory frameworks are expected to occur throughout 2020.

Comments were received from the industry on four discussion papers released during 2018, on capital requirements, minimum disclosure, liquidity coverage ratio, net stable funding ratio and domestic systemically important banks; which is now informing the roll-out of its simplified Basel II and III framework. This resulted in the extension of the timeline for full implementation from January 2020 to January 2021. During 2020, the Bank will re-engage the industry on draft capital and liquidity regulations, new capital and liquidity reporting forms, and will conduct training on the new forms before launching a parallel run to enable a smooth transition by the new implementation timeline.

Supervisory Policy and Guidance

The Bank sought to reduce the pressures on the industry associated with constant regulatory reforms. Accordingly, no new guidance notes or policies were issued relevant to prudential matters. From 2020, the Bank will issue substantive regulatory reforms, with a view to simplifying the current Bahamian rule set.

Legislative Initiatives

Two pieces of subsidiary legislation with direct impact on SFIs were introduced during the year. The Bank issued the Credit Reporting Regulations, 2019, in February 2019, under the Credit Reporting Act, 2018. The Regulations outline the criteria and process for making an application for a credit bureau license. Also, the Government issued the Anti-Terrorism Regulations, 2019, in February 2019, under the Anti-Terrorism Act, 2018. The instrument identifies official focal points and contacts to administer The Bahamas' international obligations under the Act.

Crisis Management

During the 2019 FSAP mission, the IMF held detailed discussions with the Bank on strengthening proposed legislative reforms aimed at codifying full administrative bank resolution powers. Against this backdrop, a four-week public consultation period was subsequently completed on further refinements to the Central Bank Act, the Banks and Trust Companies Regulation Act and the Protection of Depositors Act and Bye-laws. These refinements will enhance the Central Bank's resolution, crises preparedness and management framework; enabling more credible achievement of financial stability objectives. The Group of Financial Service Regulators (GFSR) also re-engaged on financial stability matters, through the Financial Crisis Management Committee tasked with overseeing the completion of the National Financial Crisis Management Plan.

Administrative Monetary Penalties

Penalties imposed under the existing regulations totalled $1.2 million as at 31st December, 2019 compared to $0.4 million in 2018. Breaches since 2016 have commonly been classified under 29 different categories–the most active being late or erroneous filing of the Daily Foreign Exchange (B$) Position, the Weekly Interim (Financial) Reports and the Quarterly Unaudited Financial Statements.

Credit Bureau

The Bank licensed the credit bureau operator, CRIF Information Services Bahamas Limited, on the 7th December, 2019. The company is owned by CRIF SpA, an Italian based entity, which operates in multiple jurisdictions. The credit bureau will become operational in 2020, with the first credit reporting expected to commence 12-18 months post licensing. Over time, it is expected to enhance the quality of information on which lending decisions are made, and promote increased ease of access to credit in The Bahamas. The Bank will collaborate with the operator on financial literacy initiatives to promote public awareness of the credit reporting framework.

Regulatory Cooperation

The Bank facilitates regulatory cooperation on a number of important fronts, including responses to international request from foreign authorities, and participation in domestic and international cooperative forums. Supervisory co-operation and information exchanges are facilitated through established multilateral and bilateral MOUs, with foreign supervisory authorities and relevant legislation.

In 2019, the Bank received and responded to 15 information requests from 10 foreign regulatory authorities (See Table 6).

During the year, senior staff of BSD participated in various regulatory/supervisory colleges both at the regional (Caribbean) and international (Canada) levels, mainly for the domestic systemically important banks (or D-SIBs), which are subsidiaries of international banking groups. Appropriate staff also participated in international conferences including the Group of International Financial Centres Supervisors (GIFCS) held in London and Cayman Islands, and the Association of Supervisors of Banks of the Americas (ASBA) held in Lima, Peru.

Further, on the basis of MOUs, the Central Bank continued to liaise and cooperate with home-consolidated supervisors of all subsidiaries in The Bahamas with foreign parents, via periodic supervisory teleconferences and the exchange of annual home/host supervisory letters, to assess the impact, if any, of material risk issues identified at the enterprise level for operations in The Bahamas.

As to domestic initiatives, senior staff from the BSD and the Legal Unit participated in the work of the Group of Financial Services Regulators (GFSR), which comprises the 5 domestic regulators for banks and trust companies, the securities industry, insurance companies, credit unions and financial and corporate service providers. As mentioned earlier, the GFSR is a valuable forum for developing common guidance for Bahamian Financial Institutions, and building out the domestic crisis management framework.

Table 6: 2019 Requests for Cooperation

Country	Requests Received From Foreign Regulators
Bermuda	1
Canada	1
Cayman Islands	2
Luxembourg	2
Malta	1
Netherlands Antilles	1
Panama	2
St. Kitts	2
Switzerland	2
Trinidad & Tobago	1
Total Requests	**15**

Source: Central Bank of The Bahamas

DEPOSIT INSURANCE CORPORATION

The Bank provides operational support for the Deposit Insurance Corporation (DIC). Through senior executives, including the Governor, the Bank occupies three of the six positions on the DIC's Board of Management. The Board also has two independent directors appointed by the Minister of Finance and the Financial Secretary in the Ministry of Finance is an ex officio member of the Board.

Under the Protection of Depositors Act, 1999 (the Act), the DIC is mandated to provide deposit insurance protection and support for Bahamian dollar depositors. This coverage is up to a maximum of B$50,000 for any single depositor in each of the 11 member institutions of the DIC, except where a depositor maintains deposits in different rights and capacities (nature of the ownership of deposits). The DIC does not insure any accounts or products in foreign currency, nor does it insure any account held in banks or other institutions that are not DIC members. The member institutions do not hold equity positions in the corporation.

The DIC insures the depository institutions, levying an annual premium equal to one-twentieth of one percent (0.1%) of deposits, averaged over liabilities as at 31st March and 30th September of the preceding year. Based on average total insurable Bahamian dollar deposits in domestic banks of $6.2 billion in 2019, relative to $6.3 billion in the previous year, premiums levied and collected in 2019 amounted to $3.1 million, in comparison to $3.2 million in 2018. At end-2019, the accumulated assets of the DIC's Fund increased by approximately 9.0% ($5.1 million) to $61.5 million, with 96.1% ($59.1 million) invested in Bahamas Government securities. Approximately 81.7% of Bahamian dollar denominated accounts held balances of less than $5,000, with 11.2% of deposit accounts ranging between $5,000 and $25,000, and 2.7% of deposit accounts ranging between $25,000 and $50,000. While the residual 4.4% of accounts held balances over $50,000, this category comprised 83.5% of Bahamian dollar deposits by total value.

In 2019, the DIC, in consultation with the Bank, proposed substantive amendments to the Act and its Byelaws to strengthen the crisis preparedness and management framework. Proposals issued for public consultation included, mandatory membership for credit unions, flexibility in the setting of premium rates for members, removal of automatic set-offs in a pay-out and reduction of the timeframe for compensation of insured depositors. The Government is expected to enact these amended provisions in 2020.

Guided by recommendations from the IMF's 2019 FSAP mission to The Bahamas, the DIC enhanced ongoing work on the assessment of the target size of the fund, the target fund ratio and delved into alternative sources for backup funding. Out of this effort, the DIC is expected to increase its target funding and reserves level, as a fraction of insured deposits, with a corresponding rise in the premium rate levied on members.

INFORMATION TECHNOLOGY

The Bank continued to leverage information technology (IT) resources to improve operational efficiency. In this regard, the IT Department coordinated a comprehensive review and upgrade of the structured network cabling infrastructure, in preparation for the planned upgrade of the network switching infrastructure in 2020. The Bank also completed the solicitation and vendor selection for a refresh of the current server, storage and virtualisation platform, and introduction of virtualised desktops and applications. The project, expected to be completed by mid-2020, should lower the total cost of ownership for server and storage, increase overall system availability and performance, as well as improve user productivity and remote access.

The Bank commissioned a vendor to develop an enterprise-wide Application Approval Portal solution for more efficient, secure engagement with SFIs and the general public, including users of exchange control services.

The project supports a strategy to harmonize processes throughout the organisation, further streamlining or eliminating manual processes. This development will also divert sensitive applications, which are already being received electronically, away from decentralised email submission channels.

There was also a successfully piloted, robotic process automation systems within the Human Resources, Finance and IT Departments, streamlining a number of processes that required manual intervention. The pilot identified other opportunities for process re-engineering and improvements throughout the Bank. In addition, the Bank completed revisions to its IT disaster recovery plan, as part of the enterprise business continuity review exercise, and executed several disaster recovery tests, including a successful test of the payments infrastructure.

FACILITIES MANAGEMENT, HEALTH & SAFETY

The Bank conducts its business from the Main Building, situated between Market Street on the west and Frederick Street on the east, and the leased Trimark Building, located on the north of the main building. The Bank also owns three protected historical buildings, the Great House, which serves as the employees' cafeteria; Balcony House, a two-storied period building presently managed by the Antiquities, Monuments and Museums Corporation (AMMC) as a museum; and Verandah House, which was converted into a gym for employees. The Bank did not renew its lease for property in Freeport, Grand Bahama, used as an extension of the Exchange Control Department. Instead, a Representative Office was established in the Grand Bahama Office of The Prime Minister, in the Harold DeGregory Complex.

To enhance facilities operations and strengthen workplace safety initiatives, the Bank established the Facilities Services Department in 2019, merging the Security Unit and the property maintenance operations, formerly a part of the Administration Department. The new department oversees all construction and repairs to occupied premises, and is charged with oversight, training and development of the security personnel.

Important investments in physical security centred on the Premise Access Control System (PACs) and the entrance door vestibules. These enhancements, to be completed in the first half of 2020, will introduce new layers of monitoring and access screening for both staff and the general public, in relying on biometrics, magnetometers and x-ray technology. The enhancements are also supported by major reforms to the security and safety policies; and an incentivised Incident Wardens Programme, to promote safe evacuations of the facilities in the event of emergencies.

The Bank also continued to advance its green initiative programme and to promote staff awareness toward sustainability and positive environmental attitudes. Further cost savings were achieved for energy consumption, reducing electricity use by 3.0%. A paperless environment, which also aligns with this approach, however, entailed some interim increase in telecommunications costs as more staff were equipped with mobile devices. The Bank plans to invest in more sustainable initiatives in 2020.

Architectural design and developmental plans for the Bank's new and modern facilities, which are to be constructed at the Royal Victoria Gardens site in Nassau, continued to progress in 2019. Pre-construction consultancy services were secured for an arborist study, environmental impact assessment and soils/geotechnical analysis. Selection of other professional consultancies and engineering services, including structural, mechanical, electrical, and fire & life safety, were finalized early in 2020. The Bank also engaged a contractor to carry out the demolition works to the Post Office and other ancillary buildings at the Royal Victoria Gardens site.

During the year, interior renovations to several floors of the Trimark Building, as well as external façade repair and painting to the Main Building were completed. Space reallocations, renovations and furnishing upgrades were made throughout the Bank, including a new Currency Unit, and construction commenced on new temporary parking facilities for staff.

Improvements also began at the Business Continuity Plan (BCP) site at the Poinciana House Corporate Centre, with the Bank conducting cosmetic works to the interior spaces and upgrades to the security infrastructure. The facilities are planned to be fully operational by the end of the first half of 2020.

STAFF COMPLEMENT AND RELATIONS

The Human Resources Department continued to focus on talent recruitment, retention, compensation, benefits, and training. The Department also communicated more regularly with staff on positive attitudes in the workplace, as part of a newly entrenched process to improve the corporate culture.

In 2019, the staff complement increased by 17 to 264, with the turnover rate decreasing by 2.5 percentage points to 8.9% (See Table 7). There were 23 employee separations, including 15 resignations, three terminations, two early retirements, one retirement and two end-of-contracts. In 2019, there were 42 new hires and 46 internal placements among existing staff, inclusive of 26 promotions and 20 lateral transfers. In June 2019, the Exchange Control Department's Freeport Office was officially closed given the overall tapering in related business functions. One team member from that office continues work on exchange control matters in the Office of the Prime Minister. At year-end, there were 29 vacancies existing at the Bank.

The employee complement comprised 187 non-management, 63 middle management and 14 executive management. The female to male ratio remained at almost 2:1. In greater efforts to honour the contribution of employees, the annual Employee Recognition and Awards Ceremony, held on the 21st January, 2020, recognized those persons achieving 5, 10, 15, 20, 25, 30, 35 and 40 years of continuous service.

Table 7: Workforce Metrics

	2017	2018	2019
Staff Complement	245	247	264
Gender Distribution (%)			
Male	32.7	34.0	32.7
Female	67.3	66.0	67.3
Turnover Rate (%)*	7.4	11.3	8.9

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

In December 2019, the Bank launched the annual Governor's Award to be presented to the employee making an exceptional contribution to the work of the organisation and it's strategic goals. Nominations were invited from all employees. A Blue Ribbon Committee reviewed the nominations and provided a recommendation to Governor. The winner of the 2019 Governor's Award and finalists were announced at the Employee Recognition and Award ceremony. The 2019 award winner's contribution advanced the Centralised Securities Depository project, while executing current duties in a stellar and professional manner. The finalists were noted for their respective contributions and hailed from various departments, including Banking, Research, Governor's Office and Facilities Services.

Employee Relations

There was continued communication with employees through departmental monthly meetings, monthly Open Management Meetings for all managers and weekly management meetings with Department Heads. In September 2019, the Governor sustained engagement with all employees with five Town Hall style sessions. During the sessions, the Governor provided an update of progress on the current Strategic Plan and outlined new initiatives for the upcoming Plan, which will be drafted during 2020. One of the initiatives is the revisiting of the Bank's Mission and Vision statements, which the Governor invited employees to provide their input. Additionally, during the sessions, the Governor responded to questions posed by the attendees.

In separate quarterly meetings, the Bank continued open and constructive communications with both unions, wherein the representatives were updated on Bank matters and concerns were discussed. The Industrial Agreement with the mid-management staff represented by the Bahamas Communications and Public Managers Union (BCPMU) concluded January 2019, with negotiations commenced thereafter. In December 2019, a draft agreement was provided to the representatives for review and signoff. The Industrial Agreement with staff, represented by the Union of Central Bankers (UCB), will conclude 31st December, 2020.

The Bank's Defined Benefit Pension Plan was effectively closed on the 30th June, 2019, with all existing employees being transferred to the Defined Contribution Pension Plan in July, 2019.

Wellness Programme

In an important shift in recruitment practice, the Bank began to offer health insurance coverage to staff from the first day of employment. This practice was already in force for senior personnel engaged on a contractual basis. In further consideration of the well-being of its employees, the Bank during the third quarter launched the Atlantic Medical Zest Wellness program. The Bank's Employee Assistance Program (EAP) continued during the year, with services provided by The Discovery Clinic.

In efforts to improve the corporate culture, the Human Resources Department launched, in July 2019, a monthly promotion of twelve ingredients for a great working environment to promote positive attitudes and enhance productivity among our valued team members. These communications are expected to run through June 2020 and included such topics as: Respect, Ownership, Health, Passion, Attitude and Team Spirit.

The Bank continued to foster employee engagement through sponsoring various events, which included the annual Family Fun Day, Health and Wellness Week, the annual Christmas Party for employees, the annual Christmas Party for children of employees and monthly social gatherings. In February 2019, representatives of the Special Activities Committee presented gifts, provided lunch and enjoyed games with the children of the Elizabeth Estates Home. Further, in October 2019, the Bank hosted its second annual Cultural Arts Festival, showcasing works of domestic artisans.

Staff Development and Training

In 2019, there was increased participation in training and development activities. These were centred on capacity building to deliver on the Bank's core mandates, including topics on financial crimes (AML/CFT); financial analysis and reporting; deposit insurance; economic analysis and policy; monetary policy; public debt management; payment systems and financial markets infrastructure; financial innovation; information security; risk management; auditing; human resources management and analytics. These activities were carried out through in-house, local, on-line and overseas training, as summarized in Table 8.

Table 8: Summary of Training Developments (2019)

	In- House	Local	Overseas	Total
First Quarter	48	65	18	131
Second Quarter	68	81	75	224
Third Quarter	33	51	30	114
Fourth Quarter	78	34	45	157
TOTAL PARTICIPANTS	**227**	**231**	**168**	**626**

Source: Central Bank of The Bahamas

In-House Training

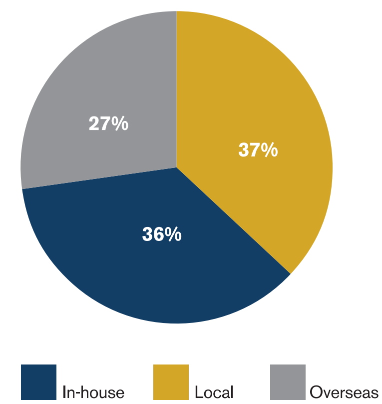
In-house training included Financial Planning Workshops over a 5-week period for employees of the Defined Benefit Pension Plan, as the plan wound-up and employees were transferred to the Bank's Defined Contribution Pension Plan. In addition, specialized training on Balance of Payments Concepts and Data Coding was held for Exchange Control team members, while Basic Trust Training was facilitated for members of the Bank Supervision Department. Two Coaching Workshop sessions were held for Mid-Level Managers, a Supervisory Training session for participants across various Departments, and a Leadership Workshop held for all Deputy Managers. Middle management and supervisors also participated in a Performance Management Workshop. Participants of the Security Unit continued with the second phase of the Muay Thai Training sessions. Further, participants from various Departments enrolled in a Time Management Workshop. To ensure that new employees were well informed of and equipped for the workplace environment, two Induction training sessions were held during the year.

Local Training

Local training programmes spanned a broad range of conferences and workshops, including the training or information sessions sponsored by the Association of Certified Anti-Money Laundering Specialists (ACAMS), the Association of International Banks and Trust Companies (AIBT), the Bahamas Financial Services Board (BFSB), the Bahamas Institute of Chartered Accountants' (BICA), the Centre for Monetary Studies of Latin America and Caribbean (CEMLA), the University of The Bahamas, STEP Caribbean, the World Conference of Credit Unions, and the Alliance for Financial Inclusion (AFI).

Over a two-day period, Executive and Senior Management team members also participated in a strategic planning Executive Management Workshop in Georgetown, Exuma.

2019 Employee Training



Online Training

Online training exposed staff to a range of curricula on economic and financial sector issues, sponsored by the IMF, particularly for the Research and Exchange Control Departments. Staff of the IT Department received varied instruction to enhance the security, performance and delivery of technology services, while the Internal Audit members benefitted from some specialist courses.

External Training

There was increased participation in regional and international training, covering a wider cross section of staff, but with similar developmental objectives. Partner or sponsor institutions included the IMF, the Alliance for Financial Inclusion (AFI), Bank for International Settlements (BIS), the IMF's Caribbean Regional Technical Assistance Centre (CARTAC), CEMLA, the Caribbean Financial Action Task Force (CFATF), the Caribbean Group of Banking Supervisors (CGBS), the European Central Bank (ECB), the United States' Federal Deposit Insurance Corporation (FDIC), the US Federal Reserve Banks of Philadelphia and New York, the Financial Action Task Force (FATF), the Financial Stability Board (FSB), the Financial Stability Institute (FSI), the Group of International Finance Centre Supervisors (GIFCS) and the Institute of Internal Auditors (IIA).

Continuing Education

The Bank also supports Continuing Education Programmes for employees desiring to pursue tertiary level education and/or professional certifications. In 2019, 17 staff members received approvals for certification studies, mainly related to auditing, Anti-Money

Laundering, Risk, Trust Law and Compliance and for pursuit of degrees in Business Administration, Data Analytics, Finance, Information Technology and Human Resources. In addition, in August 2019, an employee was granted an In-Service Award to pursue an undergraduate degree in Economics and Finance.

Workforce Assessment and Capacity Building Consultancy

In June 2019, the Bank commissioned a Workforce Assessment and Capacity Building project to inform comprehensive medium-term strategic planning around human resources needs. The scope covers an assessment of how well existing staff are equipped to support the organisation's vision; identifying resourcing adequacy gaps; identifying skillsets required to align the organisation's goals with its target human capital and workforce structure; and providing focused training and development initiatives aligned with any identified needs. The assessment, which continued through the end of 2019, is due to conclude in early 2020.

Executive Professional Programme

In October 2019, two development programmes were launched, namely the Central Bank Apprentice Programme and the Executive Professionals Programme. The programmes are structured to attract highly educated and talented university graduates seeking a fulfilling career in central banking, public policy or financial regulation. Annually, the programme will select a small number of university graduates, with moderate or no work experience, who have the potential to be integrated into respective technical and mid-management level positions. At the conclusion of the development period, successful interns will be eligible for a permanent placement within the key operations or policy units. In 2019, an Executive Professional intern was selected to commence the programme in January 2020.

Work Experience

The Bank continued to sponsor work experience exposure for secondary school and university students. Exposure was extended to eight students from two schools, who worked for two weeks in the Administration, Banking, Finance and Human Resources Departments. For the lengthier six-week sessions of the Summer Employment Programme, approximately 25 college and high school students were recruited, in two sessions during June and August 2019. Further, the Junior Professionals Summer Programme (JPSP) provided an eight-week summer internship for three high-performing university students, who were attached to the Banking, Bank Supervision and Research Departments.

COMMUNITY INVOLVEMENT AND OUTREACH

There also continued to be educational outreach to local schools. Members of staff participated in career fairs hosted by two high schools in New Providence, and facilitated eight school visits for in-house presentations on the Role and Functions of the Central Bank. Presentations on eLearning and Technology were also delivered to a group of 30 students from one local primary school, while students from another institution were given a presentation on the importance of mathematics in the workplace.

During the its annual Health Week, the Bank hosted a blood drive to contribute to the much needed blood supply for the Blood Bank, thus continuing its partnership with Friends of the Blood Bank and the Princess Margaret Hospital.

As a part of its outreach to the Hurricane Dorian Relief efforts, the Bank donated $125,000 to the National Emergency Management Agency (NEMA) and $125,000 to the Bahamas Red Cross. Additionally, employees of the Bank raised over $75,000 for the relief effort, which were presented to NEMA. Further, several of the shelters benefited from the supplies that were donated by staff.

Community Relations

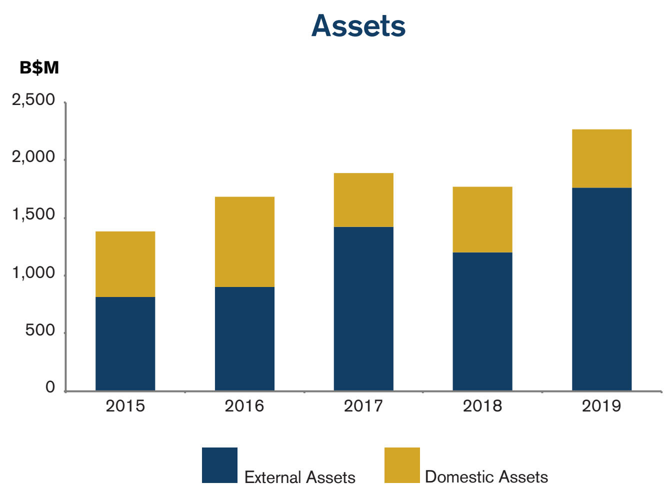
The Bank's Art Program is an important channel for showcasing and promoting the development of local talent. The gallery featured a monthly turnover of exhibitions, not only featuring the traditional stable exhibitions like the Open Call, After School Music and Arts Classes (ASMAC), the annual High School competition, but also the solo shows of Melissa Alcena, Richardo Barrett and the Vanguard Collection. Further, the introduction of a fair trade-off system of productions costs versus art-works strengthened the Bank's art collection substantially.

The Bank remains committed to the development of the visual arts in The Bahamas.

2019 FINANCIAL HIGHLIGHTS

The Bank's financial outcome is primarily impacted by the performance of external reserves, which is influenced by developments in the real sector, global interest rates (largely US rates) and the Government's financing activities. The financial statements for the year ended 31st December, 2019, along with comparable figures for 2018, are presented on pages 41 to 120 of this report.

In 2019, total assets rose by $493.8 million (27.9%) to $2,265.8 million. Underlying this outturn, external reserves, which accounted for 77.6% of the total, grew by $561.8 million (47.0%) to $1,758.1 million, supported largely by re-insurance inflows following the hurricane, and net inflows from tourism and foreign direct investment activities. Of note, foreign currency cash and



deposit balances increased more than two-fold to $794.5 million in 2019, from $375.8 million in 2018, while holdings of marketable securities expanded by $109.3 million (16.3%) to $779.8 million. Further, allocations from the IMF's Special Drawing Rights (SDRs) rose by $33.9 million (27.6%) to $157.1 million. In a partial offset, the Reserve Tranche with the IMF declined slightly by $0.2 million (0.6%) to $26.7 million.

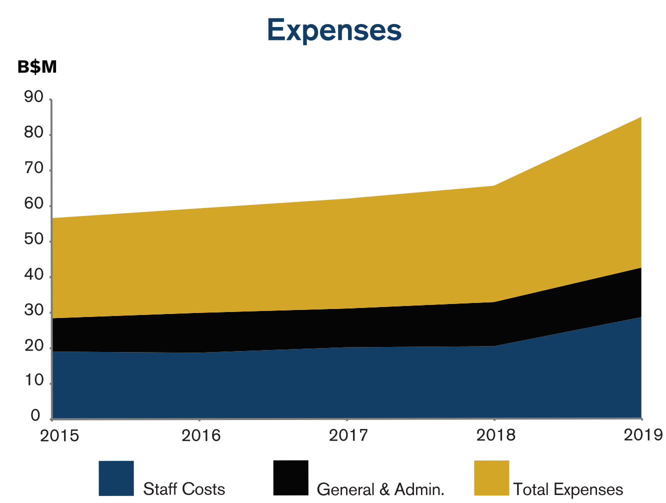
The domestic assets component decreased by $67.9 million (11.8%) to $507.8 million in 2019. This was led by notable reductions in short-term Government debt and Treasury bill holdings. Specifically, advances to the Government declined by $45.2 million (37.5%) to $75.2 million and Treasury bill holdings contracted by $20.5 million (13.1%) to $135.3 million. Similarly, retirement benefit assets fell sharply to just $1.0 million from $7.9 million in the previous year. Further, currency inventory decreased by $1.3 million (12.1%) to $9.5 million, while Bridge Authority Bonds and property plant & equipment reduced by $0.4 million (91.1%) to just $0.04 million and by $0.6 million (4.1%) to $13.2 million, respectively. In contrast, Bahamas Registered Stock grew by $0.8 million (0.3%) to $249.9 million. The remaining domestic assets rose by a combined $6.1 million (34.7%) to $23.7 million.

With regard to liabilities, demand claims on the Bank increased by $478.4 million (34.4%) to $1,867.6 million. Contributing to this outturn was a significant expansion in unremunerated deposits of commercial banks by $451.2 million (57.0%) to $1,242.9 million, owing in part to the reduction of Government's short-term outstanding debt. Further, Government and related agency deposits advanced by $17.9 million (18.6%) to $114.3 million, while currency in circulation rose by $28.6 million (6.2%) to $488.5 million. Providing some offset, accounts payable reduced by $15.4 million (53.0%) to $13.6 million, while Investment Currency Market liabilities fell by $5.4 million (60.4%) to $3.6 million.

Over the year, total income grew by $8.7 million (16.8%) to $60.1 million, as the interest income from investment sources (77.0% of the total) increased by $2.7 million (6.2%) to $46.3 million. Interest from foreign investments gained $2.2 million (7.1%) and earnings from domestic investments, $1.0 million (8.3%); however, interest on loans fell by $0.5 million (45.5%). Meanwhile, earnings from "other miscellaneous" sources advanced by $6.0 million (63.1%) to $15.5 million.

Total expenses for 2019 were higher by $9.7 million (29.6%) at $42.5 million. This was led by a rise in staff costs, by $8.4 million (41.7%) to $28.7 million, partly owing to the windup of the Defined Benefit Pension Plan for most active employees. General and administrative costs also rose by $0.7 million (6.9%), while depreciation expenses firmed by $0.2 million (9.4%).

As a result of these developments, the Bank recorded a total comprehensive net income of $16.5 million, a decline of $5.5 million (25.0%) over 2018.



OUR ENVIRONMENT

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that the domestic economy maintained its mildly positive growth trajectory in 2019, relative to an estimated 1.6% expansion in 2018, despite the passage of Hurricane Dorian, which devastated Grand Bahama and Abaco. Underlying this outturn, sustained gains in the United States market provided support to tourism output. Further, construction output was undergirded by several varied-scale foreign investment projects, as well as rebuilding activity following the passage of the storm. In terms of employment, for the twelve-months to November 2019, the jobless rate decreased for New Providence. Domestic inflationary pressures remained relatively contained, although the hike in the value added tax (VAT) rate in earlier periods and the uptick in global oil prices, contributed to firming in the rate.

In the fiscal outturn for FY2018/19, the overall deficit declined sharply, as the VAT-led growth in total revenue outstripped the rise in aggregate expenditure. In contrast, in the aftermath of Hurricane Dorian, trends over the first half of FY2019/20 revealed that the overall shortfall widened, owing in large measure to unplanned expenditure related to the rebuilding of key infrastructure and social assistance, set against disruptions in revenue collections. Financing for the deficit was sourced primarily from the domestic market and was dominated by long-term debt.

At end-December, the ratio of the Direct Charge on the Government to GDP rose by 71 basis points to 61.1% vis-à-vis the previous year. Further, the National Debt—inclusive of Government loan guarantees to the public sector—firmed to an estimated 66.8% of GDP, slightly up from 66.4% at end-December, 2018.

Developments in the monetary sector featured a build-up in the deposit base, which outpaced the growth in credit, resulting in an expansion in both bank liquidity and external reserves. External inflows to the banking system were dominated by re-insurance inflows and foreign currency receipts from real sector activities. Against this backdrop, at end-2019, the stock of external reserves was equivalent to an estimated 37.9 weeks of the current year's total merchandise imports, relative to 22.3 weeks in 2018; remaining well above the 12.0 weeks international benchmark.

Amid modest gains in the economy, combined with ongoing debt restructuring activities, loan write-offs and hurricane relief measures, banks' credit quality indicators improved during the year. Further, domestic banks' overall profitability increased, owing in large measure to a rise in interest income. Meanwhile, the weighted average interest rate spread narrowed in 2019, as the decline in the average lending rate contrasted with the slight increase in the corresponding deposit rate.

In the external sector, the estimated current account position reversed to a surplus in 2019 from a deficit in the prior year, due mainly to the receipt of re-insurance proceeds following the hurricane, to cover private rebuilding activities, along with a reduction in the merchandise trade deficit. In contrast, the surplus on the capital and financial account decreased markedly, largely on account of a sharp falloff in private sector loan-based financing inflows and a notable decrease in net direct investment inflows.

REAL SECTOR

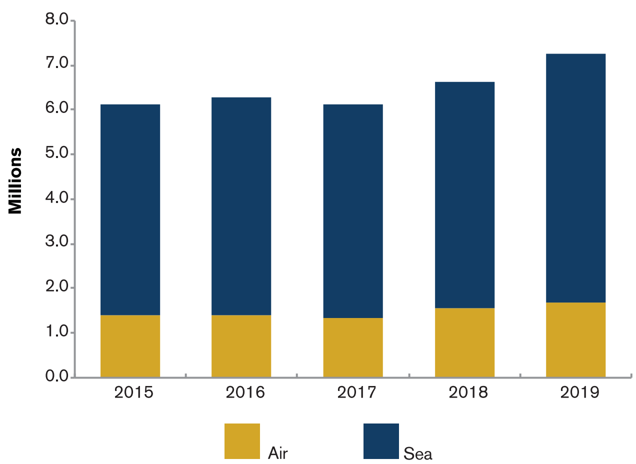
Tourism

Tourism output increased in 2019, buttressed by sustained gains in New Providence and the Family Islands, which were unaffected by the passage of Hurricane Dorian. The performance reflected both a rise in hotel room capacity and vacation rental sales.

According to data from the Ministry of Tourism, total visitor arrivals rose by 9.4% to 7.2 million in 2019, exceeding the 7.9% gain in 2018, to become the highest growth record in nine years (See Table 9). In underlying developments, sea arrivals advanced by 10.2% to 5.6 million, extending the 5.5% increase in the prior year. Further, the air segment grew by 6.7% to 1.7 million, albeit lower than the 16.7% expansion in the previous year.

A breakdown by first port of entry showed that visitor arrivals to New Providence rose by 11.0% to 4.2 million, surpassing the 4.1% gain in 2018. Underlying this outturn, air arrivals grew by 11.6%, although below the 19.2% growth last year. Further, the high volume sea component increased by 10.8%, vis-a-vis a 1.5% decrease in the previous year. In addition, visitor traffic to the Family Islands expanded by 16.4%, following a 14.9% growth in the prior year, cushioned by a 19.7% acceleration in sea traffic, which outpaced the 15.7% expansion in the preceding year. In contrast, air passengers fell by 2.7%, a reversal from the previous year's 10.5% growth. Providing some offset, visitor arrivals to Grand Bahama contracted by 22.6%, vis-à-vis a 9.1% increase in 2018, reflective of the extensive damages suffered during the passage of the storm, with reductions in both sea and air arrivals of 21.6% and 30.4%, respectively, following gains of 9.6% and 5.4% in 2018.

Tourist Arrivals



In line with developments in the stopover visitor segment, hotel sector indicators remained positive. Preliminary data for a sample of large hotels in New Providence and Paradise Island indicated that total room revenue grew by 18.0%, but was notably lower than the 34.0% growth in 2018, as gains in total room nights sold moderated to 11.0% from 28.0% in the prior year. However, the average occupancy rate increased by 5.4 percentage points to 67.1%, after a 1.0 percentage point uptick in the previous year. Further, the average daily rate (ADR) rose by 6.5% to $266.92, extending the 4.7% gain in 2018.

Market data provided by AirDNA revealed that off-resort vacation rental activity remained positive in 2019. Specifically, the total number of room nights sold grew by 35.3% over 2018. With regard to the components, bookings for hotel comparable listings rose by 49.7% and for entire place listings by 33.9%. Further, the occupancy rate for hotel comparable listings increased by 4.5% and by 3.8% for entire place listings. Providing some offset, the ADR for hotel comparable listings fell by 6.0% to $152.44 and by 2.0% to $394.67 for entire place listings.

Construction

Activity in the construction sector continued to be supported by several ongoing foreign investment projects. However, domestic investments remained subdued, as banks sustained their conservative lending stance. Meanwhile, forward looking indicators signalled some improvements over the near term, bolstered by hurricane rebuilding works.

As an indicator of domestic activity, total mortgage disbursements for new construction and repairs–as reported by commercial banks, insurance companies and the Bahamas Mortgage Corporation–reduced by $8.1 million (6.6%) to $113.4 million in 2019, a reversal from the 11.6% increase last year. Specifically, residential disbursements—which accounted for 95.2% of the total—contracted by $6.1 million (5.4%) to $105.8 million, after a 9.2% gain in the previous period. In addition, commercial disbursements fell by $2.0 million (21.1%) to $7.6 million, a turnaround from the 50.6% advance in 2018.

An analysis of forward looking indicators suggests that domestic financed construction is likely to strengthen. Specifically, total domestic mortgage commitments for new buildings and repairs grew in number by 16.0% to 471, with the relevant value increasing by 39.7% to $86.8 million. An analysis by category revealed that residential approvals—at 97.9% of the total—rose in number by 16.4% to 461, with the associated value higher by 58.4% at $66.2 million. In addition, the number of commercial commitments held steady at 10, with the corresponding value firming up by 1.2% to $20.6 million.

With regard to interest rates, the average costs of residential mortgages decreased by 23 basis points to 6.81%. Conversely, the average rate for commercial mortgages rose by 24 basis points to 6.50%.

Employment

Labour market conditions improved during 2019 for New Providence, supported by the modest uptick in the domestic economy. While surveys were not undertaken for Grand Bahama and Abaco, estimates are that given workforce dislocation and halted business operations, unemployment in these locations would have pushed the national average above the November 2018 rate of 10.7%.

With regard to dislocation following Hurricane Dorian, survey results showed that a total of 3,360 individuals were relocated, of which 2,795 were from Abaco and 565 were from Grand Bahama. Approximately 32.0% of surveyed respondents indicated an intention to return to their home islands within 12 months, about 34.0% were unsure of their next steps, while 16.0% had no intention of returning to the impacted islands.

As to New Providence, preliminary data from the Department of Statistics' Labour Force Survey, revealed that for the 12 months to November 2019, the number of employed persons increased by 6,950, to 152,640, vis-à-vis a 2.4% growth in the 12 months to November 2018. The island's labour force grew by 4.4%, to 170,835, after increasing by 2.8% in 2018. Consequently, the jobless rate for New Providence softened by 30 basis points to 10.7%. At the end of the period, the rate of unemployment for males measured 10.7% and for females, 10.6%.

Prices

Reflecting mainly the rise in global oil prices, the average Retail Price Index (RPI) for The Bahamas rose to 2.6% during the twelve months to October, from 2.2% in the same period of the prior year. Contributing to this outturn, average costs increased for furnishings, household equipment & routine household maintenance and clothing & footwear, by 5.5% and 1.1%, respectively, a reversal from reductions of 0.4% and 2.1% last year. Further, gains in average prices quickened for transportation (9.9%), restaurants & hotels (5.2%), alcohol beverages, tobacco & narcotics (4.4%), health (3.9%) and miscellaneous goods & services (2.5%), respectively. In a slight offset, average inflation rates slowed for housing, water, gas, electricity & other fuels to 1.5%, and food & non-alcoholic beverages to 0.4%, following respective gains of 2.5% and 2.6% in the prior year. Further, average price reductions were recorded for education (3.4%) and communication (2.1%). Moreover, average prices for recreation & culture declined by 1.1%, following an increase of 3.9% a year earlier.

Table 9: Selected Economic Indicators

	2017	2018	2019
Real GDP*	0.1	1.6	1.8
Unemployment Rate (Nov.)	10.1	10.7	n.a.
Hotel Occupancy (%)**	60.7	61.7	67.1
Total Arrivals	(1.5)	7.9	9.4
Mortgage Disbursements	(0.4)	11.6	(6.6)
Inflation	1.5	2.3	n.a.
National Debt/GDP Ratio(%)*	64.9	66.4	66.8

Source: Central Bank of The Bahamas
*2019 GDP estimates derived from IMF's data.

** Data from The Bahamas Hotel and Tourism Association and the Ministry of Tourism of Nassau and Paradise Island properties.

FISCAL OPERATIONS

FY2018/19 Performance

During FY2018/19, the Government's overall fiscal deficit narrowed by 48.2% ($199.8 million) to $215.1 million (See Table 10), remaining $22.5 million (9.5%) lower than budgetary projections. In terms of the components, aggregate revenue expanded by 18.5% ($377.7 million) to $2,420.1 million, supported by value added tax (VAT) receipts, although some $230.8 million (8.7%) less than expected. Total expenditure rose by 7.2% ($177.9 million) to $2,635.2 million, but was $253.3 million (8.8%) lower than forecasted.

Revenue

Tax revenue—at 90.8% of total collections—grew by 19.7% ($361.1 million) to $2,196.8 million, but was approximately $233.2 million (9.6%) lower than anticipated. The outturn largely reflected a $215.6 million (31.7%) growth in net VAT collections to $896.1 million for the fiscal year, although 15.4% less than the budgeted projections. Further, stamp taxes on financial and realty transactions advanced by $115.8 million (105.7%) to $225.3 million. In addition, receipt from specific taxes—primarily gaming—rose by $2.6 million (7.1%) to $39.8 million. Taxes on the use of goods rose by $38.8 million (20.3%) to $230.6 million, due primarily to increased income from general business license fees and banks & trust companies. Levies on international trade & transactions also expanded by $12.0 million (2.8%) to $444.0 million, largely explained by a rise in collections from import and departure taxes of $14.3 million (5.3%) and $3.4 million (2.4%), respectively. In contrast, property taxes declined by $14.3 million (11.5%) to $109.3 million.

Non-tax receipts rose by $19.3 million (9.5%) to $223.3 million during the period—exceeding the budgeted amount by $4.5 million (2.1%). Underlying this development, collections from the sale of goods & services advanced by $30.1 million (18.4%) to $193.5 million, led by a notable rise in proceeds from immigration fees. In addition, income from fines, penalties & forfeits increased sharply by $4.1 million to $5.3 million. In addition, revenue from the sale of "other" non-financial assets more than doubled to $2.7 million from $1.3 million. In a slight offset, income from other "miscellaneous" sources decreased by $12.8 million to $2.0 million. Capital revenue remained at negligible levels over the review period.

Expenditure

Current expenditure—which comprised 91.8% of total outlays—expanded by $229.5 million (10.5%) to $2,418.0 million, but stood $171.1 million (6.6%) below budgeted estimates. In terms of components, outlays

Table 10: Fiscal Indicators (B$ Millions)

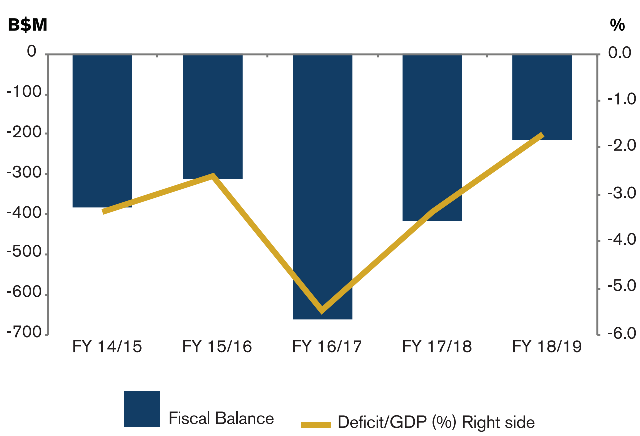
	FY2016/17 Actual	FY2017/18 Actual	FY2018/19 Actual	FY2019/20 Approved Estimates	FY2019/20 Preliminary[1] Estimates
Government Revenue	2,070.3	2,042.4	2,420.1	2,628.1	1,103.6
as % of GDP	17.2	16.6	19.3	20.4	8.6
Government Expenditure	2,731.0	2,457.3	2,635.2	2,765.0	1,292.2
as % of GDP	22.7	20.0	21.0	21.5	10.0
Surplus/(Deficit)	(660.7)	(414.9)	(215.1)	(136.9)	(188.6)
as % of GDP	(5.5)	(3.4)	(1.7)	(1.1)	(1.5)

Source: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format.[1] July - December, 2019

for the use of goods & services increased markedly by $142.8 million (31.8%) to $591.6 million. Similarly, interest payments on debt grew by $10.6 million (3.4%) to $324.5 million, as the $15.8 million (12.1%) growth in external debt obligations outstripped the $5.1 million (2.8%) decrease in internal payments. Gains were also recorded for general subsidies, by $64.9 million (19.8%) to $392.7 million; and social assistance benefits, by $20.3 million (12.2%) to $186.0 million. More muted increases were reported for other payments and grants, by $7.2 million (3.7%) and $0.5 million (6.2%) to $203.3 million and $8.1 million, respectively. However, outlays for compensation of employees contracted by $16.8 million (2.3%) to $711.9 million.

Capital spending declined by $51.6 million (19.2%) to $217.2 million; approximately $82.2 million (27.5%) less than was budgeted. In the underlying developments, spending on the acquisition of non-financial assets contracted by $41.1 million (18.0%) to $187.6 million. Likewise, outlays on mostly infrastructure-related capital transfers reduced by $10.5 million (26.1%) to $29.6 million.

Fiscal Indicators



Financing

Financing for the deficit during FY2018/19 was obtained primarily from domestic sources, which included long-term bonds ($619.7 million), loans & advances ($234.0 million) and net Treasury bills/notes ($231.3 million). In addition, external borrowings, in the form of loan drawdowns, amounted to $9.2 million. Debt repayments for the period totalled $801.1 million, the bulk of which ($717.2 million) was used to retire Bahamian dollar obligations.

First Six Months of 2019/20

For the first half of FY2019/20, the Government's overall deficit widened by $14.1 million (8.1%) to $188.6 million, when compared to the same period last year. The expansion in the deficit was dominated by the effects of Hurricane Dorian, which resulted in unplanned spending for reconstruction works and social assistance, as well as disrupted revenue collections. The outturn reflected a $106.1 million (8.9%) hurricane-related growth in aggregate expenditure to $1,292.2 million, which overshadowed the $91.9 million (9.1%) rise in total revenue to $1,103.6 million.

Expenditure

The growth in total expenditure included a rise in current expenditure by $69.4 million (6.3%) to $1,175.6 million during the six-month period. This reflected a $29.0 million (17.2%) expansion in subsidies to $197.8 million, owing primarily to higher disbursements to public corporations. In addition, other "miscellaneous" current transfers rose by $9.1 million (12.8%) to $80.2 million and allocations for insurance premiums by $6.0 million (25.0%) to $30.1 million. Further, personal emoluments increased by $27.5 million (7.8%) to $380.2 million and interest payments, by $5.9 million (3.7%) to $165.4 million, due to a rise in the internal component.

Capital outlays also grew by $36.6 million (45.8%) to $116.6 million. This largely corresponded to a surge in infrastructure-related capital transfers to $43.3 million from $14.8 million, for rebuilding after the hurricane. Non-financial asset acquisitions also moved higher by $8.1 million (12.4%) to $73.3 million, owing primarily to increased fixed assets.

Revenue

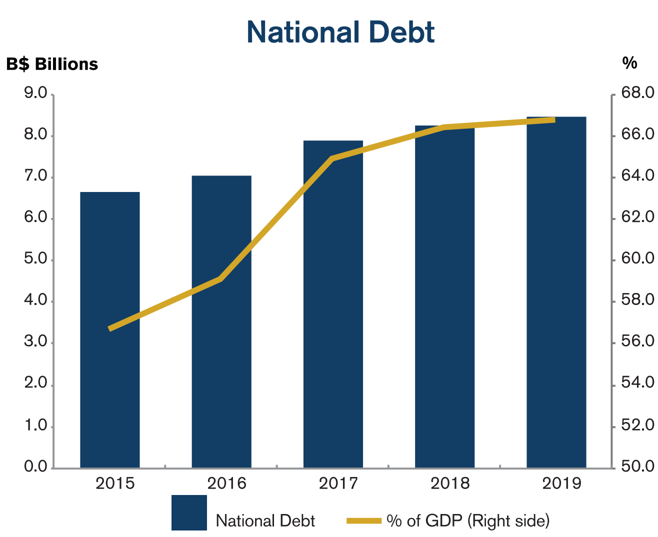
The half-year tax receipts expanded by $95.3 million (10.6%) to $995.2 million. The most significant gains occurred for VAT collections, by $130.0 million (33.7%) to $515.3 million. Likewise, revenue from excise and specific taxes—mainly gaming taxes—rose by $14.7 million (12.5%) and $9.6 million (98.2%) to $132.5 million and $19.4 million, respectively. Taxes on the use of goods and services increased by $4.2 million (13.2%)

to $36.1 million, buoyed by gains in business licensing fees and motor vehicle taxes; and levies on international trade moved higher by $25.3 million (12.3%) to $231.8 million, led by a rise in exports and departure taxes. Meanwhile, proceeds from general stamp taxes decreased by $1.2 million (21.0%) to $4.7 million, while receipts from property taxes declined by $0.9 million (2.7%) to $34.1 million.

In contrast, non-tax revenue contracted by $5.0 million (4.4%) to $106.8 million, as rental property income receipts declined by $11.2 million (83.0%) to $2.3 million. Also of note were more muted declines for income from fines, penalties & forfeitures, by $2.0 million (69.2%) to $0.9 million and sales of goods and services, by $1.4 million (1.6%) to $86.4 million.

Financing

Budgetary financing for the six-month period, was primarily from domestic sources, led by long-term bonds ($295.9 million), loans & advances ($98.0 million), net Treasury bills/note issues ($51.2 million) and syndicated foreign currency hurricane relief loan ($50.0 million). Meanwhile, external policy-based financing amounted to $40.5 million. Debt repayments for the period totalled $325.7 million, the majority of which ($303.4 million) repaid Bahamian dollar obligations.



National Debt

During 2019, the Government's direct charge increased by $234.3 million (3.1%), year-on-year, to $7,733.2 million, a moderation from the previous year's expansion of $318.8 million (4.4%). As a result, the ratio of the Direct Charge to GDP stood at approximately 61.1%, a rise of 71 basis points over 2018 (See Table 11). Bahamian dollar denominated debt—at 66.2% of the total—advanced by $210.5 million (4.3%) to $5,115.6 million, while foreign currency claims grew by $23.8 million (0.9%) to $2,617.7 million. An analysis by holder classification indicated that banks continued to hold the majority of Bahamian dollar debt (40.6%), followed by the private sector (38.7), public corporations (11.8%) and the Central Bank (8.9%).For the year, Government's contingent liabilities contracted by $28.3 million (3.8%) to $723.9 million. As a result, the National Debt, which includes these liabilities, grew by $206.0 million (2.5%) to $8,457.2 million, a moderation from the previous year's $366.9 million (4.7%) growth. Similarly, the National Debt to GDP ratio increased by 37 basis points to an estimated 66.8%, following a 1.5 percentage point gain to 66.4% in 2018.

Foreign Currency Debt

Public sector foreign currency debt declined by $34.1 million (1.0%) to $3,476.0 million during 2019. New drawings decreased markedly by $162.9 million (63.5%) to $93.7 million and trailing amortization payments at $122.2 million, despite a $94.7 million (43.6%) abatement. The Government's debt obligations–which accounted for 75.3% of the aggregate–grew by $23.8 million (0.9%) to $2,617.7 million, while the public corporations component fell by $58.0 million (6.3%) to $858.3 million.

Foreign Currency debt service contracted by $112.5 million (25.7%) to $325.4 million, mostly as public corporations recorded a $92.1 million (44.0%) reduction to $117.2 million. Similarly, Government payments fell by $20.4 million (8.9%) to $208.2 million. The Government's debt-service to total revenue ratio narrowed to 8.3% from 10.5% in 2018, while the debt service to exports ratio stood at 7.1%, a decline of 1.9 percentage points from the prior year.

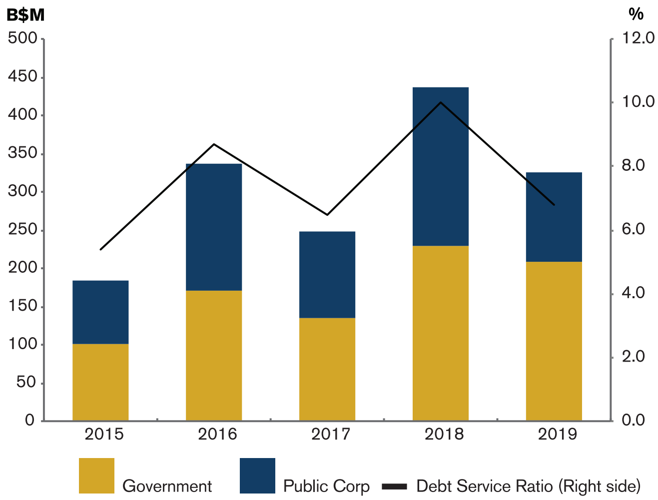
Table 11: Debt Indicators

	2017p	2018p	2019p
		(B$ Millions)	
A. Total F/C Debt	3,484.2	3,510.1	3,476.0
i). External Debt	3,233.9	3,171.8	3,123.1
ii). Internal F/C Debt	250.4	338.4	352.9
B. National Debt	7,884.3	8,251.2	8,457.2
i) Direct Charge	7,180.1	7,498.9	7,733.2
C. Debt Service Ratio (%)	6.5	10.0	6.8
		Percent of GDP	
A. Total F/C Debt	28.7	28.3	27.4
i) External Debt	26.6	25.5	24.7
ii) Internal F/C Debt	2.1	2.7	2.8
B. National Debt	64.9	66.4	66.8
i) Direct Charge	59.1	60.4	61.1

Source: Treasury Accounts, Treasury Statistical Printouts and Public Corporations' Quarterly Report
*2019 GDP estimates derived from the IMF's data

A breakdown by creditor profile, showed that the majority of the foreign debt was held by private capital markets (47.5%), followed by external financial institutions (31.6%), domestic banks (10.1%), multilateral institutions (8.7%) and bilateral financial institutions (2.1%). At end-December, the average maturity of foreign currency debt lessened to 8.7 years from 9.3 years in the prior year. By currency, the bulk of the debt was denominated in US dollars (86.7%), followed by the Swiss franc (6.0%), euro (5.2%) and Chinese yuan (2.1%), respectively.

Public Sector F/C Debt Service



MONEY, CREDIT AND INTEREST RATES

Monetary Sector

During 2019, monetary conditions featured robust growth in both bank liquidity and external reserves, with the expansion in the deposit base outpacing the rise in private sector credit trends. In this regard, flows impacting liquidity and reserves included re-insurance claim settlements following the passage of Hurricane Dorian and net foreign currency inflows from real sector activities. Further, banks' credit quality indicators improved during the year, reflecting modest gains in economic conditions, combined with ongoing debt restructuring, hurricane relief measures and loan write-offs. Banks' overall profitability also strengthened in 2019, due mainly to a rise in interest income. In addition, the weighted average interest rate spread declined, owing largely to the fall in the average lending rate, which contrasted with the slight increase in the corresponding deposit rate.

Liquidity

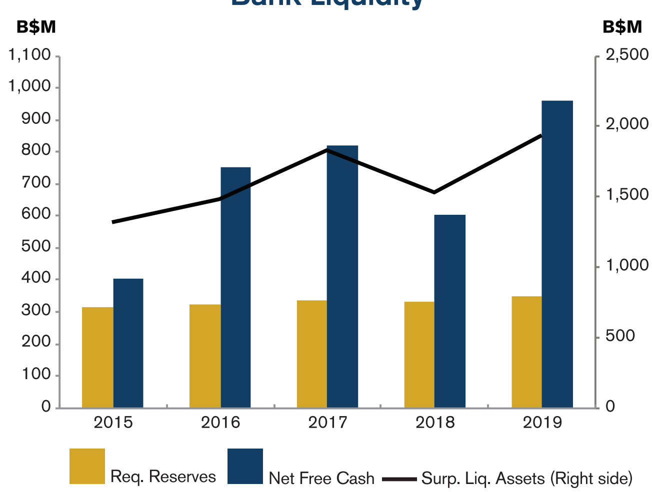
Reflecting mainly a rise in Treasury bill holdings, average net free cash balances—a narrow measure of liquidity—contracted by $73.4 million (8.8%) to $761.7 million, after a build-up of $93.8 million (12.7%) in the previous year. An analysis of the monthly trend indicated that, while balances were relatively stable during the first quarter, net free cash reserves rose above $700.0 million in April and remained above this level over the remainder of the year, before reaching a peak of $961.5 million in December. This equated to a higher 13.6% of Bahamian dollar deposits, compared with 9.4% in 2018.

Owing largely to a sharp rise in banks' balances with the Central Bank, excess liquid assets—a broader measure of liquidity, inclusive of holdings of Government securities—recorded an average surplus of $1,772.4 million per month, albeit a 3.0% decrease from the preceding year's mean. Liquid assets, rose continuously over the first four months of the year, before recording a marginal decline in May. It resumed its uptrend the following month, to peak at $1,936.9 million in December, for an annual gain of $403.5 million (26.3%). In 2018, surplus liquidity declined by $293.9 million (16.1%). The 2019 closing balances exceeded the statutory requirement by 153.6%, vis-à-vis 137.4% in the previous year.

Money Supply

Buoyed by hurricane-related re-insurance inflows, overall money supply (M3) increased sharply by $783.9 million (11.0%) in 2019, extending the $71.6 million (1.0%) growth in 2018, for an aggregate stock of $7,892.9 million. A disaggregation by component revealed that narrow money (M1) expanded at an accelerated pace of $520.2 million (19.1%), relative to a $74.1 million (2.8%) increase in the previous year. In particular, the build-up in demand deposits quickened to $493.9 million (20.4%) from $56.3 million (2.4%) in the prior year. Further, gains in currency in circulation advanced to $26.3 million (8.5%), from $17.9 million (6.1%) in 2018.

Bank Liquidity



Similarly, broad money (M2) rose by $597.7 million (8.9%), contrasting with the prior year's $55.9 million (4.1%) reduction. The expansion in savings deposits strengthened to $209.9 million (14.7%) from $55.9 million (4.1%), reflecting a rise in private sector balances. In addition, the falloff in fixed deposits moderated to $132.4

million (5.2%), from $186.0 million (6.8%) in the preceding year. Further, the growth in foreign currency deposits extended to $186.3 million (46.4%) from $127.4 million (46.6%) in 2018, as gains in private sector placements, outweighed the reduction in public sector deposits.

As a proportion of the overall money stock (M3), Bahamian dollar demand deposits comprised the largest share, at 36.9%, followed by fixed (30.7%) and savings (20.7%) balances. Foreign currency deposits and currency in active circulation represented smaller shares, of 7.4% and 4.3%, respectively.

Domestic Credit

The growth in bank lending in 2019 was dominated by credit to the Government, owing in part to financing for hurricane recovery efforts in the latter half of the year. Private sector credit trends were considerably subdued in light of banks' constrained lending posture.

Total domestic credit increased by $45.8 million (0.5%), a slowdown from the $72.9 million (0.8%) expansion in 2018—with the Bahamian dollar component dominating at 95.4% of the aggregate. In particular, the growth in net claims on the Government moderated sharply to $81.6 million (3.2%), from $156.3 million (6.6%) in the previous year. In addition, credit to the rest of the public sector declined by $41.2 million (8.5%), contrasting with a $13.3 million (2.8%) rise in the prior year.

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

	Outstanding as at 2017	Absolute Changes 2018	Absolute Changes 2019	Outstanding as at 2019
Destination				
Government (net)	2,383.0	156.3	81.6	2,620.9
Central Bank	390.1	80.5	(74.7)	395.9
Domestic Banks	1,992.9	75.7	156.4	2,225.0
Rest of Public Sector	472.5	13.3	(41.2)	444.6
Central Bank	8.0	(0.3)	(0.7)	7.0
Domestic Banks	464.5	13.6	(40.6)	437.5
Private Sector	5,982.9	(96.7)	(5.4)	5,891.6
Domestic Banks	5,982.9	(96.7)	(5.4)	5,891.6
Consumer	2,322.3	(105.1)	(8.8)	2,208.4
Mortgages	2,704.5	(13.9)	(43.3)	2,647.3
Other Loans	956.1	22.3	57.5	1,035.9
Financing				
Liabilities (Net of Government)	7,037.3	71.6	783.9	7,892.8
Currency	292.6	17.9	26.3	336.8
Total Deposit liabilities	6,744.7	53.7	757.6	7,556.0
Demand deposits	2,579.4	170.8	621.8	3,372.0
Savings deposits	1,390.4	64.0	212.9	1,667.3
Fixed Deposits	2,774.9	(181.1)	(77.1)	2,516.7
International reserves	1,417.4	(221.1)	561.8	1,758.1
Other net external liabilities	(265.0)	140.8	156.8	32.6
Capital and surplus	2,870.2	(86.3)	(181.1)	2,602.8
Other (net)	83.3	7.2	161.6	252.2

Source: Central Bank of The Bahamas

Private sector credit grew by a modest $5.4 million (0.1%), after contracting by $96.7 million (1.6%) in the previous year. A disaggregation by sector revealed that the reduction in the dominant personal loans component—which accounted for 77.5% of the total—slowed sharply to $52.5 million (1.1%) from $125.9 million (2.5%) in 2018. Notably, credit extensions were registered for distribution ($43.2 million), professional & other services ($16.1 million), construction ($9.1 million), entertainment & catering ($6.1 million) and tourism ($4.4 million). More muted gains occurred for manufacturing ($3.1 million), private financial institutions ($1.1 million), mining & quarrying ($0.6 million) and agriculture ($0.4 million). However, outstanding credit declined for "miscellaneous" purposes ($17.3 million), transport ($4.0 million) and fisheries ($0.6 million).

Within personal loans, moderation in the reduction was attributed to a narrowed decrease in consumer credit of $8.9 million (0.4%), from $105.1 million (4.5%) in 2018. However, the decline in overdrafts quickened to $22.6 million (49.6%) from $14.2 million (23.8%) and in housing loans, to $30.5 million (1.2%) from $15.3 (0.6%) million.

A disaggregation of the consumer credit component revealed that, notably, net repayments occurred for debt consolidation ($13.7 million), "miscellaneous" purposes ($11.5 million), private cars ($10.5 million) and land purchases ($7.7 million); while a more modest reduction was registered for education ($3.1 million). In contrast, credit extension rose for credit cards ($23.9 million), travel ($14.2 million) and furnishings & domestic appliances ($1.0 million). Other components recorded mixed movements of less than $1.0 million each.

Interest Rates

The weighted average interest rate spread on domestic banks' loans and deposits decreased by 89 basis points to 9.61 percentage points in 2019. An 88 basis points reduction in the average loan rate to 10.46%, contrasted with the 1 basis point rise in the deposit rate to 0.85%.

In terms of lending, the decline in the loan rates was led by a fall in the average rate for commercial mortgages, by 1.1 percentage points to 6.52%. Similarly, average rates for consumer loans and residential mortgages reduced by 63 and 51 basis points, to 12.86% and 4.91%, respectively. In contrast, the overdraft rate rose by 28 basis points, to 10.43%.

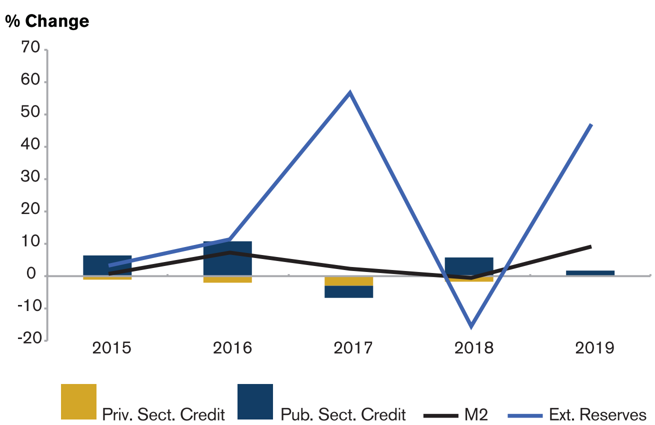
With regard to deposits, the average rate paid on demand deposits rose by 9 basis points to 0.36%. In contrast, the average range on fixed maturities narrowed to 0.35%-0.90%, from 0.60%-1.26% in 2018. Similarly, the average rate on savings balances fell by 25 basis points to 0.38%.

In other interest rate developments, the average 90-day Treasury bill rate decreased by 5 basis points to 1.60%. Meanwhile, the benchmark Central Bank Discount rate and the commercial banks' Prime rate were maintained at 4.00% and 4.25%, respectively.

Net Foreign Assets

Buoyed by a sharp increase in the Central Bank's net international reserves, total net foreign assets of the banking system expanded by $718.6 million (67.0%) to $1,790.7 million in 2019. This reversed the 2018 reduction of $80.3 million (7.0%). In particular, the Bank's external reserves balance expanded by $561.8 million (47.0%) to $1,758.1 million, after declining by $221.1 million (15.6%) in the previous year—dominated by the reinsurance receipts, related to the passage of Hurricane Dorian, and to a lesser extent, inflows from tourism sector activity. In addition, commercial banks reported net foreign assets of $32.6 million, vis-à-vis net foreign liabilities of $124.2 million a year earlier.

Monetary Developments



An analysis of the monthly trends revealed that the external reserves stood at the lowest level in January rising consistently through May from tourism sector net inflows. The seasonal reductions which then set in, were outweighed by the fourth quarter re-insurance receipts, which elevated balances to $1,758.1 million at December-end. Average monthly levels reached $1,533.0 million, a gain of $67.6 million (4.6%) over the prior year.

As it relates to underlying foreign currency transactions affecting reserves, the Bank recorded a net purchase of $489.3 million, contrasting with a net sale of $301.0 million in the preceding year. Contributing significantly to this development was a surge in the net intake from commercial banks, to $861.5 million from $158.7 million last year. In addition, the Bank registered $71.8 million in net purchases from the Government, vis-à-vis net sales of $46.6 million in 2018. In contrast, net sales to public corporations—primarily for fuel imports—rose by $30.9 million (7.5%) to $444.1 million.

At end-December, the stock of external reserves stood at an estimated 37.9 weeks of the current year's total merchandise imports, relative to 22.3 weeks in the previous year and above the international benchmark of 12.0 weeks. After adjusting for the statutory requirement to maintain reserves equivalent to 50% of the Bank's demand liabilities, "useable" reserves increased by $315.2 million to $837.5 million.

BANKING SECTOR PERFORMANCE

Credit Quality

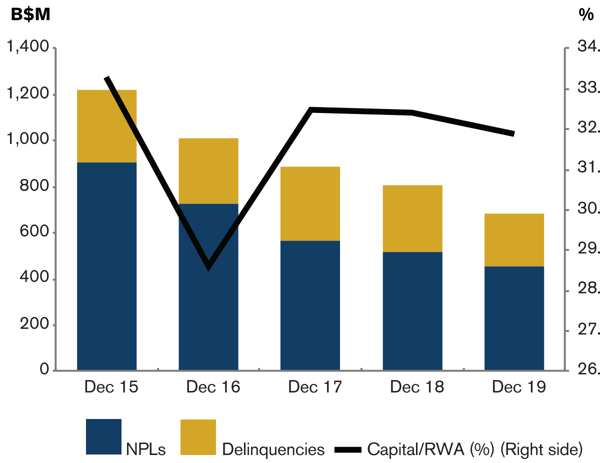
Banks' credit quality indicators continued to improve during the review year, amid modest gains in the economy, combined with ongoing debt restructuring activities, loan write-offs and hurricane relief measures.

Total private sector loan arrears fell further by $123.5 million (15.3%) to $686.3 million—the lowest level since 2008—after the prior year's $75.0 million (8.5%) decline. As a result, the ratio of arrears to total private sector loans narrowed by 2.2 percentage points to 12.1%, relative to the 1.2 percentage point reduction in the preceding year.

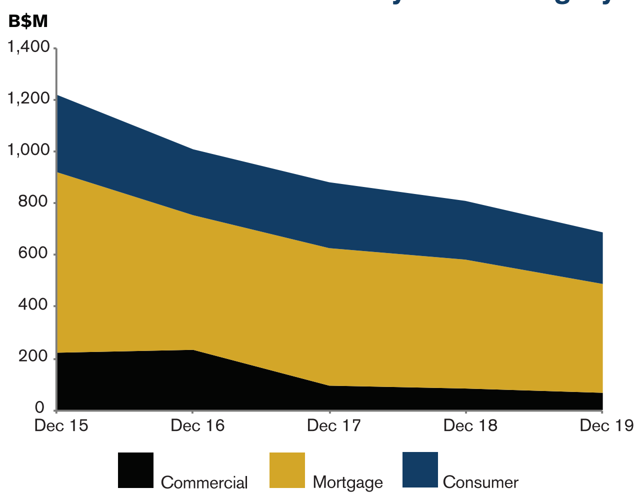
The contraction in total delinquencies was led by the non-performing loans (NPLs) segment which decreased by $63.0 million (12.2%), to $454.0 million, exceeding the $50.5 million (8.9%) falloff registered in 2018. In addition, short-term (31-90 days) arrears fell by $60.5 million (20.7%) to $232.3 million, outpacing the prior year's reduction of $24.5 million (7.7%). Consequently, the ratios of NPLs and short-term arrears to total private sector loans both declined by 1.1 percentage points each, to 8.0% and 4.1%, respectively.

A breakdown by loan type, revealed broad-based improvements across the main components. In particular, mortgage arrears fell by $76.2 million (15.3%) to $423.2 million, outpacing the $34.7 million (6.5%) decrease in the prior year, with a 2.7 percentage point reduction in the associated ratio to 16.1%. In addition, consumer delinquencies reduced by $30.9 million (13.5%) to $198.5 million, in line with the prior year's $29.0 million (11.2%) falloff, resulting in a 1.3 percentage point moderation in the attendant ratio to 9.0%. Further, commercial arrears contracted by $16.5 million (20.3%) to $64.6 million, outpacing the $11.3 million (12.2%) decline recorded in 2018, and lowering the corresponding loan ratio, by 2.6 percentage points to 7.8%.

Private Sector Loan Arrears



Private Sector Arrears by Loan Category



Capital Adequacy and Provisions

Banks sustained their cautious lending stance during the year, as evidenced by relatively high capital levels and a decrease in their provisioning for loan losses. At end-2019, the ratio of capital to risk weighted assets stood at 28.6%, albeit 3.7 percentage points lower than the prior year's level (See Table 13), but remained well above the prudentially prescribed target and trigger ratios of 17.0% and 14.0%, respectively. Further, banks reduced their provisions for bad debts, by $9.7 million (2.2%) to $428.8 million, contrasting with the $14.9 million (3.5%) increase in 2018. Consequently, the ratio of provisions to total loans decreased by 23 basis points to 6.8%. However, the ratios of provisions to NPLs and total arrears firmed by 9.6 and 8.3 percentage points, to 94.4% and 64.5%, respectively. In addition, banks wrote-off a total of $113.5 million in delinquent loans, while recoveries amounted to $30.5 million.

Bank Profitability

Largely attributed to higher interest income, domestic banks' profitability strengthened in 2019. Profits improved by $20.1 million (8.6%) to $253.7 million, after the prior year's $51.4 million (28.2%) increase. The net interest margin rose by $17.8 million (3.4%) to $542.8 million, as interest income increased by $12.7 million (2.2%) to $593.2 million, while interest expense reduced by $5.1 million (9.2%) to $50.4 million. In addition, earnings from commission & foreign exchange transactions advanced by $8.7 million (29.5%) to $38.1 million, boosting growth in the gross earnings margin further by $26.4 million (4.8%) to $580.9 million.

Table 13: Commercial Banks' Financial Soundness Indicators[1]

	2017	2018	2019
Capital Adequacy			
Regulatory capital/RWAs*	32.5	32.3	28.6
Regulatory Tier 1 capital/RWAs*	29.0	31.2	27.5
Asset Quality			
NPLs/Private Sector Loans	9.9	9.1	8.0
NPLs to Capital	21.0	19.6	19.1
Earnings & Profitability			
Return on assets	1.8	2.3	2.4
Return on equity	6.8	8.5	10.6
Liquidity			
Liquid assets to total domestic assets	29.0	26.6	29.6

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

Operating costs expanded broadly by 7.6% ($28.0 million) to $396.4 million in 2019. In particular, non-staff outlays—including professional services, Government fees and maintenance—moved higher by 10.6% ($19.5 million). In addition, occupancy and staffing costs grew by 22.4% ($6.2 million) and 1.5% ($2.3 million), respectively. As a result, the net earnings margin narrowed by 0.8% ($1.6 million) to $184.6 million. Further, banks' profits from "non-core" operations increased by $21.6 million (45.6%) to $69.1 million. The outturn was occasioned by a more moderate rise in "other" fee-based income by 12.9% ($20.2 million), while provisioning for bad debt fell further by 0.6% ($0.6 million) and depreciation costs by 7.0% ($0.9 million).

Reflecting these trends, the gross earnings margin ratio rose by 18 basis points to 5.58%, as the interest margin and commission & foreign exchange income ratios firmed by 10 and 8 basis points, to 5.22% and 0.37%, respectively. In contrast, the net earnings margin ratio narrowed by 4 basis points to 1.77%, as the operational costs ratio widened by 22 basis points to 3.81%.

Nonetheless, after accounting for "non-core" operations, the net income (return on assets) ratio moved higher by 16 basis points to 2.44%.

CAPITAL MARKET DEVELOPMENTS

Domestic capital market developments were modestly positive in 2019. Specifically, the volume of shares traded on the Bahamas International Securities Exchange (BISX) grew by 3.9% to 8.9 million during the review year, adding to a 66.1% growth in 2018. The corresponding value rebounded by 2.2% to $42.7 million from a decline of 6.2% in 2018. As a result, the BISX All Share Index—a market capitalization weighted index—rose by 5.8% to 2,231.60 points, extending the 2.2% gain a year earlier. The market capitalization of listed firms appreciated again, by 4.4% to $5.0 billion, surpassing the prior year's 1.0% uptick.

At end-December 2019, the number of publicly traded securities on BISX declined by 13, to 38, and comprised 19 common shares, 7 preference shares and 12 debt tranches.

INTERNATIONAL TRADE AND PAYMENTS

Preliminary data on the external sector, indicated that the estimated current account position reversed to a surplus of $69.4 million in 2019, from a deficit of $1,487.7 million in 2018. This was attributed to the surge in current transfers associated with re-insurance inflows, following the passage of Hurricane Dorian and a decrease in the merchandise trade deficit. In contrast, the capital and financial account surplus contracted sharply by $352.5 million (57.9%) to $256.5 million, mainly due to a notable reduction in private sector loan-based financing inflows and a significant falloff in net direct investment receipts.

The estimated merchandise trade deficit narrowed by $363.4 million (13.6%) to $2,311.7 million. In particular, the $350.5 million (10.6%) contraction in imports to $2,966.3 million was combined with a $12.9 million (2.0%) growth in exports to $654.6 million. Net payments for non-oil merchandise declined by $347.9 million (16.4%) to $1,778.7 million. In addition, reflecting the falloff in global oil prices, the fuel import bill decreased by $8.4 million (1.1%) to $752.8 million. In terms of the various categories, the average cost per barrel of propane declined by 12.8% to $48.25; jet fuel, by 7.7% to $83.61; motor gas, by 7.4% to $82.48 and aviation gas, by 4.0% to $149.31. Further, the average price for gas oil, edged down by 0.5 %, to $78.46 per barrel.

The surplus on the services account expanded by $157.3 million (8.1%) to an estimated $2,095.5 million, underpinned by a $220.8 million (7.3%) growth in net tourism receipts to $3,244.3 million. In addition, net payments for transportation services fell by $49.5 million (12.0%) to $362.1 million, due to reductions in net disbursements for air & sea freight services (13.5%), port & airport charges (67.5%) and passenger services (3.0%). Further, net outflows for insurance services decreased by $10.5 million (6.8%) to $143.5 million, owing to lower non-merchandise and freight insurance payments. Providing some offset, net outflows for construction-based services moved higher by $15.1 million (34.9%) to $58.4 million, and net payments for Government services rose by $35.4 million (36.5%) to $132.4 million, due to a rise in disbursements for resident Government operations. Further, net inflows related to international companies' local expenses declined by $65.7 million (26.3%) to $183.8 million, while net outflows for royalty and license fees remained flat at $10.3 million.

The estimated net income outflows were reduced by $134.8 million (19.8%) to $547.4 million. It was owing in large measure to a 25.8% decrease in investment-related outflows to $484.6 million. In the underlying developments, net private sector interest and dividend payments contracted by 31.2% to $355.9 million, as both non-banks and commercial banks net profit remittances fell by $101.6 million (29.3%) and $59.5 million (35.1%) to $245.7

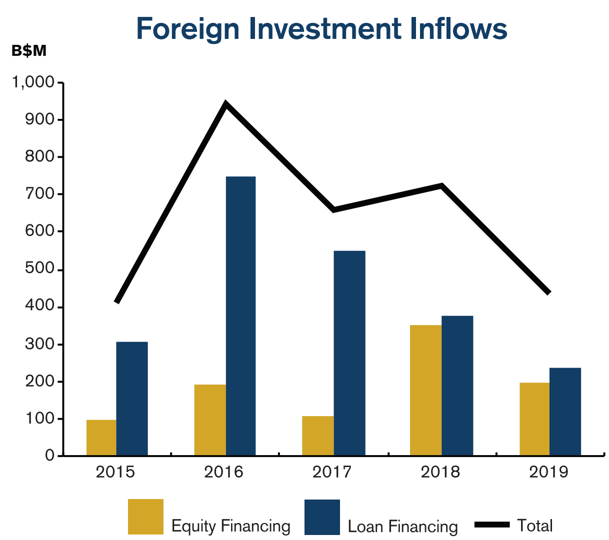
Table 14: Balance of Payments Summary (B$ Millions)

	2017^p	2018^p	2019^p
I. CURRENT ACCOUNT	(1,509.1)	(1,487.7)	69.4
i) Merchandise Trade (net)	(2,538.4)	(2,675.1)	(2,311.7)
Exports	570.6	641.7	654.6
Imports	3,109.0	3,316.8	2,966.3
of which: Oil	570.9	761.1	752.8
ii) Services (net)	1,445.2	1,938.2	2,095.5
Travel	2,625.2	3,023.4	3,244.3
Other	(1,180.0)	(1,085.2)	(1,148.7)
iii) Income (net)	(360.7)	(682.3)	(547.4)
iv) Current Transfers (net)	(55.2)	(68.6)	833.0
II. CAPITAL AND FINANCIAL ACCOUNT	1,572.0	609.1	256.5
i) Capital Account (Transfers)	(26.1)	(20.7)	(20.2)
ii) Financial Account	1,598.1	629.7	276.7
of which: Direct Investment	304.6	491.4	290.3
III. NET ERRORS AND OMISSIONS	447.2	660.9	237.8
IV. CHANGES IN EXTERNAL RESERVES[1]	(504.6)	221.1	(561.8)

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

million and $110.1 million, respectively. Further, net outflows for official transactions were lower by $7.6 million (5.6%) at $128.7 million, due to a $10.7 million (6.9%) falloff in Government transaction outflows to $144.0 million. In contrast, net repayment of employee earnings more than doubled to $62.8 million from $28.9 million.

Bolstered by hurricane-related re-insurance inflows, net current transfers reversed to an $833.0 million net receipt, vis-à-vis a $68.6 million net outflow in 2018. Reflecting this outturn, other "miscellaneous" transfers recorded an $838.9 million net inflow, in contrast to a $19.6 million net outflow in the previous year, while workers' outward net remittances decreased by $44.1 million (24.3%) to $137.7 million. Conversely, the Government's net receipts were nearly stable at $131.9 million (0.7%).

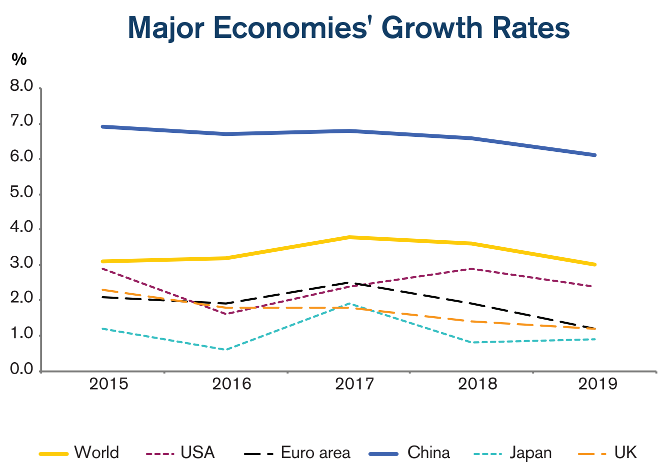


The capital and financial account surplus declined markedly by $352.5 million (57.9%) to $256.5 million. Underpinning this outturn, other "miscellaneous" investments registered a $3.5 million net outflow, a turnaround from a $150.0 million net receipt in the prior year, when there was a surge in private sector debt financing inflows. Specifically, private sector loan-based financing inflows fell by $140.7 million (41.5%) to $198.0 million, while domestic banks' net short-term outflows rose by $16.1 million (11.4%) to $156.8 million. On the other hand, public sector's net payment was lower by $3.3 million (6.9%) at $44.6 million. Further, net direct investments inflows reduced sharply by $201.1 million (40.9%) to $290.3 million, amid a significant decline in net equity receipts by $181.8 million (65.8%) to $94.6 million and a falloff in net inflows from real estate sales by $19.2 million (8.9%) to $195.7 million. In a modest offset, residents' net portfolio outflows under the Bahamian Depository Receipt (BDR) programme, declined by $1.5 million (12.9%) to $10.2 million. Similarly, migrant transfers decreased by a muted $0.5 million (2.5%) to $20.2 million.

After making adjustments for net errors and omissions, the overall balance—which tracks the change in the Central Bank's external reserves—recorded a surplus of $561.8 million, a reversal from a $221.1 million deficit in 2018.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy expanded at a modest pace of approximately 2.9% in 2019, down from a 3.6% growth in 2018. The outturn was largely influenced by geopolitical tensions, ongoing trade disputes between the United States and its major trading partners, as well as political uncertainty in the European market. Nevertheless, labour market conditions continued to gradually improve, while inflationary pressures remained well contained, despite the uptick in global oil prices. In this environment, the major central banks either maintained or enhanced their accommodative monetary policy stance.



Real GDP growth in the United States slowed to an annual rate of 2.3% from the 2.9% in 2018, as the decline in residential fixed investments offset gains in personal consumption expenditure, Federal Government spending and non-residential fixed investment. Similarly, the euro area's expansion narrowed to 1.2% from 1.9% in the preceding year, underpinned by a falloff in external demand, along with a moderation in household consumption and Government spending. Further, in Asia, following the 6.6% rise in 2018, China's economy expanded at a slower pace of 6.0% over the review year—its lowest level in 30 years—reflective of the prolonged trade tensions with the United States and sluggish demand at home and abroad. In addition, output growth in Japan grew by 0.7%, slightly lower than the 0.8% increase in the prior year, attributed in part to a reduction in global demand. In contrast, the United Kingdom's economy strengthened by an estimated 1.4% in 2019, slightly higher than the 1.3% in the previous year, owing to improvements in the services and construction sectors.

Labour market conditions in the major economies continued to gradually improve during 2019. In the United States, the unemployment rate decreased by 20 basis points to an annual average of 3.7% in 2019, as an average of 175,000 jobs were added to payrolls each month. In addition, the United Kingdom's jobless rate narrowed by 20 basis points to 3.8% in 2019, with the total number of employed persons up by 309,000 over the year. Further, the unemployment rate in the euro area fell 40 basis points to an 11-year low of 7.4%. In Asia, the major economies continued to record virtually full employment, as the jobless rates in China and Japan declined by 40 and 20 basis points, to 4.5% and 2.2%, respectively.

Global inflation rates remained relatively subdued, although an energy-related uptick occurred during the year. In the United States, annual inflation rose to 2.3% from 1.9%, due to price increases of gas at the pump, food, healthcare, rent, clothing and car. Similarly, annual inflation in Japan firmed by 40 percentage points to 0.8%, led by gains in food, culture & recreation and furniture and household utensils costs. Further, China's inflation rate quickened to 4.5% from 1.9% in the prior period, reflecting higher prices for food, tobacco and alcohol. In contrast, inflation in the United Kingdom decreased to 1.3% from 2.1% in the prior year, attributed to lower costs for housing, water, electricity, gas and other fuels. In addition, a decline in energy cost contributed to the euro area's annual inflation rate narrowing by 20 basis points to 1.3%.

Reflecting in part the concerns about the potential adverse effects of ongoing trade disputes, combined with the Federal Reserve rate reduction, the US dollar depreciated against most of the major currencies during the year. In particular, the dollar weakened by 4.8% vis-à-vis the Canadian dollar, to CAD$1.30 and by 3.7% relative to the British Pound, to £0.75. Similarly, the dollar declined versus the Swiss Franc and Japanese Yen, by 1.4% to CHF0.97 and by 1.0% to ¥108.61, respectively. In contrast, due to political uncertainty in Europe, the dollar appreciated against the euro by 2.3% to €0.89 and by 1.2% vis-à-vis the Chinese Yuan, to CNY6.96.

Broad based gains were reported in major stock markets over the course of 2019, supported largely by domestic factors. In the United States, the S&P 500 and the Dow Jones Industrial Average (DIJA) rose by 14.4% and 9.4%, respectively. European bourses also moved upwards, with France's CAC 40 increasing by 9.1%, and with more muted gains of 0.5% and 0.1% for Germany's DAX and the United Kingdom's FTSE 100, respectively. Moreover, the Asian markets registered mix results, as Japan's Nikkei 225 firmed by 2.4%; however, China's SE composite decreased by 12.4%.

The major economies experienced mixed trends in their external trade balances in 2019. Specifically, in the United States, the trade deficit narrowed by $10.9 billion (1.7%) to $616.8 billion, as the 0.4% decrease in imports—of mainly industrial supplies, capital and other goods—outstripped the muted 0.1% fall in exports. Further, the United Kingdom's trade deficit declined by £0.5 billion to £29.3 billion, underpinned by a £32.5 billion growth in exports, which eclipsed the £32.0 billion rise in imports. In addition, the euro area's trade surplus widened by €30.4 billion (15.6%) to €225.7 billion, attributed to a 2.7% expansion in exports of goods, which overshadowed the 1.5% rise in imports. China's trade surplus also grew by 21.1% to US$424.9 billion, owing to a 0.5% rise in exports, combined with a 2.8% decline in imports. Conversely, Japan's trade deficit rose by 37.0% to ¥1.6 trillion, as the 5.6% reduction in exports outpaced the 5.0% falloff in imports.

During 2019, most of the major central banks either maintained or enhanced their accommodative monetary policy stance, reflective of a moderation in economic growth trends and global uncertainty. Specifically, in the United States, the Federal Reserve reduced the target range for the federal funds by 75 basis points to 1.50-1.75 in an effort to stimulate economic growth. Further, the Bank of England maintained its key policy rate at 0.75% and retained its asset purchase programme at £435 billion. In addition, the European Central Bank (ECB) retained its benchmark rate at a historic low of 0.00%. In Asia, due to trade tensions and a slowdown in economic performance, the People's Bank of China lowered its 7-day reverse repo rate by 5 basis points to 2.50%, the first time since October, 2015. Further, the Bank of Japan sustained its highly accommodative monetary policy stance, leaving its main policy rate at -0.1% in 2019.

DOMESTIC ECONOMIC OUTLOOK FOR 2020

The Bahamian economy is anticipated to experience a negative outturn in 2020, attributed to the fallout from Hurricane Dorian, along with the Novel Coronavirus (COVID-19) pandemic, which is adversely affecting global economic activity and travel. Recovery in tourism output, which is expected to contract, will rely profoundly on the progress made on the international health front. Nevertheless, construction output is projected to receive stimulus from a variety of new and ongoing projects both in the capital and the Family Islands, as well as ongoing post-hurricane rebuilding works. In this environment, the jobless rate is estimated to increase over the near-term, with any gains in employment concentrated in the construction sector. However, domestic inflationary pressures are likely to stay subdued, despite an anticipated rise in global oil prices.

In the fiscal sector, expenditure related to the reconstruction of key infrastructure and a rise in social welfare spending, combined with revenue losses associated with COVID-19, are projected to weigh heavily on the Government's budgetary outturn. Nonetheless, re-insurance receipts and contributions from international foundations are expected to offset some of the shortage in revenue. The remaining budgetary gap will require a prudent balance of domestic and external borrowings.

Near-term monetary conditions are likely to feature sustained buoyant liquidity levels, as banks maintain their conservative lending practices; however, some deposit drawdown to meet necessary expenditures during the COVID-19 slowdown will reduce surpluses. Although experiencing some earnings reductions, banks are still expected to maintain healthy capital levels, mitigating any financial stability concerns.

In the outlook, external reserves are expected to contract in 2020. This is in line with a forecasted reduction in tourism sector activity, given the uncertainty surrounding the duration of the pandemic; and essential domestic imports that impose on the balances, alongside necessary hurricane rebuilding activities. In a partial offset, some external sector financing needs are expected to be satisfied from the portions of government borrowing undertaken in foreign currency. The average domestic fuel import costs are also expected to stay moderated in the near-term.

The downside risks to the economy centre around forecast uncertainties over the duration of the pandemic's suppression of global travel, and the pace at which confidence in travel is rebuilt. Risks also remain from the speed at which restoration in the Abacos and Grand Bahama tourism sectors occur; and the persistent threat of potential disruptions from major hurricanes.

THE CENTRAL BANK OF THE BAHAMAS

Financial Statements
for the Year Ended December 31, 2019

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

Opinion
We have audited the accompanying financial statements of the Central Bank of the Bahamas (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and reserve and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Bahamas as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Central Bank of The Bahamas Act, 2000 as amended.

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

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 35 of the financial statements, which describes events subsequent to the date of the financial statements which will have a direct and indirect impact on the Bank as a result of the COVID-19 pandemic. Although the forecast is unfavorable, management has concluded that the Bank is expected to continue as a going concern.

Key Audit Matter
Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the audit of the financial statements as at 31 December 2019. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditors' opinion thereon, and the auditor does not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter (Cont)

Change in Defined Benefit Pension Plan
As disclosed in Note 2 (m) and Note 31, the Bank has converted its Defined Benefit Pension Plan to a Defined Contribution Pension Plan. Effective June 30, 2019, the Pension Plan was amended to:

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

137 active Members opted for a cash payout and transferred the payout amount to the Defined Contribution Pension Plan. The combined actuarial present value of accrued benefits paid to these members amounted to $40,861,019. A total of 6 active Members nearing retirement opted to remain in the Defined Benefit Pension Plan.

The change from Defined Benefit Pension Plan to Defined Contribution Pension Plan required the performance of an actuarial valuation of the Defined Benefit Pension Plan as at June 30, 2019 in order to determine the vested amount due to each Member. This resulted in a significant financial impact with a loss on curtailment in the amount of $8,499,066 being recognized. The audit involved the analysis of the actuarial valuation of the Defined Benefit Pension Plan and reconciliation of the accrued benefit due with the actual pay-out to Members.

Other Information
Management is responsible for the other information. The other information comprises of information presented in the Central Bank of the Bahamas' complete Annual Report 2019 (but does not include the financial statements and our auditors' report thereon).

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

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

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

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

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

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

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

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

BDO

Chartered Accountants
Nassau Bahamas
22 April 2020

APPENDIX TO THE AUDITORS' REPORT

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

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

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

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

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

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

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

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

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

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

Statement of Financial Position
As at December 31, 2019
(Expressed in Bahamian dollars)

	Note	2019 $	2018 $
ASSETS			
EXTERNAL ASSETS	5		
Cash and deposits with banks	3	794,469,117	375,760,906
Foreign Government Securities	6	672,168,495	568,768,827
Marketable Securities	7	107,615,277	101,761,419
International Monetary Fund:	8		
Bahamas Reserve Tranche		26,668,179	26,821,805
Special drawing rights – holdings		157,135,378	123,190,711
		1,758,056,446	1,196,303,668
DOMESTIC ASSETS			
Cash on hand	3	33,210	37,828
Bahamas Government Treasury bills	15	135,280,375	155,736,831
Advances to Bahamas Government	10	75,193,832	120,367,448
Bahamas Government Registered Stocks	11	249,886,188	249,036,288
Loans to Bahamas Development Bank	12	2,258,260	2,509,158
Bahamas Development Bank bonds	9	4,092,683	4,049,834
Bridge Authority bonds	13	43,983	493,487
Clifton Heritage Authority bonds	14	641,085	638,069
Currency inventory		9,517,771	10,827,049
Retirement benefit asset – Employees	31	981,364	7,921,180
Receivables and other assets		15,481,553	10,331,083
Property, plant and equipment	4	13,202,940	13,761,612
Right of use assets	22	1,153,288	-
		507,766,532	575,709,867
TOTAL ASSETS		**2,265,822,978**	**1,772,013,535**

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Statement of Financial Position (Continued)
As at December 31, 2019
(Expressed in Bahamian dollars)

	Note	2019 $	2018 $
LIABILITIES			
DEMAND LIABILITIES			
Notes in circulation	16	458,223,964	430,888,855
Coins in circulation		30,279,156	28,970,923
Sand Dollar in circulation	24	48,000	-
Deposits by commercial banks	17	1,242,871,902	791,668,258
Deposits by Bahamas Government and Bahamas Government agencies		114,072,822	96,155,504
Deposits by international agencies	18	255,235	255,302
Accounts payable and other liabilities		13,644,785	29,002,444
Lease liabilities	22	1,146,061	-
Investment Currency Market payable		3,565,728	9,007,273
Health insurance subsidy benefit for retirees	32	3,184,622	3,190,276
Retirement benefit liability - Governors and Deputy Governors	33	351,271	144,362
		1,867,643,546	1,389,283,197
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	8	172,261,421	173,347,897
TOTAL LIABILITIES		**2,039,904,967**	**1,562,631,094**
EQUITY AND RESERVES			
Authorised and fully paid capital	19	3,000,000	3,000,000
Exchange equalisation account	19	10,942,792	10,811,110
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	19	30,680,403	30,680,403
Fair Value Reserve	19	(890,776)	1,369,020
General reserve	19	171,046,177	152,382,493
TOTAL EQUITY AND RESERVES		**225,918,011**	**209,382,441**
TOTAL LIABILITIES, EQUITY AND RESERVES		**2,265,822,978**	**1,772,013,535**

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

Robert K. Adams
Director

Director

April 22, 2020
Date

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Statement of Comprehensive Income
For the Year Ended December 31, 2019
(Expressed in Bahamian dollars)

	Note	2019 $	2018 $
INCOME			
Interest income:	20		
Foreign investments		33,049,653	30,850,307
Domestic investments		12,721,398	11,744,171
Loans		547,198	1,003,968
		46,318,249	43,598,446
Interest expense		(1,707,875)	(1,640,107)
Net interest income		**44,610,374**	**41,958,339**
Net foreign exchange gain		131,682	667,228
Net trading gains on Bahamas Government Registered Stocks		1,889,144	155,436
Realised gain on Marketable Securities		209,344	12,238
Unrealised gain Marketable Securities		3,204,514	1,553,425
Gain on sale of Foreign Government Securities		-	238,719
Bank license fees income		3,700,000	3,700,000
Other income		6,383,951	3,187,037
Total income		**60,129,009**	**51,472,422**
EXPENSES			
Staff costs	21	28,695,117	20,256,324
General and administrative	21	11,102,800	10,382,028
Depreciation	4	2,380,792	2,177,020
Amortisation on Right of Use Asset	22	334,421	-
Total expenses		**42,513,130**	**32,815,372**
NET INCOME		**17,615,879**	**18,657,050**
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that will or may be reclassified to net income			
Valuation (loss)/gain on Bahamas Government Registered Stock		(2,259,796)	1,369,020
Items that will not be reclassified to net income			
Actuarial gain on defined benefit pension plan for employees		1,065,844	1,812,912
Actuarial gain on group insurance subsidy		127,219	46,364
Actuarial (loss)/gain on defined pension plan benefit for Governors and Deputy Governors		(13,576)	154,273
Total other comprehensive (loss)/income		**(1,080,309)**	**3,382,569**
TOTAL COMPREHENSIVE INCOME		**16,535,570**	**22,039,619**

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Statement of Changes in Equity and Reserves
For the Year Ended December 31, 2019
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserve $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2018	**3,000,000**	**10,143,882**	**750,000**	**10,389,415**	**20,680,403**	**-**	**140,101,905**	**185,065,605**
Adjustment on initial application of IFRS 9 (Note 11)	**-**	**-**	**-**	**-**	**-**	**-**	2,277,217	**2,277,217**
Balance at January 1, 2018, as restated	**3,000,000**	**10,143,882**	**750,000**	**10,389,415**	**20,680,403**	**-**	**142,379,122**	**187,342,822**
Comprehensive income								
Net income	-	-	-	-	-	-	18,657,050	**18,657,050**
Other comprehensive income								
Allocation to building fund (Note 19)	-	-	-	-	10,000,000	-	(10,000,000)	**-**
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	667,228	-	-	-	-	(667,228)	**-**
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	1,369,020	-	**1,369,020**
Actuarial gain on defined benefit pension plan for employees (Note 30)	-	-	-	-	-	-	1,812,912	**1,812,912**
Actuarial gain on health insurance subsidy benefit for retirees (Note 31)	-	-	-	-	-	-	46,364	**46,364**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 32)	-	-	-	-	-	-	154,273	**154,273**
Total comprehensive income	-	667,228	-	-	10,000,000	1,369,020	10,003,371	**22,039,619**
Balance at December 31, 2018	**3,000,000**	**10,811,110**	**750,000**	**10,389,415**	**30,680,403**	**1,369,020**	**152,382,493**	**209,382,441**

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Statement of Changes in Equity and Reserves (Continued)
For the Year Ended December 31, 2019
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2019	**3,000,000**	**10,811,110**	**750,000**	**10,389,415**	**30,680,403**	**1,369,020**	**152,382,493**	**209,382,441**
Comprehensive income								
Net income	-	-	-	-	-	-	17,615,879	**17,615,879**
Other comprehensive income								
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	131,682	-	-	-	-	(131,682)	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	(2,259,796)	-	**(2,259,796)**
Actuarial gain on defined benefit pension plan for employees (Note 30)	-	-	-	-	-	-	1,065,844	**1,065,844**
Actuarial gain on health insurance subsidy benefit for retirees (Note 31)	-	-	-	-	-	-	127,219	**127,219**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 32)	-	-	-	-	-	-	(13,576)	**(13,576)**
Total comprehensive income	-	131682	-	-	-	(2,259,796)	18,663,684	**16,535,570**
Balance at December 31, 2019	**3,000,000**	**10,942792**	**750,000**	**10,389,415**	**30,680,403**	**(890,776)**	**171,046,177**	**225,918,011**

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Statement of Cash Flows
For the Year Ended December 31, 2019
(Expressed in Bahamian dollars)

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		**17,615,879**	**18,657,050**
Adjustments for non-cash items:			
Discount earned on marketable securities - net	6	(848,654)	(987,749)
Depreciation	4	2,380,792	2,177,020
Loss on disposal of property, plant and equipment - net	4	19,375	269,110
Amortisation of Right of Use asset		334,421	-
Interest income		(45,469,595)	(42,610,697)
Gain on Sale of Marketable securities		(209,344)	(238,719)
Unrealised loss/(gain) on Marketable securities		(3,204,514)	(1,553,425)
Interest on lease liability		37,319	-
Interest expense		1,707,875	1,640,107
(Increase)/Decrease in operating assets			
Currency inventory		1,309,278	755,225
International Monetary Fund		669,557	2,437,951
Deposits with banks – with original contractual maturities greater than three months		110,000,000	(25,000,000)
Retirement benefit asset		8,005,660	(415,488)
Receivables and other assets		(5,150,470)	1,419,971
Increase/(Decrease) in operating liabilities			
Notes in circulation		27,335,109	19,768,149
Coins in circulation		1,308,233	1,574,093
Sand Dollar in circulation		48,000	-
Deposits by commercial banks		451,203,644	(219,578,381)
Deposits by Bahamas Government and Bahamas Government agencies		17,917,318	52,003,352
Deposits by international agencies		(67)	85
Investment Currency Market payable		(5,441,545)	270,959
Health insurance subsidy benefit for retirees		121,565	123,699
Retirement benefit liability – Governors and Deputy Governors		193,333	(3,889,374)
Accounts payable and other liabilities		(15,357,659)	17,892,284
International Monetary Fund		(991,075)	(4,148,272)
Net cash from/(used in) operating activities		**563,534,435**	**(179,433,050)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of foreign government securities	6	(117,425,035)	(111,676,227)
Proceeds from maturities/redemptions of foreign government securities	6	15,250,000	158,000,000
Purchase of marketable securities	7	(29,696,374)	(106,566,727)
Proceeds from sales of marketable securities	7	27,291,167	7,070,246
Purchase of property, plant and equipment	4	(1,844,495)	(3,952,893)
Proceeds from sale of property, plant and equipment		3,000	581
Purchase of Bridge Authority bonds	12	(9,800)	(2,100)
Proceeds on maturity of Bridge Authority bonds	12	452,700	
Purchase of Bahamas Government Registered Stock	11	(62,914,700)	(8,295,060)
Proceeds from sales and maturities of Bahamas Government Registered Stocks	11	59,969,036	37,250,092
Repayments of loans by Bahamas Development Bank	12	250,000	250,000
Purchase of Bahamas Government Treasury bills	15	(663,703,600)	(642,975,803)
Proceeds from the sales/maturities of Bahamas Government Treasury bills	15	684,333,941	494,570,346
Advances to Bahamas Government	10	(74,000,000)	(30,000,000)
Repayments from Bahamas Government	10	118,757,052	45,000,000
Interest received		47,144,857	40,316,441
Net cash from/(used in) investing activities		**3,854,749**	**(121,011,104)**

The accompanying notes are an integral part of these financial statements

Central Bank of The Bahamas

Statement of Cash Flows
For the Year Ended December 31, 2019
(Expressed in Bahamian dollars)
(Continued)

	Note	2019 $	2018 $
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of SDRs	7	(34,510,637)	(48,060,684)
Repayment of lease liabilities		(378,967)	-
Interest paid		(1,803,276)	(1,543,151)
Net cash used in financing activities		**(36,692,880)**	**(49,603,835)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**530,696,304**	**(350,047,989)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		192,779,406	542,827,395
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**723,475,710**	**192,779,406**

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements
December 31, 2019

1. General Information

The Central Bank of The Bahamas (the "Bank") is established as a body corporate, under the Central Bank of The Bahamas Act, and was continued under the Central Bank of The Bahamas Act, 2000 (the Act). The Act establishes the structure, governance and funding of the Bank. The Bank's principal business is the provision of Central Banking facilities for the Commonwealth of The Bahamas. In accordance with the Act, it is the duty of the Bank to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the Bahamian economy; in collaboration with the financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and to advise the Minister on any matter of financial or monetary nature referred by him to the Bank for its advice. Its main place of business is located at Frederick Street, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

i) Compliance with IFRS

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

ii) Historical cost convention

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

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

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

New standards impacting the Bank's annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Bank's accounting policies are:

- IFRS 16 Leases (IFRS 16)

IFRS 16 Leases

IFRS 16 *Leases* addresses the recognition, measurement and disclosure of leases, and replaces the current guidance in IAS 17 *Leases.* IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts on the statement of financial position, instead, the classification of leases as either operating leases or finance leases as is required by IAS 17. Lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset in their income statement under IFRS 16. The new standard requires to change the cash flow statement because the lease contacts which have been classified as operating leases are no longer applicable under operating cash flows in full and interest on lease liability will be the only cost entitled to be classified under operating cash flows. Cash payment on principal portion are required to be classified within financing activities on the cash flow statement. Lessor accounting remains substantially the same as in IAS 17.

The Bank has adopted IFRS 16 using the modified retrospective approach. Further, the Bank has applied the practical expedients allowed by the standards to recognise the "Right of Use" asset equivalent to the lease liability on initial recognition. The modified retrospective method eliminated the need to restate the comparative information on transition.

Other standards and amendments and interpretations to published standards that became effective for the Bank's financial year beginning on January 1, 2019 were either not relevant or not significant to the Bank's operations and accordingly did not have a material impact on the Bank's accounting policies or financial statements.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning January 1, 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

(b) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as a part of net income in the statement of comprehensive income. Translation differences on monetary financial assets and liabilities carried at fair value are part of the fair value gain and losses. The net foreign exchange gain/(loss) in the Bank's assets and liabilities arising from movements in foreign exchange rates is included in the statement of comprehensive income and, in accordance with Sections 32(2)(a) and 32(2)(b) of the Act, the gain/(loss) is appropriated from the general reserve to an exchange equalisation account within equity and reserves.

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets

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

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

i) Financial assets at fair value through profit or loss

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

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

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

ii) Financial assets at fair value through other comprehensive income

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

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

iii) Financial assets held at amortised cost

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

iii) Financial assets held at amortized cost (continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets

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

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

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

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

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

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

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

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

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2019
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

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

(e) Property, plant and equipment

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

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

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

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

Included in Other fixed assets are Artworks which the Bank does not depreciate.

2. Summary of Significant Accounting Policies (Continued)

(e) Property, plant and equipment (continued)

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

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

(f) Financial liabilities

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

i) Financial liabilities at fair value through profit or loss

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

2. Summary of Significant Accounting Policies (Continued)

(f) Financial liabilities (continued)

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

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

ii) Other financial liabilities at amortised cost

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

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

(g) Provisions

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(h) Currency inventories

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

(i) Numismatic coins

Numismatic coins, which are specially minted or packaged as collectors' items and are not issued for monetary purposes, are not included in coins in circulation. Any profit or loss arising from the sale of these coins is included in the statement of comprehensive income.

(j) Investment currency market payable

The Bank maintains a market in investment currency, prescribed for facilitating direct investment and foreign currency securities acquisitions outside The Bahamas. In 2018, the investment currency attracted a deposit of 5.0%. Such deposits were treated as financial liabilities, recognised initially at fair value and subsequently measured at amortised cost. The financial liabilities were derecognised when repaid to investors and funds are repatriated to the country.

Further in 2018, the purchase of investment currency attracts a 2.5% surcharge to facilitate the transaction. This fee is recognised upon completion of the investment currency purchase and is recognised in 'Other income' in the statement of comprehensive income.

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

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

(k) Income and expense recognition

The Bank recognises income when it is probable that future economic benefits will flow to the Bank and the amount of income can be reliably measured. Income is measured at the fair value of the consideration received or receivable. Interest income is accounted for on an accrual basis using the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

(k) Income and expense recognition (continued)

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

Other income and expenses are recognised on the accrual basis.

(l) Leases

The Bank is the lessee

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

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

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

(m) Employee benefits

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

2. Summary of Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

Defined Benefit Plan

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

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

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

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

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

Defined Contribution Plan

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

2. Summary of Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

Defined Contribution Plan (continued)

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

Health insurance subsidy for retirees

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

Defined Benefit Plan for Governors and Deputy Governors

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

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

(n) Cash and cash equivalents

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

2. Summary of Significant Accounting Policies (Continued)

(o) Taxation

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

(p) Fiduciary items

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

3. Cash and Deposits with Banks

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

	2019 $	2018 $
External Assets		
Cash on hand	4,000	4,000
Cash in vault	1,277,137	652,247
Cash and deposit with banks	793,187,980	375,104,659
	794,469,117	375,760,906
Domestic Assets		
Cash on hand	33,210	37,828
	794,502,327	375,798,734
Less: Deposits with banks with original contractual maturities greater than three months	(71,026,617)	(183,019,328)
	723,475,710	**192,779,406**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2019
(Continued)

4. Property, Plant and Equipment

	Land $	Buildings & Renovations $	Office Equipment $	Computer Software $	Office Furniture & Fittings $	Other Fixed Assets $	Total $
COST							
As at January 1, 2019	2,452,938	16,714,776	7,922,839	12,327,704	862,433	422,509	40,703,199
Additions	-	919,608	234,749	179,403	484,452	26,283	1,844,495
Disposals/Retirement	-	(110,659)	(154,502)	-	(63,698)	-	(328,859)
As at December 31, 2019	**2,452,938**	**17,523,725**	**8,003,086**	**12,507,107**	**1,283,187**	**448,792**	**42,218,835**
ACCUMULATED DEPRECIATION							
As at January 1, 2019	-	9,182,789	6,114,044	10,736,079	687,299	221,376	26,941,587
Charge for the year	-	562,964	541,456	1,126,136	92,749	57,487	2,380,792
Disposals/Retirement	-	(98,934)	(143,959)	-	(63,591)	-	(309,484)
As at December 31, 2019	**-**	**9,646,819**	**6,511,541**	**11,862,215**	**716,457**	**278,863**	**29,015,895**
NET BOOK VALUE							
As at December 31, 2019	**2,452,938**	**7,876,906**	**1,491,545**	**644,892**	**566,730**	**169,929**	**13,202,940**
COST							
As at January 1, 2018	2,452,938	14,901,106	8,440,891	11,742,617	784,850	286,959	38,609,361
Additions	-	1,834,869	1,314,446	585,087	82,941	135,500	3,952,893
Disposals/Retirement	-	(21,199)	(1,832,498)	-	(5,358)	-	(1,859,055)
As at December 31, 2018	**2,452,938**	**16,714,776**	**7,922,839**	**12,327,704**	**862,433**	**422,509**	**40,703,199**
ACCUMULATED DEPRECIATION							
As at January 1, 2018	-	8,761,140	7,121,118	9,683,326	631,724	156,623	26,353,931
Charge for the year	-	442,848	555,733	1,052,753	60,933	64,753	2,177,020
Disposals/Retirement	-	(21,199)	(1,562,807)	-	(5,358)	-	(1,589,364)
As at December 31, 2018	**-**	**9,182,789**	**6,114,044**	**10,736,079**	**687,299**	**221,376**	**26,941,587**
NET BOOK VALUE							
As at December 31, 2018	**2,452,938**	**7,531,987**	**1,808,795**	**1,591,625**	**175,134**	**201,133**	**13,761,612**

5. External Assets

External assets comprise those assets defined by Section 18(1) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At year end, external assets represented 94.1% (2018: 86.1%) of such liabilities.

6. Foreign Government Securities

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, 2019, marketable securities held by the Bank, which mature after 5 years, constituted 15.06% (2018: 23.27%) of the Bank's external assets. The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass the above deviation.

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

	2019 **$**	**2018** **$**
Beginning balance	565,904,529	611,001,834
Purchases at nominal value	117,390,000	111,500,000
Discount on purchases	35,035	176,227
Redemptions/maturities	(15,250,000)	(158,000,000)
Gain on redemption/maturities	-	238,719
Discount earned	1,055,007	1,126,311
Amortised premium	(206,353)	(138,562)
Total	668,928,218	565,904,529
Add: Accrued interest	3,240,277	2,864,298
Ending balance	**672,168,495**	**568,768,827**

These securities bear interest at rates varying between 1.375% and 3.625% (2018: 1.375% and 4.75%).

Notes to the Financial Statements
December 31, 2019
(Continued)

7. Marketable Securities

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

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

	2019 $	2018 $
Beginning balance	101,049,906	-
Purchases	29,696,374	106,566,727
Sales	(27,291,167)	(7,082,484)
Realised gain	209,344	12,238
Unrealised gain	3,204,514	1,553,425
Total	106,868,971	101,049,906
Add: Accrued interest	746,306	711,513
Ending balance	**107,615,277**	**101,761,419**

7. International Monetary Fund

Background

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

Quota, Subscriptions and Reserve Tranche

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

As of December 31, 2019, The Bahamas was assigned a quota of SDR 182,400,000 (2018: SDR 182,400,000) which represents 0.04% (2018: 0.04%) of the total quota allocated by the IMF.

8. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (continued)

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

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

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

The Bahamian dollar is designated as an unusable currency which permits the Bank to pay the non-reserve portion of the quota in the form of promissory notes. Subsequent to its initial subscription into the IMF, the Bank has increased the IMF subscriptions of The Bahamas by issuing, non-negotiable, interest-free promissory notes which are payable if the IMF requires an emergency loan. Payment of the promissory notes will give rise to an equal and opposite receivable from the IMF. These promissory notes were issued by the Bank and the Government of The Bahamas on behalf of the Bank, in the Bahamian dollar equivalents of SDR 43,295,571 and SDR 114,750,649 (2018: SDR 43,346,071 and SDR 114,884,493) respectively. The promissory notes form, in substance, part of a loan commitment to the IMF and as such are not recognised on the statement of financial position.

8. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (continued)

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

	2019		2018	
	SDR	**$**	**SDR**	**$**
Quota	182,400,000	252,227,386,	182,400,000	253,680,382
Subscription payments in promissory notes	(158,046,220)	(218,550,356)	(158,230,564)	(220,065,734)
Subscription payments in local currency	(5,068,500)	(7,008,851)	(4,884,156)	(6,792,843)
Reserve tranche	**19,285,280**	**26,668,179**	**19,285,280**	**26,821,805**

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

	2019		2018	
	SDR	**$**	**SDR**	**$**
Beginning balance	19,285,280	26,821,805	19,285,280	27,464,827
Purchase of SDRs	-	-	-	-
Currency movement	-	(153,626)	-	(643,022)
Total	**19,285,280**	**26,668,179**	**19,285,280**	**26,821,805**

SDR Holdings and SDR Allocation

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

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

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

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

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

8. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation (continued)

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

SDR Holdings

	2019		2018	
	SDR	$	SDR	$
Beginning balance	88,389,139	122,930,869	53,832,786	76,665,114
Purchases	24,956,609	34,510,637	34,556,353	48,060,684
Remuneration and other charges	(136,080)	188,175	-	-
Currency movement	-	(704,106)	-	(1,794,929)
Total	113,481,828	156,925,575	88,389,139	122,930,869
Add: Accrued interest		209,803		259,842
Ending balance		**157,135,378**		**123,190,711**

SDR Allocation

	2019		2018	
	SDR	$	SDR	$
Beginning balance	124,413,351	173,033,040	124,413,351	177,181,312
Currency movement	-	(991,075)	-	(4,148,272)
Total	124,413,351	172,041,965	124,413,351	173,033,040
Add: Accrued interest		219,456		314,857
Ending balance		**172,261,421**		**173,347,897**

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

The interest rate, which is the same on both SDR Holdings and allocation, varied between 0.740% and 1.146% (2018: 0.764% and 1.103%) during the period.

9. Bahamas Development Bank Bonds

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

	2019 $	2018 $
Balance	4,000,000	4,000,000
Add: Accrued interest	92,683	49,834
Total	**4,092,683**	**4,049,834**

These bonds bear interest at the Bahamian dollar prime rate of 4.25% (2018: 4.25%) with $2,000,000 maturing on August 1, 2025 and November 1, 2025, respectively.

10. Advances to Bahamas Government

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

At the year end date, advances to the Government were 4.33% (2018: 7.89%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2019 $	2018 $
Beginning balance	119,657,052	134,657,052
Additional advances	74,000,000	30,000,000
Repayments	(118,757,052)	(45,000,000)
	74,900,000	119,657,052
Add: Accrued interest	293,832	710,396
Ending balance	**75,193,832**	**120,367,448**

10. Advances to Bahamas Government (Continued)

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

Rate	2019 $	2018 $
0.356%	69,444	4,069,444
0.395%	-	20,000,000
0.483%	-	5,000,000
0.512%	-	5,000,000
0.540%	-	60,000,000
0.638%	9,300,000	20,000,000
0.840%	5,530,556	5,587,608
1.698%	60,000,000	-
	74,900,000	**119,657,052**

11. Bahamas Government Registered Stocks

Effective January 1st, 2018 The Bahamas Government Registered Stocks were classified as financials at fair value through other comprehensive income upon the adoption of IFRS 9. The Bahamas Government Registered Stocks were previously classified as Loans & Receivables measured at amortised cost. The movements in Bahamas Government Registered Stocks are as follows:

	2019 $	2018 $
Beginning balance	246,404,605	271,713,400
Adjustment on initial application of IFRS 9	-	2,277,217
Adjusted beginning balance	246,404,605	273,990,617
Purchases	62,914,700	8,295,060
Market value adjustment	(2,259,796)	1,369,020
Redemptions/maturities	(59,969,036)	(37,250,092)
Total	247,090,473	246,404,605
Add: Accrued interest	2,795,715	2,631,683
Ending balance	**249,886,188**	**249,036,288**

Bahamas Government Registered Stocks bear interest at rates ranging between 3.50% and 5.40% (2018: 3.50% and 6.00%).

12. Loans to Bahamas Development Bank

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

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

	2019 $	2018 $
Beginning balance	2,500,000	2,750,000
Repayments	(250,000)	(250,000)
Total	2,250,000	2,500,000
Add: Accrued interest	8,260	9,158
Ending balance	**2,258,260**	**2,509,158**

The loans bear interest at 2.00% (2018: 2.00%), with $2,250,000 maturing on October 28, 2024.

13. Bridge Authority Bonds

The movements in the Bridge Authority bonds are as follows:

	2019 $	2018 $
Beginning balance	486,200	484,100
Purchases	9,800	2,100
Maturities	(452,700)	-
Total	43,300	486,200
Add: Accrued interest	683	7,287
Ending balance	**43,983**	**493,487**

These bonds bear interest at rates ranging from 1.00% to 1.63% (2018: 1.00% to 1.63%) per annum over the Bahamian dollar prime rate with $19,300 and $24,000 maturing on March 24, 2024 and 2029, respectively.

14. Clifton Heritage Authority Bonds

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

	2019	**2018**
	$	**$**
Beginning balance	634,600	634,600
Purchases	3,000	-
Total	637,600	634,600
Add: Accrued interest	3,485	3,469
Total	**641,085**	**638,069**

15. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 99.09% and 99.58% (2018: 99.55% and 99.63%) maturing 91 to 182 days from acquisition.

	2019	**2018**
	$	**$**
Beginning balance	155,573,230	7,167,773
Purchases	663,703,600	642,975,803
Redemptions/maturities	(684,333,941)	(494,570,346)
Total	134,942,889	155,573,230
Add: Discount earned	337,486	163,601
Ending balance	**135,280,375**	**155,736,831**

16. Notes in Circulation

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

Notes	**2019** **$**	**2018** **$**
0.50	870,732	772,514
1.00	25,231,607	24,666,843
3.00	2,119,143	2,026,296
5.00	12,164,215	11,978,945
10.00	19,358,620	18,872,740
20.00	54,402,280	54,215,500
50.00	159,239,650	141,702,200
100.00	184,755,700	176,571,800
Other bank notes	82,018	82,017
	458,223,964	**430,888,855**

17. Deposits by Commercial Banks

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

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

18. Deposits by International Agencies

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

19. Equity and Reserves

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

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

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

At December 31, 2019, and 2018, the Bank's paid up capital was equal to the authorised capital of $3,000,000.

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

	2019 $	2018 $
Net income	17,615,879	18,657,050
Appropriation of foreign exchange gain	(131,682)	(667,228)
Net income per the Act	17,484,197	17,989,822
Other comprehensive (loss)/income	(1,080,309)	3,382,569
Total comprehensive income stated in accordance with the Act	16,403,888	21,372,391

19. Equity and Reserves (Continued)

Exchange equalisation account - Under the terms of Sections 32(2)(a) and 32(2)(b) of the Act, this account represents the net foreign exchange gain or loss arising from the revaluation of foreign currency monetary assets and liabilities of the Bank at the date of the statement of financial position.

Building fund - This account represents a reserve for construction of a new premises.

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

The balance of the general reserve at the year-end amounted to $161,428,122 (2018: $152,382,493) equivalent to 9% (2018: 11%) of demand liabilities.

20. Income

	2019 $	2018 $
Interest on foreign investments		
Demand deposits	6,806,839	4,818,321
Fixed deposits	8,388,613	7,335,895
Foreign Government and marketable securities	16,557,950	17,696,361
Interest Income on SDR	1,296,251	999,730
	33,049,653	30,850,307
Interest on domestic investments		
Bahamas Development Bank bonds	170,000	170,000
Bahamas Government Registered Stocks	10,595,914	10,998,383
Bridge Authority bonds	7,799	26,852
Bahamas Government Treasury bills	1,917,288	518,792
Clifton Heritage bonds	30,397	30,144
	12,721,398	11,744,171
Interest on loans		
Loans to Bahamas Development Bank	48,315	53,233
Government advances	293,831	710,397
Staff	205,052	240,338
	547,198	1,003,968
Interest expense on IMF allocation	(1,707,875)	(1,640,107)

20. Income (Continued)

	2019 $	2018 $
Gains/(losses) on investments		
Net foreign exchange gain/(loss)	131,682	667,228
Realised gain on Marketable Securities	209,344	12,238
Unrealised gain on Marketable Securities	3,204,514	1,553,425
Gain on Sale of Foreign Securities	-	238,719
Net trading gain on Bahamas Government Registered Stocks	1,889,144	155,436
	5,434,684	2,027,046
Bank license fees income	3,700,000	3,700,000
Other income		
Bank statutory fines	9,170	251
Commission on foreign currency sales	225,542	1,183,323
Premium on Investment Currency Market	5,363,481	1,106,407
Other	785,758	897,056
	6,383,951	3,187,037
Total income	**60,129,009**	**51,472,422**

21. Expenses

	2019 $	2018 $
Staff costs		
Salaries, wages and gratuity	15,296,783	15,014,657
Defined benefit plan	8,771,042	1,235,549
Group insurance plan	1,445,358	1,322,676
Staff training	964,438	752,262
National insurance	505,973	488,859
Health insurance subsidy	271,191	264,417
Responsibility allowance	217,500	217,500
Former Governors' retirement benefit	193,333	298,635
Defined contribution plan	756,456	297,169
Other	273,043	364,600
	28,695,117	**20,256,324**

21. Expenses (Continued)

	2019	2018
	$	$
General and administrative		
Currency	1,963,814	1,540,499
Professional fees	3,549,880	3,193,718
Utilities	1,135,987	1,052,476
Repairs and maintenance	1,068,554	1,038,155
Rent and common area maintenance	157,365	536,303
Insurance	206,714	202,417
Cash shipment	341,598	285,191
Subscription and membership fees	253,725	133,948
Stationery and office supplies	17,615	61,298
Directors' remuneration	53,825	57,950
Other	2,353,723	2,280,073
	11,102,800	**10,382,028**

22. Leases

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

Right-of-Use Assets

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

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

22. Leases (Continued)

Lease Liabilities

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

	2019
	$
January 1, 2019	1,402,906
Additions	84,803
Interest expense	37,319
Payments	(378,967)
December 31, 2019	**1,146,061**

The following are the amounts recognised in profit or loss:

	2019
	$
Depreciation on Right of Use asset	334,421
Interest expense on lease liabilities	37,419
	371,740

The maturity analysis of lease liabilities follows:

	2019
	$
1 year	346,704
2-5 years	713,604
Over 5 years	85,753
	1,146,061

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

23. The Deposit Insurance Corporation

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

23. The Deposit Insurance Corporation (Continued)

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

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

24. Commitments & Contingencies

(a) Contingencies

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

(b) Commitments

i) Printing of Currency

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

	2019	2018
	$	$
Not later than one year	1,038,880	2,933,500
Later than one year but not later than five years	1,856,100	2,894,980

ii) Sand Dollar Project

During the year, the Bank entered into a contract with a 3rd party for the development of the Bahamas digital currency known as the Sand Dollar. Progress billings on the project are accumulated under the "Receivables and other asset" on the statement of financial position. Outstanding commitments on the project follows:

	2019
	$
Contract cost of the project	7,127,712
Less: Progress billings during the year	(2,223,338)
	4,904,374

The Bank made a pilot testing of the Sand Dollar in Exuma and has issued Sand Dollars in circulation valued at $48,000 to various retailers.

25. Concentration of Assets and Liabilities

	2019 $	2018 $
EXTERNAL ASSETS		
Geographic Region		
North America	62.08%	62.11%
Europe	2.57%	4.07%
Other	35.35%	33.82%
	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%
DOMESTIC ASSETS		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Government Sector	100.00%	100.00%
DEMAND LIABILITIES		
Geographic Region		
Bahamas	100.00%	100.00%
Industry		
Financial Sector	93.70%	92.81%
Government Sector	6.30%	7.19%
	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

Section 29(1)(c) of the Act requires that the total amount of Government issued or guaranteed securities held at any time by the Bank, which mature beyond five (5) years after their date of issue, shall not exceed 20% of the demand liabilities of the Bank. At the statement of financial position date, such securities held by the Bank, which matured beyond five years after their date of issue, was 16.09% (2018: 18.02%) of demand liabilities. The Ministry of Finance is in the process of amending the Act consistent with the Bank's current operating profile, which would also encompass any deviation as occurred in 2016.

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, 2019 or 2018.

26. Related Party Transactions

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

The Bank provides certain services to the Government of The Bahamas, in accordance with its mandate under Sections 26 to 29 of the Act. These services include but are not limited to:

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

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

The following balances and transactions relate to key management personnel:

(a) Compensation:

	2019 $	2018 $
Senior officials' salaries and short-term benefits	1,795,691	1,828,633
Directors' remuneration	53,825	57,950
Post-employment benefits	105,819	128,420
	1,955,335	**2,015,003**

26. Related Party Transactions (Continued)

(b) Other assets include secured loans to employees totaling $6,797,993 (2018: $7,896,892), net of provision for bad debt totaling $260,257 (2018: $378,699), of which the following relates to key management personnel:

	2019 $	2018 $
Beginning of the year	759,400	871,444
Advances during the year	53,650	9,200
Repayments during the year	(272,789)	(121,244)
End of the year	**540,261**	**759,400**

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

	2019 $	2018 $
Defined contribution pension plan for Employees	-	162,970
Defined benefit pension plan for Employees	-	2,402,913
Defined benefit pension plan for Governors and Deputy Governors	575,175	401,751
Gratuity	27,418	34,856
End of the year	**602,593**	**3,002,490**

27. Fiduciary Assets and Liabilities

Section 24 of the Act authorises the Bank to accept unclaimed customer deposits that are required to be transferred to it by a bank in The Bahamas in accordance with the Banks and Trust Companies Regulation Act, pay interest on money deposited and pay out money to any person entitled thereto. At December 31, 2019 the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $70,847,813 (2018: $108,771,515). These amounts are excluded from the statement of financial position.

The Insurance Commission of the Bahamas granted the Bank custody of unclaimed insurance from registered insurance companies in the amount of $3,587,747 (2018: $2,003,574) which are excluded from the statement of financial position.

Additionally, the Bank holds various sinking funds with an external broker on behalf of The Government which totaled $127,703,588 (2018: $72,004,836). These funds are also excluded from the statement of financial position.

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2019
(Continued)

28. Financial Instruments

Categories of Financial Instruments

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2019
(Continued)

28. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2019
(Continued)

28. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Amortised Cost $	Fair Value Through Profit or Loss $	Fair Value Through Other Comprehensive Income $	Total Carrying Amount $
December 31, 2018				
EXTERNAL ASSETS				
Cash and deposits with banks	375,760,906	-	-	375,760,906
Foreign Government Securities	568,768,827	-	-	568,768,827
Marketable securities	-	101,761,419	-	101,761,419
International Monetary Fund:				
Bahamas reserve tranche	-	26,821,805	-	26,821,805
Special drawing rights - holdings	-	123,190,711	-	123,190,711
DOMESTIC ASSETS				
Cash on hand	37,828	-	-	37,828
Bahamas Development Bank bonds	4,049,834	-	-	4,049,834
Advances to Bahamas Government	120,367,448	-	-	120,367,448
Bahamas Government Registered Stock	-	-	249,036,288	249,036,288
Loans to Bahamas Development Bank	2,509,158	-	-	2,509,158
Bridge Authority Bonds	493,487	-	-	493,487
Clifton Heritage Authority Bonds	638,069	-	-	638,069
Bahamas Government Treasury Bills	-	-	155,736,831	155,736,831
Employee loans and other receivables	8,187,757	-	-	8,187,757
Total	**1,080,813,314**	**251,773,935**	**404,773,119**	**1,737,360,368**

28. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2018			
DEMAND LIABILITIES			
Notes in circulation	-	430,888,855	430,888,855
Coins in circulation	-	28,970,923	28,970,923
Deposits by commercial banks	-	791,668,258	791,668,258
Deposits by Bahamas Government and Bahamas Government agencies	-	96,155,504	96,155,504
Deposits by International agencies	-	255,302	255,302
Accounts payable and other liabilities	-	29,002,444	29,002,444
Investment Currency Market payable	-	9,007,273	9,007,273
OTHER LIABILITIES			
International Monetary Fund:			
Special drawing rights allocation	173,347,897	-	173,347,897
Total	**173,347,897**	**1,385,948,559**	**1,559,296,456**

29. Fair Value Measurements

Fair value of financial instruments

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

	2019 Carrying Value $	2019 Fair Value $	2018 Carrying Value $	2018 Fair Value $
FINANCIAL INSTRUMENTS				
Foreign Government Securities	672,168,495	681,894,460	568,768,827	572,175,261
Loans to Bahamas Development Bank	2,258,260	3,688,769	2,509,158	3,154,075
Bridge Authority bonds	43,983	45,243	493,487	500,705
Clifton Heritage Authority bonds	641,085	656,228	638,069	665,910
TOTAL	**675,111,823**	**686,284,700**	**572,409,541**	**576,495,951**

29. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

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

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

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

Fair value hierarchy and measurements

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

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

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

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

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

29. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

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

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

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

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

29. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

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

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2019
(Continued)

29. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

	Fair value measurements as at December 31, 2018			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Marketable Securities	101,761,419	-	-	101,761,419
International Monetary Fund:				
Bahamas reserve tranche	26,821,805	-	-	26,821,805
Special Drawing rights - holdings	123,190,711	-	-	123,190,711
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	155,736,831	-	155,736,831
Bahamas Government Registered Stocks	-	249,036,288	-	249,036,288
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	173,347,897	-	-	173,347,897

Level 3

The Bank does not have a level three classification at December 31, 2019 and 2018.

There were no transfers between levels in the year.

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

	Fair value measurements as at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	794,502,327	-	-	794,502,327
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,092,683	-	4,092,683
Advances to Bahamas Government	-	75,193,832	-	75,193,832
Loans to Bahamas Development Bank	-	2,258,260	-	2,258,260
Bridge Authority bonds	-	43,983	-	43,983
Employee loans and other receivables	-	8,804,006	-	8.804,006
Foreign Government Securities	672,168,495	-	-	672,168,495
Clifton Heritage Authority bonds	-	641,085	-	641,085

29. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

	Fair value measurements as at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	458,223,964	-	-	458,223,964
Coins in circulation	30,279,156	-	-	30,279,156
Sand Dollar in circulation	48,000	-	-	48,000
Deposits by commercial banks	-	1,242,871,902	-	1,242,871,902
Deposits by Bahamas Government and Bahamas Government agencies	-	114,072,822	-	114,072,822
Deposits by international agencies	-	255,235	-	255,235
Accounts payable and other liabilities	-	13,644,785	-	13,644,785
Investment Currency Market payable	-	3,565,728	-	3,565,728

	Fair value measurements as at December 31, 2018			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	375,798,734		-	375,798,734
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,049,834	-	4,049,834
Advances to Bahamas Government	-	120,367,448	-	120,367,448
Loans to Bahamas Development Bank	-	2,509,158	-	2,509,158
Bridge Authority bonds	-	493,487	-	493,487
Employee loans and other receivables	-	8,187,757	-	8,187,757
Foreign Government Securities	568,768,827	-	-	568,768,827
Clifton Heritage Authority bonds	-	638,069	-	638,069
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	430,888,855	-	-	430,888,855
Coins in circulation	28,970,923	-	-	28,970,923
Deposits by commercial banks	-	791,668,258	-	791,668,258
Deposits by Bahamas Government and Bahamas Government agencies	-	96,155,504	-	96,155,504
Deposits by international agencies	-	255,302	-	255,302
Accounts payable and other liabilities	-	29,002,444	-	29,002,444
Investment Currency Market payable	-	9,007,273	-	9,007,273

29. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

The fair value of the financial assets and liabilities disclosed under level 2 and 3 above have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the Bahamian prime rate as the discount rate. The Bahamian dollar Prime rate was reduced by 0.50% effective January 2017, and prior to this change Prime rate had not experienced any changes since the year ended December 31, 2011.

30. Risk Management

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

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

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

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

30. Risk Management (Continued)

Credit risk

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

Exposure to credit risk

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

	2019 $	2018 $
Cash and deposits with banks		
Aaa	713,531,618	202,143,811
Aa2	20,440,073	56,001,935
A1	59,216,289	86,454,207
Aa1	-	20,391,928
Aa3	-	10,112,778
	793,187,980	375,104,659
Bahamas Development Bank Bonds		
Baa3	4,092,683	4,049,834
Advances to Bahamas Government		
Baa3	75,193,832	120,367,448
Bahamas Government Registered Stock		
Baa3	249,886,188	249,036,288
Loans to Bahamas Development Bank		
Baa3	2,258,260	2,509,158
Bridge Authority Bonds		
Baa3	43,983	493,487

30. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2019 $	2018 $
Receivables and Other Assets	8,804,006	8,187,757
Bahamas Government Treasury Bills		
Baa3	135,280,375	155,736,831
Foreign Government Securities		
Aaa	672,168,495	568,768,827
Marketable Securities		
Aaa	107,615,277	101,761,419
Clifton Heritage Authority Bonds		
Baa3	641,085	638,069
International Monetary Fund		
Bahamas reserve tranche	26,668,179	26,821,805
Special drawing rights - holdings	157,135,378	123,190,711
	183,803,557	150,012,516
	2,232,975,721	**1,736,666,293**

Market risk

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

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

Currency risk

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

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

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(Continued)

30. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

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

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Notes to the Financial Statements
December 31, 2019
(Continued)

30. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	B SD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2018							
Financial Assets							
Cash and deposits with banks	37,828	375,733,778	192	6	26,930	-	375,798,734
Foreign Government Securities		568,768,827	-	-	-	-	568,768,827
Marketable Securities	-	101,761,419	-	-	-	-	101,761,419
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	26,821,805	26,821,805
Special drawing rights – holdings	-	-	-	-	-	123,190,711	123,190,711
Domestic financial assets	541,018,872	-	-	-	-	-	541,018,872
Total financial assets	**541,056,700**	**1,046,264,024**	**192**	**6**	**26,930**	**150,012,516**	**1,737,360,368**
Financial Liabilities							
Notes in circulation	430,888,855	-	-	-	-	-	430,888,855
Coins in circulation	28,970,923	-	-	-	-	-	28,970,923
Deposits by commercial banks	791,668,258	-	-	-	-	-	791,668,258
Deposits by Bahamas Government and Bahamas Government agencies	96,155,504	-	-	-	-	-	96,155,504
Deposits by international agencies		255,302	-	-	-	-	255,302
Accounts payable and other liabilities	29,002,444	-	-	-	-	-	29,002,444
Investment Currency Market payable	9,007,273	-	-	-	-	-	9,007,273
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	173,347,897	173,347,897
Total financial liabilities	**1,385,693,257**	**255,302**	**-**	**-**	**-**	**173,347,897**	**1,559,296,456**
Net on-balance sheet position	**(844,636,557)**	**1,046,008,722**	**192**	**6**	**26,930**	**(23,335,381)**	**178,063,912**

30. Risk Management (Continued)

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

	Average Rate		Year-end Spot Rate	
	2019	**2018**	**2019**	**2018**
USD 1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.2797	1.3312	1.3202	1.2791
EUR 1	1.1260	1.1784	1.1233	1.1447
SDR 1	1.3819	1.4142	1.3828	1.3908

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

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

At December 31, 2019, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 15,713,537 (2018: BSD 12,319,071) higher/lower, mainly as a result of foreign exchange gains/losses on translation of SDR-denominated financial assets and liabilities.

Interest rate risk

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

30. Risk Management (Continued)

Interest rate risk (continued)

Certain of the Bank's financial assets and liabilities are exposed to interest rate risk. Foreign Government securities carry an average yield of 2.26% (2018: 2.23%); however, if these securities had a reduced average yield of 2.06% (2018: 2.16%), derived from their varying yields at the lower end of the spectrum, income for the year and equity at year end would have been reduced by $1,465,305 (2018: $556,997). Had the yield been tilted towards the higher end of the spectrum, to 2.46% (2018: 2.30%), income for the year and equity at year end would have increased by $1,465,305 (2018: $556,997).

In respect of all variable interest bearing instruments, if interest rates had been 50 basis points higher, with all other variables remaining constant, the increase in equity and net operating results for the year would amount to approximately $888,969 (2018: $807,274), arising from variable rate instruments. If interest rates had decreased by 50 basis points, the decrease in equity and net operating results for the year would amount to approximately $(888,969) (2018: $(807,274)).

	December 31, 2019 $	December 31, 2018 $
Fixed Rate Instruments		
Financial assets	1,454,643,016	1,221,187,573
Financial liabilities	-	-
Variable Rate Instruments		
Financial assets	744,800,564	503,949,062
Financial liabilities	172,261,421	173,347,897

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. Risk Management (Continued)

Liquidity risk (continued)

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

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

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

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

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

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

30. Risk Management (Continued)

Liquidity risk (continued)

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

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**Notes to the Financial Statements
December 31, 2019
(Continued)**

30. Risk Management (Continued)

Liquidity risk (continued)

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

Notes to the Financial Statements
December 31, 2019
(Continued)

30. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2018						
Financial Assets						
Cash and deposits with banks	25,556,470	40,823,611	309,418,653	-	-	**375,798,734**
Foreign Government Securities and Marketable Securities	-	-	117,076,107	315,780,298	237,673,841	**670,530,246**
International Monetary Fund:						
Bahamas reserve tranche	26,821,805	-	-	-	-	**26,821,805**
Special drawing rights – holdings	123,190,711	-	-	-	-	**123,190,711**
Bahamas Development Bank bonds	-	-	-	-	4,049,834	**4,049,834**
Advances to Bahamas Government	120,367,448	-	-	-	-	**120,367,448**
Bahamas Government Registered stock	-	5,353	16,784,494	79,543,054	152,703,387	**249,036,288**
Bahamas Government Treasury Bills	-	45,705,096	110,031,735	-	-	**155,736,831**
Loans to Bahamas Development Bank	-	-	-	-	2,509,158	**2,509,158**
Bridge Authority bonds	-	454,582	-	38,905	-	**493,487**
Clifton Heritage Authority bonds	-	-	-	-	638,069	**638,069**
Receivables and other accounts	-	-	1,904,335	1,913,903	4,369,519	**7,058,250**
Total financial assets	**295,936,434**	**86,988,642**	**555,215,324**	**397,276,160**	**401,943,808**	**1,737,360,368**

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Notes to the Financial Statements
December 31, 2019
(Continued)

30. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2018						
Financial Liabilities						
Notes in circulation	430,888,855	-	-	-	-	**430,888,855**
Coins in circulation	28,970,923	-	-	-	-	**28,970,923**
Deposits by commercial banks	791,668,258	-	-	-	-	**791,668,258**
Deposits by Bahamas Government and Bahamas Government agencies	96,155,504	-	-	-	-	**96,155,504**
Deposits by International agencies	255,302	-	-	-	-	**255,302**
Accounts payable and other liabilities	29,002,444	-	-	-	-	**29,002,444**
Investment Currency Market payable	9,007,273	-	-	-	-	**9,007,273**
International Monetary Fund: Special drawing rights allocation	173,347,897	-	-	-	-	**173,347,897**
Total financial liabilities	**1,559,296,456**	**-**	**-**	**-**	**-**	**1,559,296,456**
Net on-balance sheet position	**(1,263,360,022)**	**86,988,642**	**555,215,324**	**397,276,160**	**401,943,808**	**178,063,912**

30. Risk Management (Continued)

Operational risk

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

31. Retirement Benefit Plans

Defined Contribution Plan

	2019 $	2018 $
Amount recognised as an expense (Note 21)	756,456	297,169

Defined Benefit Plan

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

	2019 $	2018 $
Present value of obligation at start of year	51,687,993	54,181,841
Curtailment adjustment	(32,361,176)	-
Interest cost	1,874,725	2,677,447
Current service cost	847,101	1,970,408
Benefits paid	(2,749,794)	(5,384,938)
Actuarial gain on obligation due to experience	(918,660)	(981,223)
Actuarial loss on obligation due to demographic assumption changes	-	1,506,010
Actuarial gain on obligation due to financial assumption changes	(819,667)	(2,281,552)
Present value of obligation at end of year	**17,559,745**	**51,687,993**
Fair value of plan assets at start of year	56,609,173	59,874,621
Curtailment adjustment	(40,861,019)	-
Interest income	2,144,347	3,026,432
Contributions paid – both employees' and employer's	1,091,996	2,043,856
Benefits paid	(2,749,794)	(5,384,938)
Administrative costs	(21,111)	(6,945)
Return on plan assets, excluding interest income	(672,483)	56,147
Fair value of plan assets at end of year	**18,541,109**	**59,609,173**

31. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

	2019 $	2018 $
Present value of funded obligations	17,559,745	51,687,993
Fair value plan assets	(18,541,109)	(59,609,173)
	(981,364)	**(7,921,180)**

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

	2019 $	2018 $
Cash	200,080	872,727
Interest receivable	270,580	709,120
Bahamas Government Registered Stocks	17,018,185	56,770,235
Other bonds	372,824	849,421
Equity securities	700,000	700,000
Accounts payable	(20,560)	(292,330)
Total	**18,541,109**	**59,609,173**

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

	2019 $	2018 $
Current service cost	644,619	1,547,547
Administrative cost	21,111	6,945
Net interest income	(269,622)	(348,984)
Loss on curtailment	8,499,066	
	8,895,174	**1,205,508**
Remeasurements recognised in OCI	**(1,065,844)**	**(1,812,912)**

31. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

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

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

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

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

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

	2019 **$**	**2018** **$**
Net assets at beginning of year	(7,921,180)	(5,692,780)
Net expense recognised in net income	8,895,174	1,205,508
Employer contributions	(889,514)	(1,620,996)
Remeasurements recognised in OCI	(1,065,844)	(1,812,912)
	(981,364)	**(7,921,180)**

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

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

	2019 **$**	**2018** **$**
Discount rate	5.65%	5.50%
Expected rate of salary increase at age 18	4.00%	4.00%
Expected rate of salary increase at age 59	4.00%	4.00%
Cost of living adjustment for active employees	1.25%	1.25%

The actual return on plan assets during the year was $1,471,864 (2018: $3,082,578).

31. Retirement Benefit Plans (Continued)

Sensitivity and other results

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

	2019 $	2018 $
Pensioners	14,249,365	14,678,734
Vesting actives	3,310,380	34,452,589
Unvested actives	-	2,556,670
	17,559,745	51,687,993

The pensioner liability of $14,249,365 (2018: $14,678,734), included $1,323,431 (2018: $1,990,960) relating to assumed cost of living adjustments.

The liability for actives of $3,310,380 (2018: $34,452,589), included of $113,752 (2018: $1,962,291) relating to assumed cost of living adjustments and $248,921 (2018: $7,807,528) relating to assumed future salary increases.

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

	2019		2018	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(1,519,583)	1,790,889	(6,903,383)	8,684,854
Future salary increases	69,037	(66,184)	2,050,259	(1,855,040)

If all members lived one year longer than projected, the liability at year-end would be $18,023,498 (2018: $52,678,666).

If the discount rate remained at 5.5% and mortality remained unchanged, the benefit obligation would be $17,642,347 (2018: $52,463,535)

The weighted average duration of the defined benefit obligation at December 31, 2019 is 9.4 years (2018: 14.9 years).

32. Health Insurance Subsidy Benefit for Retirees

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

	2019 **$**	**2018** **$**
Present value of obligation at start of year	3,190,276	3,112,941
Interest cost	171,351	158,214
Current service cost	99,840	106,203
Benefits paid	(149,626)	(140,718)
Actuarial gain on obligation due to experience	(69,576)	(44,335)
Actuarial (gain)/loss on obligation due to financial assumption change	(57,643)	118,441
Actuarial gain on obligation due to demographic assumption change	-	(120,470)
Present value of obligation at end of year	**3,184,622**	**3,190,276**
Contribution paid – employees' and employers' contributions	149,626	140,718
Benefits paid	(149,626)	(140,718)
	-	-

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

	2019 **$**	**2018** **$**
Current service cost	99,840	106,203
Net interest cost	171,351	158,214
	271,191	**264,417**
Remeasurements recognised in OCI	**(127,219)**	**(46,364)**

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

	2019 **$**	**2018** **$**
Net liability at beginning of year	3,190,276	3,112,941
Net expense recognised in net comprehensive (loss)/income	271,191	264,417
Employer contributions	(149,626)	(140,718)
Remeasurements recognised in OCI	(127,219)	(46,364)
	3,184,622	**3,190,276**

32. Health Insurance Subsidy Benefit for Retirees (Continued)

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

	2019 $	2018 $
Discount rate	5.65%	5.50%
Rate of Medical Subsidy Increases	0.00%	0.00%

Sensitivity and Other Results

The benefit obligation as at year-end comprises:

	2019 $	2018 $
Pensioners	1,696,747	1,671,425
Actives	1,487,875	1,518,851
Total	**3,184,622**	**3,190,276**

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

	2019		2018	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount rate	(343,678)	420,031	(352,966)	432,776

If all members lived one year longer than projected, the liability would be $3,253,643 (2018: $3,259,292).

If the discount rate remained unchanged from 5.5% and mortality assumption remained unchanged, the benefit obligation would decrease by $57,643.

The weighted average duration of the defined benefit obligation at December 31, 2019 is 11.9 years (2018: 12.2 years).

33. Retirement Benefit Plan for Governors and Deputy Governors

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

	2019 $	2018 $
Present value of obligation at start of year	4,232,350	4,188,009
Interest cost	225,010	210,431
Current service cost	185,393	189,747
Benefits paid	(282,500)	(282,500)
Actuarial gain on obligation due to experience	(80,617)	(92,856)
Actuarial loss obligation due to demographic assumption change	-	146,450
Actuarial gain on obligation due to financial assumption change	(64,497)	(126,931)
Present value of obligation at end of year	**4,215,139**	**4,232,350**
Fair value of plan assets at start of year	4,087,988	-
Expected return on plan assets	217,071	101,544
Contributions - Employer	-	4,188,009
Benefits paid	(282,500)	(282,500)
Actuarial (loss)/gain on plan assets	(158,691)	80,935
Fair value of plan assets at end of year	**3,863,868**	**4,087,988**

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

	2019 $	2018 $
Present value of funded obligations	4,215,139	4,232,350
Fair value of plan assets	(3,863,868)	(4,087,988)
	351,271	144,362

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

	2019 $	2018 $
Current service cost	185,393	189,747
Net interest expense	7,940	108,888
	193,333	**298,635**
Remeasurements recognised in OCI	**13,576**	**(154,273)**

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

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

	2019 $	2018 $
Net liability at beginning of year	144,362	4,188,009
Net expense recognised in net income	193,333	298,635
Employer contributions	-	(4,188,009)
Remeasurements recognised in OCI	13,576	(154,273)
	351,271	**144,362**

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

	2019 $	2018 $
Discount rate at end of year	5.65%	5.50%
Salary increase (p.a.)	3.50%	3.50%
Cost of living adjustment for pensioners (p.a.)	3.50%	3.50%

Sensitivity and other results

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

	2019 $	2018 $
Pensioners	3,639,964	3,830,599
Actives - Unvested	575,175	401,751
	4,215,139	4,232,350

The pensioner liability of $3,639,964 (2018: $3,830,599) included $897,654 (2018: $976,747) relating to assumed cost of living adjustments, and $897,654 (2018: 976,747) relating to assumed future salary increases.

The liability for actives of $575,175 (2018: $401,751) included $153,692 (2018: $108,222) relating to assumed cost of living adjustments and $215,525 (2018: $158,874) relating to assumed future salary increases.

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

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

	2019		2018	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	$	**$**	**$**	**$**
Discount	(390,507)	463,871	(395,571)	471,635
Future salary increases	26,496	(25,422)	22,128	(21,072)

If all members lived one year longer than projected, the liability at year-end would be $4,371,679 (2018: $4,389,536).

The weighted average duration of the defined benefit obligation at December 31, 2019 is 10.1 years (2018: 10.2 years).

34. Comparative figures

Presentation of certain comparative balances has been re-stated in order to conform with the current year's presentation.

35. Subsequent Events

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

The World Health Organization (WHO) announced the coronavirus as a global health emergency, which prompted the governments worldwide to put actions in place to slow the spread of COVID-19 including social distancing, curfews and total lockdowns of businesses. As such, the outbreak represents a significant subsequent event with regards to the 31 December 2019 financial statements.

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35. Subsequent Events (Continued)

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

Financial Statement Area	Description of Impact
Cash and deposits with banks including fixed deposits and related interest income.	With the Federal Reserve interest rate cuts the returns offered by depositories have fallen significantly. Overnight rates have dropped to near zero and it is estimated that this low yield environment will last 12-18 months. The Bank anticipates that based on the current economic climate resulting from the COVID-19 outbreak income projections will not be met in 2020.
Foreign Government Securities and related interest income.	Treasuries have seen their yields drop dramatically as investors move into these safe haven assets. At the beginning of 2020 Treasury yields stood at 1.67, 1.79 and 2.33 for 5year, 7year and 30year respectively. As at March 17, 2020 those are now 0.66, 0.91 and 1.63. The Bank will have to invest in other securities to earn a quality return and absorb some of the significant drop in anticipated interest in 2020.
Marketable Securities and related fair value of investments including interest income.	The Bank's portfolio has a very strong conservative profile (average rating of AAA) with limited credit exposure. The portfolio will remain invested in high quality issues and with fixed interest it is anticipated that there will be minimal impact.
International Monetary Fund: - effect in Bahamas Reserve Tranche, Special Drawing Rights and the related interest in SDR.	No foreseeable impact.
Bahamas Government Treasury Bills and related interest income	Currently there is no foreseeable impact on the repayment of the Bahamas Government Treasury Bills and the related interest income.

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Notes to the Financial Statements
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35. Subsequent Events (Continued)

Financial Statement Area	**Description of Impact**
Advances to Bahamas Government and related interest income	Currently there is no known measureable impact on the repayment of the advances to Bahamas Government and the related interest income in the immediate future.
Bahamas Government Register Stock and related interest income.	There will potentially be an increase in redemptions purchased by the Bank resulting in increased income as individual investors redeem their holdings. There is currently no known measureable impact on Bahamas Government Registered Stock and the related interest income.
Deposit by Commercial Banks	It is anticipated that the longer this pandemic continues Commercial Banks will begin to erode the reserve balance as their clients seek liquidity.
Deposits by Bahamas Government and Bahamas Government Agencies	It is anticipated that the longer this pandemic continues these deposits will be drawn down.
International Monetary Fund: - Special Drawing Rights Allocation including interest expense on SDR.	Currently there is no financial impact.
Staff Cost	Due to the current social distancing protocol training sessions have been cancelled until orders have been lifted. This includes local and international training. It is anticipated that training costs will be down in 2020. The Bank continues with its full complement of staff with no intended staff layoffs and none in the foreseeable future. All essential staff remain on site and others are working remotely.

35. Subsequent Events (Continued)

The expected fall-off in Government revenue and inevitable decline in Gross Domestic Product (GDP) from the global and domestic economic crisis has also prompted Moody's decision to place the Bahamas' Baa3 ratings on review for downgrade.

Notwithstanding these unfavorable conditions subsequent to year-end, management has concluded that the Bank is expected to continue as a going concern.

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