CENTRAL BANK OF THE BAHAMAS

2023 ANNUAL Report & Statement of Accounts

ENDED DECEMBER 31, 2023

Mission

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

Values

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

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

Vision

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

April 29, 2024

Dear Prime Minister:

In accordance with Section 35(1) of the Central Bank of The Bahamas Act, 2020, I have the honour of forwarding to you, on behalf of the Board of Directors, the Annual Report of the Bank for the year 2023. Included with this Report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

John A. Rolle
Governor

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

ABOUT THE BANK

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

MONETARY POLICY

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

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

PUBLIC DEBT & SINKING FUND MANAGEMENT

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

PAYMENTS

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

CURRENCY

The Bank meets the currency needs of the public by arranging for the procurement, storage and issuance of Bahamian banknotes and coins, as well as maintaining the quality of currency in circulation. Banknotes that are deemed 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 Bahamian economy maintained its growth momentum in 2023, albeit at a moderated pace, supported by continued gains in the tourism sector and stimulus from foreign direct investments. In this environment, labour market conditions improved, against the backdrop of construction activity and a rebound in tourism-related job opportunities. Further, domestic prices trended downward, reflecting the pass-through effects of reduced upward pressures in imported goods and services, including oil prices.

On the fiscal side, the overall deficit decreased notably in FY2022/23 compared to the previous year, as the VAT-driven expansion in total revenue outpaced the rise in aggregate expenditure. Trends for the first six months of FY2023/24 revealed more consolidation, buoyed by a strengthening in revenue receipts.

Monetary developments over the year featured a decline in bank liquidity and the financial sector's net foreign assets (including the foreign reserves), contrasting with an expansion in both aggregates in 2022. The previous year's uplift was largely supported by both the Government's external borrowing activities, and further recovered net tourism receipts. In addition, the expansion in domestic credit continued, with resumed net lending to the private sector, outpacing the growth in the deposit base. Meanwhile, banks' credit quality steadily improved, given the sustained recovery in the economy and further write-down of bad debt.

Given these developments, the Central Bank maintained an accommodative monetary policy stance, in an effort to spur further expansion in credit and support a sustainable boost in domestic demand. Accordingly, the Bank relaxed lending guidelines, removing the 15.0% minimum equity injection requirement for borrowers, as it relates to residential mortgages not secured by mortgage indemnity insurance. The Central Bank also began to explore measures for additional liberalisation of exchange control administration.

With regard to financial sector supervision, the Central Bank maintained its risk-based approach to engaging with supervised financial institutions (SFIs). Of note, in line with a sustained focus on strengthening the anti-money laundering and countering the financing of terrorism (AML/CFT) regime, the Bank continued to tailor improvements in its guidance to the industry. This included emphasis on streamlined due diligence that would promote domestic financial inclusion, and strengthening of the Bank's analytical tool kit for AML risk assessments. New guidance also spotlighted the Bank's expectations around the effectiveness of SFIs' enterprise risk management frameworks; and the Central Bank's approach to supervision of exposures to digital assets, for which regulatory treatment would concentrate on the nature of the underlying purpose or use of digital assets, to ensure equivalent treatment as other financial products of similar use, risk or purpose.

The credit bureau initiative continued to advance, with all domestic banks and most of the credit unions formally reporting data, as at the end of December 2023. In addition, public utility companies, money lenders and insurance companies continued preparations to commence reporting.

Other noteworthy milestones in 2023 include the launch of the Bahamas Government Securities Depository (BGSD)—the new registry and custodial system for Government securities. The BGSD is expected to improve the transparency and administrative efficiency of public sector debt management operations, support competitive bidding for Government securities in the primary market, and introduce price discovery through the adaptation of a true domestic yield curve.

During the year, the numismatic coin programme continued to feature mintages celebrating Bahamian culture and environment. The Bank released gold and silver proof coins commemorating The Bahamas' 50th Anniversary of Independence, highlighting a celebration of Junkanoo, as well as the flora and fauna of the islands, including the national plant, Lignum Vitae, and the Andros Bonefish.

As it relates to financial inclusion, the Bank accelerated its SandDollar adoption strategy to include 'SandDollar Ambassadors' to conduct outreach in New Providence and the Family Islands, and expanded its marketing initiatives through radio, television and print media. In addition, the Bank held its annual Financial Literacy Fair and Digital Expo in April 2023, to promote broader education on digital access to financial services, as well as strengthening the public's knowledge of financial terms and concepts.

Staff continue to be the Bank's most valuable resource. Throughout the year, the Bank achieved progress toward its strategic objectives, which would not have been possible without the hard work and dedication of these talented individuals. To this end, I would like to thank my colleagues and the Board of Directors for their cooperation and support, and I look forward to their continued commitment.

Governor

CENTRAL BANK OF THE BAHAMAS
DIRECTORS

At December 31, 2023

MR. JOHN ROLLE
Chairman

MR. DEREK ROLLE
Deputy Governor

MR. THOMAS DEAN
Board Member

MR. JOHN SWAIN
Board Member

MR. BRYAN KNOWLES
Board Member

MR. KENDAL KELLY NOTTAGE
Board Member

DR. OLIVIA SAUNDERS
Board Member

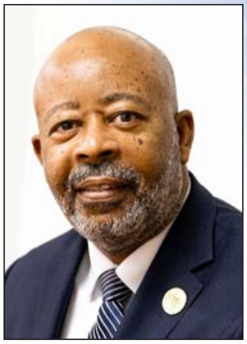
MR. ROBERT ADAMS, K.C
Board Member

BOARD COMMITTEES

AUDIT COMMITTEE

MR. JOHN SWAIN

MR. BRYAN KNOWLES



MR. KIRVY FERGUSON

ENTERPRISE RISK MANAGEMENT COMMITTEE

DR. OLIVIA SAUNDERS

MR. KENDAL KELLY NOTTAGE

MS. JUNE COLLIE

MRS. TARA COOPER-BURNSIDE, K.C.

MR. ROBERT ADAMS, K.C

CENTRAL BANK OF THE BAHAMAS
SENIOR OFFICIALS

At December 31, 2023

MR. JOHN A. ROLLE
Governor

MR. DEREK S. ROLLE
Deputy Governor

MS. KAREN V. ROLLE
Inspector, Banking Supervision

MRS. SHERRECE L. SAUNDERS
Deputy Inspector, Banking Supervision

MRS. ANDREA A. ADDERLEY-MCQUAY
Board Secretary & Manager, Corporate Strategy, Risk & Governance

MRS. CLEOPATRA B. DAVIS
Manager, Banking

MR. JERMAINE H. CAMPBELL
Manger, Currency

MRS. ROCHELLE A. DELEVEAUX-MCKINNEY
Legal Counsel

MR. ALLAN S. WRIGHT
Manager, Research

MRS. TAMIEKA V. WATSON
Manager, Exchange Control

MR. DERRICK M. BURROWS
Manager, Finance

MR. ERROL L. BODIE
Manager, Information Technology

MR. GEVON R. MOSS
Manager, Human Resources

MRS. NAKEISHA S. BURROWS
Manager, Internal Audit

MR. RICARDO H. BARRY
Manager, Facilities Services

MR. LUTHER C. SMITH
Manager, Information Security

2023 AT A GLANCE

- **THE DOMESTIC ECONOMY** sustained its growth momentum, albeit at a moderated pace, preliminarily estimated at 2.6% in 2023, following a revised 10.8% expansion in 2022. In particular, growth started to return closer to the expected medium-term potential of The Bahamas. The outturn was supported by healthy gains in tourism, and steadied foreign investments that boosted construction activity.

- **AVERAGE CONSUMER PRICE** inflation moderated in 2023, reflective of the pass-through effects of lower global oil prices, and reduced cost pressures on other imported goods and services.

- **LABOUR MARKET CONDITIONS** improved, in line with the rest of the economy, as the unemployment rate fell below the 2019 comparison. However, labour force participation continued to recover towards pre-COVID-19 levels.

- **THE FISCAL DEFICIT TO GDP RATIO** reduced to an estimated 3.8% in FY2022/23 from 5.8% in FY2021/22, as the VAT-led growth in total revenue, outpaced the expansion in overall expenditure. Consolidation continued during the first half of FY2023/2024.

- **AS AT END-DECEMBER,** the Government's Direct Charge to GDP ratio decreased to an estimated 79.7% from 84.0% in 2022. The National Debt to GDP ratio declined to an estimated 82.1% from 87.0% in the previous year.

- **EXTERNAL RESERVES CONTRACTED** by $93.6 million (3.6%) in 2023, following a $178.6 million (7.3%) build-up in 2022, which had included proceeds from both the Government's external borrowings and net foreign currency inflows from real sector activities. The import cover ratio narrowed to 30.0 weeks, from 33.9 weeks in 2022—staying well above the 12 weeks benchmark.

- **THE CENTRAL BANK ELIMINATED** the mortgage indemnity insurance, as a requirement to enable lending institutions to offer residential mortgages against equity down payment of less than 15.0%. However, other prudent credit underwriting practices continued to apply.

- **IN LINE WITH THE CENTRAL BANK'S** sustained focus on strengthening anti-money laundering and countering the financing of terrorism (AML/CFT) frameworks, the Bank introduced new and amended guidance on risk management practices. The Central Bank also amended guidance, to increase the ease of opening bank accounts by individuals and small businesses.

- **THE CENTRAL BANK FINALIZED** the new Digital Assets Guidelines that outline the expectations of SFIs that are exposed to digital asset activities, which prescribes the philosophy of "same risk, same activity, and same [regulatory] treatment".

- **IN 2023, THE CENTRAL BANK** launched the Bahamas Government Securities Depository (BGSD)—the new registry and custodial system for Government securities.

- **THE CREDIT BUREAU INITIATIVE** continued to advance. All domestic banks and most of the credit unions were formally reporting data as at the end of December 2023.

BOX 1: STRATEGIC FOCUS FOR 2024-2025

Progress continued on the Bank's Strategic Plan for 2021-2025. The Plan consists of six main pillars and continued during 2024-2025. The strategic goals related to these pillars are targeted at improving the effectiveness and transparency of the Bank's activities, increasing its operational efficiency and risk management systems, and strengthening its external relations framework.

Over the period of 2024-2025, work prioritised for completion under each pillar is highlighted below.

Pillar 1: Increase the effectiveness and transparency of the frameworks for monetary policy, financial stability and exchange control

- Introduce indirect monetary policy instruments, leveraging modernisation of the Government securities market and infrastructure.
- Develop a toolkit for macro and micro-prudential supervision and policies.
- Continue to formulate targeted proposals for liberalisation of residents' access to foreign currency funding.
- Develop proposals to strengthen access to and usage of the Bahamas Depository Receipts and the Investment Currency regime for external portfolio investments.

Pillar 2: Enhance the financial sector supervisory and regulatory framework in line with international benchmarks

- Advance the implementation of the Basel II and Basel III risk-based frameworks.
- Sustain reforms to strengthen the AML/CFT regime.
- Improve financial resilience mechanisms.

Pillar 3: Strengthen policy advice capacity

- Enhance the framework for fiscal policy advice to the Government.
- Develop domestic policy proposals on consumer financial protection, financial literacy and financial inclusion.

Pillar 4: Deepen payments systems development and public debt management operations

- Sustain efforts to promote widespread adoption of the digital domestic currency.
- Continue to modernise the debt issuance and management framework for public debt.
- Encourage increased non-bank participation in public debt issuances.
- Introduce a Government savings bond instrument for retail investors.

Pillar 5: Enhance operational efficiency and risk management systems

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

Pillar 6: Strengthen external relations and communications frameworks

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

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

The Bank's corporate governance framework, as outlined in the Central Bank of The Bahamas Act, 2020 (the Act), prescribes, *inter alia*, the roles and responsibilities of the Board of Directors, the Governor and the Deputy Governors. In fulfilling its mandate as set out in the Act, the Bank continues to strengthen and maintain sound frameworks around governance, accountability and risk management practices.

BOARD OF DIRECTORS

The Board of Directors has overall responsibility for the oversight of the Bank's management and operations. In so doing, the Board approves the Bank's strategic plan for its future development, and policies that govern current activities, such as financial and accounting practices, procurement, succession planning, enterprise risk management and internal control processes.

Appointed by the Governor General, on the advice of the Minister of Finance, the Board comprises the Governor (Chairman), a non-voting Deputy Governor and six independent non-executive directors. Although the Act provides for two non-voting Deputy Governors, currently there is only one. Under the Act, each director is required to treat information acquired during the exercise of their functions as confidential, and must sign a declaration of confidentiality to that effect. Directors are indemnified by the Bank against personal, civil or criminal liability, in respect of their actions done in good faith while carrying out their statutory duties.

During 2023, the tenure was extended for all sitting Board Members, namely Mr. Thomas Dean, Mr. John Swain, Dr. Olivia Saunders, Mr. Kendal Kelly Nottage and Mr. Bryan Knowles, with effect from 1 July 2023. Also, Mr. Robert Adams, KC was reappointed, effective 1 July 2023. This completed the full slate of independent non-executive directors that is permissible under the Act. The appointments of all directors were multi-year, ensuring continuity in comprehensive Board oversight. The tenures for directors Adams, Dean and Swain were extended through June 2026; and for remaining directors though June 2028.

For Board meetings, four directors form a quorum. In 2023, the Board met on twelve occasions. Directors maintained oversight of progress on the Bank's strategic initiatives, as well as facilitated the execution of ongoing operations, by reviewing and approving Bank-wide policies and procurement activities. The Bank's financial condition and the Government's outstanding obligations to the Bank were also monitored. Focus was placed on enterprise risk management activities and the Bank's overall internal control environment.

With respect to the Bank's statutory functions, the Board discussed international economic and financial conditions and the resultant impact on external reserves. The Board also paid close attention to financial sector supervisory efforts, especially those directed at improving the operations and financial soundness of supervised financial institutions. Further, developments in the payment system were noted, such as enhancements to SandDollar offerings and promotions to increase adoption.

ACCOUNTABILITY & TRANSPARENCY

The Bank is mandated by statutes and international best practices to ensure a high degree of transparency and accountability in its operations. To fulfil its statutory obligations, the Bank produced a report of its activities for 2023, which was subsequently laid before Parliament. The Bank's monthly balance sheet information was also disseminated to the Minister of Finance and published in the Official Gazette and on the Bank's website.

Throughout the year, the Governor maintained scheduled meetings with the Minister of Finance and Minister of Economic Affairs, and presented information on developments that could impact the economy and Government finances. Constant communications and exchange of information assisted in coordinating monetary and fiscal policy actions, while keeping the Government abreast of the Bank's performance in meeting its statutory obligations.

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

Supporting accountability and transparency efforts, the Governor and senior officers of the Bank made presentations on various topics, including domestic economic conditions and forecasts, regulatory and supervisory developments, exchange control measures, and advances in strategic initiatives.

CORPORATE STRATEGY, RISK AND GOVERNANCE

The Bank aims to effectively manage risks in all aspects of its operations, using a comprehensive approach based on sound central banking principles, strong governance frameworks and internationally accepted risk management standards.

From an enterprise-wide perspective, the Corporate Strategy, Risk and Governance (CSRG) Unit was established in 2020 as the "second line of defence" within the Bank. The CSRG Unit coordinates enterprise risk management activities, inclusive of business continuity, information assets management and compliance. The CSRG Unit compiles and assesses the risks and mitigating controls that departments, within the "first line" of responsibility have self-identified, and generates data-based reports on the Bank's entire risk and control profile. This work of the CSRG Unit, along with the efforts of "the first line", support the continual strengthening of risk management governance and the internal control environment within the Bank.

Enterprise Risk Management (ERM)

The Bank's enterprise risk management (ERM) program progressed throughout 2023. Over the year, ERM activities included the completion of the ERM pilot programme of the Bank's risk management methodology; the continuation of Bank-wide training to build staff capacity; and the launch of an awareness campaign to strengthen stakeholder relationships across the organisation.

The Board delegates its responsibility to oversee the Bank's risk management functions to the Enterprise Risk Committee (ERC). Governed by a Charter, ERC is comprised of three independent non-executive directors and two external experts. The Board has also approved Terms of Reference (TOR) for the Executive Risk Management Committee (ERMC), comprised of Senior Officials (or senior management), responsible for setting the "tone at the top" for risk management in daily operations. As per its TOR, the ERMC maintains a collaborative approach to monitoring and managing risks across the Bank.

In keeping with the ERC's Charter and the ERMC's Terms of Reference, the Bank's risk committees met monthly and quarterly, respectively. Risk monitoring and reporting was enhanced at both committee levels, by updating the consolidated risk and control register, assessing the Bank's risk profile against its risk appetite, and reporting on departments' corrective action plans. There was increased attention to operational risks, including cybersecurity, information technology and people risks. Deliberations also focused on updating the Bank's Risk Appetite Statement for 2024, considering inherent risks in the Bank's operations and existing control environment.

Business Continuity

The Bank's Business Continuity Programme (BCP) is evolving to satisfy compliance with ISO 22301. In 2023, the Bank relocated its disaster recovery site from the Poinciana House on East Bay Street, to premises within the interior of Western New Providence. The Bank also completed a thorough review of BCP lessons learned during the COVID-19 pandemic, with a view to enhancing its business continuity plan and related policies. This included efforts through the Business Continuity Committee (comprised of senior managers), to formalize available options, such as telework for business continuity; and to reconfirm priorities for the disaster recovery strategy. In addition to framework enhancements, a risk and business impact assessment was conducted, in order to validate the target level of priority given to resuming specific operations, particularly given how the affected operations impact key internal and external stakeholders. Emphasis was also placed on validating the resiliency of key payment systems infrastructures, such as SandDollar and the Real Gross Settlement (RTGS) system.

Information Assets Management

The Information Assets Management Unit (IAMU) oversees the Bank's records and information management programme. It continued to manage the dissemination of information, primarily via the corporate intranet and the Bank's website. During 2023, IAMU also focused on providing access to additional information resources and digitising the Bank's physical records, as part of the paperless mandate. Further, the Unit continued to develop policies governing information management, including the foundational Data Classification Policy.

Compliance

The Bank employs a Money Laundering Reporting and Compliance Officer (MLRO) to advance and to promote a strengthened ERM framework, with oversight of all matters relating to compliance of a legal or regulatory nature; alignment with international standards and practices on anti-money laundering, countering the financing of terrorism, proliferation financing (AML/CFT/CPF); and observances against other internal governance metrics.

Several initiatives were undertaken to further strengthen the AML/CFT/CPF framework, inclusive of enhancing policies and procedures, in alignment with international best practices. The MLRO also actively engaged with key internal stakeholders to promote and foster a stronger compliance culture, including sustained emphasis on staff training and awareness.

Internal Audit

The Internal Audit Unit (IAU) employs a systematic, disciplined approach to evaluating and improving the effectiveness of the Bank's risk management, control and governance processes. This includes collaboration with the Corporate Strategy, Risk and Governance Unit to ensure the appropriate execution of the Bank's risk management practices. In 2023, internal audits were executed principally against the Board-approved, risk-based Annual Audit Plan. The audit reports provided ongoing recommendations to strengthen operations and promote effective progress against the Bank's Strategic Plan. IAU also continued to monitor the departments' implementation of documented action plans and to report to the Board on progress against those plans.

The IAU is guided by the profession's Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Central Bank's Internal Audit Charter. To maintain independence, a dual reporting structure exist, whereby IAU reports functionally to the Audit Committee and administratively to the Governor.

In February 2023, the Institute of Internal Auditors Quality Assessment team performed an external quality assessment (EQA) of the IAU. The EQA's final report opined that the Bank's internal audit activity satisfied a top rating of 'Generally Conforms', relative to the Standards and the IIA Code of Ethics. This rating demonstrates a clear intent and commitment within the Bank to achieving the Core Principles for the Professional Practice of Internal Auditing.

Information Security

In 2023, the Bank continued to strengthen its information security governance. In particular, the Information Security Unit (ISU) spearheaded the adoption of enhanced security monitoring, detection and prevention tools; and continued to gather actionable intelligence to strengthen the Bank's security posture against phishing attacks, malware and viruses. Improved visibility into security threats also continued to frame the medium-term development of the information security framework.

The annual Information Security Awareness Month, hosted each June, is a centrepiece of Bank's training activities that expose staff to both local and international information security experts. The 2023 events culminated with an expo, showcasing industry security experts in the areas of technology, regulatory compliance, finance and insurance. Activities also highlighted the security benefits and risk associated with digital currencies. Near-term enhancements to this program are expected to further engage with Central Bank supervised financial institutions.

The ISU also spearheaded the update of Bank's incident response plan and playbooks. This included an expanded list of Security Incident Response Team (SIRT) personnel, roles and responsibilities; communication workflow and critical support teams. In November 2023, the unit hosted the Bank's first incident response table top exercise, bringing together key internal stakeholders. The exercise served to broaden awareness of the incident response process, while also identifying potential areas for improvement.

In 2023, the Bank also observed more proactive efforts among institutions with which it interacted, to reduce cyber security risk exposures, including third-party risks. Such initiatives are in step with the Bank's forward looking risk posture, to place increasing emphasis on the attestations and independent external vulnerability assessment frameworks in use by third parties that are authorised to access the Bank's controlled environments.

Office of the Financial Services Ombudsman

The Bank established the Office of The Financial Services Ombudsman (OFSO) in 2021 to coordinate the development of an internationally benchmarked consumer financial protection framework for The Bahamas, as appropriate, through legislative reform proposals and cooperation with other domestic financial regulators.

The Bank's objective is to achieve a framework that clearly outlines the rights of financial consumers in policy, regulation and law; working towards increased consumer awareness regarding the industry, industry practices, duties and obligations; providing mechanisms that enforce proper conduct and good governance practices for consumer protection by financial services providers; and engaging alternative or informal dispute resolution approaches to facilitate speedy redress of certain consumer complaints. As a background, this initial effort is focused on consolidating general consumer protection references throughout various Bahamian legislation. The OFSO initiative builds upon commitments that the Central Bank undertook in 2018, upon signing the Maya Declaration of the international Alliance for Financial Inclusion (AFI). These cover seven (7) explicit goals to improve financial inclusion and literacy, one of which was to establish an ombudsman office.

The OFSO is an independent functionary. Although the initiative has been spurned by the Bank, it is intended that the OFSO will cover complaints for all financial services in the future, and continue to feature a financial literacy component. However, the current complaints handling process only engages with domestic banks, credit unions, money transmission businesses and payment services institutions.

In the current engagement with Central Bank supervised financial institutions (SFIs), the complaints handling process typically offers guidance on industry-related products or services, and helps to resolve the issues raised by such customers. When complaints warrant significant investigation and engagement with the respective SFIs, these take on average 15-30 days to resolve.

CURRENCY OPERATIONS

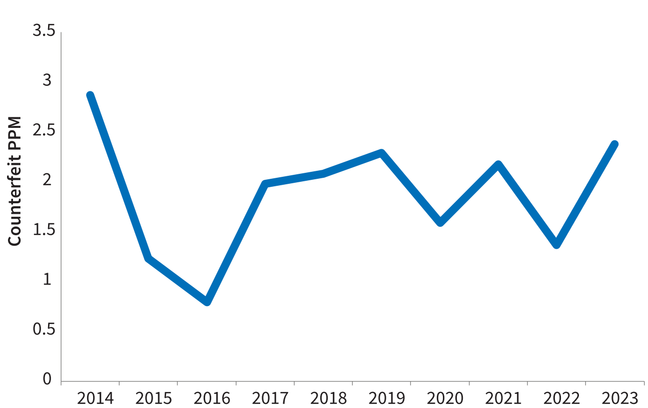
During the year, the Bank's currency operations progressed key initiatives around payments modernization, financial markets infrastructure developments, enhancements to the numismatic programme, issuance of physical and digital currencies, and ongoing counterfeit detection training.

Circulation Notes and Coins

In 2023, the Bank finalized plans to produce new Counterfeit Resistant Integrated Security Product (CRISP) Evolution $1 banknotes, and mint two circulation coins, which will be released in 2024. The new $1 bill will incorporate minor colour refinements to make the note slightly greener. In the meantime, the circulation coin production will replenish depleting inventory and commemorate the 50th Anniversary of the Central Bank.

The Bank also maintained its educational and training programmes to deter counterfeiting. This included a series of targeted and ad hoc counterfeit detection workshops and deployment of online public training tools, such as the mobile banknote app ("CBB Banknote MAP"). Public awareness, combined with the built-in security features in banknotes design, continued to support relatively low counterfeit detection rates. The incidence rates remained low during 2023, at an estimated 2.4 parts per million. Nevertheless, some uptick in counterfeit $20 notes was noted, which prompted increased, targeted efforts to curb this trend (see Chart below).

Counterfeit Parts per Million (PPM) Notes in Circulation



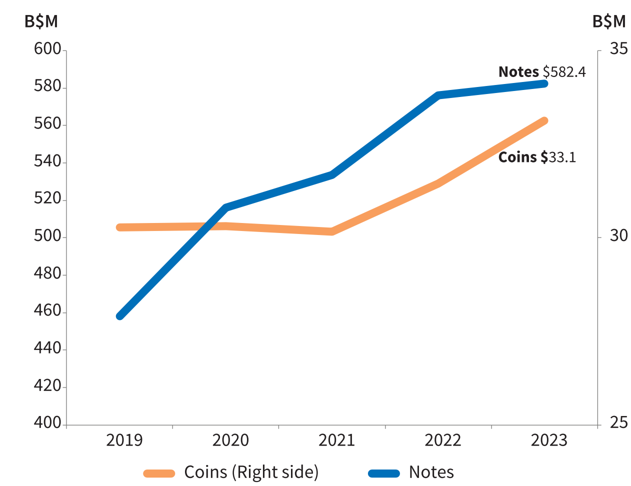
During 2023, the volume and value of banknotes in circulation rose by 2.4% and 1.1%, respectively, to approximately 44.4 million bills, valued at $582.4 million. The volume of coins increased by 1.5% to approximately 883.5 million, representing a 5.3% increase in value to $33.1 million.

Table 1: Bank Note Security Tiers

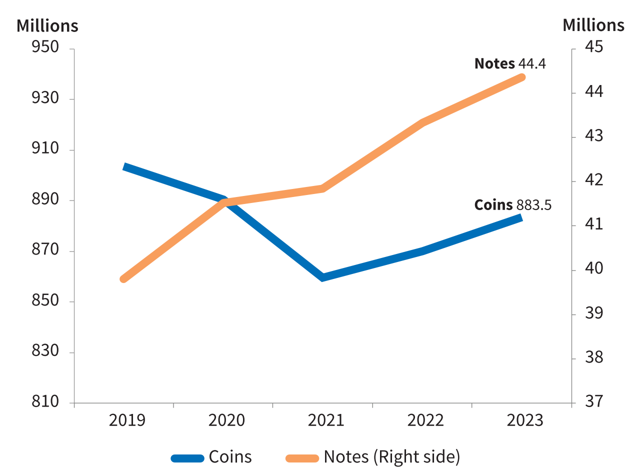
Denomination	Public Consumption
$1/2, $3	Novelty
$1, $5	Low Value
$10, $20	Transactional
$50, $100	Value Storage

Source: Central Bank of The Bahamas

Value of Notes and Coins in Circulation



Quantity of Notes and Coins in Circulation



Numismatics

The Bank's numismatic programme expanded, with releases of gold and silver proof coins commemorating The Bahamas' 50th Anniversary of Independence. The gold proof coins were produced in one-ounce and half-ounce versions and released in June, both showcasing a duo of male and female Junkanoo performers. The $50 Independence silver proof coin, highlighting the flower from the national tree, the Lignum Vitae, was also an extension of the Bank's new flora and fauna coin series. In September, the release of a $10 silver proof Andros Bonefish coin, represented the fourth in the second Islands of The Bahamas coin series and completed the suite of collector coins issued during 2023.

Financial Market Infrastructure

The Bank continued with its payment systems modernization initiatives. At the start of January, the Bahamas Government Securities Depository (BGSD) was launched, as the new electronic registry and custodial system for Government securities. The BGSD facilitates all Bahamas Registered Stock (BRS) and Treasury bill (T-Bill) operations: namely auctions, security transfers, and processing of principal and interest payments. The depository permits decentralized access for participants—commercial banks and broker dealers—increasing transparency, self-management and reporting capabilities; as well as real-time visibility of scheduled payments.

Meanwhile, on 1st August 2023, the Bank initiated the multi-session collateral facility in the Real Time Gross Settlement (RTGS) system. This supports net processing of transactions through the Bahamas Automated Clearing House (BACH), coinciding with an increase in daily clearing sessions for retail inter-bank payments from 7 to 10.

The Bank also accelerated its digital currency adoption strategy by recruiting "SandDollar Ambassadors" to extend outreach capacity in New Providence and the Family Islands. Marketing initiatives were also increased over broadcast, print, and social media platforms; and in partnerships with targeted merchants and consumers. During 2023, 12 Family Islands were visited, underpinning modest uptick in SandDollar adoptions.

The Central Bank Digital Currency (CBDC) adoption programme prioritized hands-on experiences, exposing consumers to the ease and convenience of using SandDollar-enabled digital wallets in commerce. The Bank's Financial Literacy Fair and Digital Expo, held in April 2023, highlighted this approach, catalysing digital wallet activations and SandDollar spending. Similar outcomes were achieved throughout New Providence and the Family Islands via targeted merchant engagements, cultural events, and FinTech conferences.

Collaborative efforts by the Central Bank and Authorized Financial Institutions (AFIs) yielded increases in consumer and merchant wallet activations of approximately 21.0% and 26.0%, respectively. Likewise, the value of SandDollars in circulation rose by 61.0% during the year to approximately $1.7 million as at 31st December, 2023.

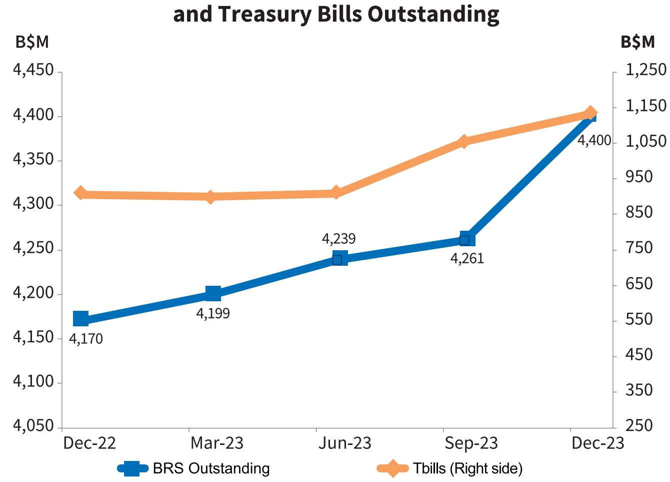
BANKING OPERATIONS

Public Debt Administration

The Bank continues to serve as Registrar and Transfer Agent for the Government and Government agencies. During 2023, Government agencies' year-end liabilities decreased for the Education Loan Authority to $20.0 million from $24.0 million; and for the Bahamas Mortgage Corporation, to $155.0 million from $160.0 million. Meanwhile, outstanding obligations remained constant for the Bridge Authority ($22.0 million), Clifton Heritage Authority ($24.0 million); and Bahamas Development Bank ($4.0 million).

In its role as a market maker for Government securities, the Central Bank, provides liquidity for secondary market transactions. Accordingly, during 2023, the Bank's holdings in domestic debt instruments fluctuated in line with the needs of the market. In line with trading, the Bank's holding of the Government's domestic market securities varied from a low of 5.4% of the stock, to a peak of 11.3% of outstanding liabilities in December 2023. Further, the Bank's portfolio of Treasury bills (T-Bills) increased to $45.8 million from $11.7 million, and Bahamas Registered Stock (BRS) balances held grew to $476.2 million from $301.7 million in the previous year.

Bahamas Government Registered Stock and Treasury Bills Outstanding



Central Bank's Exposure to the Government

In April 2023, the Central Bank of The Bahamas Act was amended to redefine the Bank's lending authority against the Government. In particular, the limits on lending to Government was restated, strictly in terms of advances, with a consequential recalibration in the ceiling from 30 percent to 15.5 percent of average estimated revenues. This did not create any additional headroom for lending under the advances, as capacity was already approximately exhausted. Simultaneously, the statutory authority was withdrawn, for the Bank to lend to the Government through purchases of securities in the primary markets (initial public offerings). However, flexibility was enshrined in the Act to engage in secondary market trading, to facilitate market liquidity and monetary policy operations. Finally, the amendment empowered the Government to use the IMF Special Drawing Rights (SDRs), for targeted liability management operations, now constituting a foreign currency claim on the Government by the Central Bank.

As at end-December 2023, the Central Bank's total claims on the Government composed of advances of $193.5 million, within a statutory ceiling of $337.6 million; SDRs 174.8 million (equivalent to $234.2 million) and securities of $522.1 million.

Payments Operations

Efforts continued to reduce the public sector's direct reliance on the Bank for domestic payments processing. With the 1st July, 2023 implementation of the secure web-based payments portal, the Central Bank's clients are now able to independently initiate and monitor payments. As a result, the Bank noted a reduction in the volume of payments initiated directly through its internal staff.

PAYMENTS & SETTLEMENT SYSTEMS

The domestic payments landscape continued to feature expanded use of digital access to services, even though the use of the traditional payments infrastructure for wholesale interbank settlements subsided. In contrast, access to and use of online banking services expanded, alongside greater use of ATMs and credit & debit cards. Retail settlement of non-cheque, electronic transfers also firmed; and adoption of emerging mobile payments, including the use of the central bank digital currency and other forms of electronic money increased. However, transaction volumes were lower due to the unwinding of social assistance payments from the Government, as pandemic-related support concluded.

Oversight

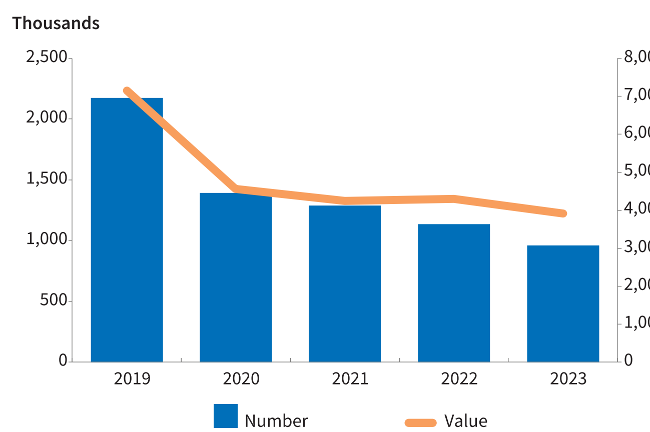
The Bank, through its Payments Unit, maintained efforts to strengthen payments system oversight activities, while promoting the efficiency, reliability, and security of the infrastructure. Quarterly meetings were held with senior members of the Bahamas Automated Clearing House (BACH)—owned by the Clearing Banks Association and processes small-value transactions of under $150,000. These meetings centred on collateral and settlement issues of commercial banks, internal audits, and any other notable developments that emerged during the year. Similar meetings were held with these stakeholders on their participation in the Central Bank operated Real-Time Gross Settlement (RTGS) system, for large value inter-bank payments in excess of $150,000.

Payments & Settlements Trends

In 2023, domestic wholesale payments settled through the RTGS systems moderated. In particular, the volume of transactions cleared through the Bahamas Interbank Settlement System (BISS-RTGS) system decreased by 4.6% to 279,855 and the associated value declined by 8.1% to $39.6 billion, vis-à-vis a 7.4% growth to $43.1 billion the year prior. Participants of the RTGS system comprised the seven clearing banks, which process direct interbank transactions, X9 (cheques) and NACHA (direct credit) payments. On a normal basis, the RTGS operates seven daily settlement windows, beginning at 8:15 a.m. and concluding at 4:45 p.m.

At the BACH, which processes, retail payments in compliance with the globally accepted National Automated Clearing House Association (NACHA) format, the number of transactions expanded by 35.5% to 5.1 million. The associated value increased by 22.9% to $9.1 billion, a moderation from the 25.7% growth in 2022. Nevertheless, as observed in the previous years, cheque usage—except for large value transactions—remained subdued. The number of instruments processed fell by 15.3% to 962.2 million and the corresponding value, by 8.6% to $3.9 billion.

Cheques Cleared



BOX 2: MONETARY POLICY IN 2023

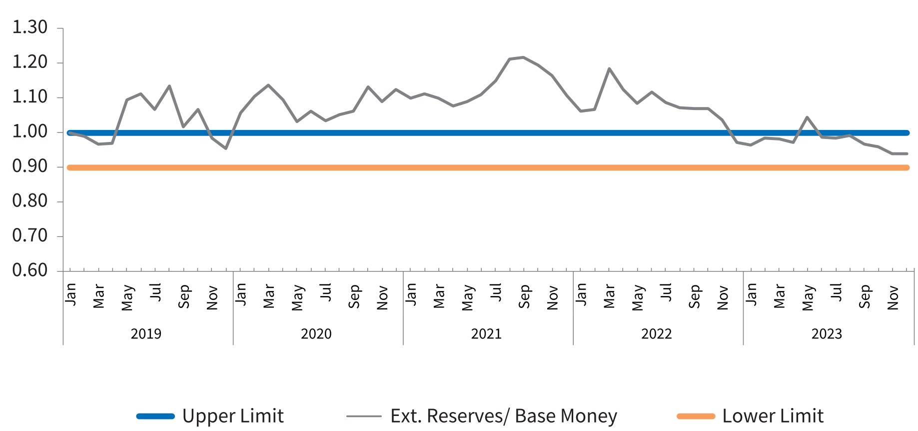
The Central Bank's Monetary Policy Committee (MPC) is chaired by the Governor and includes several Heads of Departments and other technicians. On a monthly basis, the Committee meets to advise and assist the Governor in the formulation of policies that promote monetary and financial stability, as well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

During 2023, the MPC met monthly to discuss developments in the international and domestic environment. The Committee's monthly deliberations were framed around several interrelated domestic economic and financial themes:

- Sustained domestic economic expansion momentum, as tourism sector activity remained buoyant, undergirded by strong gains in both air and the sea arrivals.
- Heightened inflationary pressures, both globally and domestically, although trending downward, amid moderating price trajectories in the key trading economies, despite ongoing geopolitical tensions in Eastern Europe and the Middle East.
- High levels of liquidity, against the backdrop of subdued credit demand and cautious lending stance by domestic banks.
- Moderated levels of external reserves, firming domestic imports demand, and tempered Government's external borrowings, notwithstanding sustained healthy foreign currency inflows from real sector activities.
- Improved credit quality indicators, which benefitted from the ongoing strengthening in the domestic economy and further, though tapered, loan write-offs.

In assessing the external risks to the economy, the MPC identified several important trends. On the positive side, the sustained growth in the United States' economy undergirded both healthy tourism output and steadied foreign investment activity. However, the Committee noted several potential setbacks to global growth, notably the ongoing geopolitical tensions in Eastern Europe, which could lead to higher global oil prices and supply chain shortages. The MPC also monitored the major central banks' counter-inflation policies, which if resumed, could negatively impact travel demand from key source tourist markets.

Ratio of External Reserves to Base Money



BOX 2: **MONETARY POLICY IN 2023** CONTINUED

In the context of the Bank's mission to maintain adequate levels of external reserves to support the fixed exchange rate regime, the Committee closely monitored two key external reserves adequacy indicators; namely the ratio of external reserves to Central Bank's demand liabilities and the import cover ratio. External balances exhibited the seasonal build-up during the first five months of the year, followed by the traditional drawdown in the later part of the year to facilitate import payments. Consequently, the ratio of reserves to Central Bank's demand liabilities remained above 90.0% throughout 2023, to peak in May at 104.4%. The ratio then fell to a low of 93.8% in November, before rising marginally to 94.0% in December.

With reference to the more broadly tracked total external reserve coverage in weeks of annual current year's merchandise imports, the ratio declined slightly from 33.9 weeks at year end-2022, to 33.1 weeks in the first quarter of 2023. The measure continued to trend downward in the subsequent quarters, to its lowest level of 30.0 weeks at the end of the year. However, it remained well above the international benchmark of 12.0 weeks. The outcome though, reflected rising net domestic import demand, and reduced net foreign currency inflows from Government's external borrowings, despite the expanded support from tourism and foreign investment receipts.

The Committee also monitored key banking sector soundness and stability indicators. Specifically, members noted the persistent elevated levels of liquidity in the system, as banks upheld their conservative lending stances. However, credit quality indicators improved further, and domestic banks' average ratio of capital to risk-weighted assets stood at 32.7% at end-December 2023–well in excess of the minimum regulatory target of 17.0%.

Given the healthy levels of external reserves, the sustained improvement in economic activity, and subdued private sector lending trends, the MPC decided that the Central Bank should retain an accommodative stance for domestic credit in 2023. In this regard, the Central Bank eliminated the requirement for borrowers to obtain mortgage indemnity insurance to qualify for a reduced equity or down payment amount on residential mortgages. In the absence of the insurance, the minimum down payment for these mortgages was 15.0%. Corresponding with the Bank's relaxed rules for other personal lending, issued in August 2022, financial institutions were guided to vary down payment requirements for residential mortgages, in line with their internal frameworks for evaluating and managing individual borrower risks. Given these measures, the Central Bank does not expect a significant impact on personal lending, but the cost burden to borrowers will lessen to allow more individuals to qualify for credit.

The MPC also considered additional measures to liberalise the administration of exchange controls. Among other things, these would increase commercial banks' delegated authority to approve foreign currency purchases for both current account transactions and investment currency market activities.

Retail Payments Services

Use of debit & credit cards and automated banking services also expanded. In terms of card-based payments, the number of debit card transactions rose by 19.0% to 24.8 million, and in value by 18.9% to $2.8 billion, year-on-year. In the meantime, banks reported an estimated 16.7% increase in consumer credit card usage to $1.4 billion.

On an annualized basis, the total number of ATMs deployed rose by 1.8% to 392. Meanwhile, the volume of ATM transactions grew by 13.0% to 10.0 million, and the corresponding value, by 26.2% to $2.7 billion, year-on-year.

Internet Banking

Financial institutions also recorded increased usage of internet banking services. These solutions afford customers the ability to, *inter alia*, check their account balances, make transfers between personal and third-party bank accounts, pay utility bills, and purchase foreign currency. The range of internet services varied among institutions, and some banks levied a fee for the facilities. During 2023, the total number of users, inclusive of residential, business, public sector, and other users, expanded by 19.5% to 118,212.

Payment Fraud Incidence

In line with its focus on consumer protection, the Central Bank also collects data on the incidence of fraud relative to cheques, debit cards and credit cards. In 2023, the reported frequency of these cases declined by two-thirds to 2,080, while the associated value reduced more sharply to $5.8 million, from $21.2 million the previous year. Disaggregated by type, debit card fraud incidence comprised 66.6% of total cases, while the corresponding value represented 23.1% of the overall value. The volume of credit card fraud constituted 32.0% of total cases and 4.0% of the attendant value. With the sustained reduction in cheque usage, reported cheque fraud was 1.3% of total incidence; however, these cases represented 72.9% of the overall amounts, reflective of the typical high value of these types of transactions.

Electronic Money Services

Retail payment activity, facilitated by electronic money service providers (EMSPs), was reduced when compared to 2022, when transactions were partly boosted by transfers related to the unwinding of pandemic-related social assistance. The number of service providers held steady at seven, supported by a 28.9% rise in agents, to a total of 174.

Payments services providers registered a 78.0% reduction in top-up transactions, for a total of 191,697, and the corresponding value fell by one-third to $18.6 million. Over the same period, the frequency of withdrawals decreased by 14.4% to 46,942, which led to a 68.0% contraction in the associated value to $24.9 million.

By transaction type, person-to-person (P2P) transactions declined by 9.4% (2,190) to 21,197, with a corresponding 4.7% falloff in value to $5.5 million. In contrast, person-to-business (P2B) transactions doubled to 722,525, supported by measures taken by the Central Bank and authorized financial institutions (AFIs) to expand SandDollar and e-money acceptance and usage. However, given the lower value nature of these transactions, and the overhang from reduced government assistance payments, the attendant value decreased by 6.3% to $50.0 million. In terms of business-to-business (B2B) transactions, the number was higher, by 23.7% at 188, while the value held steady at $4.9 million.

At end-2023, the total number of e-money users increased, with the volume of residential user accounts growing by 33.4% (31,203) to 124,667, while business accounts grew by 31.2% to 1,848.

FOREIGN RESERVES MANAGEMENT

The Central Bank's external reserves management strategy prioritizes the preservation of capital and maintaining adequate liquidity levels, while maximizing return on investment. The reserves remained at healthy levels during the year, given further recovered tourism inflows, but with less support from the Government's external borrowing activities. External balances opened the year at $2.6 billion, peaking at $2.9 billion during May, and closed 2023 at $2.5 billion. This represented a decrease of $93.6 million (3.6%), and a reversal from a $178.3 million (7.3%) growth in 2022 that included significant proceeds from the Government's net external borrowing.

DORMANT ACCOUNT ADMINISTRATION

The Bank administers dormant accounts in accordance with provisions in the Banks and Trust Companies Regulation Act, 2020. Under the regime, accounts that maybe classified as "dormant" include custody accounts, contents of safety deposit boxes, money orders, credit card balances, credit balance on loans, collateral held on a loan, including cash and non-cash, funds paid for shares or other interest in a licensee, deposit account of precious metals and gemstones and securities.

These accounts are balances with banks on which no customer activity has occurred for at least 7 years. As

Table 2: Dormant Account Balances

Currency	Account Balances 2022	Account Balances 2023	No. of Accounts 2023	% of Total Balances
	($'000)			
Bahamian $	44,880.4	46,324.0	37,714	46.7
Canadian $	5,879.8	7,424.2	443	7.5
Swiss Franc	24.7	0.0	0	0.0
Euro	422.4	1,641.1	57	1.7
UK (Sterling)	1,302.5	1,098.6	103	1.1
US$	36,458.3	42,641.5	5,740	43.0
TOTALS	**88,968.2**	**99,129.4**	**44,057**	**100.0**

Source: Central Bank of The Bahamas

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

As at 31st December 2023, the Bank maintained custody of 44,057 dormant facilities, with balances totalling $99.1 million, denominated in five currencies (see Table 2). Balances in United States dollars and Bahamian dollars combined, accounted for a dominant 89.7% of the total, while the Canadian dollar, Swiss franc, Euro and British pound accounted for the remaining 10.3%.

In accordance with the Act, as at 31st December 2023, an estimated $4.1 million in dormant funds was due for remittance to the Government against the applicable 10-year custodial period expiration.

EXCHANGE CONTROL ARRANGEMENTS

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

Inclusive of transactions under delegated authority to commercial banks, during 2023 foreign currency sales increased by 6.1% to $8.8 billion, on account of expanded outflows for travel, interest payments and transfers by temporary residents. Foreign currency sales for current account payments rose by 7.7% to $7.8 billion, including increases for credit cards and related payments under "other" transfers (37.5%) and travel (30.9%). Meanwhile, foreign currency payments for capital account items fell by 5.6% to $960.2 million.

The Bahamas Depositary Receipts programme, which continued to facilitate external portfolio investments at the official exchange rate through broker-dealers, registered sales of $1.4 million in 2023 compared to $30.0 million in 2022, while approvals issued for these transactions totalled $19.1 million and $30.6 million, respectively. Meanwhile, activity via the Investment Currency Market (ICM) decreased to $178.6 million from $319.1 million the previous year, including a residual number of transactions at the beginning of the year, at the official rate, to purchase foreign currency denominated Bahamas Government bonds. In 2023, approved ICM redemptions amounted to $2.4 million compared to $1.2 million in 2022. Except for the limited concessional treatment of Bahamas Government debt purchases, ICM transactions were conducted at stable offer and bid rates of 5.0% and 2.5%, respectively.

The Bank accommodated a temporary waiver of the ICM premium for residents investing in Bahamas Government US dollar bonds traded on international capital markets during the period October 2022–January 2023. Total investments under the facility amounted to $205.8 million.

The number of authorized agents (resident trust companies), authorized dealers (commercial banks) and money transmission businesses (MTBs) remained unchanged, respectively at ten (10), ten (10) and five (5). Agents can provide foreign currency custodial and trust services to residents, while commercial banks and MTBs can trade in foreign exchange with or provide other foreign currency denominated services to residents.

ECONOMIC ANALYSIS, STATISTICS AND RESEARCH

During the year, the Bank, through the Research Department, continued to publish comprehensive, accurate and timely information on domestic economic and financial developments. This encompassed the regular publication of vital reports, research studies, and surveys. Key publications included the Monthly Economic and Financial Developments (MEFD) report, the Quarterly Economic Review (QER), the Quarterly Statistical Digest (QSD), the Annual Report and the Financial Stability Report (FSR). Further, economic surveys, such as the quarterly Bank Lending Conditions Survey (BLCS), were compiled and published in the Monetary Policy Committee Quarterly presentations. The March edition of the QER continued to update the

BOX 3: NATIONAL FINANCIAL INCLUSION STRATEGY

NATIONAL FINANCIAL INCLUSION STRATEGY (NFIS) 2024-2028

For The Bahamas, a targeted financial inclusion outcome would be a state in which all persons in the country have both access to and usage of suitable, and affordable financial services from formal financial institutions, regardless of where they live, gender, nationality, immigration status or socio-economic factors such as age, income, occupation and education.

With this in mind, the Central Bank has embarked on a project to develop an encompassing national financial inclusion strategy for The Bahamas.

The vision for the NFIS is for the delivery of financial services at an affordable cost to all segments of the Bahamian society. While financial inclusion largely focuses on all segments of the population, The Bahamas' NFIS would emphasise access to financial services and products for vulnerable groups, such as those that are currently excluded or are underserved—particularly those in the Family Island. This would also entail a focus on the youth, aged and retirees, disabled, and the undocumented population. As well, emphasis would be placed on micro, small and medium-sized entities (MSMEs).

As defined, financial inclusion concepts recognise, from the onset that not everyone will want to or have need of all financial products, and that some persons may voluntarily exclude themselves. However, it is vital that all persons have access to services from which they can select, that they fully understand how to use them, and that they can do so at a reasonable cost.

The Central Bank proposes that a NFIS would narrow down its objectives over the first five years (2024-2028) to four (4) main pillars, which would tackle the financial gaps deemed to be the most significant for the population, and where realistic, significant progress can be accomplished. The four (4) main pillars are:

1. Wider use of the SandDollar, to extend the digital reach of services, including for Government payments.
2. Better data collection on financial inclusion, to identify baseline conditions and monitor progress.
3. Development and execution of a national financial education strategy.
4. Strengthening the focus on micro, small and medium-sized entities (SMEs).

The four (4) Pillars clarify broad goals. To put them into practice, the NFIS would identify a list of strategic actions related to each pillar. Additionally, to facilitate progress on these pillars, several "enablers" would be involved. These include technology, reforms to the legal and regulatory frameworks and cooperation across public and private institutions (including financial sector regulators).

In initial work already undertaken by the Central Bank, the draft NFIS, on which public consultation would be undertaken in the first half of 2024, would outline a holistic and comprehensive strategy to pursue financial inclusion for all Bahamians. Its components would strive to make significant progress over the next five years (2024-2028) in areas where the greatest financial gaps have been identified, and attempt to set the stage for further progress. Such progress, both in the short and medium-term, would require the cooperation and coordination across many stakeholders in government, regulators, civil society, and the private sector. Equally important, the undertaking would be supported with adequate financial resources and technical capacity.

The improved financial literacy, and expanded access to and usage of appropriate and affordable financial products, as outlined in the draft NFIS, would also promote greater financial resilience among households, and in important instances reduce dependence on the Government. Improved financial inclusion, would also promote a stronger culture of savings and investment, strengthening potential economic growth.

annual survey on the "Gross Economic Contribution of the Financial Sector to the Economy".

In 2023, research projects undertaken by the Bank's staff focused on relevant and topical economic themes. Papers presented at the Research Department's internal seminars and at external conferences, included a staff authored publication titled "The Evolution of SandDollar"; while staff also authored and presented research papers on "*A Model of Macroprudential Frictions for Indirect Monetary Policy in The Bahamas" and "The Emigration of Caribbean Labourers' Effect on Economic Growth*" at the 54th Regional Annual Monetary Studies Conference, held in Kingston, Jamaica. In addition, research studies were presented at the Central Bank of Trinidad and Tobago's Annual Review Seminar, the Barbados 42nd Annual Review Seminar and the University of the West Indies Economic Conference held in Kingston, Jamaica.

In collaboration with the University of Indiana, the Central Bank hosted the inaugural Macroeconometric Caribbean Conference, in the first quarter of 2023. Papers were presented by a Nobel Laureate, and various international economists and academia.

The Bank continued to provide technical training for Research staff, in collaboration with several international partners, such as the International Monetary Fund (IMF), the Caribbean Regional Technical Assistance Centre (CARTAC), the Federal Reserve in New York City, and Colombia University, among others. These were aimed, among other things, at strengthening capacity in the areas of data analytics, forecasting, financial stability, financial programming & scenario analysis, financial inclusion, macro-financial policymaking, Fintech, and external debt statistics. Training programmes were facilitated both online and in-person.

In line with its mandate, the Bank's Research Department also provided economic and financial statistics on The Bahamas to an array of multilateral organizations, including the IMF, the Bank for International Settlement (BIS), the Caribbean Economic Research Team (CERT), the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB). In addition, the Department continued to play a major role outreach, with staff facilitating virtual and in-person presentations to schools from the primary to the tertiary levels, on the role and functions of the Central Bank, and its monetary policy instruments.

PRUDENITAL SUPERVISION & REGULATION

Profile of Regulated Activities and Entities

The Central Bank's mandate to supervise banks and trust companies, cooperative credit unions, payment service providers, registered representatives and their related private trust companies (PTCs) is governed under several legislative provisions. These include the Banks and Trust Companies Regulation Act, 2020 (BTCRA), the Bahamas Co-operative Credit Unions Act, 2015 and the Payment Systems Act (2012); and various regulations under these statutes.

The Bank's risk-based approach to supervision involves both offsite and onsite examinations of Supervised Financial Institutions (SFIs), including direct engagement with the management and senior officials of these institutions. Extensive cooperation is also maintained with domestic and foreign regulatory authorities, particularly where SFIs have some direct nexus to other foreign jurisdictions, or non-central bank regulated activity inside The Bahamas. In addition, new or updated guidance continue to provide added clarity on regulatory standards and expectations.

In line with the heightened focus on institutional self-assessments, the Bank introduced new guidance notes on Enterprise-wide Risk Assessments and Money Laundering/Terrorist Financing/Proliferation Financing (ML/TF/PF) Risk Assessments. All SFIs were required to submit self-assessments to the Bank, unless otherwise advised. By year-end 2023, the Central Bank had received nearly all of the requested self-assessments.

Given the ongoing adjustments to the enforcement of global fiscal and regulatory initiatives, efficiency-driven consolidation of operations and other externalities, the combined balance sheet of SFIs was further reduced in 2023. In particular, reductions in international banking and trust operations outweighed continued modest growth in domestic financial services. For the aggregate banking and trust sector, the estimated assets decreased by 8.2% to $127.2 billion; though fiduciary assets under management rose by 6.5% to $295.3 billion. Within the estimates, the domestic assets of domestic banks and trust companies increased by 2.2% to $11.7 billion. At end-2023, the domestic branch network decreased to 63 from 68.

In 2023, the number of supervised banks and trust companies decreased by five to 197 (see Table 3). No new licenses were issued. However, five SFIs ceased operations, comprising one public bank and four restricted operations. Active public entities, included 20 authorised dealers and agents, resident for exchange control purposes, allowed to transact with both domestic and international clientele.

Among other regulated activities, the number of private trust companies (PTCs) increased by 14 to 169 at end-2023. The number of licensee registered representatives (RRs) for PTCs remained at 22; however, the number of financial and corporate service providers increased by one to eight. Further, the number of money services firms, comprising payments services institutions and non-bank money transmission businesses (MTBs), remained at three and five, respectively. In addition, related agents for MTBs rose by one to 19, while PSP agents increased from eight to 52.

Meanwhile, financial cooperative credit unions remained at eight, inclusive of the Bahamas Cooperative League Limited, the apex body. Total assets of credit unions rose by 2.3% to $495.0 million in 2023.

Table 3: Regulated Entities

	2021	2022	2023
Banks and Trusts	214	202	197
Banks & Trusts	50	46	46
Banks	22	21	20
Trusts	142	135	131
Non-Licensee Reg. Representatives	6	7	8
Licensee Registered Representatives	23	22	22
PTC (Registered)	140	155	169
Non-Bank MTB	5	5	5
Non-Bank MTA	20	18	19
MTB Branches	98	85	127
Cooperative Credit Unions	10	8	8
Payment Services Providers	3	3	3
Payment Services Agents	8	8	52
Memo Items:			
Assets of Domestic Banks (B$Bil)	20.81	20.57	19.11
% change	6.3%	-1.2%	-7.1%
Assets of International Banks (B$Bil)	129.02	117.98	107.77
% change	-15.8%	-8.6%	-8.7%

Source: Central Bank of The Bahamas

Supervisory and Regulatory Developments

During 2023, the Bank continued to enhance its risk-based supervisory framework, inclusive of effective supervisory intervention.

The three categories of supervisory actions consists of:

- Directives, which address the most urgent and serious matters.
- Requirements, which are sufficiently serious that the Central Bank is prepared to deploy statutory powers to achieve the required results.
- Expectations, which cover matters where SFIs should consider improving some aspect of risk management.

The Bank monitors supervisory effectiveness by the pace at which SFIs resolve directives and requirements. Broadly, the remediation of directives and requirements continued to reflect satisfactory progress. During September 2022 to September 2023, the total number of directives outstanding decreased from 21 to six, after five additional stipulations were issued, and a total of 20 were resolved. Additionally, the average turnaround time associated with closing out directives decreased. However, the number of unaddressed requirements increased slightly, as items added to the list outpaced matters that were satisfactorily resolved.

The timeliness of SFIs' regulatory reporting improved during 2023. The average on-time rate of compliance rose to 82.2% from 74.2% in 2022, although still below the Bank's targeted compliance rate of 95.0%. This outcome was due largely to the Bank's targeted approach to identifying key challenges affecting compliance, and providing summary guidance and feedback on these areas to relevant SFIs.

Meanwhile, the vetting of senior officials to assume regulated roles within SFIs continued to support the supervisory oversight of SFIs' corporate governance structures, ensuring that 'fit and proper' individuals discharged critical management compliance functions. The Bank sanctioned 171 applications for "approved persons", including 62 directors, 46 money laundering reporting officers and 63 other senior officials.

Table 4: Applications for Approved Persons

	2021	2022	2023
Directors	101	123	62
Money Laundering Reporting & Executive Officers	98	157	46
Senior Officials	77	67	63
Total	**276**	**347**	**171**

Source: Central Bank of The Bahamas

AML/CFT and Other Oversight

The Central Bank's capacity and approach to supervision of SFIs' AML/CFT risk management systems continued to strengthen, inclusive of collaboration with other domestic regulators and law enforcement agencies.

Internally, the Bank collected and analysed 81 AML self-assessments submitted by SFIs. These assessments, along with the annual AML data returns, permitted desk-top reviews on how well SFIs understood and manage their ML/TF risks. The annual returns, in particular, provided key indicators, identifying trends and emerging risks, signalling the capability of the SFI to make data-driven decisions. To assist SFIs in building upon their current assessments, the Bank issued ML/TF/PF Risk Assessments Guidance Notes in June 2023, which complemented the AML/CFT Guidelines and incorporated international best practices.

During the year, supervisory risk assessments were revised for several domestic and international institutions. The assessments, in addition to the interviews conducted with money laundering reporting and compliance officers, allowed the Bank to better understand the risk context of each SFI and sector, with the objective of appropriately allocating supervisory resources.

Preliminary steps have also been taken to procure a digital supervisory risk assessment tool. This solution would enhance the efficiency of the process, and enable more robust analysis of both individual licensees and sub-sectors of licensees.

In June 2023, the Bank issued the ML/TF/PF Risk Assessment Guidance Note. The guidance supplements Sections 25 and 26 of the Central Bank's Guidelines for Supervised Financial Institutions on the Prevention of Money Laundering, Countering the Financing of Terrorism & Proliferation Financing.

In collaborative undertakings, representatives of the Bank also continued to lead in the efforts of the Group of Financial Services Regulators (GFSR), to develop the second National Risk Assessment Report (NRA) on AML/CFT/PF. Substantial progress was made in consolidating the industry-wide assessment, with the draft report expected to be presented for the Government's adoption before the end of the second quarter of 2024.

The GFSR also continued work on joint guidance documents for industry stakeholders, particularly in the areas of Politically Exposed Persons (PEPs), and Proliferation Financing. The guidance documents are scheduled for completion in the first quarter of 2024. Further, the GFSR's AML working group reached consensus on a standardised reporting approach for licensees. The next phase of the initiative, during 2024 will be to issue a guidance note outlining the steps for completing the reporting form.

Data Analytics

For offsite surveillance, the Bank collects financial data principally through the Online Reporting and Information Management System (ORIMS). Following the most recently implemented Basel II/III capital requirements, a new version of the Financial Return form for banks was released during the third quarter of 2023. In line with the anticipated changes to the existing Basel liquidity requirements and potential growth in SFIs' exposure to digital assets, subsequent amendments are planned during 2024.

Examinations Programme

In 2023, the Bank conducted 15 onsite examinations, including two first-time assessments, one related to the review of the loan portfolio of a local subsidiary of an SFI on behalf of its home country regulator (see Table 5). Further, ML/TF risk remained the primary focus of most examinations, followed closely by corporate governance. However, attention also continued on credit, fiduciary, and operational risks, including information technology. In addition, SFIs were identified for examination through the supervisory planning process, which considered among other things, the results of the latest risk assessments, the date of the last examinations and emerging threats.

The Bank issued reports on all of the examinations that were conducted.

Table 5: On-site Examinations Conducted

	2021	2022	2023
Examinations			
Domestic Licensees	2	1	0
Other Licensees			
Follow-up /Special Focus	8**	8	9**
Regulator Initiated	1*	3+	1+
Discovery Reviews	0	2*	0
Financial Credit Unions	0	2	2
Electronic Money Service Providers	0	0	2
Money Transfer Business	0	0	1
Total	**11**	**16**	**15**
Reports			
Finalized Reports	12	12	14
Reports in Progress	1	0	0
Total	**13**	**12**	**14**

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

Domestic SFIs Risks

Credit Risk Review

The surveillance of credit risk management and trends remained focused on ensuring that domestic banks deployed effective strategies to reduce non-performing loans (NPLs). As a result of industry efforts, the NPL rate eased to 6.6% at end-December 2023, from 7.7% in the comparable period of 2022. Moreover, at the close of 2023, loan facilities that accommodated COVID-19 payment deferrals had diminished to just 0.3% of the loan portfolio.

Meanwhile, on 29th December, the Central Bank relaxed lending standards, giving banks and credit unions more flexibility to provide mortgages, within broadly prudent guidelines. The Bank removed the 15.0% minimum equity injection requirement for residential mortgages not backed by mortgage indemnity insurance. Instead, lending institutions were guided to vary equity requirements in line with their internal risk assessment frameworks, while limiting average borrower exposures to within a debt service ratio of 50.0%.

Capital Adequacy and Liquidity
Credit, liquidity, and interest rate risks are monitored on an ongoing basis, with stress tests performed on each risk element to assess the resiliency of the domestic banking sector. Given the high capital and liquidity positions of banks, there were no immediate financial stability concerns in 2023. In particular, the banking sector's capital-to-risk-weighted assets ratio fluctuated between 29.4% and 38.5% and averaged 32.7% at year-end, as compared to the regulatory target ratio of 17.0%

The credit risk stress test uses extreme, but plausible scenarios to assess whether the domestic systemically important banks (DSIBs) have sufficient capital or total loss-absorbing capacity to withstand various levels of shocks to NPLs, which may be precipitated by a probable economic or financial crisis. The credit stress scenarios examined NPL shocks of 100%, 150% and 200% and the consequent impact of these on income and ultimately capital. The consolidated results produced simulated declines in capital levels of up to 7.9%, but consistently yielded no capital injection requirement. At all levels of shocks, capital remained well above the established regulatory target.

Domestic banks are less vulnerable to interest rate risks, due to the infrequent movement in the Bahamian dollar Prime lending rate and the persistently robust levels of eligible capital, among other reasons. Stress test simulations indicated that the risk of near-term depletion of liquidity was negligible, attributed to the high levels of balances across the system, and banks' continued conservative posture to lending.

Credit Unions
The supervision of credit unions remained focused on inherent prudential risks and practices, including money laundering and credit risks, as well as corporate governance. The sector progressed incrementally on credit quality, with the NPL rate decreased to an estimated 9.7% at end-2023, from 13.3% in 2022. Further, there were no loan facilities under the COVID-19 deferral program at the end of 2023.

Money Services Businesses
The heightened supervisory focus on reputational risks, inclusive of AML/CFT, and operational risk management continued for money transmission businesses (MTBs) and payment services institutions (or PSPs). This ensured that all key exposures were being effectively identified, measured, mitigated and monitored.

Basel II and III Implementation Programme
Progress continued with the implementation of the Basel II and III prudential standards. Some of the highlighted focus addressed amendments to regulatory guidance impacted by the new Capital Regulations released in 2022, which included the Dividend Regulations, Liquidity and Large Exposures Regulations and Guidelines, Market Risk and Operational Risk.

Guidance Notes and Policies
The Central Bank issues guidance notes and policies to provide clarity on industry best practices, and to inform regulatory expectations around SFIs' operations, in keeping with the tailored adoption of international standards and the effective implementation of Bahamian statutes and regulations. These varying themes are summarized below.

In June 2023, the Bank released guidance notes on Enterprise Risk Management (ERM). These lay out the Bank's minimum expectations of how SFIs should develop, implement and maintain their ERM frameworks. SFIs were encouraged to tailor their frameworks to align with the nature, size and complexity of their businesses and risk appetites. SFIs were also alerted, that the Central Bank expected to be notified of any changes or deviations from their Board-approved risk management frameworks. With the release of the guidance, SFIs are now required to submit their enterprise-wide risk management assessments to the Bank.

In keeping with heightened financial inclusion initiatives, in April 2023, the Central Bank issued further guidance on streamlined due diligence for the provision of services to individuals and businesses in the domestic market place. The latest amendments to the AML guidance expand the range of acceptable identity documents, to allow SFIs to place greater reliance on the expired Bahamian passports, and

Bahamas issued driver's licenses and voter's cards. These and other clarifications were inserted in *Appendix B - Streamlined Requirements for Account Opening, Provision of Financial Services and Customer Identification, of the Guidelines for Supervised Financial Institutions on the Prevention of Money Laundering, Countering the Financing of Terrorism & Proliferation Financing.* Appendix B describes the acceptable methods of identifying individuals under the Financial Transactions Reporting Act (FTRA) and associated Regulations. It applies to banks, trust companies, credit unions, MTBs, and payment service providers supervised by the Bank.

The new Digital Assets Guidelines were finalized and released in December 2023. These provide an overview of the Bank's expectations of SFIs that were exposed to digital asset activities. The Bank subscribed to the philosophy of "same risk, same activity, and same treatment" adopted from the Basel Committee on Banking Supervision's Crypto asset Exposures Framework. Therefore, the prudential treatment of digital assets was based on the risks associated with the underlying characteristics of these assets. In their corporate governance and risk management frameworks, SFIs were expected to demonstrate understanding and acceptance of the risks to which they were exposed, to manage such exposures and to maintain capital adequacy against the risk weights assigned to digital assets, in line with the evolving Basel framework.

In December 2023, the Bank also released draft revisions to the Fit & Proper Guidelines, along with enhancements to the Confidential Statement for Regulated Functions for a 30 day consultation period. The Guidelines outlined the criteria that the Central Bank would consider in assessing of applications of persons seeking approval to perform regulated functions, ensuring that approved persons continued to meet the criteria to occupy such roles.

Crisis Management

The Bahamas continued to develop the legal framework, infrastructure and key tools for an effective recovery and resolution regime, while strengthening the deposit insurance scheme. These initiatives adopt key recommendations from the 2022 IMF's technical assistance mission on strengthening both the institutional and the legislative capacity to prepare for and respond to crises in the financial sector. The roadmap for the Central Bank, along with other stakeholder regulators, includes the development of a formalized crisis management plan and a resolution toolkit framework for financial institutions. The framework is also evolving to actively engage SFIs on recovery and resolution planning, tailored to risks associated with their respective business models.

Among recent efforts, the Central Bank initiated consultation to establish the Bahamas Financial Stability Council (BFSC) with key stakeholders comprising the Ministry of Finance, the Central Bank, the Securities Commission, the Insurance Commission and the Deposit Insurance Corporation. Governed by a memorandum of understanding (MOU), the BFSC would improve interagency coordination and information exchange on financial stability indicators, as well provide for strategic coordination in instances where a required crisis management response was triggered.

In line with strengthening the prudential frameworks that support the deposit insurance system, the Bank also established a new Resolution and Crises Management Unit in the Bank Supervision Department, to reinforce the separation between the supervisory operations and resolution functions which promote the interest of the Deposit Insurance Corporation.

Administrative Monetary Penalties

Monetary penalties imposed under the existing regulations totalled $0.32 million in 2023, compared to $0.31 million in 2022. Since 2016, sanctions totalling $2.2 million have been levied, with $2.1 million collected, for breaches commonly classified under 43 different categories. The most common breach was late or erroneous filing of regulatory reports.

Credit Bureau

The credit bureau initiative continued to advance, with all of the relevant domestic banks and the majority of the credit unions reporting data as at end-December 2023. The public utility companies, money lenders and insurance companies persisted with preparations to commence reporting to the bureau. In addition to building relationships with the credit information providers, CRIF Information Services Bahamas Limited, the bureau operator, remained focused on educating the public about the importance and role of the credit bureau. By end-2023, there were 13 credit information providers accessing and using credit reports to inform their loan adjudication processes.

Regulatory Cooperation

In 2023, the Bank received five information requests from four foreign regulatory authorities. The origin of these requests is summarised in Table 6.

Table 6: 2023 Requests for Cooperation

Country	Requests Received From Foreign Regulators
Curacao/St. Maarten	1
Panama	1
Turks & Caicos Islands	2
Uruguay	1
Total Requests	**5**

Source: Central Bank of The Bahamas

Membership in International and Regional Bodies

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

DEPOSIT INSURANCE CORPORATION

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

Under the Protection of Depositors (Amendment) Act, 2020, the DIC insures Bahamian dollar deposits at member banks and credit unions for up to $50,000 per depositor, per account type. At end-2023, the DIC membership remained unchanged at 19.

At end-December 2023, member credit unions and banks recorded in aggregate, insurable deposits of $8.9 billion, a 2.3% annual increase; while the insured sum increased by 0.7% to $2.7 billion. Member banks contributed the majority of the insurance deposits, some $8.5 billion (95.3%), and $2.4 billion (87.4%) of the insured funds. Meanwhile, member credit unions' held insurable deposits of $419.9 million, and insured deposits of $338.9 million. Correspondingly, the coverage ratio, the respective shares of insured deposits to insurable/eligible deposits, was 27.6% for banks and 80.7% for credit unions.

Further, banks' other insurable liabilities totalled $61.4 million, consisting of $53.2 million in accrued interest and $8.2 million in stored value cards. For credit unions, accrued interest totalled $4.5 million.

In terms of funding, DIC premiums were assessed at the rate of one twentieth of one percent (0.05%) of deposits, averaged over liabilities as at 31st March and 30th September of the previous year. The DIC premium collections increased by 8.9% to $4.5 million over the preceding year. However, in line with the strategy to increase the target size and adequacy of the deposit insurance fund by 2026, the DIC Board approved a premium rate increase to one-tenth of one percent (0.1%), effective 1st January, 2024. As at end-2023, the size of the fund relative to insured deposits was 3.8%; whereas the target fund ratio by 2026 is 4.7%.

In 2023, total assets of the DIC increased by approximately 9.7% ($7.7 million), to $86.9 million, representing both premium and net investment income receipts.

INFORMATION TECHNOLOGY

In 2023, the Information Technology (IT) Department continued to advance strategic initiatives, such as upgrades to the Bank's networking and security platform, deployment of the online portal for Bank Supervision and Exchange Control matters, and progress on the Bank's enterprise resources planning solution. These activities also underpinned business-as-usual and strategic plan execution across multiple business lines.

Concerning the Bank's ongoing modernisation agenda, the leadership of the enterprise resource planning solution project was transferred to the IT Department, to support synergies-based project execution. During the year, the Department assisted with addressing post-production issues to the human resources module of the solution, as well as coordination of the internal and external project teams to implement the financials and supply chain management module. As a result, the Bank successfully transitioned critical human resources information management processing, such as payroll, leave management, employee loans and employee savings, to the new system. Additionally, the IT and Human Resources Departments collaborated on the delivery of staff training and awareness to manage organisational change and improve end-user adoption.

The IT Department provided project leadership to develop and implement a robust online portal for the public to interact with the Bank Supervision and Exchange Control Departments. Following user acceptance testing, the Bank plans to launch 70 electronic forms and supporting workflows to the general public in phases during the first half of 2024.

A significant upgrade of the Bank's networking platform was also completed, enhancing performance, reliability and security of the system. Further, the IT Department collaborated alongside the Information Security Unit to tightly couple the new networking solution with the Bank's Security Event and Incident Management (SEIM) platform, the Security Operations Centre (SOC) and other cybersecurity thread intelligence, monitoring and management solutions.

In support of business operations, continued development also centred on technology platforms for online regulatory reporting and statistical data collection, using the Bank's suite of business intelligence tools. Further, the Bank continued to explore opportunities for automation and process re-engineering, adopting robotic process automation solutions. Such projects targeted operational efficiencies within the Human Resources, Bank Supervision, Exchange Control and physical Security Departments.

FACILITIES MANAGEMENT AND WORKPLACE HEALTH & SAFETY

The Bank conducts business from its main building situated between Market Street on the west and Frederick Street on the east and the leased Bahamas Financial Centre (BFC) building, located on Charlotte Street. The Bank also owns three protected historical buildings, the Great House, which serves as the staff cafeteria; Balcony House, a wooden, two-storied residential building in downtown Nassau, operated as a museum by the Antiquities, Monuments and Museums Corporation (AMMC); and Verandah House, which hosts a fitness facility for employees.

In April, after consultation with the Government, the Central Bank cancelled plans to construct a new headquarters on the Royal Victoria Gardens site in Downton Nassau. The Bank subsequently initiated a transfer of the property ownership back to the Government, and started to investigate the feasibility of expanding the accommodation on its existing Downtown properties.

The Bank made steady progress on the New Cash and Data Centre. Construction of the main roundabout and the enabling works began in 2023. Following tender processes, the Board of Directors approved Mosko United Construction Company for the construction of the main building and Giesecke+Devrient Currency Technology (G+D) for the Material Handling System and the Note Processing Machine systems. Main works construction will commence in the first half of 2024, with a scheduled 23 months' timeline for the project.

During 2023, the Health & Safety Unit conducted a health, wellness and safety information, and awareness initiative, "Safe+Sound Week". The initiative was planned, coordinated and managed by the Enterprise Safety Officer and included a range of experiences and expositions that featured several external vendors.

The Bank also coordinated with the Royal Bahamas Police Force (RBPF) to upgrade the readiness posture of the Security Unit. As part of this process, an initial cohort of security personnel completed training to be qualified as Reservist Police Officers.

During 2023, the Bank experienced a 7.5% decrease in its overall utility costs, including water and sewerage, electricity, cable and telecommunications. While cable costs declined by 25.0% compared to 2022, there were varying increases across all other utilities, namely electricity costs (36.0%); water & sewerage costs (22.0%); and telecommunications (7.0%). Increases were due primarily to the resumption of in-office work for all personnel, as remote work due to COVID-19 ceased in the second half of 2022. Higher fuel surcharges also contributed to the increase in electricity costs.

Moreover, the Bank continued to enhance the security, safety and functionality of its properties. These included relocation of the Business Continuity Programme (BCP) and Disaster Recovery (DR) Secondary Site to the facilities in Western New Providence; the main building's glazing refurbishment project and repairs to the northern and western façades; renovation works and security railing and gate upgrades at the Great House; as well as carpet and flooring replacements throughout the premises.

HUMAN RESOURCES

The Human Resources (HR) operations continued to serve the Bank's recruitment activities, compensation & benefits, and training & development. HR operations also supported the Bank's constructive engagement with the unions representing middle managers and staff.

In 2023, the staff complement increased by seven to 272. It comprised 182 non-management, 74 middle management, and 16 executive managers. The female-to-male ratio remained relatively stable at almost 2:1. There were 35 employee separations—23 resignations, two terminations, four early retirements, and six tenure retirements, which resulted in a slightly increased turnover rate of 12.9%, from 12.1% in 2022. In addition to 41 new hires, the Bank recruited 12 SandDollar Ambassadors. There were 51 positions filled through internal staff movements, resulting in 29 promotions, 19 lateral transfers, one realignment, and two secondments. At end-2023, 53 job vacancies existed, representing an increase of 13 from 2022.

Recognition efforts continued to applaud long-serving employees and outstanding performance. During the annual Employee Recognition and Awards Ceremony, held on 31st January, 2024, the Bank celebrated 29 employees, who attained 5, 10, 15, 20, 25, 30, 35, and 40 years of continuous service. Through the Governor's Award programme, selected employees were also nominated by their peers for having outstanding performance and making exceptional contributions to the strategic goals of the Bank. One of the two co-winners of the Governor's Award was credited for her contribution to advancing the quality and effectiveness of the Bank's communications and publications activities. The second winner was credited for effective and exceptional services in the cafeteria operations. Three other semi-finalists received honourable mentions.

Table 7: Workforce Metrics

	2021	2022	2023
Staff Complement	272	265	272
Gender Distribution (%)			
Male	39.3	38.9	38.6
Female	60.7	61.1	61.4
Turnover Rate (%)*	8.4	12.1	12.9

Source: Central Bank of The Bahamas

* Includes staff who retired during the period.

Employee Relations

The Bank convenes both weekly and monthly management meetings, respectively for Heads of Departments and the entire management group (the Open Management Meetings). These are both information sharing forums and avenues to foster closer collaboration on organisation-wide initiatives. In August 2023, the Open Management Meeting returned to an in-person format, while in-person meetings of Department Heads resumed in 2024. In March 2023, the Governor hosted a General Staff Meeting with employees to discuss key initiatives of the Bank's Strategic Plan 2021-2025 and to address key questions and concerns submitted by staff.

During the year, the Bank also maintained open dialogue with both staff unions. Negotiations with the respective mid-management and non-management bargaining representatives of The Bahamas Communications and Public Managers Union (BCPMU) and the Union of Central Bankers (UCB) for the new four-year contracts concluded in August 2022. In July and October, 2023, the respective UCB's and BCPMU's Industrial Agreements were signed and notarized by the Department of Labour.

Also impacting relations, the Bank completed revisions to the Employee Handbook and Training Policy, and the Board approved the Remote Work Policy, scheduled for implementation in 2024. Excluded from participation in the remote work program are staff members of essential units or departments, such as the Cafeteria, Currency Operations and Facilities Services.

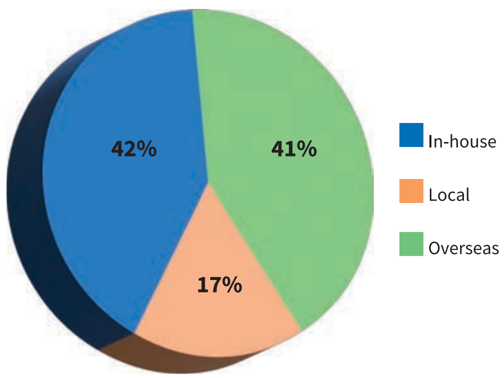
Through the HR Department, the Bank remained engaged with retirees, processing health and National Insurance matters and providing support during periods of illness and bereavement. Parting receptions were hosted for ten newly retired employees; while the annual Retirees' Thanksgiving Luncheon, held on 30th November 2023, maintained the tradition of communing with all other retirees.

Company Benefits

To reduce medical benefits costs over time and to foster a healthier workforce, the Central Bank continued to promote wellness-centred initiatives and benefits. The Zest Wellness Program continued with a staff participation rate of 78.0%, compared to 80.0% during the previous year. The Bank also hosted a number of virtual and in-person sessions, focused on healthy eating and staying active. One health and wellness incentive, spanning 50 days celebrated The Bahamas' 50th Anniversary of Independence. In the meantime, the Great House Cafeteria continued to provide nutritional meals to complement the Bank's health and wellness program. The Bank also maintained counselling services for staff through the Bank's Employee Assistance Provider.

The Bank also fostered engagements in other notable ways, such as the annual Family Fun Day, the annual Staff Christmas Party, the Children's Christmas Party, and monthly social gatherings. Likewise, the Afterschool Care Program was relaunched, with extended care opportunities offered to children of employees during school closures (Easter, Summer and Winter).

Employee Training (2023)



Staff Development and Training

The Bank continued to provide employees with relevant training and development opportunities to ensure that staff possessed the competencies needed to fulfil the Bank's mandate. Transitioning from a COVID-19 environment, there was increased participation in in-person training and development activities, with a corresponding decrease in virtual offerings in 2023, compared to the same period in 2022.

Learning experiences were made available through various in-house, local and overseas training and included topics on anti-money laundering (AML), information security, information assets management, risk management, financial management, counterfeit detection and work-life balance.

Overseas training was sustained through various technical assistance partnerships and ventures, including Allianz Global Investors, the Association of Supervisors of Banks of the Americas (ASBA), Bank for International Settlements (BIS), Caribbean Group of Banking Supervisors (CGBS), Caribbean Regional Technical Assistance Centre (CARTAC), Centre for Latin American Monetary Studies (CEMLA), the Caribbean Financial Action Task Force (CFATF), Disaster Recovery Journal, Edex for Business, Federal Reserve Board, Giesecke+Devrient, Global Knowledge, the Institute of Internal Auditors (IIA), Inter-American Development Bank (IDB), International Association of Deposit Insurers (IADI), the International Monetary Fund (IMF), Raymond James, Reconnaissance International Limited and numerous banking and finance institutions. Locally, training was also facilitated through courses, seminars and workshops provided by the Association of International Banks & Trust Companies (AIBT), Bahamas Association of Compliance Officers (BACO), Bahamas Institute of Financial Services (BIFS), the Bahamas Institute of Chartered Accountants (BICA), STEP Bahamas and various tertiary-level institutions, including University of the West Indies (UWI).

Table 8: Summary of Training Developments

	In- House	Local	Overseas	Total 2023
First Quarter	88	40	41	169
Second Quarter	85	6	55	146
Third Quarter	57	31	63	151
Fourth Quarter	33	31	99	163
TOTAL PARTICIPANTS	**263**	**108**	**258**	**629**

Source: Central Bank of The Bahamas

The range of in-house training varied. The Bank continued to facilitate induction training workshops for new hires. For other employees, generally, training was also offered through numerous sessions on leadership and strategic management; and soft skills training focused on customer service, business and report writing, and presentation skills. Other sessions held during the year focused on the performance of the credit bureau, currency operations and retirement planning.

The Bank supported varied academic and professional certification studies undertaken by staff. In 2023, the In-Service Award scholarship sponsored one staff to pursue a Bachelor of Business Administration degree in Computer Information Systems at the University of The Bahamas. Meanwhile, one other employee completed an undergraduate programme while on study leave, and six persons completed graduate level, distance education degrees. Other certified designations earned by employees included the Certified Anti-Money Laundering Specialist, Certified Internal Auditor, Certified Financial Services Auditor, International Diploma in Anti-Money Laundering and Governance, Risk and Compliance and Project Management Professional.

Executive Professionals and Apprentice Programmes

The Bank uses the Executive Professionals and Apprentice Programmes to pre-emptively recruit talent, who are not placed in permanent posts until after a period of rotational training across several departments. During 2023, one Executive Professional (graduate level qualifications) and one Apprentice (undergraduate qualifications) continued their rotations in the Research and Finance Departments, respectively. Four (4) new Apprentices joined in October and November 2023 and commenced rotations in the Governor's Office, Research, Bank Supervision, and Finance Departments. A new Executive Professional was recruited to the programme in November 2023, starting rotations in the Research Department.

To support the development of the Executive Professionals and Apprentices, the Bank also structures a mentorship program facilitated by longer-serving professionals from the organisation.

Summer Internship Programme

The 2023 Summer Internship programme continued in an in-person format. The eight-week exposure commenced in June 2023, with 20, mostly college level students, placed in various departments across the Bank. In addition, some of the students completed and presented research papers during a special roundtable seminar.

COMMUNITY INVOLVEMENT AND OUTREACH

Hallmarks of the Bank's community outreach are its engagement with local students, and patronage of Bahamian art and culture.

Outreach to local schools was maintained through face-to-face presentations on Money and the Role and Functions of the Central Bank, involving students of two public and private schools, as well as the Bahamas Institute of Finance Services (BIFS) G12 Programme. The Bank also participated in the University of The Bahamas' and the Department of Labour's Job Fair.

Meanwhile, in collaboration with the National Art Gallery of The Bahamas (NAGB), the Antiquities, Monument and Museum Corporation (AMMC), and the University of The Bahamas, the Bank co-hosted the annual conference of the Museums Association of the Caribbean (MAC). This was the first time the conference was held in The Bahamas. In excess of 200 delegates from the Caribbean, North America, Europe and Africa, attended the five-day event, which included various lectures, seminars, and visits to cultural sites in Nassau.

Further, the Central Bank's Art Gallery debuted the first in-person event since the COVID-19 pandemic, an exhibition of the Art & Design Department of the University of The Bahamas. This was another milestone to interconnect the Bank's art & culture program with other national institutions.

On the occasion of the 50th Anniversary of the Independence of The Bahamas, the Art Gallery also showcased an extraordinary display of Eddie Minnis' cartoons from the 1970's and 1980's. The event opened with Eddie Minnis' first musical performance in over 30 years.

In 2023, the Central Bank sponsored the first Artist in Residency Program at Studio Incubator for Collaborative Expression (ICE). The five selected artists staged a group exhibition of their works at the Art Gallery. Another first for the Central Bank's art initiatives was the participation at the annual Transforming Spaces. In excess of 400 patrons partook of the Exhibition 40:40, at the New Cruise Port gallery. Forty artists were shown with highlights from the Central Bank's collection, representing the 40 years of the Central Bank's art programme.

The Art Gallery's year ended with the "Prix Pictet" exhibition, celebrating one of the prestigious international awards recognition events for photography and sustainability. It was the first exhibition showcasing non-Bahamian artists. In this context, Pictet Bank, the sponsor, transported over 500 local high school students to the Art Gallery to experience the showing.

2023 FINANCIAL PERFORMANCE

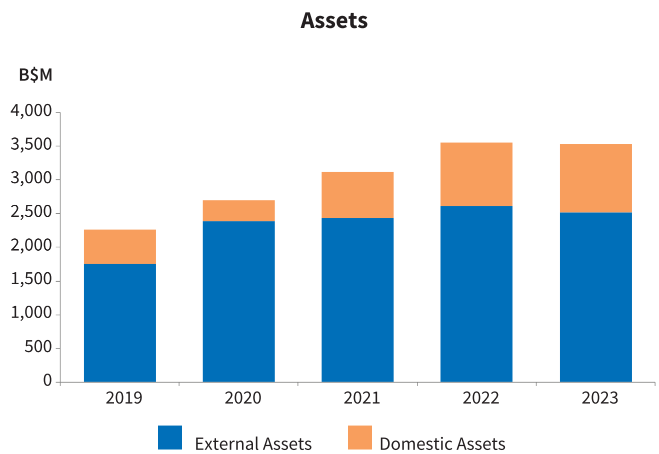
The Bank's financial statements for the year ended 31st December 2023, along with comparable figures for 2022, are presented on pages 49 to 131 of this report.

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

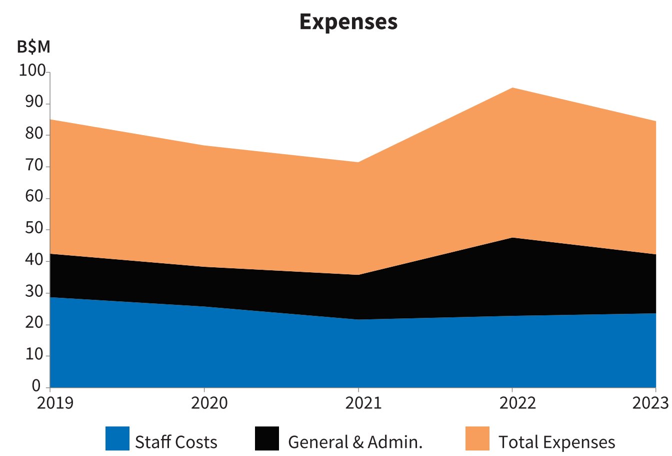
In 2023, the Bank's total assets decreased by $20.8 million (0.6%) to $3,534.4 million. Contributing, external assets—which represented 71.2% of total assets—reduced by $93.6 million (3.6%) to $2,517.4 million, following significant Government foreign currency borrowings in the previous year. A disaggregation by the various components showed that the Bank's holdings of marketable securities fell by $75.0 million (4.2%) to $1,720.1 million. Further, foreign currency cash and deposit balances declined by $12.6 million (2.0%) to $610.2 million in 2023. In addition, Special Drawing Rights (SDR) decreased by $6.1 million (3.7%) to $161.2 million, owing to valuation adjustments. In an offset, the Reserve Tranche grew by $0.2 million (0.8%) to $25.9 million.

Total domestic assets of the Bank rose by $72.9 million (7.7%) to $1,017.0 million in 2023. In noteworthy fluctuations, Bahamas Registered Stock holdings expanded by $174.5 million (57.8%) to $476.2 million, while the Treasury bill portfolio increased considerably to $45.8 million from $11.7 million in 2022. Similarly, the SDR equivalent claims on the Government, were revalued higher by $6.2 million (2.7%) at $239.2 million. Further, the value of property, plant & equipment moved higher by $2.3 million (9.3%) to $26.7 million and receivables and other assets by $1.6 million (20.6%) to $9.6 million. Meanwhile, claims represented as Bahamas Development Bank bonds, stabilized at $4.1 million and Bridge Authority Bonds, at $0.5 million. Conversely, advances to the Government reduced by $143.0 million (42.5%) to $193.5 million, while currency inventory fell by $2.1 million (17.4%) to $10.1 million. In addition, loans to the Bahamas Development Bank edged down by $0.1 million (6.7%) to $1.5 million. The remaining domestic assets fell by a combined $0.7 million (6.9%) to $8.9 million.

The Bank's total demand liabilities contracted by $86.8 million (3.0%) to $2,829.0 million in 2023. The outturn was underpinned by a reduction in Government and related agency deposits of $102.6 million (54.8%) to $84.6 million. Further, the unremunerated deposits of commercial banks decreased by $15.9 million (0.8%) to $2,068.8 million. In addition, lease liabilities fell by $0.6 million (17.5%) to $2.6 million. In contrast, currency in circulation, inclusive of SandDollars, grew by $8.8 million (1.4%) to $617.3 million, while accounts payable more than doubled to $30.7 million. The Investment Currency Market liabilities also increased by $4.6 million (56.2%) to $12.7 million and health insurance subsidies, by $2.2 million (24.1%) to $11.2 million.



The Bank's total income rose to $104.8 million from $47.3 million in 2022, as the net interest income from investment sources expanded by $34.5 million (60.3%) to $91.6 million. Specifically, given the significantly elevated interest rate environment, earnings on foreign investments increased notably to $73.6 million from $40.4 million, while returns from domestic investments stabilized at $14.5 million. In addition, interest received on loans more than doubled to $18.8 million from $7.3 million in the preceding year, as the average value of claims was greater over most of the year. Meanwhile, "other miscellaneous" transactions recorded an income of $13.1 million, vis-à-vis a loss of $10.0 million in 2022.



During the year, the Bank's total expenses declined by $4.7 million (9.8%) to $42.9 million, led by a loss of $0.2 million due to impairment of assets, as compared to an $8.9 million write down in the prior year. Further, depreciation expenses fell by $0.4 million (19.2%) to $1.8 million. In contrast, general and administrative costs rose by $2.7 million (23.5%) to $14.4 million and staff costs, by $0.2 million (1.0%) to $23.0 million.

As a result of these developments, the Bank recorded a total comprehensive net income of $61.9 million, as compared to just $1.4 million in 2022.

OUR ENVIRONMENT

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that the domestic economy sustained its growth momentum, albeit at a more moderate pace in 2023. In particular, real GDP grew at a preliminary pace of 2.6%, following an expansion at a revised 10.8% in 2022, as the economy returned closer to the medium-term economic growth potential. The outturn was supported by healthy gains in the tourism sector, bolstered by strong growth in the high value-added stopover segment and the dominant sea component. In addition, the construction sector provided stimulus to economic activity, undergirded by a number of small to medium-sized foreign investment projects. In this environment, employment conditions improved, while domestic inflationary pressures moderated, reflective of the pass-through effects of lower global oil prices and less imported inflation from the major trading countries.

In the fiscal sector, the overall deficit declined notably for FY2022/23. The VAT-related gain in total revenue outstripped the rise in aggregate expenditure. Similar trends were noted for the first half of FY2023/24, as the deficit narrowed, on account of an increase in revenue collections, explained by a rebound in VAT receipts and levies on international trade and transactions, which outpaced the growth in overall expenditure. Financing of the deficit for FY2022/23 and the first half of the new fiscal year, was proportionately weighted towards the domestic market and included a combination of long and short-term debt.

The Direct Charge on the Government grew by $391.5 million (3.5%), to $11,428.0 million during the calendar year. However, the corresponding ratio of the debt to Direct Charge further decreased by 3.9 percentage points to 81.7%, after a reduction to 85.6% in 2022—both more normalised by the recovered level of the nominal GDP. Similarly, the National Debt—inclusive of Government guarantees of public enterprises' liabilities—rose by $352.2 million (3.1%) to $11,778.9 million at end-2023. Meanwhile, the National Debt to GDP ratio also declined further, by 4.4 percentage points to an estimated 84.2% of GDP, vis-à-vis a decrease of the same magnitude to 88.6% in 2022.

In 2023, developments in the monetary sector featured a reduction in bank liquidity and a decline in external reserves, as domestic credit expansion outpaced the increase in the deposit base. At end-2023, the stock of external reserves was equivalent to an estimated 30.0 weeks of the current year's total merchandise imports, relative to 33.9 weeks in 2022. This, however, stayed well above the 12.0 weeks international benchmark.

Banks' credit quality indicators continued to improve, buoyed by the sustained strengthening in the domestic economy, and ongoing loan write-offs. In addition, banks' net profits in 2023 were only incrementally increased, as expanded net interest income was closely paced by higher operating expenses. In interest rate developments, the weighted average interest rate spread narrowed, as the average deposit rate increased, while the associated loan rate remained relatively unchanged.

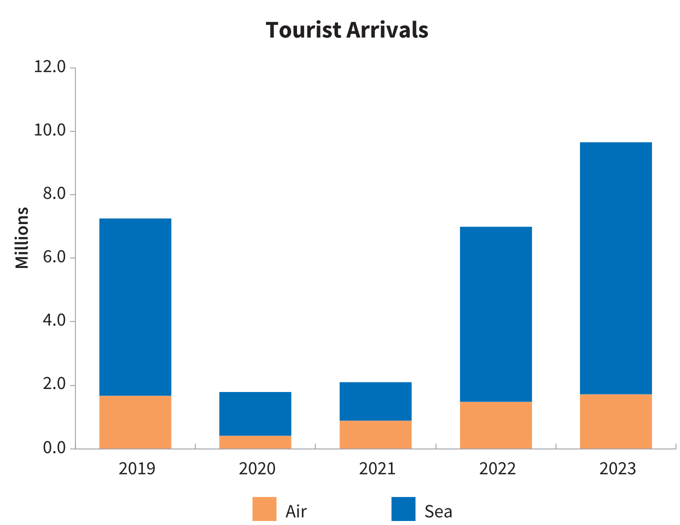
In the external sector, the estimated current account deficit narrowed in 2023, owing largely to a rebound in the services account surplus, supported by more buoyant tourism receipts. In contrast, net financial account inflows, excluding reserve assets, decreased, explained by a reversal in portfolio investments to a net outflow, from a net inflow in the prior year, and a notable reduction in direct investment inflows. There were no reported capital account transfers during the review year, similar to 2022.

REAL SECTOR

Tourism

Amid aggressive promotional efforts and recovered demand for travel in key source markets, tourism recorded healthy gains in 2023, surpassing pre-pandemic levels. The outturn was buttressed by sustained growth in both the high-value added air segment and robust cruise sector traffic. While comparative gains were experienced throughout the year, the seasonal boost was strongest in the first half of the year, as the comparative performance in 2022 still only partially recovered from COVD-19.

According to data from the Ministry of Tourism, total visitor arrivals expanded to a historic 9.7 million visitors in 2023, compared to 7.0 million in 2022. Air arrivals,



indicative of high-yielding stopover tourism, grew by 17.0% to 1.7 million passengers, extending the 1.5 million visitors in the preceding year. Likewise, the dominant sea segment rose by 43.5% to 7.9 million travellers, exceeding the 5.5 million in the previous year.

An analysis by first port of entry, showed a build-up in arrivals to New Providence by 35.7% to 4.4 million, surpassing last year's 3.3 million visitors. The outturn reflected a rise in the air segment to 1.3 million passengers, vis-à-vis 1.1 million tourists in 2022; and accretions in the sea component to 3.1 million, from 2.1 million in the year prior. Similarly, total visitors to the Family Islands grew by 39.4% to 4.7 million. Air arrivals gained by 16.1% to 0.34 million, and sea visitors rose 41.6% to 4.3 million. In Grand Bahama, tourist arrivals increased by 43.8% to 0.6 million visitors, underpinned by an approximately one-third boost in the air component to 52,089, and a one-fourth rise in sea arrivals to 0.5 million.

Data provided by AirDNA revealed positive, though also tempered momentum in the private vacation rental market, a subset of the stopover market. Total room nights sold grew robustly, by 23.8% in 2023, although lower that the 48.5% improvement in 2022. By component, entire place listings and hotel comparable listings both rose by 23.3% and by 28.5%, respectively, relative to gains of 47.4% and 58.3% posted in the previous year. Further, on average, occupancy levels for hotel comparable rentals increased by 4.0 percentage points to 56.1%, while the associated average daily rate (ADR) grew by 4.7% to $196.81. Likewise, occupancy levels for entire place listings on average, moved higher by 3.3 percentage points to 59.0%, and the accompanying ADR firmed by 6.8% to $554.59.

Construction

During 2023, construction sector activity was fuelled by various ongoing foreign investment projects. Although subdued, domestic private sector investment, as represented by residential and commercial building activity, showed some recovery. Meanwhile, over the near-term, forward looking indicators signalled some improvements.

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—increased by $4.1 million (5.0%) to $86.1 million, a reversal from the $10.6 million (11.4%) contraction in 2022. Accounting for 96.0% of the total, residential disbursements grew by $4.2 million (5.4%) to $82.5 million, a switch from a 13.8% reduction a year earlier. In contrast, commercial disbursements edged down by $0.1 million (3.5%) to $3.7 million, after a two-fold growth in the previous year.

Table 9: Selected Economic Indicators

	2021	2022	2023
		(% Change)	
Real GDP	15.4	10.8	2.6
Hotel Occupancy (%)**	38.9	58.5	n.a.
Total Arrivals	17.1	233.3	37.9
Mortgage Disbursements	35.0	(12.6)	2.6
Construction Completions - Value	103.0	8.4	n.a.
Inflation	2.9	5.6	3.1
National Debt/GDP Ratio (%)	93.0	88.6	84.2

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

An analysis of forward-looking indicators suggests modest strengthening in domestic financed construction activity. Total mortgage commitments—for new construction and repairs—increased in number by 27 (12.1%) to 251, with the relevant value expanding by $20.7 million (28.2%) to $94.0 million. A breakdown by loan category revealed that residential loan approvals for new construction declined in number by 4 (1.9%) to 202, with a falloff in the associated value by $5.4 million (8.3%) to $59.9 million. However, financing commitments for residential repairs increased to 37 from 9 in the prior year, with the relevant value higher by $5.7 million at $6.6 million. Further, commitments for new commercial developments grew in number by 4 to 11 (57.1%), with a corresponding value of $26.8 million; whereas for repairs, the number was halved to 1, with an associated value of $0.7 million.

With regard to interest rates, the average costs for residential mortgages firmed by 21 basis points to 6.17%, while the average rate for commercial mortgages declined by 2.1 percentage points to 4.57%.

Employment

Labour market conditions improved in 2023, as the economy's rebound expanded employment in both tourism and construction. The Bahamas National Statistical Institute's Labour Force Survey for May 2023 showed that the unemployment rate decreased by 70 basis points to 8.8%, relative to May 2019—when the latest national statistics were available. However, the recovery relative to pre-pandemic conditions was still ongoing. While the number of self-employed persons rose by 5.0% vis-à-vis May 2019, the total number of employed persons remained 6.8% below the 2019 estimates. In addition, the labour force participation rate, indicative of employment headcount trends, was estimated at 75.9% compared to 82.9% in May 2019. Reflective of these developments, the total number of discouraged workers firmed by 2.3%.

Disaggregated by major markets, the unemployment rate in New Providence—having the largest populace—declined by 50 basis points to 8.9%, compared to May 2019. Likewise, in Grand Bahama, the jobless rate narrowed by 10 basis points to 10.8%; while in Abaco, the unemployment rate moved lower by 22 basis points to 7.1%, vis-à-vis May 2019.

Prices

Reflective of the pass-through effects of lower global oil prices, and abated cost increases on imported goods and services, average domestic consumer price inflation—as measured by the change in the average Retail Price Index (RPI) for The Bahamas—moderated to 3.1% in 2023, from 5.6% in 2022. Contributing to this outturn, average prices decreased by 4.2% for transport, and by 2.8% for communication, after posting respective gains a year earlier. Further, inflation slowed for recreation & culture (7.2%), food & non-alcoholic beverages (4.7%), restaurants & hotels (4.3%), and clothing & footwear (1.9%). In an offset, average cost increases quickened for health (6.9%), furnishing, household equipment & routine household maintenance (6.1%), housing, water, gas, electricity & other fuels (5.1%) and education (2.3%). In addition, average prices rebounded for alcoholic beverages, tobacco & narcotics, by 9.0% and miscellaneous goods & services, by 2.6%, following decreases in 2022.

Domestic energy cost were mixed during the review year, despite the retrenchment in international energy prices, as the pass-through in electricity costs was delayed. Specifically, the average price for diesel declined by 8.6% to $5.51 per gallon, a reversal from a 22.9% increase in 2022. Similarly, the average cost of gasoline fell by 5.9% to $5.73, a shift from a 38.6% rise in the previous year. Conversely, gains were posted for Bahamas Power and Light's (BPL) fuel surcharge, after the pass-through fuel costs were held back in 2022. The average cost for the generation of less than 800 kWh rose by 37.7%, to an average of 17.21 cents per kWh, while the average price for the generation of more than 800 kWh firmed by 59.9%, to 23.66 cents per kWh.

FISCAL OPERATIONS

FY2022/23 Performance

During FY2022/23, the Government's overall fiscal deficit decreased to $533.4 million from $721.7 million in FY2021/22 (see Table 10) an estimated $30.6 million (5.4%) lower than the budgeted amount. An analysis of the components showed that, total revenue grew by $250.1 million (9.6%) to $2,855.8 million, supported by value added tax (VAT) collections; approximately $51.4 million (1.8%) higher than the budgeted amount. Aggregate expenditure also rose by $61.8 million (1.9%) to $3,389.2 million, exceeding projected spending by $20.8 million (0.6%).

REVENUE

Tax revenue—which comprised 86.6% of total collections—grew by $315.9 million (14.6%) to $2,474.1 million for the fiscal year, just short of the budgeted amount by $18.0 million (0.7%). Contributing, VAT receipts expanded by $116.2 million (10.2%) to $1,252.0 million, although below budgeted projections by $159.8 million (11.3%). In addition, proceeds from stamp taxes on financial and realty transactions increased by $24.0 million (28.9%) to $107.0 million.

Table 10: Fiscal Indicators (B$ Millions)

	FY2020/21p Actual	FY2021/22p Actual	FY2022/23p Actual	FY2023/24 Approved Estimates	FY2023/24 Preliminary[1] Estimates
Government Revenue	1,908.4	2,605.7	2,855.8	3,319.0	1,302.1
as % of GDP	18.7	21.0	20.4	23.5	9.2
Government Expenditure	3,243.6	3,327.4	3,389.2	3,450.1	1,560.8
as % of GDP	31.8	26.8	24.2	24.4	11.0
Surplus/(Deficit)	(1335.2)	(721.7)	(533.4)	(131.1)	(258.7)
as % of GDP	(13.1)	(5.8)	(3.8)	(0.9)	(1.8)

Source: Ministry of Finance

Compiled according to the IMF's Government Finance Statistics Format. [1] July - December, 2023

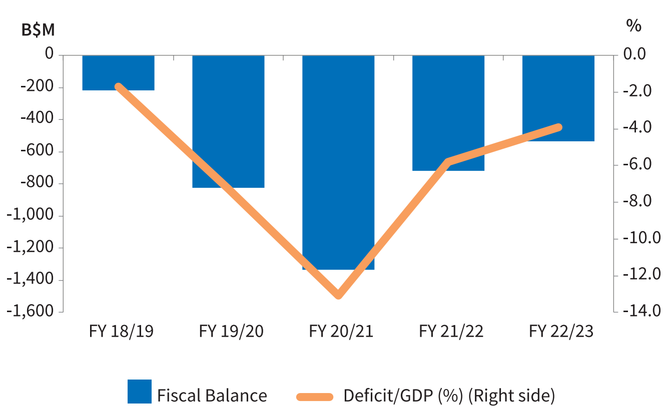
Similarly, taxes on the use or supply of goods and services advanced by $32.0 million (18.6%) to $204.0 million, largely attributed to a notable rise in revenue from licenses to conduct business activities, by $32.6 million (28.9%). Also, receipts from specific taxes—primarily gaming—moved higher by $12.6 million (24.5%) to $63.9 million. Levies on international trade & transactions also increased by $163.8 million (32.0%) to $675.4 million, underpinned by significant gains in export taxes, by $76.0 million to $253.5 million and departure taxes, by $87.3 million to $172.2 million. Further, property taxes advanced by $14.6 million (9.9%) to $161.5 million.

Non-tax revenue declined by $66.7 million (14.9%) to $380.4 million over the previous fiscal year—although exceeding the budgeted amount by $71.0 million (22.9%). Reflective of this outturn, income from property reduced by $18.2 million (22.0%) to $64.6 million. In addition, collections from the sale of goods & services decreased by $14.2 million (6.3%) to $211.0 million, as proceeds from immigration and customs fees fell by $18.9 million (14.9%). Similarly, receipts from other "miscellaneous" and unidentified taxes contracted by $35.8 million (39.5%) to $54.8 million, while collections from fines, penalties & forfeits edged down by $0.1 million (2.2%) to $5.3 million. Meanwhile, capital revenue remained at negligible levels. However, grants increased to $1.1 million from a mere $0.2 million in the prior fiscal year.

EXPENDITURE

Current expenditure—at 90.3% of total outlays—grew by $18.2 million (0.6%) to $3,061.8 million, approximately $64.5 million (2.2%) above the budgeted allocation.

Fiscal Indicators



In terms of the components, outlays for compensation of employees expanded by $66.8 million (9.1%) to $805.2 million. Further, payments for the use of goods and services, advanced by $33.1 million (5.2%) to $671.7 million. In addition, interest payments on public debt rose by $21.3 million (3.9%) to $573.1 million, on account of higher interest payments on both external and internal debt obligations. In an offset, disbursements for social benefits decreased by $58.6 million (20.5%) to $227.4 million, reverting to trend following a sharp COVID-19 related increase in the 2020/21 fiscal year. Outlays for subsidies also fell by $31.2 million (6.3%) to $464.7 million and other "miscellaneous" payments, by $11.7 million (3.6%) to $312.7 million, owing largely to a reduction in insurance premiums.

Capital outlays expanded by $43.6 million (15.4%) to $327.4 million—albeit lower than the budgeted estimates by $43.7 million (11.8%). In the underlying developments, spending on the acquisitions of non-financial assets grew by $57.0 million (25.3%) to $282.0 million, led by a notable rise in spending on fixed assets (21.3%). Further, spending for land purchases advanced to $10.8 million from just $1.4 million in the preceding fiscal year.

First Six Months of 2023/2024

Preliminary indications are that for the first six months of FY2023/24, the Government's overall deficit reduced by $19.1 million (6.9%) to $258.7 million, when compared to the same period of FY2022/23. The reduction was due to an expansion in revenue collections, underpinned by a rebound in VAT receipts and levies on international trade and transactions, which outpaced the growth in spending. Specifically, total revenue grew by $43.8 million (3.5%) to $1,302.1 million, outstripping the $24.7 million (1.6%) rise in aggregate expenditure to $1,560.8 million.

The half-year tax receipts increased by $72.9 million (6.6%) to $1,169.4 million. Specifically, VAT receipts rose by $47.2 million (7.9%) to $646.0 million, relative to the previous fiscal period. Moreover, revenue from stamp taxes on financial and realty transactions grew by $2.0 million (3.7%) to $55.5 million. Further, levies on international trade & transactions expanded by $19.3 million (6.1%) to $333.6 million. Of note, departure taxes moved higher by $13.3 million (18.6%), to $84.8 million, reflective of healthy gains in tourism. Meanwhile, proceeds from export taxes rose by $2.9 million (2.4%) to $121.9 million, and customs & other import taxes, by $3.1 million (2.5%) to $126.5 million. Similarly, taxes on use or supply of goods increased by $10.3 million (27.4%) to $47.7 million, on account of a rise in receipts from business license fees, motor vehicle taxes and marine license fees.

In contrast, non-tax revenue declined by $27.9 million (17.4%) to $132.7 million, explained by reductions in property income and "miscellaneous" & categorized taxes.

The growth in total expenditure was reflective of an $8.5 million (0.6%) rise in current spending, to $1,426.8 million during the six-month period. This was owing to higher disbursements for interest payments on public debt, compensation for employees, and social benefits. Similarly, capital outlays grew by $16.2 million (13.8%) to $134.1 million, underpinned by an increase in the acquisition of non-financial assets.

Budgetary financing for the six-month period was obtained largely from domestic sources, which totalled $1,425.3 million, inclusive of loans & advances ($872.1 million), long term bonds ($379.8 million), and net Treasury bills ($173.4 million). Meanwhile, external financing amounted to $261.8 million. Debt repayments for the period totalled $1,790.7 million, the majority ($1,299.0 million) of which repaid Bahamian dollar obligations.

National Debt

During 2023, the Direct Charge on the Government rose by $391.5 million (3.5%) to $11,428.0 million, nearly halving the $718.6 million (7.0%) growth of the prior year. However, given the continued strengthening in economic activity, the ratio of the Direct Charge to GDP decreased further by 4.3 percentage points to 79.7%, vis-à-vis a reduction of 6.7 percentage points in 2022 (see Table 11). Bahamian dollar denominated debt—at 53.3% of the total—grew by $225.8 million (3.9%), to $6,088.8 million. Further, foreign currency claims increased by $165.8 million (3.2%) to $5,339.2 million. An analysis of Bahamian Dollar denominated debt by holder classification showed that other private (non-financial) and institutional investors held the largest

National Debt

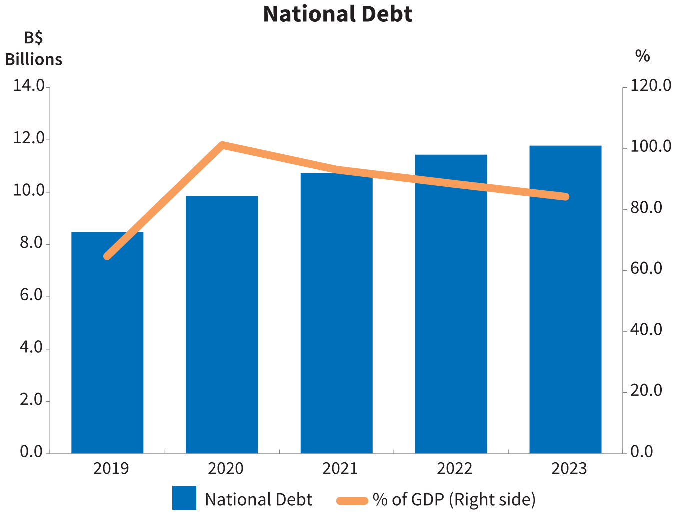


Table 11: Debt Indicators

	2021p	2022p	2023p
A. Total F/C Debt	5,032.8	5,652.5	5,773.1
i) External Debt	4,760.8	5,225.0	5,372.7
ii) Internal F/C Debt	272.1	427.5	400.4
B. National Debt	10,717.0	11,426.3	11,428.0
i) Direct Charge	10,317.9	11,036.4	11,428.0
C. Debt Service Ratio (%)*	12.8	19.1	19.2
		% of GDP	
A. Total F/C Debt	44.3	43.0	40.3
i) External Debt	41.9	39.8	37.5
ii) Internal F/C Debt	2.4	3.3	2.8
B. National Debt	94.3	87.0	82.1
i) Direct Charge	90.8	84.0	79.7

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

share of local currency debt (40.8%), followed by banks (39.3%), the Central Bank (11.6%) and public corporations (8.3%).

For the year, the Government's contingent liabilities declined by $39.3 million (10.1%), to $350.9 million. As a result, the National Debt, inclusive of contingent liabilities, expanded by $352.2 million (3.1%), to $11,778.9 million at end-December, a slowdown from the $709.7 million (6.6%) build-up in 2022. However, the National Debt to GDP fell by 4.8 percentage points to an estimated 82.1%, compared to a 7.3 percentage point decline to 87.0% in 2022.

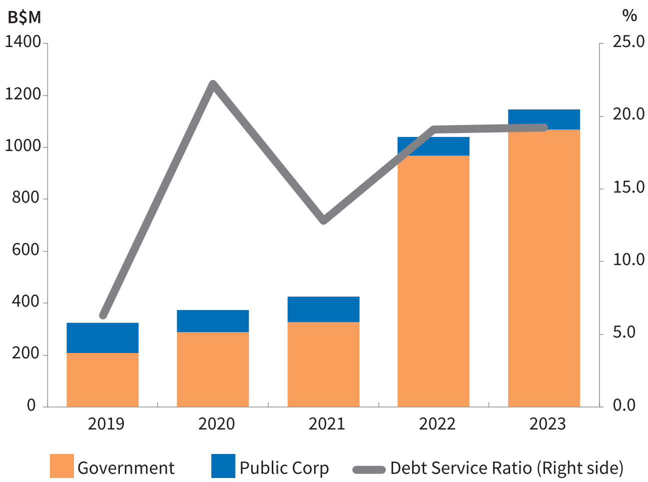
Foreign Currency Debt

The public sector foreign currency debt expanded by $120.6 million (2.1%) to $5,773.1 million in 2023. New drawings declined to $878.2 million, from $1,306.3 million in the preceding year; whereas amortization payments rose to $776.4 million from $664.5 million in 2022. In terms of the components, the Government's outstanding liabilities—which accounted for 92.5% of the total—grew by $165.8 million (3.2%) to $5,339.2 million in the review year. In contrast, the public corporations' debt stock decreased by $45.1 million (9.4%) to $433.9 million.

Foreign currency debt service payments increased by $107.9 million (10.4%) to $1,147.4 million. Underlying this outturn, the Government's debt service portion moved higher by $98.7 million (10.2%) to $1,067.4 million. Similarly, the public corporations' segment grew by $9.2 million (13.0%) to $79.9 million. The debt service to exports ratio stood at 36.8%, higher than the 35.5% in 2022.

A breakdown by creditor profile showed that the majority of foreign currency debt was held by capital market investors (49.5%), followed by multilateral institutions (23.9%), financial services firms (19.2%), Central Bank (4.1%), domestic banks (2.9%) and bilateral financial institutions (0.8%). An analysis by currency type indicated that, the bulk of the debt was denominated in United States dollars (82.0%), followed by the euro (8.4%), IMF SDRs (7.2%), Swiss Franc (1.6%), and the Chinese yuan (0.8%).

Public Sector F/C Debt Service



MONEY, CREDIT AND INTEREST RATES

Monetary sector

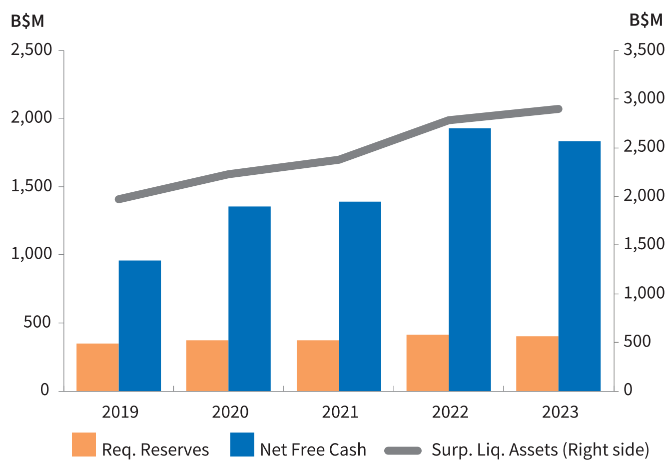
During 2023, monetary conditions featured a reduction in banking sector liquidity and net foreign assets, as the expansion in domestic credit, outweighed the growth in the deposit base. Meanwhile, banks' credit quality indicators improved over the year, reflective of the sustained recovery in the domestic economy and ongoing loan write-offs. In addition, banks' overall profitability increased, on account of a rise in interest income, which overshadowed provisioning expense for bad debt. Meanwhile, the weighted average interest rate spread narrowed in 2023, as the average deposit rate increased, while the associated loan rate remained relatively unchanged.

Liquidity

Banking sector liquidity declined in 2023. Largely explained by a decrease in average balances held with the Central Bank, average net free cash reserves—a narrow measure of liquidity—fell by $28.2 million (1.5%) to $1,895.8 million, a reversal from a $506.5 million (35.7%) growth in the preceding year. An analysis of the monthly trend indicated that balances fluctuated during the year, holding steady at an average $1,934.8 million in the first eight months of the year, peaking at $1,997.1 million in May, before trending downward to $1,832.6 million in December. As a result, the ratio of net free cash reserves to Bahamian dollar deposits narrowed to 22.4% from 25.7% in 2022.

Domestic banks' excess liquid assets—a broader measure of liquidity, including Government securities—posted an average monthly surplus of $2,876.9 million in 2023, 3.2% higher than the preceding year's mean. On a monthly basis, the excess liquid assets trended upward to peak at $2,989.3 million in July. However, given seasonal influences, in the ensuing months, balances eased to $2,894.9 million at end-December, for an annual gain of $108.9 million (3.9%). Further, year-end surplus liquid assets exceeded the statutory minimum by 193.9%, relative to 191.0% in 2022.

Bank Liquidity



Money Supply

The overall money supply (M3) grew by $120.3 million (1.3%) to $9,103.6 million in 2023, albeit a notable slowdown from the $762.6 million (9.3%) build-up in the preceding year. A disaggregation by component showed that the expansion in narrow money (M1) moderated sharply to $22.0 million (0.5%) from $581.3 million (15.6%) in the previous year, as the growth in demand deposits tapered to $13.9 million (0.4%) from $544.4 million (16.4%) a year earlier. Similarly, currency in active circulation rose by $8.1 million (1.9%), lower than the $36.9 million (9.5%) gain in 2022.

The build-up in broad money (M2) slackened to $143.3 million (1.7%) from $686.7 million (8.8%) in the prior year. In particular, savings deposits grew by $172.6 million (8.3%), trailing the $204.1 million (10.8%)

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

	Outstanding as at 2021	Absolute Changes 2022	Absolute Changes 2023	Outstanding as at 2023
Destination				
Government (net)	2,933.1	276.5	214.5	3,424.1
Central Bank	457.9	332.7	96.9	887.5
Domestic Banks	2,475.2	(56.2)	117.6	2,536.6
Rest of Public Sector	315.2	32.1	(21.0)	326.3
Central Bank	7.1	(0.2)	0.1	7.0
Domestic Banks	308.1	32.3	(21.1)	319.3
Private Sector	5,680.7	(19.1)	197.5	5,859.1
Domestic Banks	5,680.7	(19.1)	197.5	5,859.1
Consumer	2,034.5	(97.1)	31.1	1,968.5
Mortgages	2,726.2	(10.3)	(45.8)	2,670.1
Other Loans	920.0	88.3	212.2	1,220.5
Financing				
Liabilities (Net of Government)	8,220.3	763.0	120.3	9,103.6
Currency	385.9	36.9	8.1	430.9
Total Deposit liabilities	7,834.4	726.1	112.2	8,672.7
Demand deposits	3,710.8	613.0	(38.0)	4,285.8
Savings deposits	1,924.3	201.2	168.8	2,294.4
Fixed Deposits	2,199.3	(88.2)	(18.6)	2,092.5
International reserves	2,432.8	178.3	(93.6)	2,517.4
Other net external liabilities	(95.2)	(42.6)	(49.5)	(187.3)
Capital and surplus	2,583.1	(125.1)	20.9	2,478.9
Other (net)	463.2	(212.7)	106.7	357.1

Source: Central Bank of The Bahamas

accumulation in 2022, mostly reflecting a retrenchment in the gains in private deposits. Meanwhile, the reduction in fixed deposits was curtailed at $51.3 million (2.5%) from $98.7 million (4.5%) in the previous year. Further, foreign currency deposits contracted by $23.0 million (4.4%), a switch from a $75.9 million (17.0%) accretion last year, owing mostly to a decline in private placements.

As a proportion of the overall money stock (M3), Bahamian dollar demand deposits comprised the largest share at 42.7%, followed by savings deposits (24.9%), and fixed deposits (22.2%). Foreign currency deposits and currency in active circulation represented smaller shares, of 5.5% and 4.7%, respectively.

Domestic Credit

Domestic credit expanded further in 2023, led by the ongoing increase in net claims on the Government, and a rebound in lending to the private sector.

Total domestic credit rose by $391.0 million (4.2%), extending the year earlier accumulation of $289.6 million (3.2%). The stock of claims amounted to $9,604.5 million, with the Bahamian dollar component representing 92.5% of the aggregate. Net claims on the Government grew by $214.5 million (6.7%), although a slowdown from the $276.5 million (9.4%) build-up in 2022. However, credit to the rest of the public sector reduced by $21.1 million (6.1%), a turnaround from the $32.3 million (10.2%) increase in the prior year.

Private sector credit rebounded by $197.5 million (3.5%), following a $19.1 million (0.3%) contraction a year earlier (see Table 12). A breakdown by sector revealed that personal loans—which account for 72.6% of the total—increased by $32.7 million (0.7%), extending the year earlier $25.1 million (0.5%) growth. On a sectoral basis, lending grew for purposes related to distribution ($45.7 million), private financial institutions ($28.3 million), manufacturing ($14.5 million), professional and other services ($12.1 million), "miscellaneous purposes" ($6.3 million), entertainment and catering ($3.1 million) and tourism ($1.4 million). Conversely, declines in outstanding claims were recorded for construction ($35.9 million) and transport ($12.4 million). More modest decreases of less than $1.0 million were posted for fisheries, mining & quarrying and agriculture.

A further disaggregation of personal credit indicated that consumer loans recovered by $35.2 million (1.8%), vis-à-vis an $84.7 million (4.1%) decline in the previous year. In addition, residential mortgages rose by $10.6 million (0.4%), albeit a marked slowdown from the $108.6 million (4.2%) gain in the year prior. Conversely, overdrafts fell by $13.1 million (25.7%), a switch from a $1.2 million (2.4%) uptick in 2022.

A breakdown of the Bahamian dollar consumer credit component showed that net lending rose for private cars ($33.0 million), other miscellaneous purposes ($31.7 million) and credit cards ($15.1 million); growth was more muted for furnishings & domestic appliances ($2.2 million). In contrast, net repayments occurred for debt consolidation ($39.9 million), travel ($4.8 million), education ($3.9 million) and home improvements ($2.2 million).

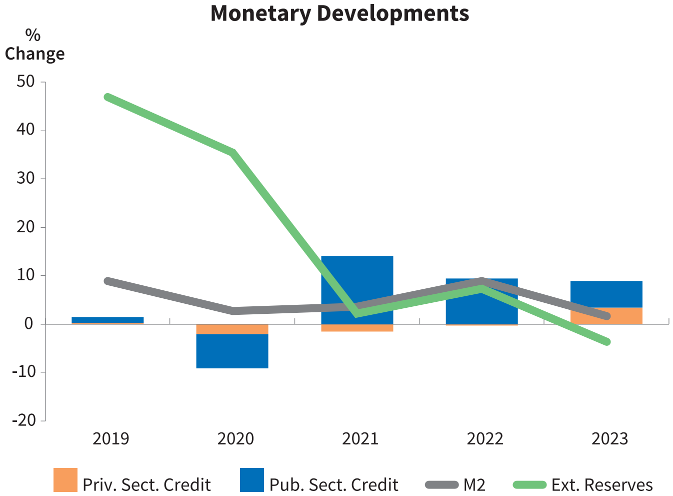
Interest Rates

During 2023, the weighted average interest rate spread on domestic banks' loans and deposits narrowed by 3 basis points to 10.48 percentage points. Contributing to this outturn was a 4 basis point rise in the weighted average deposit rate to 0.54%, while the weighted average lending rate remained relatively unchanged at 11.02%.

With regard to lending, the average overdraft rates declined by 33 basis points to 10.63%. Similarly, the average rate for commercial mortgages fell by 30 basis points to 6.39%. More muted decreases were registered for consumer loans, which narrowed by 6 basis points to 12.90%, and residential mortgages, by 5 basis points to 5.18%.

In terms of funding, the average rate paid on demand deposits reduced by 13 basis points to 0.31%, while the mean rate on savings balances declined by 11 basis points to 0.28%. Meanwhile, the range on fixed maturities shifted from 0.28%-1.00% to 0.26%-1.04%.

Monetary Developments



In other interest rate developments, the average Treasury bill rate rose marginally by 2 basis points to 2.91%. However, the Central Bank Discount rate and commercial banks' Prime rate remained unchanged at 4.00% and 4.25%, respectively.

Net Foreign Assets

Total net foreign assets of the financial system reduced by $143.1 million (5.8%) to $2,330.0 million, a shift from a $135.7 million (5.8%) expansion a year earlier. In particular, the Central Bank's external reserve balances contracted by $93.6 million (3.6%), a turnaround from a $178.3 million (7.3%) accumulation in 2022, which included net foreign currency inflows from real sector activities, and the receipt of proceeds from Government's external borrowings. Further, domestic banks' net foreign liabilities contracted by $49.5 million (35.9%) to $187.3 million, extending the $42.6 million (44.7%) decrease in 2022.

An analysis of monthly trends revealed that external reserve balances steadily trended upward during the first seven months of the year, peaking at $2,886.3 million in May. However, seasonally elevated foreign currency demand set in during the latter half of the year, with balances trending downward through the remainder of 2023, to $2,517.4 million at end-December. In 2023, the average monthly levels reached $2,649.6 million, decreasing by $297.0 million (10.1%) compared to the preceding year.

An analysis of underlying foreign currency transactions affecting external reserves showed that the Central Bank recorded a net sale of $127.2 million, a turnaround from a net purchase of $426.2 million in 2022. Underlying this outturn, the Bank's net sales to public corporations—primarily for fuel purchases—increased to $532.7 million from $399.7 million in the previous year. Further, the Bank's net purchases from the Government reduced to $256.3 million from $673.4 million in the prior year when larger net external borrowing occurred. Similarly, the Bank's net intake from the commercial banks was almost stable at $149.2 million compared to $152.5 million in the preceding year.

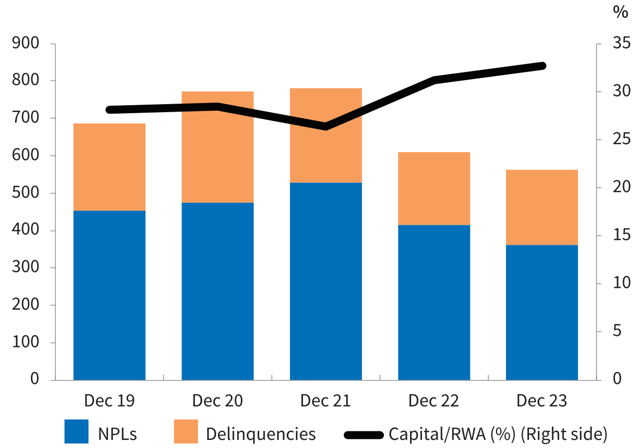
At end-December, the stock of external reserves stood at 30.0 weeks of the current year's total merchandise imports, vis-à-vis 33.9 weeks in 2022, and above the international benchmark of 12.0 weeks. After adjusting for the statutory requirement to maintain reserves equivalent to 50.0% of the Bank's demand liabilities, usable reserves fell by $37.7 million (3.2%) to $1,136.5 million.

BANKING SECTOR PERFORMANCE

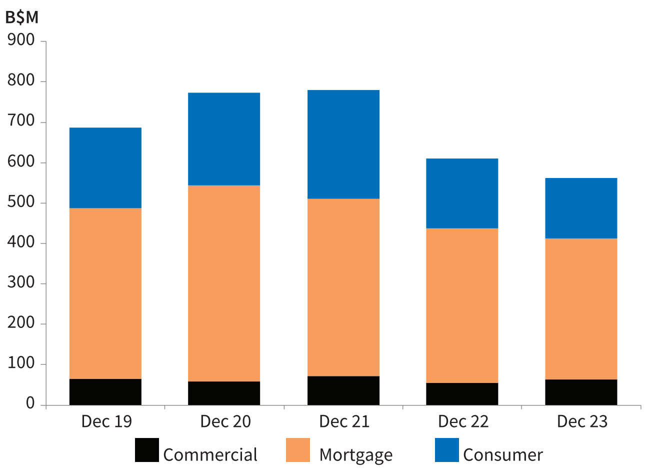
Credit Quality

Domestic banks' credit quality indicators improved further during the review year, underpinned by the strengthening in the domestic economy and ongoing loan write-offs. Total private sector loan arrears contracted by $48.5 million (7.9%) to $561.7 million, albeit lower than the $169.6 million (21.8%) reduction in the previous year. Correspondingly, the ratio of arrears

Private Sector Loan Arrears



Private Sector Arrears by Loan Category



to total private sector loans decreased further by 1.0 percentage point to 10.3%.

The continued reduction in total delinquencies was largely concentrated in non-performing loans (NPLs), which fell by $53.5 million (12.9%) to $361.5 million. In contrast, short-term arrears (31-90 days) rose by $5.0 million (2.6%) to $200.2 million, a reversal from a $56.6 million (22.5%) decline in the preceding year. In line with these developments, the ratio of NPLs to private sector loans moved lower by 1.1 percentage points to 6.6%; while the ratio of short-term arrears to total private sector loans increased by 4 basis points to 3.7%.

By loan category, mortgage delinquencies declined by $31.5 million (8.3%) to $350.1 million, further to the $56.9 million (13.0%) retrenchment in 2022. The attendant ratio narrowed by 1.2 percentage points to 14.0%. Similarly, consumer arrears fell by $24.5 million (14.1%) to $149.0 million, relative to a $96.4 million (35.7%) contraction last year, as the corresponding ratio softened by 1.4 percentage points to 7.6%. Conversely, commercial delinquencies grew by $7.5 million (13.5%) to $62.6 million, contrasting with

Table 13: Commercial Banks' Financial Soundness Indicators*

	2021	2022	2023
Capital Adequacy			
Regulatory capital/RWAs**	26.4	31.2	32.7
Regulatory Tier 1 capital/RWAs**	24.7	32.1	28.4
Asset Quality			
NPLs/Private Sector Loans	9.6	7.7	6.6
NPLs to Capital	22.5	18.7	16.1
Earnings & Profitability			
Return on assets	2.3	3.5	3.4
Return on equity	10.9	17.9	18.0
Liquidity			
Liquid assets to total domestic assets	33.8	37.0	37.4

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

a $16.3 million (22.8%) decrease in the preceding year, resulting in a 36 basis point rise in the associated ratio to 6.4%. Meanwhile, the NPL rates for mortgages fell to 8.8% from 10.2% in 2022; consumer loans, to 4.9% relative to 5.8% in the prior year; and for commercial credit, to 4.7% from 5.0%, a year earlier.

Capital Adequacy and Provisions

Corresponding with the improvement in credit quality indicators, banks further reduced their total provisioning for loan losses, but maintained robust capital adequacy ratios. Loan loss provisions decreased by $56.5 million (14.6%) to $330.0 million, though less than half the previous year's reduction of $126.1 million (24.6%). As a result, the ratio of total provisions to total private sector loans declined by 97 basis points to 5.5%. Likewise, the ratio of provisions to total arrears fell by 4.6 percentage points to 58.8% and to NPLs, by 1.9 percentage points to 91.3%. Banks also wrote-off an estimated $103.9 million in delinquencies and recovered approximately $49.1 million in 2023.

As for capital adequacy, the risk-adjusted capital ratio firmed by 18 basis points to 32.7%, remaining well in excess of the minimum regulatory prescribed ratio of 17.0% (see Table 13).

Bank Profitability

Domestic banks' net income grew at a sharply moderated pace in 2023, as net interest income closely matched higher operating costs. Net profits rose by $5.4 million (1.4%) to $402.4 million, relative to the $142.3 million (55.8%) improvement in 2022.

Broken down, the net interest margin increased by $58.4 million (10.8%) to $600.1 million, exceeding the $8.7 million (1.6%) gain a year earlier. Interest income advanced by $58.7 million (10.2%) to $637.3 million, while interest expenses edged up by $0.3 million (0.8%) to $37.2 million. Further, earnings from commission and foreign exchange transactions rose by $7.1 million (12.3%) to $65.3 million, leading to a $65.6 million (10.9%) expansion in the gross earnings margin to $665.5 million.

Operating costs rose at an accelerated pace of $52.0 million (12.4%), as compared to a $9.3 million (2.3%) rise in the previous year. Notably, non-staff outlays—including professional services, Government fees and equipment—grew by $51.1 million (20.5%), while staff costs rose by $2.7 million (1.7%). Meanwhile, occupancy costs fell by $1.9 million (14.2%). Consequently, the net earnings margin increased by $13.6 million (7.6%) to $192.9 million.

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

	2021^p	2022^p	2023^p
I. CURRENT ACCOUNT	(2,434.0)	(1,056.0)	(1,031.1)
i) Merchandise Trade (net)	(2,625.6)	(2,909.8)	(3,231.1)
Exports	638.6	837.7	819.8
Imports	3,264.2	3,747.5	4,050.8
of which: Oil	816.2	1,139.9	983.4
ii) Services (net)	1,008.3	2,669.2	3,015.1
Travel	2,173.1	4,052.2	4,541.0
Other	(1,164.8)	(1,383.0)	(1,525.9)
iii) Primary Income (net)	(734.2)	(883.2)	(858.2)
iv) Secondary Income (net)	(82.4)	67.8	43.1
II. CAPITAL AND FINANCIAL ACCOUNT			
i) Capital Account (Transfers)	53.9	0.0	0.0
ii) Financial Account	(1,493.8)	(1,401.5)	(1,154.6)
of which: Direct Investment	(298.4)	(316.4)	(97.1)
III. NET ERRORS AND OMISSIONS	936.8	(167.3)	(212.0)
IV. CHANGES IN EXTERNAL RESERVES	50.6	178.3	(93.6)

Source: Central Bank of The Bahamas

The net gain from "non-core" operations declined by $8.2 million (3.8%) to $209.5 million from $217.7 million in 2022. Contributing to this outcome was an expansion in provisioning for bad debt and a rise in depreciation costs. However, other fee-based income grew by $30.4 million (13.7%). As a result of these developments, the gross earnings margin ratio relative to banks' average assets rose by 50 basis points to 5.68%, as the interest margin ratio and the commission & foreign exchange income ratio firmed by 45 basis points to 5.12% and by 6 basis points to 0.56%, respectively. Similarly, the net earnings margin ratio increased by 10 basis points to 1.65%, attributed to a 40 basis point rise in the operating costs ratio to 4.03%. Consequently, after accounting for "non-core" operations, the net income (return on assets) ratio edged up by 1 basis point to 3.44%.

Capital Market Developments

Domestic capital market developments were mixed in 2023, as equity valuation gains still contrasted with reduced trading volumes. Gains in the Bahamas International Securities Exchange (BISX) All Share Index—a market capitalization weighted index—slowed to 7.8% from 18.7% in the year prior, with the index ending at 2851.7 points. The market capitalization of listed securities rose by 6.9% to $10.8 billion; lower than the 8.4% growth in 2022. Meanwhile, the total volume of shares traded on the exchange declined further by 45.0% to 4.9 million. Nevertheless, the total value of traded shares recovered by 19.3% to $77.9 million.

As at the end of 2023, the total number of publicly traded securities on BISX decreased to 260 from 268 in 2022. It comprised 20 ordinary shares, 4 preference shares, and 236 debt tranches, including 5 bonds and 231 tranches of Bahamas Registered Stock (BRS).

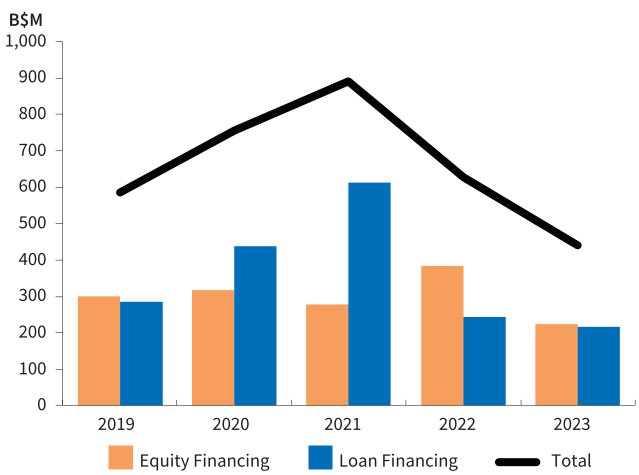
INTERNATIONAL TRADE AND PAYMENTS

According to provisional estimates on the external sector accounts for 2023, the estimated current account deficit narrowed by $24.8 million (2.4%) to $1,031.1 million (see Table 14). Underlying this development was an expansion in the services account surplus, on account of buoyant tourism receipts. In contrast, net financial account inflows, excluding reserve assets decreased to $1,154.6 million from $1,401.5 million in 2022, explained by a switch in portfolio investments to a net outflow from a net inflow in the prior year and a notable reduction in direct investment inflows. Further, capital account transfers reported nil transactions during the review year, in line with 2022.

The estimated merchandise trade deficit expanded by $321.3 million (11.0%) to $3,231.1 million in 2023, as imports rose by $303.3 million (8.1%) to $4,050.8 million and exports declined by $18.0 million (2.1%) to $819.8 million. A further disaggregation of trade flows showed that payments for fuel imports contracted by $156.5 million (13.7%) to $983.4 million. Specifically, the average per barrel cost fell for propane by 14.2% to $60.63; for bunker-c, by 14.5% to $94.20; for gas oil, by 4.9% to $110.63; and for kerosene jet-fuel, by 2.2% to $148.42. In contrast, average per barrel costs rose for aviation gas, by 4.1%, to $243.64 and for motor gas, by 1.4%, to $141.46.

The services account surplus increased by $345.9 million (13.0%) to $3,015.1 million. In particular, net travel receipts—the largest component—strengthened by $488.8 million (12.1%) to $4,541.0 million, bolstered by ongoing gains in tourism output. Further, net payments for Government goods and services reduced by $28.1 million (14.4%) to $166.6 million, while net outflows for construction services fell by $14.1 million (12.1%) to $102.7 million. In addition, charges for the use of intellectual property were lower by $3.1 million (21.0%) at $11.7 million. Providing some offset, net payments for

Foreign Investment Inflows (gross)



“other” business services rose by $91.9 million (21.7%) to $516.2 million and for transportation services, by $77.9 million (25.2%) to $387.4 million, owing to a rise in both sea and air transport payments. Likewise, net payments for telecommunications, computer and information services grew by $17.8 million (32.9%) to $71.8 million.

During 2023, the primary income account deficit (against wages and investment income) reduced by $25.0 million (2.8%) to $858.2 million. Of note, net investment income outflows declined by $52.7 million (6.6%) to $744.5 million, as net outflows for direct investments—inclusive of banks’ reinvested earnings—fell by $113.9 million (34.8%) to $213.7 million. Further, net remittances against portfolio investments decreased by $8.5 million (2.6%) to $323.2 million. In contrast, “other” net investment income outflows—inclusive of interest by other companies and the banks—grew by $75.3 million (44.0%) to $246.4 million. In addition, net outflows for employees’ compensation expanded by $27.7 million (32.2%) to $113.7 million.

The secondary income account surplus, which predominantly reflects net transfers, declined by $24.8 million (36.5%) to $43.1 million. In particular, various private financial and non-financial corporations’ net outflows increased by $46.5 million (64.0%) to $119.1 million, inclusive of a rise in the workers’ remittances portion. Further, “other” net private current transfers reversed to a net outflow of $17.6 million, from an inflow of $7.7 million in 2022. In a slight offset, general government net inflows rose by $47.0 million (35.4%) to $179.8 million.

For 2023, similar to the preceding year, there were no estimated transfers for the capital account—which is comprised of financial corporations, non-financial corporations, households, and non-financial institutions serving households (NPISHs).

The net financial inflows—denoting investments—contracted by $246.9 million (17.6%) to an estimated $1,154.6 million. Contributing to this development, the net portfolio investment position reversed to a net outflow of $330.2 million, from a net inflow of $99.8 million in 2022. Underlying this outturn, net external holdings of debt securities transactions switched to a net outflow of $573.0 million—mainly banks—from a net inflow of $38.6 million in the prior year, which overshadowed the significant growth in equity and investment fund shares net inflows, to $242.8 million from $61.3 million a year earlier. Further, net direct investment inflows decreased sharply to $97.1 million from $316.4 million in 2022, as net external holdings of equity and investment fund shares reduced considerably to $200.0 million from $412.7 million a year earlier. In addition, net payments associated with debt instruments rose by $6.6 million (6.8%) to $102.9 million.

Providing some offset, “other” investments net inflows expanded to $1,385.0 million from $985.2 million, on account of a rise in private sector external deposits. In particular, private entities net currency and deposits inflows almost doubled to $1,136.3 million from $595.3 million in 2022. Likewise, “other” private sector related accounts receivable/payable net inflows increased to $98.9 million from $50.0 million in the previous year. By contrast, net external loan exposures—largely Government—decreased to $148.5 million from

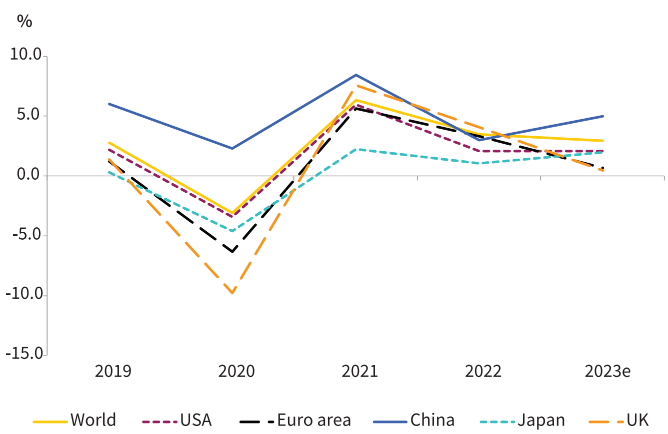
$358.7 million in the preceding year. In addition, due to valuation changes, IMF SDRs recorded a net allocation receipt of $1.4 million, a shift from a net outflow of $18.7 million in 2022.

As a result of these developments, and after adjusting for net errors and omissions, reserve assets, which corresponds to the change in the Central Bank's external reserves, reversed to a deficit of $93.6 million from a surplus of $178.3 million in 2022.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Growth in the global economy slowed to an estimated 3.0% in 2023, from the 3.5% in 2022, reflective of the protracted geopolitical tensions in Eastern Europe and the Middle East, and the tightened monetary policy stance adopted to fight off inflation. Nevertheless, labour market conditions improved, while inflationary pressures moderated. In addition, in an effort to further reduce inflation and encourage economic growth, all of the major central banks retained their monetary policy tightening stances.

Major Economies' Growth Rates



Real GDP growth in the United States extended to 2.5% in 2023, from 2.1% in 2022, undergirded by increases in consumer spending, non-residential fixed investment, and government spending. In the Asian economies, China's real economic output strengthened to 5.2% from 2.9% in the previous year, supported by a rise in final consumption expenditure, the output of energy vehicles and solar cells. Further, in Japan, real GDP grew by 1.9%, a reversal from a 1.0% contraction in the preceding year, bolstered by improvements in private residential investment. Meanwhile, in the United Kingdom, real output growth moderated to 0.1%, from the 4.3% in 2022, due to reductions in household spending, services, production, and construction outputs. The euro area's real GDP expansion also slowed to 0.5% in 2023, from 3.5% in the previous year.

Labour market conditions improved for most of the major economies during the review year. In the United States, the jobless rate stabilized at 3.6% in 2023, underpinned by gains in Government, health care, social assistance and construction. Similarly, in Japan, the average unemployment rate was unchanged at 2.4%. However, the euro area's jobless rate decreased by 20 basis points to 6.4% in 2023 and China's unemployment rate fell by 40 basis points to 5.2%. Meanwhile, the United Kingdom's jobless rate rose by 10 basis points to 4.0%.

In response to aggressive interest rates hikes by major central banks, global inflationary pressures eased in 2023 for almost all of the major economies. In particular, in the United States, the annualized inflation rate moderated to 3.4% in 2023, from 6.5% in 2022, reflective of lower food, energy, transportation services and shelter costs. Similarly, in the United Kingdom, the inflation rate declined to 4.2%, from 9.2% in the prior year, owing to a falloff in the costs for food and non-alcoholic beverages. Likewise, the euro area's inflation rate narrowed to 2.9%, vis-à-vis a 9.2% contraction in 2022, attributed to reductions in energy, non-energy industrial goods and services prices. In Asia, Japan's average consumer prices fell to 2.6%, from 4.0% in the previous year, while China's annual inflation rate decreased to 0.3% from 2.0% in 2022.

During 2023, major central banks maintained their focus on tightening interest rates to reduce inflation pressures, although the pace of adjustment varied. Over the year, the United States' Federal Reserve increased its target range for the Federal funds rate to 5.25%-5.50%, from 4.25%-4.50% in 2022, in support of its goals of achieving full employment and reducing inflation to its 2.0% target. In addition, the Federal Reserve continued with the reduction in the holding of Treasury securities and agency debt, as well as mortgage-backed securities. Likewise, the Bank of England raised its main policy rate to 5.25%, from 3.50% in the prior year, while reducing the Government bond purchase programme. Similarly, the European Central Bank key interest rates moved higher for the main refinancing operations to 4.50%, from 2.50%; the marginal lending facility to 4.75% from 2.75%; and the deposit facility to 4.00% from 2.00%. The Bank's asset purchase programme (APP) also continued to decline, due to the discontinuation of reinvestments of the principle payments for maturing securities. However, in Asia, the People's Bank of China decreased its reverse repo rate to 1.8%, from 2.0% in 2022, and conducted reverse repo operations during the year, in an effort to stabilize banking system liquidity levels; while the Bank of Japan left its policy rate at negative 0.1%.

The major economies' fiscal balances recorded mixed movement during 2023, although, the IMF estimated that the average fiscal deficit to GDP ratio in the advanced economies rose to 6.1% from 4.0% in 2022. With the announcement and approval of fiscal packages, the United States' estimated federal deficit to GDP ratio increased to 8.2% from 3.7% in the prior year. In contrast, in the United Kingdom, the fiscal deficit to GDP ratio decreased to 4.5% from 5.5%, and in the euro area, to 3.4% from 3.6%. Similarly, in Asia, China's fiscal deficit to GDP ratio reduced to 7.1%, from 7.5% in 2022. Further, Japan's fiscal deficit to GDP ratio narrowed to 5.6% from 6.9% in 2022.

The US dollar depreciated across most major currencies during the review year, amid the recovery in the economy and lower inflation. In particular, the dollar weakened against the British pound, by 15.0% to £0.79, the Swiss Franc, by 9.0% to CHF0.84, and the euro, by 3.0% to €0.91. In addition, the US dollar declined relative to the Canadian Dollar, by 2.3% to CAD$1.32. In contrast, the dollar appreciated against the Japanese Yen, by 7.6% to ¥141.04, and the Chinese Renminbi, by 2.9% to CNY 7.10.

The major equity markets registered mostly positive developments in 2023. Specifically, in the United States', the S&P 500 and the Dow Jones Industrial Average strengthened by 24.2% and 13.7%, respectively. Further, Japan's Nikkei rose by 28.2% and the German DAX, by 20.3%. In addition, the United Kingdom's FTSE moved higher by 3.8% and France's CAC 40, by 1.6%. Conversely, China's SE composite weakened by 3.7%.

Primary commodity price movements were mixed during the year, as the recovery in economic activity resulted in increased global demand. Specifically, the average crude oil prices fell by 17.9% to $82.80 per barrel in 2023. Further, on a point-on-point basis, average costs decreased by 4.7% to $78.42 per barrel at the end-December 2023, in comparison to 2022. In contrast, in the precious metal markets, the average price of gold rose by 8.7% to $1,952.80 and silver, by 9.2% to $23.60.

During the review year, almost all of the major economies recorded downward trends in their external trade balances. Specifically, in the United States, the trade deficit decreased by $177.8 billion (18.7 %) to $773.4 billion, relative to the previous year, owing to a 1.2% rise in exports, combined with a 3.6% reduction in imports. Further, the euro area recorded a trade surplus of €65.9 billion, vis-à-vis a deficit of €332.2 billion in 2022, as the 18.7% decline in imports overshadowed the 8.8% decrease in exports. Likewise, the United Kingdom's annual trade deficit narrowed to £36.6 billion from £66.8 billion in 2022, attributed to a 2.6% growth in exports, along with a 1.0% decrease in imports. In Asia, Japan's trade deficit contracted to ¥9.2 trillion from ¥20.0 billion, in the previous year, owing to a 2.8% gain in exports, along with a 7.0% reduction in imports. However, China's trade surplus moderated to $832.2 billion from the $876.9 billion in 2022, reflective of a 4.6% falloff in exports, which offset the 5.5% decline in imports.

DOMESTIC ECONOMIC OUTLOOK FOR 2024

The Bahamian economy is expected to expand at a moderated pace in 2024, when compared to 2023, converging closer to the average medium-term growth rate potential. Ongoing gains in tourism should continue to provide the major impulse, with steadied support in the construction sector, from foreign investment projects in both the capital and the Family Islands. As a result of these developments, employment conditions are forecasted to further improve. Domestic inflationary pressures are also projected to continue to trend downward in 2024, on account of moderating price trajectories in the key trading markets and the pass-through of lower global oil prices.

On the fiscal front, efforts to reduce the Government's deficit and the related debt indicators will heavily hinge on the effectiveness of the Government's measures to boost revenue collections and curtail expenditure growth, as conditions become favourable for more consolidation. Moreover, revenue collection is projected to strengthen, supported by a tourism-led improvement in taxable economic activities. Therefore, the estimated budgetary shortfall is anticipated to be financed from a combination of domestic and external borrowings, although total funding will be derived mainly from domestic sources.

Monetary sector developments should continue to feature high levels of banking sector liquidity, as commercial banks maintain a conservative lending stance. However, the environment should support additional strengthening in lending to the private sector; alongside a further decline in loan delinquencies. Banks are also anticipated to maintain healthy levels of capital and sufficient provisions, thereby mitigating any risk to financial stability.

In the outlook for external reserves, balances should remain stable, to moderately reduced in 2024. While foreign exchange market conditions are projected to remain buoyed by tourism and investment inflows, outflows could strengthen at a greater pace, given the firming outlook for domestic credit. Nonetheless, external reserves are forecasted to remain healthy in 2024, well above international benchmarks and more than adequate to sustain the Bahamian dollar currency peg.

The downside risks to the outlook pivots on potential threats of disruptions from major hurricanes, and geopolitical tensions in Eastern Europe and the Middle East, which pose risks to global supply chains, specifically related to the price of oil, and ensuing inflationary pressures. In addition, any resumption of major central banks' counter-inflationary policies could constrain the spending capacity of consumers in the key source markets, thereby curtailing tourism's growth momentum.

FINANCIAL STATEMENTS

For the Year Ended
December 31, 2023

BDO

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Nassau, Bahamas

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

Opinion

We have audited the accompanying financial statements of the Central Bank of the Bahamas (the "Bank"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) Accounting Standards issued by the International Accounting Standards Board ("IFRS Accounting Standards"), and the Central Bank of The Bahamas Act, 2020 as amended.

Basis for Opinion

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

Key Audit Matter

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the audit of the financial statements as at 31 December 2023. 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 that there are no key audit matters to communicate in our report.

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 2023 (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 IFRS Accounting Standards and the Central Bank of the Bahamas Act, 2020, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

BDO

Chartered Accountants
Nassau Bahamas
29 April 2024

APPENDIX TO THE AUDITORS' REPORT

Detailed Description of Our Responsibilities

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

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

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

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

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

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

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

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

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

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

Statement of Financial Position
As at December 31, 2023
(Expressed in Bahamian dollars)

	Note	2023	2022
		$	$
ASSETS			
EXTERNAL ASSETS	6		
Cash and deposits with banks	3	610,189,854	622,839,055
Foreign Government securities	7	1,565,810,788	1,647,363,012
Marketable securities	8	154,332,046	147,819,012
International Monetary Fund:	9		
Bahamas reserve tranche		25,874,473	25,665,695
Special drawing rights (SDR) – holdings		161,190,040	167,336,090
		2,517,397,201	2,611,022,864
DOMESTIC ASSETS			
Cash on hand	3	98,409	133,608
Bahamas Government Treasury bills	16	45,843,047	11,686,254
Advances to Bahamas Government	11	193,489,741	336,511,444
Bahamas Government Registered Stocks	12	476,237,090	301,731,848
Loans to Bahamas Development Bank	13	1,535,126	1,645,955
Bahamas Development Bank bonds	10	4,134,135	4,134,834
Bridge Authority bonds	14	488,270	471,293
Clifton Heritage Authority bonds	15	684,474	664,493
SDR loan to Government	17	239,156,637	232,972,614
Currency inventory		10,097,628	12,229,650
Retirement benefit asset - employees	35	844,796	819,956
Receivables and other assets	18	9,601,221	7,962,350
Property, plant and equipment	4	26,664,962	24,404,127
Intangible asset	5	5,539,683	5,588,514
Right of use assets	26	2,568,450	3,159,274
		1,016,983,668	944,116,214
TOTAL ASSETS		**3,534,380,870**	**3,555,139,078**

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, 2023
(Expressed in Bahamian dollars)

	Note	2023 $	2022 $
LIABILITIES			
DEMAND LIABILITIES			
Notes in circulation	19	582,429,987	575,989,527
Coins in circulation	19	33,128,999	31,452,443
Sand Dollar in circulation		1,691,858	1,052,459
Deposits by commercial banks	20	2,068,810,560	2,084,661,301
Deposits by Bahamas Government and Bahamas Government agencies		84,580,346	187,134,908
Deposits by international agencies	21	255,187	255,183
Accounts payable and other liabilities	22	30,664,130	14,113,648
Lease liabilities	26	2,593,206	3,143,977
Investment currency market payable		12,722,537	8,146,781
Health insurance subsidy benefit for retirees	36	11,212,085	9,036,833
Governors and Deputy Governors	37	868,771	729,528
		2,828,957,666	2,915,716,588
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	9	404,236,087	400,110,725
TOTAL LIABILITIES		**3,233,193,753**	**3,315,827,313**
EQUITY AND RESERVES			
Authorized and fully paid capital	23	3,000,000	3,000,000
Exchange equalization account	23	9,597,139	9,794,108
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	23	43,680,403	43,680,403
Fair value reserve	23	(1,673,197)	(2,216,268)
General reserve	23	235,443,357	173,914,107
TOTAL EQUITY AND RESERVES		**301,187,117**	**239,311,765**
TOTAL LIABILITIES, EQUITY AND RESERVES		**3,534,380,870**	**3,555,139,078**

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

Director **Director**

29 April 2024
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, 2023
(Expressed in Bahamian dollars)

	Note	2023 $	2022 $
INCOME			
Interest income:	24		
Foreign investments		73,647,981	40,360,415
Domestic investments		14,462,916	14,437,115
Loans		18,767,993	7,314,555
		106,878,890	62,112,085
Interest expense		(15,094,486)	(4,841,927)
Net interest income		**91,784,404**	**57,270,158**
Net foreign exchange loss		(196,969)	(1,487,403)
Net trading loss on Bahamas Government Registered Stocks		(423,692)	(167,298)
Realized loss on marketable securities			
Externally managed marketable securities	8	(7,926,278)	(1,920,558)
Unrealized gain/(loss) on marketable securities	8	11,023,121	(16,019,341)
Bank license fees income		4,900,000	4,900,000
Other income		5,685,215	4,729,994
Total income		**104,845,801**	**47,305,552**
EXPENSES			
Staff costs	25	22,946,957	22,713,267
General and administrative	25	14,389,666	11,655,410
Loss on impairment	4	243,068	8,919,607
Depreciation	4	1,828,325	2,236,607
Amortisation of intangible asset	5	1,726,780	1,499,951
Amortisation of right of use assets	26	747,829	519,405
Total expenses		**42,882,625**	**47,544,247**
NET INCOME/(LOSS)		**62,963,176**	**(238,695)**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will or may be reclassified to net income			
Valuation gain on Bahamas Government Registered Stock	12	543,070	863,716
Items that will not be reclassified to net income			
Actuarial (loss)/gain on defined benefit pension plan for employees	35	(43,460)	618,367
Actuarial (loss)/gain on group insurance subsidy	36	(1,690,719)	88,637
Actuarial gain on defined pension plan benefit for Governors and Deputy Governors	37	103,284	109,024
Total other comprehensive (loss)/income		**(1,087,825)**	**1,679,744**
TOTAL COMPREHENSIVE INCOME		**61,875,351**	**1,441,049**

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, 2023
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalisation Account $	Contingency Reserve $	Other Reserves $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2022	**3,000,000**	**11,281,511**	**750,000**	**10,389,415**	**43,680,403**	**(3,079,984)**	**171,849,371**	**237,870,716**
Comprehensive income								
Net loss	-	-	-	-	-	-	(238,695)	**(238,695)**
Other comprehensive income								
Appropriation of foreign exchange loss (Note 2 (b) ii)	-	(1,487,403)	-	-	-	-	1,487,403	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	863,716	-	**863,716**
Actuarial gain on defined benefit pension plan for employees (Note 35)	-	-	-	-	-	-	618,367	**618,367**
Actuarial gain on health insurance subsidy benefit for retirees (Note 36)	-	-	-	-	-	-	88,637	**88,637**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 37)	-	-	-	-	-	-	109,024	**109,024**
Total comprehensive income	-	(1,487,403)	-	-	-	863,716	2,064,736	**1,441,049**
Balance at December 31, 2022	**3,000,000**	**9,794,108**	**750,000**	**10,389,415**	**43,680,403**	**(2,216,268)**	**173,914,107**	**239,311,765**

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

Central Bank of The Bahamas

Statement of Changes in Equity and Reserves (Continued)
For the Year Ended December 31, 2023
(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, 2023	**3,000,000**	**9,794,108**	**750,000**	**10,389,415**	**43,680,403**	**(2,216,268)**	**173,914,107**	**239,311,765**
Comprehensive income								
Net income	-	-	-	-	-	-	62,963,176	**62,963,176**
Other comprehensive income								
Appropriation of foreign exchange loss (Note 2 (b) ii)	-	(196,969)	-	-	-	-	196,969	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	543,070	-	**543,070**
Actuarial loss on defined benefit pension plan for employees (Note 35)	-	-	-	-	-	-	(43,460)	**(43,460)**
Actuarial loss on health insurance subsidy benefit for retirees (Note 36)	-	-	-	-	-	-	(1,690,719)	**(1,690,719)**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 37)	-	-	-	-	-	-	103,284	**103,284**
Total comprehensive income	-	(196,969)	-	-	-	543,070	61,529,250	**61,875,351**
Balance at December 31, 2023	**3,000,000**	**9,597,139**	**750,000**	**10,389,415**	**43,680,403**	**(1,673,198)**	**235,443,357**	**301,187,116**

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, 2023
(Expressed in Bahamian dollars)

	Note	2023 $	2022 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)/income		**62,963,176**	**(238,695)**
Adjustments for non-cash items:			
Discount earned on foreign government securities - net	7	(2,536,981)	1,716,347
Depreciation	4	1,828,325	2,236,607
Gain on disposal of property, plant and equipment - net		-	(13,200)
Impairment loss	4	243,068	8,919,607
Amortization of intangible asset	5	1,726,780	1,499,951
Amortization of right of use asset	26	747,829	519,405
Interest income		(104,341,907)	(63,828,432)
Loss on sale of marketable securities			
Externally managed marketable securities	8	7,926,278	1,920,558
Unrealized (gain)/loss on marketable securities		(11,023,121)	16,019,341
Interest on lease liability		112,150	93,505
Interest expense		15,094,486	4,841,927
Decrease/(increase) in operating assets			
Currency inventory		2,132,023	101,777
International Monetary Fund – net SDRs		13,614,489	25,462,680
Deposits with banks – with original contractual maturities greater than three months		40,000,000	(45,000,000)
Retirement benefit asset/liability - employees		(68,300)	(20,501)
Receivables and other assets		(1,484,283)	(680,644)
Increase/(decrease) in operating liabilities			
Notes in circulation		6,440,460	42,420,766
Coins in circulation		1,676,556	1,310,100
Sand Dollar in circulation		639,399	748,674
Deposits by commercial banks		(15,850,741)	441,540,311
Deposits by Bahamas Government and Bahamas Government agencies		(102,554,562)	(45,305,091)
Deposits by international agencies		4	(115)
Investment currency market payable		4,575,756	3,914,667
Health insurance subsidy benefit for retirees		484,533	463,479
Retirement benefit liability – Governors and Deputy Governors		242,527	230,830
Accounts payable and other liabilities		16,550,482	7,391,206
International Monetary Fund		3,239,466	(20,572,466)
Net cash (used)/from operating activities		**(57,622,108)**	**385,692,594**

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, 2023
(Expressed in Bahamian dollars)
(Continued)

	Note	2023 $	2022 $
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of foreign government securities	7	(463,122,983)	(848,503,917)
Proceeds from maturities/redemptions of foreign government securities	7	550,129,000	701,299,000
Purchase of marketable securities	8	(92,351,453)	(52,460,453)
Proceeds from sales of marketable securities	8	89,006,082	49,064,758
Purchase of property, plant and equipment	4	(4,486,816)	(5,279,655)
Proceeds from sale of property, plant and equipment		-	13,200
Additions to intangible asset	5	(1,677,949)	(1,134,151)
Purchase of Bridge Authority bonds	14	(15,000)	(20,500)
Purchase of Clifton Heritage Authority Bonds	15	(4,000)	(13,300)
Purchase of Bahamas Government Registered Stock	12	(288,603,577)	(35,846,767)
Proceeds from sales and maturities of Bahamas Government Registered Stocks	12	116,561,975	75,773,578
SDR loan to the Government	17	(1,491,873)	(232,972,614)
Repayments of loans by Bahamas Development Bank	13	125,000	250,000
Purchase of Bahamas Government Treasury bills	16	(71,285,726)	(80,039,054)
Proceeds from the sales/maturities of Bahamas Government Treasury bills	16	37,301,590	82,247,088
Advances to Bahamas Government	11	(1,296,992,200)	(1,032,000,000)
Repayments from Bahamas Government	11	1,439,946,100	962,000,000
Interest received		94,858,390	59,534,132
Net cash from/(used) in investing activities		**107,896,560**	**(358,088,655)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchases of SDRs	9	(10,961,214)	(3,516,876)
Sale of SDRs	9	2,918,208	232,260,313
Repayment of lease liabilities	26	(819,926)	(697,036)
Interest paid		(14,208,590)	(3,011,458)
Net cash (used)/from in financing activities		**(23,071,522)**	**225,034,943**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**27,202,930**	**252,638,882**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		521,450,745	268,811,863
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**548,653,675**	**521,450,745**

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023

1. General Information

The Central Bank of The Bahamas (the "Bank") is established as a body corporate, under the Central Bank of The Bahamas Act, and was continued under the Central Bank of The Bahamas Act, 2000 and Central Bank of the Bahamas Act, 2020 (the "Act") which was published on 27 July 2020. The Act establishes the structure, governance and funding of the Bank. The Bank's principal business is the provision of Central Banking facilities for the Commonwealth of The Bahamas. In accordance with the Act, it is the duty of the Bank to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the Bahamian economy; in collaboration with the financial institutions, to promote and maintain adequate banking services and high standards of conduct and management therein; and to advise the Minister on any matter of financial or monetary nature referred by him to the Bank for its advice. Its main place of business is located at Frederick Street, Nassau, Bahamas.

Central Bank of the Bahamas (Amendement) Act, 2023

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

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

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

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

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

i) Compliance with IFRSs

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) Accounting Standards issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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 Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 5, 26, 34, 35, 36 and 37.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

The new standards and amendments that became effective for the Bank's financial year beginning on January 1, 2023 were either not relevant or not significant to the Bank's operations and accordingly did not have a material impact on the Bank's accounting policies or financial statements. The standards and amendments are as follows:

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgement*
- Definition of Accounting estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

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, 2024:

- Liability in a Sale and Leaseback (Amendments to IFRS 16 *Leases*)
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 *Presentation of Financial Statements*)
- Non-current Liabilities with Covenants (Amendments to IAS 1 *Presentation of Financial Statements*)
- Lack of Exchangeability (Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*)

(b) Foreign currency translation

i) Functional and presentation currency

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

2. Summary of Significant Accounting Policies (Continued)

(b) Foreign currency translation (continued)

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as a part of net income in the statement of comprehensive income. Translation differences on monetary financial assets and liabilities carried at fair value are part of the fair value gain and losses. The net foreign exchange gain/(loss) in the Bank's assets and liabilities arising from movements in foreign exchange rates is included in the statement of comprehensive income, and is appropriated from the general reserve to an exchange equalisation account within equity and reserves in accordance with Section 31 (2) (a & b) of the Act.

(c) Financial assets

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

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

i) Financial assets at fair value through profit or loss

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

3. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

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

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

ii) Financial assets at fair value through other comprehensive income

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

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

iii) Financial assets held at amortised cost

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

iii) Financial assets held at amortized cost (continued)

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.

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

- Cash and deposits with banks
- Cash on hand
- Foreign Government Securities
- Advances to Bahamas Government
- Loans to Bahamas Development Bank
- Bahamas Development Bank bonds
- Bridge Authority bonds
- Clifton Heritage Authority bonds
- Employee loans and other receivables
- SDR loan to the Government

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

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Bank commits to originate, purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value is based on quoted prices for securities traded in active markets (e.g. international securities exchange) or valuation techniques, including recent arm's length transactions, discounted cash flow analyses and other valuation techniques commonly used by market participants, for securities not traded in active markets.

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(e) Property, plant and equipment (continued)

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

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

(f) Intangible asset

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

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

Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intend and be able to complete the intangible asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits.

(g) Financial liabilities

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

2. Summary of Significant Accounting Policies (Continued)

(g) Financial liabilities (continued)

i) Financial liabilities at fair value through profit or loss

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

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

ii) Other financial liabilities at amortised cost

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

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

(h) Provisions

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

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

2. Summary of Significant Accounting Policies (Continued)

(h) Provisions (continued)

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

(i) Currency inventories

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

(j) Numismatic coins

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

(k) Investment currency market payable

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

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

(l) Income and expense recognition

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

Interest income and expense

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

2. Summary of Significant Accounting Policies (Continued)

(l) Income and expense recognition (continued)

Interest income and expense (continued)

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

Bank license fee income

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

Other income

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

(m) Leases

The Bank is the lessee

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

2. Summary of Significant Accounting Policies (Continued)

(m) Leases (continued)

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

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

(n) Employee benefits

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

Defined Benefit Plan

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

Effective July 2019, the Pension Plan was amended to:

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

2. Summary of Significant Accounting Policies (Continued)

(n) Employee benefits (continued)

Defined Benefit Plan (continued)

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

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

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

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

Defined Contribution Plan

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

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

Health insurance subsidy for retirees

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

2. Summary of Significant Accounting Policies (Continued)

(n) Employee benefits (continued)

Defined Benefit Plan for Governors and Deputy Governors

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

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

(o) Cash and cash equivalents

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

(p) Taxation

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

On 1 January 2015, The Value Added Tax (VAT) Act became effective in The Commonwealth of The Bahamas with 3 categories for goods and services: tax at 7.50%, exempt and zero-rated. The VAT rate was increased to 12.00% effective 1 July 2018. As at 1 January 2022, the VAT rate was reduced to 10%.

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

(q) Fiduciary items

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

3. Cash and Deposits with Banks

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

	2023 $	2022 $
External Assets		
Cash in vault	527,198	3,162,105
Cash and deposit with banks	609,662,656	619,676,950
	610,189,854	622,839,055
Domestic Assets		
Cash on hand	98,409	133,608
	610,288,263	622,972,663
Less: Deposits with banks with original contractual maturities greater than three months	(61,634,588)	(101,521,918)
	548,653,675	**521,450,745**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

4. Property, Plant and Equipment

	Land	Buildings & Renovations	Office Equipment	Computer Software	Office Furniture & Fittings	Other Fixed Assets	Work In Progress	Total
	$	$	$	$	$	$	$	$
COST								
As at January 1, 2023	4,664,097	20,841,430	10,339,612	13,217,012	1,549,484	680,453	8,169,811	59,461,899
Additions	-	964,310	245,270	6,750	79,816	116,000	3,074,670	4,486,816
Reclassification	-	-	-	-	-	-	-	-
Disposals/Retirement	-	(154,588)	-	-	-	(87,951)	(243,068)	(485,607)
As at December 31, 2023	**4,664,097**	**21,651,152**	**10,584,882**	**13,223,762**	**1,629,300**	**708,502**	**11,001,413**	**63,463,108**
ACCUMULATED DEPRECIATION								
As at January 1, 2023	-	12,182,080	8,562,028	12,840,025	1,228,847	244,792	-	35,057,772
Charge for the year	-	921,490	643,228	42,615	141,982	79,010	-	1,828,325
Disposals/Retirement	-	-	-	-	-	(87,951)	-	(87,951)
As at December 31, 2023	**-**	**13,103,570**	**9,205,256**	**12,882,640**	**1,370,829**	**235,851**	**-**	**36,798,146**
NET BOOK VALUE								
As at December 31, 2023	**4,664,097**	**8,547,582**	**1,379,626**	**341,122**	**258,471**	**472,651**	**11,001,413**	**26,664,962**
COST								
As at January 1, 2022	4,664,097	18,996,979	9,786,678	13,145,082	1,501,813	676,713	8,277,260	57,048,622
Additions	-	1,844,451	798,653	92,194	52,591	102,180	2,389,586	5,279,655
Reclassification	-	-	-	-	-	-	6,422,572	6,422,572
Disposals/Retirement	-	-	(245,719)	(20,264)	(4,920)	(98,440)	(8,919,607)	(9,288,950)
As at December 31, 2022	**4,664,097**	**20,841,430**	**10,339,612**	**13,217,012**	**1,549,484**	**680,453**	**8,169,811**	**59,461,899**
ACCUMULATED DEPRECIATION								
As at January 1, 2022	-	11,269,314	7,971,721	12,628,948	1,050,994	269,531	-	33,190,508
Charge for the year	-	912,766	836,026	231,341	182,773	73,701	-	2,236,607
Disposals/Retirement	-	-	(245,719)	(20,264)	(4,920)	(98,440)	-	(369,343)
As at December 31, 2022	**-**	**12,182,080**	**8,562,028**	**12,840,025**	**1,228,847**	**244,792**	**-**	**35,057,772**
NET BOOK VALUE								
As at December 31, 2022	**4,664,097**	**8,659,350**	**1,777,584**	**376,987**	**320,637**	**435,661**	**8,169,811**	**24,404,127**

4. Property, Plant and Equipment (Continued)

New Premises Project

In March 2023, the Board of Directors approved the termination of the New Premises Project and the transfer of the property ownership back to the Government. As a result, the Bank has recognised an impairment loss associated with this project totalling $243,068 (2022: $8,919,607) for the year. The Bank will explore alternative arrangements to meet its long-term accommodation needs.

During the year, a vendor filed a legal claim in excess of $3,000,000 against the Bank for wrongful termination of the contract. The Bank’s external legal counsel are in the process of reviewing the validity of the claim.

Cash and Data Centre Project

During 2020, the Bank completed the purchase of land which will be the future location for the Bank’s Cash and Data Centre. In 2020, the accumulated costs were transferred to land and work in progress in the amount of $2,211,159 and $268,708, respectively, upon conveyance of the land title. The Bank anticipated that the initial phase of construction will commence near the end of 2021, however this was rescheduled for late 2022 and remains pending for Mid-June 2024. As at December 31, 2023, the Bank has outstanding contractual commitments on the Cash and Data Centre Project in the amount of $1,239,349 (2022: $11,720).

The Bank anticipates ground-breaking by 30 June 2024 with completion within 24 months.

Information Technology (IT) Modernisation Project

The Bank continues to progress the IT Modernisation Project geared towards achieving corporate goals, reducing overall long-term costs, improving performance and operational efficiencies which includes network upgrades and changing to a new Enterprise Resource Planning system (ERP). The overall budget is $5 million with progress billings of $4,193,518 (2022: $3,500,000) as at December 31, 2023.

4. Property, Plant and Equipment (Continued)

Information Technology (IT) Modernisation Project (continued)

The third-party vendor remains engaged and progresses the implementation of PeopleSoft's Financial Supply Chain Management (FSCM) and Human Capital Management (HCM) solutions software. PeopleSoft will replace the existing JD Edwards platform which is currently utilised by the Bank.

As at December 31, 2023, the Bank has outstanding contractual commitments to service providers and consultants for the IT Modernisation project in the amount of $196,798 (2022: $770,587) with a revised completion time of August 2024 (Phase 1) and will assess the completion time for Phase 2.

5. Intangible Asset

	Sand Dollar Project $	Development Costs $	Total $
COST			
As at January 1, 2023	7,499,752	1,134,151	8,633,903
Additions	-	1,677,949	1,677,949
As at December 31, 2023	**7,499,752**	**2,812,100**	**10,311,852**
ACCUMULATED AMORTISATION			
As at January 1, 2023	3,045,389	-	3,045,389
Amortisation	1,726,780	-	1,726,780
As at December 31, 2023	**4,772,169**	**-**	**4,772,169**
NET BOOK VALUE			
As at December 31, 2023	**2,727,583**	**2,812,100**	**5,539,683**

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

5. Intangible Asset (continued)

Sand Dollar Project

In 2019, the Bank entered into a contract with a 3rd party for the development of a Bahamas Digital Currency known as the Sand Dollar. As at December 31, 2023, the Bank has outstanding contractual commitments with the Sand Dollar developer in the amount of $170,701 (2022: $1,848,651).

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

The additional development in 2023 will be amortised once integrated and available for use, which is expected to be in 2024.

6. External Assets

External assets comprise those assets defined by Section 17(3) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At year end, external assets represented 89.99% (2022: 89.55%) of such liabilities.

7. Foreign Government Securities

Foreign Government Securities represent internally managed marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years. At December 31, 2023, marketable securities held by the Bank, which mature after 5 years, constituted 13.52% (2022: 14. 56%) of the Bank's external assets. The movement in Foreign Government Securities classified as financial assets held at amortised cost are as follows:

	2023 $	2022 $
Beginning balance	1,640,801,162	1,495,312,592
Purchases at nominal value	466,313,000	860,479,000
Discount on purchases	(3,190,017)	(11,975,083)
Redemptions/maturities	(550,129,000)	(701,299,000)
Gain on redemption	-	-
Discount earned	3,628,540	1,937,228
Amortised premium	(1,091,559)	(3,653,575)
	1,556,332,126	1,640,801,162
Add: Accrued interest	9,478,662	6,561,850
Ending balance	**1,565,810,788**	**1,647,363,012**

7. Foreign Government Securities (continued)

These securities bear interest at rates varying between 0.00% and 6.00% (2022: 0.05% and 6.00%).

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

8. Marketable Securities

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

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

	2023 $	2022 $
Beginning balance	147,011,064	161,555,268
Purchases	92,351,453	52,460,453
Sales	(89,006,082)	(49,064,758))
Realised (loss)/gain	(7,926,278)	(1,920,558)
Unrealised (loss)/gain	11,023,121	(16,019,341)
	153,453,278	147,011,064
Add: Accrued interest	878,768	807,948
Ending balance	**154,332,046**	**147,819,012**

9. International Monetary Fund

Background

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

Quota, Subscriptions and Reserve Tranche

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

9. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (continued)

As of December 31, 2023, The Bahamas was assigned a quota of SDR 182,400,000 (2022: SDR 182,400,000) which represents 0.04% (2022: 0.04%) of the total quota allocated by the IMF.

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

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

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

The Bahamian dollar is designated as an unusable currency which permits the Bank to pay the non-reserve portion of the quota in the form of promissory notes. Subsequent to its initial subscription into the IMF, the Bank has increased the IMF subscriptions of The Bahamas by issuing, non-negotiable, interest-free promissory notes which are payable if the IMF requires an emergency loan. Payment of the promissory notes will give rise to an equal and opposite receivable from the IMF. These promissory notes were issued by the Bank and the Government of The Bahamas on behalf of the Bank, in the Bahamian dollar equivalents of SDR 43,275,901 and SDR 114,698,515 (2022: SDR 43,275,901 and SDR 114,698,515) respectively. The promissory notes form, in substance, part of a loan commitment to the IMF and as such are not recognised on the statement of financial position.

9. International Monetary Fund (Continued)

Quota, Subscriptions and Reserve Tranche (continued)

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

	2023		2022	
	SDR	$	SDR	$
Quota	182,400,000	244,720,530	182,400,000	242,745,903
Subscription payments in promissory notes	(157,974,416)	(211,949,467)	(157,974,416)	(210,239,267)
Subscription payments in local currency	(5,140,304)	(6,896,590)	(5,140,304)	(6,840,941)
Reserve tranche	**19,285,280**	**25,874,473**	**19,285,280**	**25,665,695**

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

	2023		2022	
	SDR	$	SDR	$
Beginning balance	19,285,280	25,665,695	19,285,280	26,991,559
Currency movement	-	208,778	-	(1,325,864)
Total	**19,285,280**	**25,874,473**	**19,285,280**	**25,665,695**

SDR Holdings and SDR Allocation

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

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

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

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

9. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation (continued)

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

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

SDR Holdings

	2023		2022	
	SDR	**$**	**SDR**	**$**
Beginning balance	124,532,559	165,733,380	299,251,605	418,830,702
Purchases	8,169,831	10,961,214	2,642,591	3,516,876
Sales	(2,175,057)	(2,918,208)	(174,822,197)	(232,260,313)
Remuneration and other charges	(5,312,355)	(7,127,425)	(2,539,440)	(3,379,598)
Currency movement	-	(6,695,842)	-	(20,974,287)
Total	125,214,978	159,953,119	124,532,559	165,733,380
Add: Accrued interest		1,236,921		1,602,710
Ending balance		**161,190,040**		**167,336,090**

SDR Allocation

	2023		2022	
	SDR	**$**	**SDR**	**$**
Beginning balance	299,235,548	398,235,764	299,235,548	418,808,230
Additional SDR	-	-	-	-
Currency movement	-	3,239,467	-	(20,572,466))
Total	299,235,548	401,475,231	299,235,548	398,235,764
Add: Accrued interest		2,760,856		1,874,961
Ending balance		**404,236,087**		**400,110,725**

In accordance with a resolution of the Board of Governors of the IMF, effective December 11, 1978, The Bahamas became a participant in the Special Drawing Rights Department of the IMF, receiving a total allocation of SDR 10,230,000 between 1979 and 1981. A general allocation took effect on August 28, 2009 and a special allocation on September 9, 2009 and increased the Bank’s allocations to SDR 124,413,351. On 23 August 2021, the IMF allocated 456 Billion in SDR to its entire membership of countries, increasing the Bank’s allocation to 299,235,548. In December 2022, the Bank loaned the Government of the Commonwealth of The Bahamas $232,260,313 from the conversion of SDR 174,822,197 as disclosed in Note 17. The interest rate, which is the same on both SDR Holdings and allocation, varied between 2.92% and 4.20% (2022: 0.05% and 2.92%).

10. Bahamas Development Bank Bonds

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

	2023	2022
	$	$
Balance	4,000,000	4,000,000
Add: Accrued interest	134,135	134,834
Total	**4,134,135**	**4,134,834**

These bonds bear interest at the Bahamian dollar prime rate of 4.25% (2022: 4.25%) with $2,000,000 maturing on August 1, 2025 and November 1, 2025, respectively.

11. Advances to Bahamas Government

Section 21(1) of the Act, Amended, states that the Bank shall not make any direct or indirect advances to the Government or to any public corporation. However, per Section 21(4) of the Act, Amended, the Bank may provide temporary loans to the Government, where the amount of the loans, which may be outstanding at any one time, taken together with the Treasury bills or securities issued or guaranteed by the Government or a public corporation, shall not exceed, in aggregate, 30% of the average ordinary revenue of the Government or 30% of the estimated ordinary revenue of the Government, whichever is less. As disclosed in Note 1, there was an amendment of Section 21 which reduced the temporary loan limits from 30.00% to 15.50% of the average revenue of the Government or the estimated ordinary revenue of the Government, whichever is the less, and excluded the Treasury bills or securities in the calculation.

At the year-end date, advances to the Government were within the Bank’s temporary loan limits to the Government (2022: exceeded $2,300,000).

The movements in advances for the year are as follows:

	2023	2022
	$	$
Beginning balance	335,000,000	265,000,000
Additional advances	1,296,992,200	1,032,000,000
Repayments	(1,439,946,100)	(962,000,000))
	192,046,100	335,000,000
Add: Accrued interest	1,443,641	1,511,444
Ending balance	**193,489,741**	**336,511,444**

11. Advances to Bahamas Government (Continued)

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

Rate	2023 $	2022 $
2.846%	-	75,000,000
2.868%	-	160,000,000
2.873%	-	100,000,000
2.905%	63,146,100	-
2.907%	128,900,000	-
	192,046,100	**335,000,000**

12. Bahamas Government Registered Stocks

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

	2023 $	2022 $
Beginning balance	297,434,966	336,498,061
Purchases	288,603,577	35,846,767
Market value adjustment	543,070	863,716)
Redemptions/maturities	(116,561,975)	(75,773,578))
	470,019,638	297,434,966
Add: Accrued interest	6,217,452	4,296,882
Ending balance	**476,237,090**	**301,731,848**

Bahamas Government Registered Stocks bear interest at rates ranging between 0.027344% and 6.25% (2022: 0.023% and 6.25%).

13. Loans to Bahamas Development Bank

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

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

	2023 $	2022 $
Beginning balance	1,625,000	1,875,000
Repayments	(125,000)	(250,000)
	1,500,000	1,625,000
Add: Accrued interest	35,126	20,955
Ending balance	**1,535,126**	**1,645,955**

The loans bear interest at 2.00% (2022: 2.00%), with $2,000,000 maturing on October 28, 2024.

14. Bridge Authority Bonds

The movements in the Bridge Authority bonds are as follows:

	2023 $	2022 $
Beginning balance	463,100	442,600
Purchases	15,000	20,500
	478,100	463,100
Add: Accrued interest	10,170	8,193
Ending balance	**488,270**	**471,293**

These bonds bear interest at rates ranging from 1.50% to 1.63% (2022: 1.50% to 1.63%) per annum over the Bahamian dollar prime rate with $404,600 and $73,500 (2022: 404,600 and $58,500) maturing on March 24, 2024 and 2029, respectively.

15. Clifton Heritage Authority Bonds

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

	2023 $	2022 $
Beginning balance	660,900	647,600
Purchases	4,000	13,300
	664,900	660,900
Add: Accrued interest	19,574	3,593
Total	**684,474**	**664,493**

16. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 99.27% and 99.55% (2022: 99.28% and 99.55%) maturing 91 to 182 days from acquisition.

	2023 $	2022 $
Beginning balance	11,679,961	13,887,995
Purchases	71,285,726	80,039,054
Redemptions/maturities	(37,301,590)	(82,247,088)
	45,664,097	11,679,961
Add: Discount earned	178,950	6,293
Ending balance	**45,843,047**	**11,686,254**

17. SDR Loan to the Government

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

The SDRs are convertible into US$ and at year end, the loan totalled $234,,152,905 (2022: $232,661,032). The loan bears variable interest rates, which fluctuate on a monthly basis, ranging from 2.92% to 4.20% (2022: 2.92% to 4.20%). The interest shall be repaid at such frequency and on such dates as may be set by the IMF which is normally on a quarterly basis. To date, the Government has not commenced repayment of the loan.

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

17. SDR Loan to the Government (Continued)

Set out below are the movements during the year:

	2023 $	2022 $
Beginning balance	232,661,032	-
Loan disbursed	-	232,260,313
Currency movement	1,491,873	400,719
	234,152,905	232,661,032
Interest accrual	5,003,732	311,582
Ending balance	**239,156,637**	**232,972,614**

18. Receivables and Other Assets

The receivables and other assets are comprised of:

	2023 $	2022 $
Prepayments, deposits and advances	2,893,401	2,336,098
Employee loans	4,579,312	4,764,357
Numismatic coins	457,894	715,591
Due from Retirement Plan – Governors and Deputy Governors	249,282	229,369
Others	1,631,844	127,447
	9,811,733	8,172,862
Less: Provision for bad debt on employee loans	(210,512)	(210,512)
Ending balance	**9,601,221**	**7,962,350**

19. Currency in Circulation

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

Notes	**2023 $**	**2022 $**
0.50	940,232	929,635
1.00	27,975,615	27,137,759
3.00	2,227,497	2,176,200
5.00	13,729,285	13,468,985
10.00	22,823,040	21,992,390
20.00	58,708,300	59,202,940
50.00	123,737,000	124,090,000
100.00	332,207,000	326,909,600
Other bank notes	82,018	82,018
	582,429,987	**575,989,527**

Coins	**2023 $**	**2022 $**
Coins in Circulation	26,504,399	24,827,843
Demonetised currency liability	6,624,600	6,624,600
	33,128,999	**31,452,443**

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

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

19. Currency in Circulation (Continued)

Demonetised currency liability

The redemption exercise resulted in 664,260,000 ($6,642,600) 1-cent coins remaining outstanding as at December 31, 2023 per the below table.

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

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

20. Deposits by Commercial Banks

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

The present level of the statutory reserves applicable to commercial banks is 5.00% of total Bahamian dollar deposit liabilities, of which at least 4.00% must be placed on deposit with the Bank. These deposits are interest free and are repayable on demand, subject to maintenance of minimum balances required by the Act.

21. Deposits by International Agencies

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

22. Accounts Payable and Other Liabilities

Included in accounts payable and other liabilities are Bahamas Inter-bank Settlement (BIS) deposit and transfer transactions that were not cleared by the Bank as at 31 December 2023 totalling $25,288,294 (2022: $7,727,289).

Once subsequently cleared, these transactions are applied to the commercial banks, Bahamas Government and Bahamas Government agencies deposits.

23. Equity and Reserves

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

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

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

At December 31, 2022 and 2023, the Bank's paid up capital was equal to the authorised capital of $3,000,000.

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

	2023	**2022**
	$	**$**
Net income/(loss)	62,963,176	(238,695)
Appropriation of foreign exchange loss	196,969	1,487,403
Unrealised (gain)/loss on marketable securities	(11,023,121)	16,019,341
Distributable earnings per the Act	52,137,024	17,268,049

23. Equity and Reserves (Continued)

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

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

Building fund - This account represents a reserve for construction of a new premises. During the year, there was no appropriation made from the general reserve to the building fund.

General reserve - Section 32 of the Act requires that, at the end of any year where the amount in the general reserve exceeds twice the authorised capital of the Bank or 15% of the average amount of demand liabilities of the Bank over the last 3 years, whichever is greater, the excess shall be paid to the Consolidated Fund, unless the Minister of Finance determines otherwise.

The balance of the general reserve at the year-end amounted to $235,443,357 (2022: $173,914,107) equivalent to 8.32% (2022: 5.96%) of demand liabilities.

24. Income

	2023 $	2022 $
Interest on foreign investments		
Demand deposits	18,417,137	4,463,917
Fixed deposits	13,298,263	5,115,478
Foreign Government and marketable securities	35,941,134	26,254,795
Interest Income on SDR	5,991,447	4,526,225
	73,647,981	40,360,415
Interest on domestic investments		
Bahamas Development Bank bonds	170,000	170,000
Bahamas Government Registered Stocks	13,919,220	14,058,333
Bridge Authority bonds	28,944	26,102
Bahamas Government Treasury bills	313,167	151,670
Clifton Heritage bonds	31,585	31,010
	14,462,916	14,437,115
Interest on loans		
Loans to Bahamas Development Bank	30,555	31,836
Government advances	9,627,005	6,842,197
SDR Loan to Government	8,991,565	311,582
Staff	118,868	128,940
	18,767,993	7,314,555
Interest expense on IMF allocation	(15,094,486)	(4,841,927)
Gains/(losses) on investments		
Net foreign exchange (loss)/gain	(196,969)	(1,487,403)
Realised loss on Marketable Securities Externally Managed Marketable Securities	(7,926,278)	(1,920,558)
Unrealised (loss)/gain on Marketable Securities	11,023,121	(16,019,341)
Net trading (loss)/ gain on Bahamas Government Registered Stocks	(423,692)	(167,298)
	2,476,182	(19,594,600)
Bank license fees income	4,900,000	4,900,000
Other income		
Bank statutory fines	293	335
Commission on foreign currency sales	1,668,885	1,962,762
Premium on Investment Currency Market	1,849,291	1,574,578
Other	2,166,746	1,192,319
	5,685,215	4,729,994
Total income	**104,845,801**	**47,305,552**

25. Expenses

	2023 $	2022 $
Staff costs		
Salaries, wages and gratuity	16,478,600	16,847,945
Group insurance plan	2,019,559	1,875,765
Defined contribution plan	1,232,951	1,236,496
Health insurance subsidy	794,521	757,290
Staff training	1,250,857	704,305
National insurance	583,101	568,272
Former Governors' retirement benefit	242,527	230,830
Responsibility allowance	64,300	117,500
Defined benefit plan	(68,300)	(20,501)
Other	348,841	395,365
	22,946,957	**22,713,267**

	2023 $	2022 $
General and administrative		
Professional fees	5,940,377	4,596,082
Currency	2,147,267	1,586,221
Utilities	1,391,120	1,504,572
Repairs and maintenance	1,362,187	1,127,320
Insurance	332,635	328,522
Subscription and membership fees	324,325	310,208
Cash shipment	307,476	223,901
Directors' remuneration	251,167	82,950
Rent and common area maintenance	9,160	56,489
Stationery and office supplies	1,073	1,680
Other	2,322,879	1,837,465
	14,389,666	**11,655,410**

26. Right of Use Assets and Lease Liabilities

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

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

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

Right-of-Use Assets

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

	Land and Buildings $	Vehicle $	Total $
January 1, 2023	3,159,274	-	3,593,680
Effect of lease modification	-	-	-
Additions	157,005		157,005
Amortisation	(747,829)	-	(747,829)
December 31, 2023	**2,568,450**	**-**	**2,568,450**

	Land and Buildings $	Vehicle $	Total $
January 1, 2022	1,593,680	-	1,593,680
Effect of lease modification	(1,128,687)	-	(1,128,687)
Additions	3,213,686		3,213,686
Amortisation	(519,405)	-	(519,405)
December 31, 2022	**3,159,274**	**-**	**3,159,274**

Lease Liabilities

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

	Land and Buildings $	Vehicle $	Total $
January 1, 2023	3,143,977	-	3,143,977
Effect of lease modification	-	-	-
Additions	157,005		157,005
Interest expense	112,150	-	112,150
Payments	(819,926)	-	(819,926)
December 31, 2023	**2,593,206**	**-**	**2,593,206**

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

Lease Liabilities (Continued)

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

The following are the amounts recognised in profit or loss:

	2023	2022
	$	$
Amortisation on Right of Use asset	747,829	519,405
Interest expense on lease liabilities	112,150	93,505
	859,979	**612,910**

The maturity analysis of lease liabilities follows:

	2023	2022
	$	$
1 year	736,288	676,081
2-5 years	1,856,918	2,467,896
Over 5 years	-	-
	2,593,206	**3,143,977**

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

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

27. The Deposit Insurance Corporation

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

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

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

28. Commitments & Contingencies

(a) Contingencies

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

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

(b) Commitments

Printing of Currency

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

	2023	**2022**
	$	**$**
Not later than one year	3,960,000	-

29. Concentration of Assets and Liabilities

	2023 $	2022 $
EXTERNAL ASSETS		
Geographic Region		
North America	83.00%	70.68%
Europe	0.00%	0.00%
Other	17.00%	29.32%
	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	96.58%	93.25%
Government Sector	3.42%	6.75%
	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

30. 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.

30. Related Party Transactions (Continued)

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

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

Bank license fee income

As regulator of banks and related financial institutions in accordance with the Bank and Trust Companies Regulation Act 2020, the Bank collects license fees from registered entities and remits the funds to the Government of the Bahamas. The Bank then receives an allocation of the license fees collected and recognises as bank license fee income as disclosed in Note 24.

During the year, the allocation received by the Bank of $4,900,000 (2022: $4,900,000).

Key management remuneration

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

The following balances and transactions relate to key management personnel:

(a) Compensation:

	2023	**2022**
	$	**$**
Senior officials' salaries and short-term benefits	2,853,734	2,929,716
Directors' remuneration	251,167	82,950
Post-employment benefits	160,262	154,711
	3,265,163	**3,167,377**

30. Related Party Transactions (Continued)

(b) Other assets include secured loans to employees totaling $4,368,800 (2022: $4,553,845), net of provision for bad debt totaling $210,512 (2022: $210,512), of which the following relates to key management personnel:

	2023 $	2022 $
Beginning of the year	667,334	409,890
Advances during the year	158,192	571,418
Repayments during the year	(295,908)	(313,974))
End of the year	**529,618**	**667,334**

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

	2023 $	2022 $
Defined benefit pension plan for Governors and Deputy Governors	1,441,382	1,207,045
Gratuity	206,992	140,885
End of the year	**1,648,374**	**1,347,930**

31. Fiduciary Assets and Liabilities

Section 27 of the Act authorises the Bank to accept unclaimed customer deposits that are required to be transferred to it by a bank in The Bahamas in accordance with the Banks and Trust Companies Regulation Act, pay interest on money deposited and pay out money to any person entitled thereto. At December 31, 2023, the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $99,129,357 (2022: $88,968,155). 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 $5,047,001 (2022: $4,777,323) 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 $147,820,730 (2022: $41,942,844). 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.

32. 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, 2023				
EXTERNAL ASSETS				
Cash and deposits with banks	610,189,854	-	-	610,189,854
Foreign Government securities	1,565,810,788	-	-	1,565,810,788
Marketable securities	-	154,332,046	-	154,332,046
International Monetary Fund:				
Bahamas reserve tranche	-	25,874,473	-	25,874,473
Special drawing rights - holdings	-	161,190,040	-	161,190,040
DOMESTIC ASSETS				
Cash on hand	98,409	-	-	98,409
Bahamas Development Bank bonds	4,134,135	-	-	4,134,135
Advances to Bahamas Government	193,489,741	-	-	193,489,741
Bahamas Government Registered Stock	-	-	476,237,090	476,237,090
Loans to Bahamas Development Bank	1,535,126	-	-	1,535,126
Bridge Authority Bonds	488,270	-	-	488,270
Clifton Heritage Authority Bonds	684,474	-	-	684,474
SDR Loan to Government	239,156,637	-	-	239,156,637
Bahamas Government Treasury Bills	-	-	45,843,047	45,843,047
Employee loans and other receivables	6,000,644	-	-	6,000,644
Total	**2,621,588,078**	**341,396,559**	**522,080,137**	**3,485,064,774**

32. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2023			
DEMAND LIABILITIES			
Notes in circulation	-	582,429,987	582,429,987
Coins in circulation	-	33,128,999	33,128,999
Sand Dollar in circulation	-	1,691,858	1,691,858
Deposits by commercial banks	-	2,068,810,560	2,068,810,560
Deposits by Bahamas Government and Bahamas Government agencies	-	84,580,346	84,580,346
Deposits by International agencies	-	255,187	255,187
Accounts payable and other liabilities	-	30,664,130	30,664,130
Investment currency market payable	-	12,722,537	12,722,537
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	404,236,087	-	404,236,087
Total	**404,236,087**	**2,814,283,604**	**3,218,519,691**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

32. Financial Instruments

Categories of Financial Instruments

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

32. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

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

33. 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.

	2023		2022	
	Carrying Value $	Fair Value $	Carrying Value $	Fair Value $
FINANCIAL INSTRUMENTS				
Foreign Government securities	1,565,810,788	1,679,935,466	1,647,363,012	1,669,453,970
Loans to Bahamas Development Bank	1,535,126	1,635,187	1,645,955	1,775,042
Bridge Authority bonds	488,270	502,605	471,293	490,878
Clifton Heritage Authority bonds	684,474	694,132	664,493	676,957
TOTAL	**1,568,518,658**	**1,682,767,390**	**1,650,144,753**	**1,672,396,847**

33. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

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

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

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

Fair value hierarchy and measurements

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

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

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

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

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

33. 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.

33. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

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

	Fair value measurements as at December 31, 2023			
	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Trading Securities	154,332,046	-	-	154,332,046
International Monetary Fund:				
Bahamas reserve tranche	25,874,473	-	-	25,874,473
Special Drawing rights - holdings	161,190,040	-	-	161,190,040
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	45,843,047	-	45,843,047
Bahamas Government Registered Stocks	-	476,237,090	-	476,237,090
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	404,236,087	-	-	404,236,087

33. 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, 2022			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Trading Securities	147,819,012	-	-	147,819,012
International Monetary Fund:				
Bahamas reserve tranche	25,665,695	-	-	25,665,695
Special Drawing rights - holdings	167,336,090	-	-	167,336,090
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	11,686,254	-	11,686,254
Bahamas Government Registered Stocks	-	301,731,848	-	301,731,848
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	400,110,725	-	-	400,110,725

Level 3

The Bank does not have a level three classification at December 31, 2023 and 2022.

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, 2023			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	610,288,263	-	-	610,288,263
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,134,135	-	4,134,135
Advances to Bahamas Government	-	193,489,741	-	193,489,741
Loans to Bahamas Development Bank	-	1,535,126	-	1,535,126
Bridge Authority bonds	-	488,270	-	488,270
Employee loans and other receivables	-	6,000,644	-	6,000,644
Foreign Government Securities	1,565,810,788	-	-	1,565,810,788
Clifton Heritage Authority bonds	-	684,474	-	684,474
SDR loan to Government	239,156,637	-	-	239,156,637

33. 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, 2023			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	582,429,987	-	-	582,429,987
Coins in circulation	33,128,999	-	-	33,128,999
Sand Dollar in circulation	1,691,858	-	-	1,691,858
Deposits by commercial banks	-	2,068,810,560	-	2,068,810,560
Deposits by Bahamas Government and Bahamas Government agencies	-	84,580,346	-	84,580,346
Deposits by international agencies	-	255,187	-	255,187
Accounts payable and other liabilities	-	30,664,130	-	30,664,130
Investment currency market payable	-	12,722,537	-	12,722,537

	Fair value measurements as at December 31, 2022			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Cash and deposits with banks	622,972,663	-	-	622,972,663
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,134,834	-	4,134,834
Advances to Bahamas Government	-	336,511,444	-	336,511,444
Loans to Bahamas Development Bank	-	1,645,955	-	1,645,955
Bridge Authority bonds	-	471,293	-	471,293
Employee loans and other receivables	-	4,681,292	-	4,681,292
Foreign Government Securities	1,647,363,012	-	-	1,647,363,012
Clifton Heritage Authority bonds	-	664,493	-	664,493
SDR loan to Government	232,972,614	-	-	232,972,614

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

33. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

The fair value of the financial assets and liabilities disclosed under level 2 and 3 above have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the Bahamian prime rate as the discount rate. The Bahamian dollar Prime rate as at December 31, 2023 was 4.25% (2022: 4.25%).

34. 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.

34. Risk Management (Continued)

Credit risk

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

Exposure to credit risk

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

	2023 $	2022 $
Cash and deposits with banks		
Aaa	496,174,483	424,992,909
Aa2	36,284,438	167,415,335
A1	41,501,143	15,198,500
Aa1	9,927,986	12,070,206
A2	25,774,606	-
	609,662,656	619,676,950
Bahamas Development Bank bonds		
B+	4,134,135	4,134,834
Advances to Bahamas Government		
B+	193,489,741	336,511,444
SDR loan to Government		
B+	239,156,637	232,972,614
Bahamas Government Registered stock		
B+	476,237,090	301,731,848
Loans to Bahamas Development bank		
B+	1,535,126	1,645,955
Bridge Authority bonds		
B+	488,270	471,293

34. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2023 $	2022 $
Receivables and other assets	6,000,644	4,681,292
Bahamas Government Treasury bills		
B+	45,843,047	11,686,254
Foreign Government securities		
Aaa	1,565,810,788	1,647,363,012
Marketable securities		
Aaa	154,332,046	147,819,012
Clifton Heritage Authority bonds		
B+	684,474	664,493
International Monetary Fund		
Bahamas reserve tranche	25,874,473	25,665,695
Special drawing rights - holdings	161,190,040	167,336,090
	187,064,513	193,001,785
	3,484,439,167	**3,502,360,786**

Market risk

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

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

Currency risk

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

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

34. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2023							
Financial Assets							
Cash and deposits with banks	98,409	610,153,720	7,473	7,842	20,819	-	610,288,263
Foreign Government securities	-	1,565,810,788	-	-	-	-	1,565,810,788
Marketable securities	-	154,332,046	-	-	-	-	154,332,046
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	25,874,473	25,874,473
Special drawing rights - holdings	-	-	-	-	-	161,190,040	161,190,040
Domestic financial assets	968,512,369	-	-	-	-	-	968,512,369
Total financial assets	**968,610,778**	**2,330,296,554**	**7,473**	**7,842**	**20,819**	**187,064,513**	**3,486,007,979**
Financial Liabilities							
Notes in circulation	582,429,987	-	-	-	-	-	582,429,987
Coins in circulation	33,128,999	-	-	-	-	-	33,128,999
Sand Dollar in circulation	1,691,858	-	-	-	-	-	1,691,858
Deposits by commercial banks	2,068,810,560	-	-	-	-	-	2,068,810,560
Deposits by Bahamas Government and Bahamas Government agencies	84,580,346	-	-	-	-	-	84,580,346
Deposits by international agencies		255,187	-	-	-	-	255,187
Accounts payable and other liabilities	30,664,131	-	-	-	-	-	30,664,130
Investment Currency Market payable	12,722,537	-	-	-	-	-	12,722,537
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	404,236,087	404,236,087
Total financial liabilities	**2,814,028,418**	**255,187**	**-**	**-**	**-**	**404,236,087**	**3,218,519,692**
Net on-balance sheet position	**(1,845,417,640)**	**2,330,041,367**	**7,473**	**7,842**	**20,819**	**(217,171,574)**	**267,488,287**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

34. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

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

34. Risk Management (Continued)

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

	Average Rate		Year-end Spot Rate	
	2023	**2022**	**2023**	**2022**
USD 1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.2506	1.2328	1.2733	1.2034
EUR 1	1.0975	1.0497	1.1052	1.0621
SDR 1	1.3337	1.3354	1.3417	1.3308

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

Currency	Weight
USD	43.38%
EUR	29.31%
CNY	12.28%
JPY	7.59%
GBP	7.44%
	100.00%

At December 31, 2023, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 318,407 (2022: BSD 22,798) 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.

34. 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 1.98% (2022: 1.90%); however, if these securities had a reduced average yield of 1.08% (2022: 0.98%), 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 $12,922,291 (2022: $8,347,558). Had the yield been tilted towards the higher end of the spectrum, to 3.21% (2022: 3.08%), income for the year and equity at year end would have increased by $16,345,851 (2022: $26,318,050).

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 $3,409,480 (2022: $1,939,579), 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 $4,580,245 (2022: 3,102,884).

	December 31, 2023 $	December 31, 2022 $
Fixed Rate Instruments		
Financial assets	2,242,700,832	2,458,043,867
Variable Rate Instruments		
Financial assets	1,320,285,158	1,020,687,537
Financial liabilities	404,236,087	400,110,724

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.

34. 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.

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

34. 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, 2023						
Financial Assets						
Cash and deposits with banks	26,236,770	26,163,794	557,887,699	-	-	**610,288,263**
Foreign Government Securities and Marketable Securities	18,167,460	67,692,604	246,095,953	893,537,980	340,316,791	**1,565,810,788**
Marketable securities	-	-	-	154,332,046	-	**154,332,046**
International Monetary Fund:						
Bahamas reserve tranche	25,874,473	-	-	-	-	**25,874,473**
Special drawing rights – holdings	161,190,040	-	-	-	-	**161,190,040**
SDR Loan to Government	-	239,156,637	-	-	-	**239,156,637**
Bahamas Development Bank bonds	-	-	-	-	4,134,135	**4,134,135**
Advances to Bahamas Government	193,489,741	-	-	-	-	**193,489,741**
Bahamas Government Registered stock	33,381	303	35,274,706	114,431,269	326,497,431	**476,237,090**
Bahamas Government Treasury Bills	-	-	45,843,047	-	-	**45,843,047**
Loans to Bahamas Development Bank	-	-	-	-	1,535,126	**1,535,126**
Bridge Authority bonds	-	-	-	488,270	-	**488,270**
Clifton Heritage Authority bonds	-	-	-	-	684,474	**684,474**
Receivables and other assets	-	-	-	6,000,644	-	**6,000,644**
Total financial assets	**424,991,865**	**333,013,338**	**885,101,405**	**1,168,790,209**	**673,167,957**	**3,485,064,774**

34. 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, 2023						
Financial Liabilities						
Notes in circulation	582,429,987	-	-	-	-	**582,429,987**
Coins in circulation	33,128,999	-	-	-	-	**33,128,999**
Sand Dollar in circulation	1,691,858	-	-	-	-	**1,691,858**
Deposits by commercial banks	2,068,810,560	-	-	-	-	**2,068,810,560**
Deposits by Bahamas Government and Bahamas Government agencies	84,580,346	-	-	-	-	**84,580,346**
Deposits by International agencies	255,187	-	-	-	-	**255,187**
Accounts payable and other liabilities	30,664,130	-	-	-	-	**30,664,130**
Investment Currency Market payable	12,722,537	-	-	-	-	**12,722,537**
International Monetary Fund: Special drawing rights allocation	404,236,087	-	-	-	-	**404,236,087**
Total financial liabilities	**3,218,519,691**	**-**	**-**	**-**	**-**	**3,218,519,691**
Net on-balance sheet position	**(2,793,527,826)**	**333,013,338**	**885,101,405**	**1,168,790,209**	**673,167,957**	**266,545,083**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

34. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2022						
Financial Assets						
Cash and deposits with banks	35,437,490	80,844,246	506,690,927	-	-	**622,972,663**
Foreign Government Securities and Marketable Securities	59,379,306	135,680,466	203,420,373	868,797,539	380,085,328	**1,647,363,012**
Marketable securities	-	-	4,427,322	86,110,480	57,281,210	**147,819,012**
International Monetary Fund:						
Bahamas reserve tranche	25,665,695	-	-	-	-	**25,665,695**
Special drawing rights – holdings	167,336,090	-	-	-	-	**167,336,090**
SDR Loan to Government	-	-	232,972,614	-	-	**232,972,614**
Bahamas Development Bank bonds	-	-	-	-	4,134,834	**4,134,834**
Advances to Bahamas Government	336,511,444	-	-	-	-	**336,511,444**
Bahamas Government Registered stock		4,664	3,339,583	113,943,971	184,443,630	**301,731,848**
Bahamas Government Treasury Bills	-	-	11,686,254	-	-	**11,686,254**
Loans to Bahamas Development Bank	-	-	-	-	1,645,955	**1,645,955**
Bridge Authority bonds	-	-	-	471,293	-	**471,293**
Clifton Heritage Authority bonds	-	-	-	-	664,493	**664,493**
Receivables and other assets	-	-	-	4,681,292	-	**4,681,292**
Total financial assets	**624,330,025**	**216,529,376**	**962,537,073**	**1,074,004,575**	**628,255,450**	**3,505,656,499**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2023
(Continued)

34. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2022						
Financial Liabilities						
Notes in circulation	575,989,527	-	-	-	-	**575,989,527**
Coins in circulation	31,452,443	-	-	-	-	**31,452,443**
Sand Dollar in circulation	1,052,459	-	-	-	-	**1,052,459**
Deposits by commercial banks	2,084,661,301	-	-	-	-	**2,084,661,301**
Deposits by Bahamas Government and Bahamas Government agencies	187,134,908	-	-	-	-	**187,134,908**
Deposits by International agencies	255,183	-	-	-	-	**255,183**
Accounts payable and other liabilities	14,113,648	-	-	-	-	**14,113,648**
Investment Currency Market payable	8,146,781	-	-	-	-	**8,146,781**
International Monetary Fund:						
Special drawing rights allocation	400,110,725	-	-	-	-	**400,110,725**
Total financial liabilities	**3,302,916,975**	**-**	**-**	**-**	**-**	**3,302,916,975**
Net on-balance sheet position	**(2,678,586,950)**	**216,529,376**	**962,537,073**	**1,074,004,575**	**628,255,450**	**202,739,524**

34. 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.

35. Retirement Benefit Plans

Defined Contribution Plan

	2023 $	2022 $
Amount recognised as an expense (Note 25)	1,232,951	1,236,496

Defined Benefit Plan

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

	2023 $	2022 $
Present value of obligation at start of year	16,189,621	16,794,410
Interest cost	838,467	892,284
Benefits paid	(1,889,519)	(1,142,124)
Actuarial gain on obligation due to experience	(105,748)	(354,949)
Present value of obligation at end of year	**$15,032,821**	**$16,189,621**
Fair value of plan assets at start of year	17,009,577	16,975,498
Interest income	884,186	902,526
Contributions paid – both employees' and employer's	30,683	17,259
Benefits paid	(1,889,519)	(1,142,124)
Administrative costs	(8,100)	(7,000)
Return on plan assets, excluding interest income	(149,209)	263,418
Fair value of plan assets at end of year	**$15,877,618**	**$17,009,577**

35. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

	2023 $	2022 $
Present value of funded obligations	15,032,821	16,189,621
Fair value plan assets	(15,877,618)	(17,009,577)
	(844,797)	**(819,956)**

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

	2023 $	2022 $
Cash	398,961	813,408
Interest receivable	522,763	640,972
Bahamas Government Registered Stocks	14,237,676	14,537,676
Other bonds	376,812	369,115
Equity securities	400,000	700,000
Accounts payable	(58,594)	(51,594)
Total	**15,877,618**	**17,009,577**

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

	2023 $	2022 $
Administrative cost	8,100	7,000
Net interest income	(45,718)	(10,242)
	(37,618)	**(3,242)**
Remeasurements recognised in OCI	**43,460**	**(618,367)**

35. Retirement Benefit Plans (Continued)

Defined Benefit Plan (continued)

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

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

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

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

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

	2023 $	2022 $
Net (liability)/assets at beginning of year	(819,956)	(181,088)
Net (gain)/expense recognised in net income	(37,618)	(3,242)
Employer contributions	(30,683)	(17,259)
Remeasurements recognised in OCI	43,460	(618,367)
	(844,797)	**(819,956)**

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

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

	2023 $	2022 $
Discount rate	5.50%	5.50%
Expected rate of salary increase at age 18	4.00%	4.00%
Expected rate of salary increase at age 59	4.00%	4.00%
Cost of living adjustment for active employees	1.25%	1.25%

The actual return on plan assets during the year was $734,978 (2022: $1,165,944).

35. Retirement Benefit Plans (Continued)

Sensitivity and other results

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

	2023 $	2022 $
Pensioners	12,490,629	12,908,647
Vesting actives	2,542,192	3,280,974
	15,032,821	16,189,621

The pensioner liability of $12,490,629 (2022: $12,908,647), included $964,575 (2022: $986,272) relating to assumed cost of living adjustments.

The liability for actives of $2,542,192 (2022: $3,280,974), included of $48,228 (2022: $62,631) relating to assumed cost of living adjustments and $132,453 (2022: $163,537) relating to assumed future salary increases.

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2023 for 1% changes in discount rate and salary increases.

	2023		2022	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(1,208,034)	1,409,629	(1,307,097)	1,530,383
Future salary increases	35,318	(34,414)	44,134	(42,794)

If all members lived one year longer than projected, the liability at year-end would be $15,489,842 (2022: $16,653,742).

There is no change in the discount rate used in 2023.

The weighted average duration of the defined benefit obligation at December 31, 2023 is 5.5 years (2022: 8.7 years).

36. Health Insurance Subsidy Benefit for Retirees

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

	2023 $	2022 $
Present value of obligation at start of year	9,036,833	8,661,991
Interest cost	488,501	468,330
Current service cost	306,020	288,960
Benefits paid	(309,988)	(293,811)
Actuarial loss/(gain) on obligation due to experience	440,876	(88,637)
Actuarial loss on obligation due to financial assumption change	1,249,843	-
Present value of obligation at end of year	**11,212,085**	**9,036,833**
Contribution paid – employees' and employers' contributions	309,988	293,811
Benefits paid	(309,988)	(293,811)
	-	-

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

	2023 $	2022 $
Current service cost	306,020	288,960
Net interest cost	488,501	468,330
	794,521	**757,290**
Remeasurements recognised in OCI	**1,690,719**	**(88,637)**

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

	2023 $	2022 $
Net liability at beginning of year	9,036,833	8,661,991
Net expense recognised in net comprehensive (loss)/income	794,521	757,290
Employer contributions	(309,988)	(293,811)
Remeasurements recognised in OCI	1,690,719	(88,637)
	11,212,085	**9,036,833**

36. Health Insurance Subsidy Benefit for Retirees (Continued)

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

	2023 $	2022 $
Discount rate	5.50%	5.50%
Rate of Medical Subsidy Increases	4.00%	4.00%

Sensitivity and Other Results

The benefit obligation as at year-end comprises:

	2023 $	2022 $
Pensioners	5,901,345	4,648,804
Actives	5,310,740	4,388,029
Total	**11,212,085**	**9,036,833**

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2023 for 1% changes in discount rate.

	2023		2022	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount rate	(1,534,568)	1,946,780	(1,186,403)	1,495,093

If all members lived one year longer than projected, the liability would be $11,630,711 (2022: $9,339,888).

There is no change in the discount rate used in 2023.

The weighted average duration of the defined benefit obligation at December 31, 2023 is 15.3 years (2022: 14.7 years).

37. Retirement Benefit Plan for Governors and Deputy Governors

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

	2023 $	2022 $
Present value of obligation at start of year	4,155,651	4,053,758
Interest cost	222,339	216,735
Current service cost	202,403	197,405
Benefits paid	(226,250)	(226,250)
Actuarial gain on obligation due to experience	(79,161)	(85,997)
Present value of obligation at end of year	**4,274,982**	**4,155,651**
Fair value of plan assets at start of year	3,426,123	3,446,036
Expected return on plan assets	182,215	183,310
Benefits paid	(226,250)	(226,250)
Actuarial gain on plan assets	24,123	23,027
Fair value of plan assets at end of year	**3,406,211**	**3,426,123**

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:

	2023 $	2022 $
Present value of funded obligations	4,274,982	4,155,651
Fair value of plan assets	(3,406,211)	(3,426,123)
	868,771	729,528

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:

	2023 $	2022 $
Current service cost	202,403	197,405
Net interest expense	40,124	33,425
	242,527	**230,830**
Remeasurements recognised in OCI	**(103,284)**	**(109,024)**

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

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

	2023 $	2022 $
Net liability at beginning of year	729,528	607,722
Net expense recognised in net income	242,527	230,830
Remeasurements recognised in OCI	(103,284)	(109,024)
	868,771	**729,528**

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

	2023 $	2022 $
Discount rate at end of year	5.50%	5.50%
Salary increase (p.a.)	3.50%	3.50%
Cost of living adjustment for pensioners (p.a.)	3.50%	3.50%

Sensitivity and other results

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

	2023 $	2022 $
Pensioners	2,833,600	2,948,606
Actives - Unvested	1,441,382	1,207,045
	4,274,982	4,155,651

The pensioner liability of $2,833,600 (2022: $2,948,606) included $662,169 (2022: $709,562) relating to assumed cost of living adjustments which are directly linked to assumed future salary increases.

The liability for actives of $1,441,382 (2022: $1,207,045) included $430,530 (2022: $381,512) relating to assumed future salary increases and cost of living adjustments.

37. 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, 2023 and 2022 for 1% changes in discount rate and salary increases.

	2023		2022	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(393,763)	467,718	(392,543)	467,053
Future salary increases	429,009	(369,269)	22,427	(21,966))

If all members lived one year longer than projected, the liability at year-end would be $4,428,540 (2022: $4,304,603).

The weighted average duration of the defined benefit obligation at December 31, 2023 is 10.0 years (2022: 10.3 years).

38. Bahamas Government – IMF Loan

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

The Bahamas Government currently makes quarterly interest payments in February, May, August and November and the below scheduled General Resources Account repurchases which began September 1, 2023:

Scheduled GRA Purchases

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

38. Bahamas Government – IMF Loan (Continued)

With five scheduled repurchases remaining the outstanding debt on the RFI is USD$152,997,120 (2022: $242,745,903) as at December 31st 2023.

39. Subsequent Event

Subsequent to year end, the Bank signed contractual commitments for the Main Works, and Material Handling and Notes Processing of the Cash and Data Centre totalling $65,654,866.

40. Corresponding Figures

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

The reclassification changes follow:

	Note	As previously presented $	Effect of change in presentation $	Current presentation $
Changes in revenue				
Interest income on SDR	24	4,837,807	(311,582)	4,526,225
SDR loan to Government	24	-	311,582	311,582

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