2021 ANNUAL REPORT

Statement of accounts
for the year ended
December 31, 2021

CENTRAL BANK OF THE BAHAMAS

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.

25th April, 2022

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 2021. 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 Davis
Prime Minister & Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
West Bay Street
Nassau, N.P., Bahamas

2021
Currency Highlights

ABOUT THE BANK

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

MONETARY POLICY

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

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

PUBLIC DEBT & SINKING FUND MANAGEMENT

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

PAYMENTS

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

CURRENCY

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

FINANCIAL STABILITY

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

CONTENTS

FOREWORD

The Bahamian economy exhibited a measured pace of recovery during 2021. Global lockdowns to contain the spread of the Novel Coronavirus (COVID-19) eased, given aggressive vaccine campaigns, resulting in a rebound in the tourism sector, albeit still below pre-COVID-19 levels. The strengthening in tourism output was mostly supported by the rebound in the high value-added air segment. A seasonal upswing in sea traffic was also noted, though restarting at a much later point during the calendar year, and with more deliberately constrained occupancy rates. In addition, a number of small to medium-scale foreign investment projects undergirded activity in the construction sector.

As private sector lending conditions remained subdued, monetary developments featured further build-up in both bank liquidity and external reserves. However, the pass-through inflows to both aggregates from public sector debt operations were moderated, as the Government's external borrowings narrowed in comparison to 2020. Meanwhile, although credit quality metrics weakened further, given the pandemic's continuing influence, the adjustment was more tempered, with losses related to bad debt provisioning also significantly curtailed.

In the fiscal sector, the deficit widened significantly for FY2020/21, as the COVID-19 related disruption in economic activities led to a falloff in revenue collections. While the rise in expenditure, attributed to increased spending largely for health and social welfare, associated with the pandemic, along with outlays still for the restoration of key infrastructure, following the passage of the 2019 major storm. However, for the first half of FY2021/22, the deficit narrowed considerably, underpinned by a VAT-led growth in total revenue, which outweighed the expansion in aggregate expenditure. On a calendar year basis, however, the pandemic's effects on the deficit, and hence growth in the national debt, was more narrowed in 2021.

Foreign reserves remained at robust levels throughout 2021, boosted by the receipt of Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) and curtailed net outflows through the private sector. With the improving outlook for net tourism receipts, the Central Bank, relaxed all of the foreign exchange conservation measures that were implemented the previous year, early on during the pandemic. The Bank, through the Monetary Policy Committee, also maintained an accommodative posture towards increased domestic demand, notwithstanding the potential for some net drawdowns in the external reserves over the near-term.

In regard to the financial sector supervision, the Central Bank maintained its risk-based approach to surveillance. Along with a sustained emphasis on improving the anti-money laundering and countering the financing of terrorism (AML/CFT) regime, the prudential safety and soundness of operations continued to frame the rigour and intensity of the engagement with supervised financial institutions. The Bank also continued to advance work on the recovery and resolution framework for SFIs, operationalising important provisions in the revamped 2020 legislation for deposit taking institutions.

Other noteworthy milestones in 2021 included, CRIF Information Services Bahamas Limited, the credit bureau operator, officially going live on 30th April. A significant achievement was the designation of licensees of utility companies as credit information providers, and the ability of some credit information providers to access credit reports. CRIF Bahamas continued to work with 38 credit information providers during 2021, to build the credit reporting system for The Bahamas.

While still restricted by movements to promote the Sand Dollar in person, 2021 was a momentous year, as the Bahamian Dollar Digital Currency Regulations, 2021 were gazetted and became law. Further, during the year, three additional authorized financial institutions (AFIs) were approved to disseminate Sand Dollars. In particular, the wallets of all nine AFIs are fully interoperable for digital payments across their specific mobile applications. In addition, a number of Government agencies were integrated into the Sand Dollar ecosystem via the Government's DigiPay platform.

Another significant accomplishment in 2021 included the release of the final banknote in the CRISP Evolution series—$100 banknote—which undergirded the Bank's policy to ensure robust and secure banknotes. Likewise, another end of an era occurred related to the Bank's penny redemption campaign which was completed mid-year.

The Bank's most valuable assets are its staff. Accordingly, achievement of the Bank's strategic objectives is as a result of the hard work and dedication of our talented and industrious staff. Therefore, I would like to thank my colleagues and the Board of Directors for their cooperation and support. I also look forward to their ongoing commitment in the future.

Governor

CENTRAL BANK OF THE BAHAMAS
DIRECTORS

AT DECEMBER 31, 2021

MR. JOHN ROLLE
CHAIRMAN

MR. DEREK ROLLE
DEPUTY GOVERNOR

MR. ROBERT ADAMS
BOARD MEMBER

MR. THOMAS DEAN
BOARD MEMBER

MR. JOHN SWAIN
BOARD MEMBER

MR. BRYAN KNOWLES
BOARD MEMBER

DR. OLIVIA SAUNDERS
BOARD MEMBER

MR. KENDAL NOTTAGE
BOARD MEMBER

AUDIT COMMITTEE

MR. JOHN SWAIN

MR. BRYAN KNOWLES

MR. KIRVY FERGUSON,
NON-DIRECTOR

CENTRAL BANK OF THE BAHAMAS
SENIOR OFFICIALS

MR. JOHN A. ROLLE	Governor
MR. DEREK S. ROLLE	Deputy Governor
MR. CHARLES W. LITTRELL	Inspector, Banking Supervision
MS. KAREN V. ROLLE	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. IAN B. FERNANDER	Manager, Capital Development
MR. RICARDO H. BARRY	Manager, Facilities Services

Pictured from left sitting: Mrs. Tamieka Watson, Mrs. Cleopatra Davis, Mrs. Nakeisha Burrows, Mrs. Rochelle Deleveaux-McKinney, Ms. Karen Rolle, Mrs. Andrea Adderley-McQuay. Standing from left: Mr. Jermaine Campbell, Mr. Allan Wright, Mr. Derrick Burrows, Mr. Errol Bodie, Mr Derek Rolle, Mr. Ricardo Barry, Mr. Gevon Moss, Mr. Charles Littrell, Mr. John Rolle. Inset: Mr. Ian Fernander.

2021 AT-A-GLANCE

- **The domestic economy** registered a growth of 13.7% in 2021, following a COVID-19 pandemic-related 23.8% contraction in 2020. Amid widespread vaccination efforts and the gradual easing of globally imposed travel restrictions, a recovery commenced in tourism output, led by a rebound in the high value-added air segment and joined later in the year by a restart of cruise activity. Several varied-scaled foreign investment-led projects and to a lesser extent continued post-hurricane reconstruction works, provided support to the construction sector, and by extension to economic growth.
- **Average consumer prices** firmed during the year, reflecting the pass-through effects of higher global oil prices and other costlier imports.
- **Indications are that** unemployment remained above pre-COVID levels, though significant workforce re-engagement began in the tourism plant, with impact also from sustained construction activities.
- **The fiscal deficit-to-GDP** ratio rose to an estimated 12.8% in FY2020/21 from 7.2% in FY2019/20, as the tax base contracted over the height of the lockdown, while expenditure growth was necessary on health sector infrastructure and social services associated with the pandemic, combined with outlays still for the reconstruction of key infrastructure, following the 2019 major hurricane.
- **At end-December**, the Government's Direct Charge-to-GDP ratio firmed to an estimated 92.1% from 97.1% in 2020. The National Debt-to-GDP ratio stood at an estimated 95.6% at end-December, a decrease of 6.0 percentage points over the twelve-month period.
- **External reserves expanded** by $50.6 million (2.1%) to $2,432.8 million during the year, a moderation from the $624.1 million (35.5%) accumulation in the preceding period, which had included net proceeds from Government's external borrowings. The import cover ratio narrowed to 36.8 weeks, from 56.8 weeks in 2020—but exceeded the 12 weeks benchmark.
- **The Bahamian Dollar** Digital Currency Regulations, 2021 were gazetted and passed into law in November, 2021. Along with progress on the technology platform, this has set the stage for a more accelerated push for national adoption of the Sand Dollar in 2022.
- **During 2021**, the Bank's supervisory focus remained on ensuring that the domestic financial institutions were deploying effective strategies to reduce the level of non-performing loans (NPLs) in the banking system; and making continued in-roads in strengthening AML/CFT risk management practices.
- **With the improving** outlook for tourism inflows, the foreign exchange conservation measures that were implemented at the start of the pandemic were relaxed in 2021.
- **The moratorium placed** on the consideration of new licence applications for payment services providers and money transmission businesses remained in effect during the year, and is expected to be extended through to September, 2022.
- **The credit bureau** transitioned to live operations on 30th April, 2021, marking the onset of data submission to the bureau by domestic lending institutions.

BOX 1: STRATEGIC FOCUS for 2022-2025

Improve the monetary policy, financial stability and exchange control frameworks

- Introduce indirect monetary policy instruments, leveraging the modernisation of the government securities market and infrastructure.
- Expand the Bank's capacity for financial forecasting and modelling techniques, by upgrading existing competencies and recruiting new staff.
- Develop an active toolkit for macro and micro-prudential supervision and policies.
- Pursue strengthening of the crisis management framework, including through formal engagement with the Ministry of Finance and other financial regulators.
- Continue to develop targeted proposals for liberalisation of residents' access to foreign currency funding.
- Develop proposals to strengthen access to and usage of the Bahamas Depository Receipt and Investment Currency regimes for portfolio investments.
- Deepen stakeholder engagement on capital account liberalisation and capital flow management policies.

Enhance the financial sector supervisory and regulatory framework

- Advance the implementation of the Basel II and Basel III risk-based frameworks.
- Develop guidance on account opening standards for business enterprises and improve domestic frameworks for politically exposed persons.
- Sustain reforms to strengthen the AML/CFT regime.
- Further enhance mechanisms for cooperation among the Bahamian Group of Financial Services Regulators.
- Continue to strengthen the Bahamian crisis and risk management system, by creating technical capacity for crisis management within the Deposit Insurance Corporation.
- Deepen financial inclusion frameworks.

Strengthen policy advice capacity

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

Strengthen domestic infrastructures for payments and public debt management operations

- Continue to modernize the debt issuance and management framework for public debt.
- Promote increased non-bank participation in public debt issuances.
- Introduce a government savings bond instrument for retail investors.
- Promote widespread adoption of the digital domestic currency.

Enhance operational efficiency and risk management systems

- Further strengthen the internal audit and corporate governance functions.
- Improve enterprise risk management, inclusive of business continuity and information security frameworks.
- Conclude the modernisation and upgrade of core IT systems.
- Complete the digitization of corporate records and adopt a modernised information governance framework.
- Reform the performance management system to better anchor employee compensation.

Strengthen external relations and communications frameworks

- Give more visibility and promotion to the quality of the regulatory regime.
- Strengthen public relations capacity in the policy and technical work streams of the Bank.
- Maintain financial literacy activities.
- Deepen public engagement on Exchange Control policies and reforms.

OUR OPERATIONS

GOVERNANCE & ACCOUNTABILITY

The Bank's corporate governance framework, as outlined in the Central Bank of The Bahamas Act, 2020 (the Act), prescribes, *inter alia*, the roles and responsibilities of the Board of Directors, the Governor and the Deputy Governor.

BOARD OF DIRECTORS

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

Appointed by the Governor General, on the advice of the Minister of Finance, the Board is comprised of the Governor (Chairman), two Deputy Governors and six independent directors. Under the Act, each director is required to maintain the confidentiality of information acquired, while exercising their functions and each must sign a declaration of confidentiality in relation to the affairs of the Bank. Directors are indemnified by the Bank against personal, civil or criminal liability, in respect of their actions done in good faith, while carrying out their statutory duties. For meetings, four directors form a quorum.

In October 2021, the Bank welcomed three new directors Dr. Olivia Saunders, Mr. Kendal Kelly Nottage and Mr. Bryan Knowles. Mr. Robert Adams, Mr. Thomas Dean and Mr. John Swain remained on the Board, although the Bank bade farewell to Mr. Russell Miller, Mrs. Lynda Gibson and Mrs. Sheena Deveaux. The Bank is grateful to the departing directors for their valuable contributions to the deliberations of the Board during their respective tenures.

In 2021, the Board met on twelve occasions. In its deliberations, one of the key developments over the year was the approval of the Strategic Plan for 2021-2025. The Board also maintained oversight of internal operations and governance in relation to ongoing procurement activities, operations policies, enterprise risk management activities and internal controls. Featured heavily in Board discussions were the impact of the COVID-19 pandemic on domestic and international economic and financial conditions, and its repercussions for The Bahamas' external reserves and exchange rate regime. Discussions also centred around financial sector supervision, the progression of the country's anti-money laundering and counter-financing of terrorism frameworks, and the implementation of new legislation governing the Bank's operations, inclusive of the Central Bank's digital currency.

ACCOUNTABILITY & TRANSPARENCY

The Bank is mandated by statute and best business practices to ensure a high degree of transparency, which facilitates accountability. In compliance with these responsibilities, the Bank provided the Minister of Finance with a report of its activities for 2021, which was subsequently laid before Parliament. Monthly balance sheet information was also provided to the Minister and, for public disclosure, was published in the Gazette and on the Bank's website.

During the year, the Governor maintained scheduled monthly meetings with the Minister of Finance and provided the Minister with special periodic communications on emerging industry related matters and concerns. These meetings helped to facilitate coordination between monetary and fiscal policy actions, while simultaneously keeping the Government informed of the Bank's performance in meeting its statutory obligations.

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

Further, in promoting accountability and transparency, the Governor and senior officers of the Bank gave official speeches on various topics, including domestic economic conditions and prospects amid the ongoing COVID-19 pandemic, developments in the regulatory and supervisory space, exchange control liberalization measures and updates on strategic projects, such as the Bank's Sand Dollar Project.

CORPORATE STRATEGY, RISK AND GOVERNANCE

The Bank's approach to risk management is based on sound central banking principles and a robust governance structure. In this context, the Bank established the Corporate Strategy, Risk and Governance Unit in 2020. The Unit's core functions are related to enterprise risk management, information assets management and business continuity. The Unit represents the second line of defence model, intended to assist Departments across the organisation in self-identifying and controlling risks in their business operations.

Enterprise Risk Management (ERM)

The Corporate Strategy, Risk and Governance Unit, as the second line of defence, continued to enhance the

Bank's enterprise-wide approach to risk management (ERM), business continuity and information assets management within the Bank. Strong focus was placed on increasing awareness of the ERM, inclusive of the roles and responsibilities of the three lines within the organization, inclusive of Management and the Board. Targeted training was also facilitated to increase risk management capabilities within the Bank. This enabled Departments to conduct risk and control self-assessments to identify gaps within their operations and to begin to implement risk mitigation controls.

Business Continuity

The Bank remained focused on making improvements to its business continuity and disaster recovery systems, by tailoring and fine-tuning the framework to ensure the availability of critical business services. Based on business impact assessments, continuity plans started to be developed for each business unit, to enable the Bank to limit disruptions and plan for recovery of services within core business operations.

As COVID-19 pandemic conditions persisted into 2021, the Bank's technological infrastructure continued to facilitate work from home arrangements for the majority of its staff. In the meantime, strategic planning commenced for a return to the office environment in 2022.

Information Assets Management

The Information Assets Management Unit (IAMU) oversees the Bank's records management programme, and manages systems for disseminating information through the Bank's website and corporate intranet. In 2021, the IAMU maintained a focus on digitising archived corporate records, to facilitate movement towards a completely digital environment. The Unit was also engaged in the ongoing review and development of policies, processes and procedures essential for strengthening the information governance framework of the Bank. Efforts also continued to strengthen public information dissemination with upgrades to sections of the Bank's website related to exchange control and AML/CFT developments. In addition, IAMU increased the Bank's collection of digital resources, which benefitted internal stakeholders.

Internal Audit

The Internal Audit (IA) Unit is the third line of defence in the Bank's risk management structure. IA supports both the Audit Committee of the Board of Directors and Management in evaluating the adequacy and effectiveness of systems of internal control, risk management and governance. The Unit also supports the second line of defence, by providing best practice recommendations with respect to risk management. The operations of IA are steered by a Board-approved Internal Audit Charter and a risk-driven Annual Audit Plan. To maintain independence, the Head of IA reports functionally to the Audit Committee and administratively to the Governor.

Despite the remote work environment, IA successfully completed its Audit Plan and issued assessments, focused on strengthening several of the critical processes in the attainment of the Bank's strategic plan initiatives. The Audit Plan was expanded to include emerging risks identified by management, addressing controls to mitigate against the risks identified. The Unit examined the Bank's core operations, support activities, as well as its internal programmes, aimed at supporting and sustaining sound governance. The core aim of these reviews is to mitigate risk inherent in the business, enhance existing internal controls and strengthen operational effectiveness and efficiency. The Unit maintained focus on both current and emerging risks, in an effort to confirm that the Bank is suited to adequately respond where events materialize.

The IA Unit also continued to support various working committees of the Bank, which were geared towards encouraging and sustaining a stronger internal control and compliance environment. In support of its own strengthening, IA worked towards full implementation of its Quality Assessment and Improvement Programme and further strengthened technical capacity and certifications within the Unit.

Information Security

The Information Security Unit (ISU) remained focus on strengthening the overall cybersecurity posture of the Bank, while supporting the rollout of the Central Bank of The Bahamas' digital currency, the Sand Dollar.

The Unit maintained a strong focus on compliance and cyber security risk remediation. The resulting outputs were the development of standard operating procedures, enhanced security monitoring and continuous security assessments, with strong focus on risk prioritization and remediation. These initiatives remained at the forefront of the day to day operations—particularly as staff remained physically displaced from the office environment due to the ongoing COVID-19 pandemic. A factor which significantly elevated the risk profile of the Bank.

The ISU also continued to support preparation for accelerated market adoption of the Sand Dollar, through its oversight of the security assessment process—a prerequisite for an authorized financial institution (AFI) to become an active participant in the ecosystem. These assessments continued to provide the insight needed for the Bank to have confidence in the AFI's ability to safely integrate with the Sand Dollar's core infrastructure.

The ISU also sustained its active participation in regional/international cyber security working groups, including the Cyber Security Information Sharing Group (CISG) and Operational Security Situational Awareness Telco (OSSAT). As Chair of the CISG, the ISU led the formalization of the Cyber Security Information Sharing Group Memorandum of Understanding (CISGMOU) for the CARICOM group of central banks.

CURRENCY OPERATIONS

The Currency Department progressed several of the Bank's key strategic goals in 2021, around demonetisation of the one-cent coin, secure banknote designs, the numismatic programme, strengthened oversight of various financial markets infrastructure, and advancement of the digital currency project.

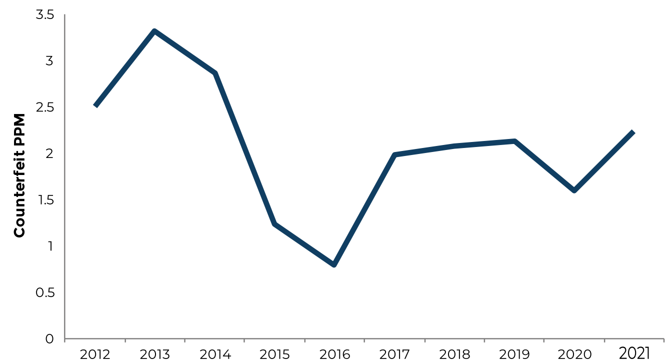
The Bank completed the public redemption exercise of the one-cent coin, conducted through June 2021. The redemption process provided an opportunity for individuals to receive value for coins still in their possession which were demonetized at the end of 2020. In the lead-up to the demonetization date, the Bank introduced a redemption by weight programme at various locations throughout New Providence, with expansion to Grand Bahama and various Family Islands, in 2021. The exercise assisted more than 8,000 persons with redemptions of an estimated 41.48 million coins valued at $0.41 million. Redemption by commercial banks added an additional 14.25 million coins, valued at $0.14 million. Consequently, 55.73 million pennies, valued at approximately $0.56 million were later exported for appropriate sorting and destruction.

The Bank continued to provide modern, secure and robust banknotes to the market. The final instalment of the evolved Counterfeit Resistant Integrated Security Product, or CRISP Evolution family of banknotes occurred with the October, 2021 release of the CRISP Evolution $100 banknote. This industry-first, paired a Durasafe® substrate with Motion Surface® stripe, benefiting from a collaboration of industry partners, including Canadian Bank Note Company, Canada, Landqart, Switzerland and Crane Currency, USA. The note installed Mr. Arthur Dion Hanna as the sixth Bahamian on the currency, following Sir Milo B. Butler ($20), Sir Cecil Wallace-Whitfield ($5), Sir Stafford L. Sands ($10), Sir Roland T. Symonette ($50) and Sir Lynden O. Pindling ($1).

Designs for an updated $10 banknote, scheduled for release in 2022, were also advanced. This release will incorporate security improvements and a colour change to better distinguish the note from the $1 series that was released in 2017.

Complementary to the introduction of CRISP features across the suite of banknotes, Central Bank continued to invest in public awareness and education to combat counterfeiting. Virtual scheduled and ad-hoc anti-counterfeit detection training workshops were facilitated in January, March, and December 2021, targeting bankers, law enforcement personnel, retailers and various other merchants. Additionally, a series of promotional videos for the Bank's mobile banknote app were released throughout the year. The know-how videos showcased key banknote security features that the public could use to assist in distinguishing genuine from counterfeit banknotes. The effectiveness of various anti-counterfeit initiatives is evidenced by the continued low rates of counterfeit notes detected over the past 10-year period, closing 2021 at 2.2 parts per million.

Counterfeit Parts per Million (PPM) Notes in Circulation



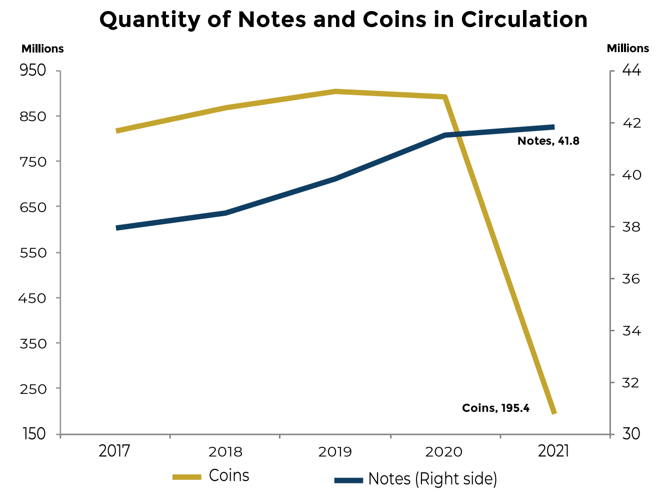
As at December 31, 2021, the quantity and value of banknotes in circulation stood at 41.8 million and $533.5 million, respectively, representing a year-on-year increase of 0.8% and 3.4%. The quantity of coins in circulation fell by 78.1% year-on-year, from 890.4 million pieces to 195.4 million pieces, the result of the demonetization of the approximate 720 million one-cent coins issued to the public over the last half century. Correspondingly, the value of coins in circulation decreased by $0.2 million (0.6%), to $30.1 million.

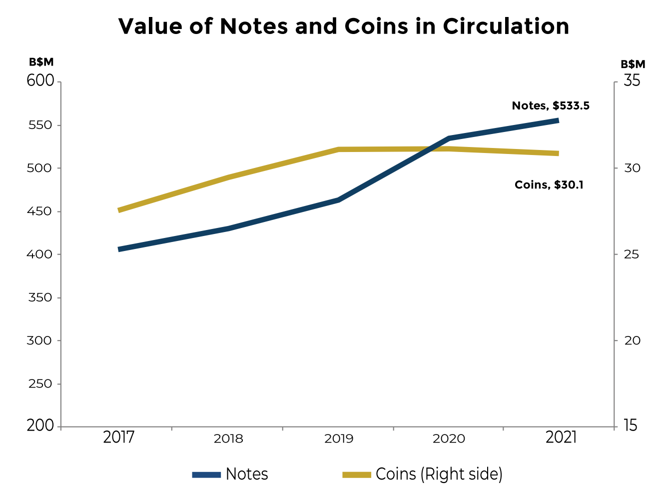
Table 1: Bank Note Security Tiers

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

Source: Central Bank of The Bahamas

Digital currency or Sand Dollars in circulation also increased in 2021 to $0.304 million, as the instrument remained in low adoption, while the intensive focus continued on the technology platform development and





integration to the banking system. The newly established Financial Markets Infrastructure (FMI) Unit took on increased responsibility for Sand Dollars during the year, as the Currency Department build-up capacity to assume full responsibility for the digital currency. Likewise, the FMI Unit took on an integral role in the daily operations and programmed greater oversight of the Bahamas Government Securities Depository (BGSD) and Real Time Gross Settlement Systems (RTGS) platforms for 2022.

Multiple numismatic items were released, further expanding the suite of collector coins available to the public. During 2021, the Central Bank introduced three coins: the limited edition coin releases of the 1.1 ounce $10 Silver Proof Abaco Parrot coin, on 1st July, 2021; and the 1.1 ounce $250 Gold Proof Pirate Ship and $100, ¼ ounce Flamingo Gold Proof coins, on 1st December, 2021. The Abaco Parrot coin was the first of five coins to be produced in the 2021-2024 Islands of The Bahamas silver proof coin series. Additional silver proof and gold proof coins have also been programmed for releases through 2024.

BANKING OPERATIONS

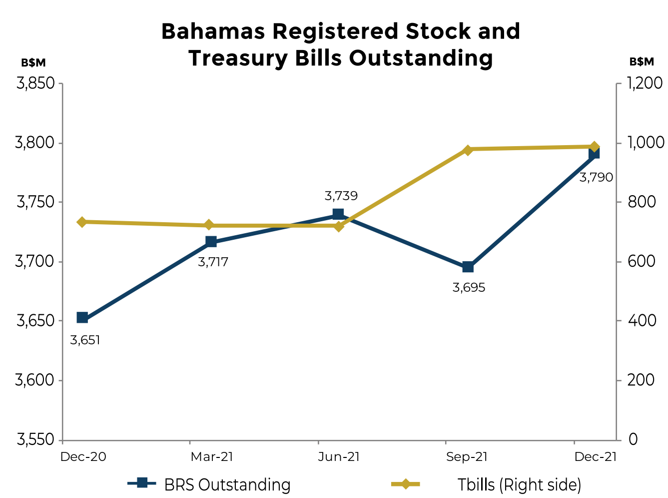
Public Debt Administration

During 2021, the Central Bank focused on improving operational efficiency in its public debt administration systems, achieving synergy with interconnected processes and enhancing external relations with market participants and other stakeholders. Major developments included a strengthened market intelligence arm, the provision of deeper analysis for internal and external stakeholders and greater market transparency through alignment with the Bahamas International Securities Exchange (BISX).

The Bank continues to serve as Registrar and Transfer Agent for the Government and Government agencies. Outstanding debt for Government agencies remained unchanged during 2021, as there were no new issues nor maturities throughout the period. Year-end balances closed at $22.0 million for the Bridge Authority, $47.0 million for the Education Loan Authority, $24.0 million for the Clifton Heritage Authority, $4.0 million for Bahamas Development Bank and $160.0 million for the Bahamas Mortgage Corporation.

In collaboration with the Ministry of Finance, the Bank coordinated regular domestic debt issues to the public. There were 15 Bahamas Registered Stock (BRS) offerings, totalling $536.4 million. The proceeds were applied to the $453.0 million domestic bond maturities, with an additional $95.0 million raised as new debt.

The outstanding balance of Government Treasury bills (T-Bills) rose by $250.0 million to $986.0 million. This represented a shift in market demand from long-term paper. Further, Central Bank advances to Government recovered to $265.0 million from $5.0 million at end-2020.



Digital Currency Initiative

During 2021, COVID-19 continued to impact the Bank's ability to launch any major form of in person promotions or marketing efforts of Sand Dollar. With adoption

BOX 2: MONETARY POLICY IN 2021

The Monetary Policy Committee (MPC) meets on a monthly basis, and is chaired by the Governor. Membership includes the Deputy Governor, several Heads of Departments and other technicians. In 2021, the MPC continued its monthly deliberations against the backdrop of the global pandemic, and formulated policy measures deemed appropriate given the economic climate. Specifically, strategic measures were implemented to sustain the fixed exchange rate regime, and to promote monetary and financial stability. The monthly surveillance analysis of the MPC is summarized in reports which are disseminated to the public within five days of each meeting.

Notwithstanding the availability of vaccines in 2021, the Novel Coronavirus (COVID-19) pandemic persisted, with intermittent new strains of the virus, impacting domestic and international developments. As vaccination efforts progressed, the tourism sector commenced a gradual recovery—though delayed compared to the non-tourism segments of international commerce—as globally imposed travel restrictions started to ease. In this context, the Committee's discussions were framed around important domestic economic and financial themes. In particular:

- The measured pace of recovery in the domestic economy, with improving outlook for tourism, bolstered by sustained gains in the high value-added stopover arrivals and the modest rise in sea traffic.
- The elevated levels of bank liquidity, in an environment of sustained weakness in credit demand and cautious lending stance maintained by commercial banks.
- Trends in external reserves, which included a lesser impulse from Government's external borrowings, but uplifted from the International Monetary Fund (IMF) $247.5 million Special Drawing Rights (SDRs) allocation.
- Moderation in the rate of deterioration in commercial banks' credit quality, even with the significant unwinding of loan payment deferral schemes introduced at the start of the COVID-19 pandemic.

In assessing the external risks to the domestic economy, the Committee noted several important vulnerabilities. These included potential setbacks due to new strains of COVID-19; and higher import costs as a result of constrained global supply chains and rising oil prices.

Given the Bank's mission to maintain adequate levels of external reserves to support the fixed exchange rate regime, the Committee sustained its strict monitoring of two key external reserve adequacy indicators; namely the ratio of external reserves to base money and the import cover ratio. Relative to the first quarter of 2020, which had included re-insurance receipts, external reserves decreased during the first three months of 2021. However, bolstered by the Government's external borrowing activities and IMF's SDR allocations, external balances were augmented over the second and third quarters; while in line with the seasonal patterns, reserves declined in the final quarter of 2021. During the year, the ratio of reserves to base money trended upwards, exceeding the 100% throughout the year; the ratio at its lowest point measured 107.7% in April, peaking at 121.6% in September, before settling at 110.6% at the end of 2021.

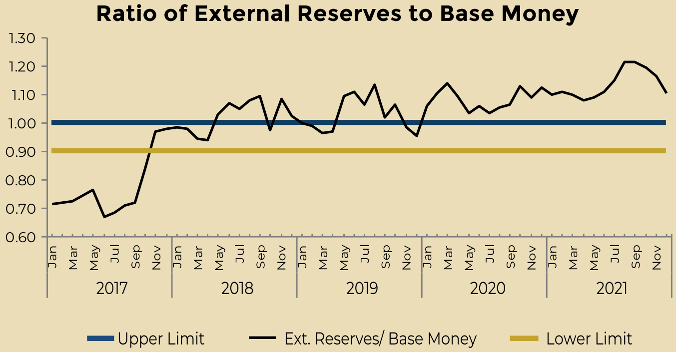
In terms of the more broadly tracked total external reserve coverage in weeks of annual current year's merchandise imports indicator, the ratio decreased from 56.8 weeks at year end-2020, to 50.4 weeks in the first quarter of 2021. The ratio continued to trend downward in the subsequent quarters, falling to its lowest level of 36.8 weeks at the end of the year, although remaining well in excess of the international benchmark of 12.0 weeks.

In this environment, the foreign exchange conservation measures that were implemented at the height of the pandemic were sequentially removed. In March 2021, the Central Bank reinstated approvals for dividend payments abroad by all commercial banks. In addition, in July, the ceiling on the Bahamian Dollar Open Position (which regulates commercial banks' purchases and sales of foreign currency from the public) on short sales of foreign exchange transactions for commercial banks reverted to pre-COVID-19 levels. This restored commercial banks' more immediate access to the Central Bank, if necessary, to replenish supplies sold to the private sector. In October 2021, access to foreign exchange for investment currency purchases and financing of Bahamas Depository Receipts (BDRs) for external portfolio investments resumed. The Investment Currency Market (ICM) and BDR programmes facilitate residents' purchase of foreign securities and, to some extent, foreign real estate, upon approval.

Given the healthy levels of external reserves, marginal economic growth and subdued consumer credit demand, the MPC also decided that the Bank should leave its accommodative policy stance unchanged throughout 2021. The MPC also assessed that some net capacity existed for drawdown in the external reserves during 2022, among other reasons, to support strengthening domestic investment and consumption expenditures, increased domestic currency financing of the fiscal deficit, and to sustain the rebuilding efforts following the 2019 major hurricane.

The MPC also maintained its focus on banking sector soundness and stability indicators. In particular, Members acknowledged the persistent high levels of liquidity in the banking system, reflective of banks' conservative lending posture. This continues to require a cautious strategy over the medium-term to unwind some of this overhang, without placing any undue strain on the balance of payments. Nevertheless, financial stability concerns remained muted, as banks' average capital levels stayed well in excess of the regulatory target and trigger ratios of 17.0% and 14.0%, respectively. The average capital adequacy ratio for the sector stood at 28.7% at December-end 2021.

Ratio of External Reserves to Base Money



efforts still moderated, at end-2021, Sand Dollars in circulation increased to $0.3 million from $0.08 million in 2020.

Nevertheless, progress continued on technology infrastructure development and engagement with financial institutions. The Bank completed direct integration into the Real Time Gross Settlement (RTGS) system, and progressed the integration of the infrastructure with the Bahamas Automated Clearing House (ACH) for transfers to and from commercial banks. This process paralleled residual efforts by commercial banks to transition to a modernised, customer initiated entries (CIE) format for electronic funds transfer through the ACH platform.

In the meantime, the Bahamian Dollar Digital Currency Regulations, 2021 were gazetted into effect in November, 2021. An initial six authorized financial institutions (AFIs) were approved to issue central bank digital currency wallets and connect with the Sand Dollar platform. The additional AFIs also commenced the process of joining the ecosystem, inclusive of one commercial bank and one credit union. All AFIs offering a proprietary digital wallet achieved interoperability standards for digital payments across their respective mobile applications.

The Bank continued its collaboration with the Government to use Sand Dollar as a method for collections and disbursement of payments. This focused on enabling digital currency receipting on the Government's DigiPay platform, and planning around phased acceptance of payments at various public facing services outlets.

The Bank also mobilised public relations support, but engaged a local public relations agency to strategize and coordinate on initiatives to encourage Sand Dollar adoption. Early efforts have concentrated on additional market research, inclusive of focus groups and online surveys to further affirm the approach of the public education campaign slated to intensify in 2022.

Payments and Settlements Operations

The Bank worked with its vendors and stakeholders to reduce the Government and its agencies' back-office reliance on the Bank for domestic payments processing. Two related projects were advanced, one to permit the agencies to directly input and monitor payments using a web-based interface, and the other to upgrade the internal financial management technology around the Bank's in-house payments operations. The solutions will streamline public sector clients' internal workflows with requirements of the Central Bank.

PAYMENTS & SETTLEMENT SYSTEMS

Oversight

The Bank, through the Payments Unit, monitors the domestic payments and settlement systems, while ensuring the efficiency, reliability and security in the infrastructure. Quarterly meetings were held with senior members of the Bahamas Automated Clearing House (BACH)—owned and operated by the clearing banks—focused on collateral and settlement issues of commercial banks, the internal audits of the ACH and other noteworthy developments that emerged in 2021. Similarly, the Unit engaged with the operations of the Central Bank-owned Bahamas Inter-Bank Settlement System (BISS), which delivers Real Time Gross Settlement (RTGS) of large value inter-bank payments above $150,000. These meetings concentrated on operational efficiency and ongoing development within the system.

With regard to payments modernization, at year-end the Bank released its consultation paper, Benchmarking and Proposed Strategy for the Elimination of Cheques in The Bahamas. Developed in close consultation with commercial banks and with additional engagement planned for credit unions, the initiative will proactively address financial inclusion and promote legitimate access to alternatives to cheque usage for both individuals and businesses. Further, this strategy will provide adequate public education around the use of digital alternatives, while considering positive and consistent pricing incentive structures across the financial sector. The targeted deadline for the elimination of cheques is by end-2024.

Payments Settlements Trends

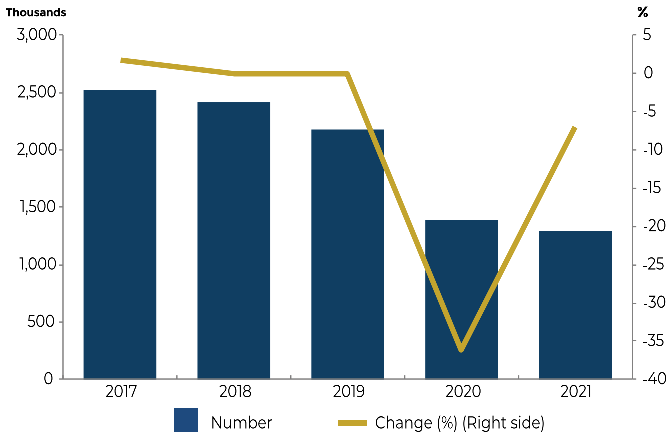
Domestic electronic payment transactions expanded during 2021. The outturn was underpinned by developments in the ACH and RTGS systems, and the continuous efforts of commercial banks to promote greater use of ATMs and digital payments channels.

In 2021, the number of transactions cleared through the BISS-RTGS system increased by 28.2% to 273,115, albeit the corresponding value declined by 20.8% to $36.0 billion. In contrast, the previous year recorded a 41.4% expansion valued at $45.5 billion. Participants of the RTGS system comprised the seven clearing banks that process direct interbank transactions, X9 (cheques) and NACHA (direct credit) payments. The RTGS operates seven daily settlement windows on a normal basis, commencing at 8:15 a.m. and concluding at 4:45 p.m.

In 2021, BACH payments, which are processed in accordance with the globally accepted National Automated Clearing House Association (NACHA) format, registered continued growth. The volume of these transactions grew by 7.6% to 3.4 million, while the corresponding value expanded by 39.2% to $5.8 billion. This extended the prior year's 13.6% growth in value.

Over the review period, cheque usage remained subdued, with the exception of large-value transactions. More specifically, the number of processed cheques declined by 7.6% to 1.2 million, while the attendant value fell by 6.8% to $4.2 billion, year-on-year.

Cheques Cleared



Retail Payments Services

The use of debit cards supported additional reduction in demand for cash dispensing services and credit-financed payments.

Cemented by changes in consumer behaviour and commercial banks policies as a result of the pandemic, during 2021 the volume and value of debit card activities expanded by 41.5% to 17.6 million transactions and by 14.3% to $2.0 billion, respectively. Although the total number of ATMs deployed grew modestly by 1.8%, to 388 terminals, and usage firmed by 1.8% to 8.1 million transactions, the corresponding value decreased by 7.0% to $1.9 billion, year-on-year.

Meanwhile, although the number of credit cards issued or renewed by commercial banks rose by 0.6% to 90,622, the value of debts owed contracted further by 11.5% to $217.1 million. Broken down by access amounts, the number of cards with credit limit under $5,000 rose by 1.6% to 59,261; however, the corresponding debt on these accounts reduced by 19.2% to $74.7 million. Meanwhile, the number of accounts extending credit in the range of $5,000-$10,000 declined by 1.0% to 18,628 and with outstanding balances which decreased by 9.0% to $60.4 million. Similarly, the number of cards with limits over $10,000 fell by 1.6% to 12,733, while the associated debts on these moved lower, by 5.2% to $82.0 million.

Internet Banking

Use of internet banking services declined during the year. These solutions afford customers the ability to, *inter alia*, check account balances, make transfers between personal and third party accounts, pay bills and purchase foreign currency. The range of internet services vary among institutions and some banks levy a fee for these facilities.

In 2021, the total number of users of online banking platforms, inclusive of residential, business, public sector and other users, reduced by 8.8% to 94,264.

Instances of Payment Fraud

In line with its focus on consumer protection, in 2017 the Central Bank began collecting data on the number of fraud events relative to cheques, debit cards and credit cards. The reported frequency of such instances, which increased during the pandemic, tripled to 8,337 from 2,638, however the associated value contracted by 49.3% to $2.6 million. Disaggregated by type, the number of debit card fraud cases accounted for 87.4% of the total, and 41.1% of the corresponding value. Credit card fraud represented 12.1% of total cases, as against 32.0% of overall value. As the use of cheques continue to taper, reported cheque fraud was 0.5% of total cases, although 27.0% of the total amounts.

Electronic Money Services

Electronic money service providers (EMSPs) represent an emerging segment of the payments arena, evidencing steady gains since the Central Bank began collecting data in 2019. The number of providers remained at seven during 2021, however, supported by 19.0% fewer agents (213 in total).

Meanwhile, both the volume and value of top-up transactions to mobile wallet accounts rose nearly four-fold to 1.5 million and $111.0 million, respectively. The expansion was attributed to greater adoption by consumers and merchants utilizing electronic money services, as well as the use of payment services institutions to channel disbursement of pandemic-related social assistance payments from the Government. Reflecting end use of social transfers, the volume of mobile wallets withdrawal expanded by 86.4% to 213,541, while the associated value increased more than four-fold to $110.8 million.

During the review year, the number of person-to-person (P2P) transactions reached 37,463 corresponding to more than doubled value of $9.7 million. Conversely, the volume of person-to-business (P2B) transactions declined by 60.0% to 160,961, but with the attendant value more than doubled to $45.1 million. The decrease in volume was the result of a large number of short-term transactions processed in 2020 using low-value coupons; whereas an increase in bill payments contributed to the rise in transaction values. In business-to-business (B2B) activity, volume declined by 7.0% to 2,017 transactions, though associated with six-fold value boost to $5.0 million.

Overall, the total number of e-money users expanded in 2021 by 53.0% to 54,968 personal accounts, while business accounts more than doubled to 396 from 130 in 2020.

FOREIGN RESERVES MANAGEMENT

The Central Bank's reserve management strategy prioritizes preservation of capital, maintaining adequate liquidity levels, while also maximizing return on investment. External reserves remained healthy throughout 2021, reflecting net retention of public sector debt proceeds, and onset of recovering net inflows in the tourism sector and liquidity injection from the International Monetary Fund (IMF). External balances opened the year at $2.3 billion, peaking at $2.8 billion during August, 2021 and closed 2021 at $2.4 billion. Providing support to external reserves was the IMF's 174.8 million Special Drawing Rights (SDR) (US$247.5 million) allocation to The Bahamas, in August, 2021. Additional stimulants included net external borrowing proceeds and tapered net foreign currency outflows from the Central Bank to commercial banks. However, in the absence of the 2021 SDR allocation, underlying balances would have closed $198.0 million (8.3%) lower.

Table 2: Dormant Account Balances

Currency	Account Balances 2020	Account Balances 2021	No. of Accounts 2021	% of Total Balances 2021
	($'000)			
Australian $	77.5	0.0	0	0.0
Bahamian $	20,827.9	43,576.5	33,052	52.1
Canadian $	6,502.9	4,788.8	322	5.7
Swiss Franc	1,760.2	6.5	8	0.0
Euro	3,646.5	160.7	43	0.2
UK (Sterling)	638.5	1,400.8	85	1.7
Hong Kong $	913.2	0.0	0	0.0
US$	58,443.3	33,752.1	4,994	40.3
TOTALS	**$92,810.0**	**$83,685.3**	**38,504**	**100.0**

Source: Central Bank of The Bahamas

DORMANT ACCOUNT ADMINISTRATION

The Bank administers dormant accounts in accordance with provisions in the Banks and Trust Companies Regulation Act, 2020. These accounts are balances with banks on which no customer activity has occurred for at least 7 years. Therefore, banks are required by law to transfer these balances from their institutions to the Central Bank for safekeeping until the account holders are presented to claim the funds, or held with the Central Bank until the applicable 10-year custodial period expires. However, dormant account balances of $500 or less are escheated to the Government on immediate transfer to the Central Bank. The accounts that maybe classified as "dormant" include deposits, 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.

As at 31st December 2021, the Central Bank maintained custody of 38,504 dormant facilities, with balances totalling $83.69 million, denominated in six currencies (See Table 2). Balances in United States dollars and Bahamian dollars together accounted for 92.4% of the total, while amounts comprising the Canadian dollar, Swiss franc, Euro and British pound accounted for the remaining 7.6%.

In accordance with the Central Bank Act, 2020 as at 31st December 2021, an estimated $2.1 million in dormant funds is due for remittance to the Government against the applicable 10-year custodial period expiration.

EXCHANGE CONTROL ARRANGEMENTS

The Central Bank administers the Exchange Control Regulations to ensure sustainability of the domestic foreign exchange markets, and safeguard the Bahamian dollar fixed exchange rate, maintained at parity with the United States dollar. Controls apply to both current and capital account transactions, with approval for access to foreign exchange for trade or current account transactions mostly delegated to authorised dealers (commercial banks). Since the onset of the COVID-19 pandemic the Central Bank focused primarily on conserving foreign exchange use for current account payments and external debt servicing obligations. However, as private sector inflows recovered in 2021, the Bank lifted all conservation measures that were imposed in 2020.

As regard conservation measures, as of the 1st October 2021, the Bank lifted the moratorium on access to foreign exchange for portfolio and other capital investments abroad—the moratorium had been in place since 1st May 2020. Brokers dealers (registrants in the Bahamian Depository Receipts (BDR) programme), were allotted one quarter of their annual allotment, to resume participation in the programme at the official conversion rate of B$1.00 = US$1.00. During 2021, outflows through the BDR market amounted to $8.8 million, as compared to a complete absence of transactions during 2020, and accommodations of $8.8 million in 2019.

Access also resumed for Investment Currency Market (ICM) outflows or sales, alongside purchases or repatriations that were not prohibited during the pandemic. The ICM facilitates all other capital transaction at a selling/asking rate of B$1.050 = U$1.000 and purchase/offer rate of B$1.025 = US1.000. Given truncated access in both years, the ICM sales reached $31.1 million in 2021, compared to $18.5 million in 2020. Purchases against repatriated investment capital was approved at $0.75 million in 2021, vis-à-vis no recorded approvals in 2020.

At commercial banks, on 1st July, 2021, the Central Bank reinstated the $5.0 million ceiling on both short and long sales of foreign exchange (or the B$ Open Position Limit). In 2020, the ceiling on short sales (long positions in B$s) was permitted to vary up to the 5.0% ratio of Tier 1 Capital. Beyond this level, authorised dealers are required to correct the positions through purchases of foreign exchange from the Central Bank. The relaxation had therefore increased the margin within which banks could trade, adding a modest one-time buffer to the external reserves. Earlier in March 2021, foreign-owned commercial banks were permitted to resume repatriation of dividends.

Meanwhile, the Exchange Control Department maintained training sessions with authorised dealers (commercial banks) and money transmission businesses during 2021, using the virtual platform. This training builds capacity for institutions to classify and process foreign exchange transactions under delegated authority from the Central Bank.

The resident entities authorised to transact in foreign exchange include authorized dealers (banks), agents (trust companies) and money transmission businesses (MTBs). In 2021, the number of authorised dealers increased by one to nine, while the number of authorised agents fell by two to 12. MTB operations remained unchanged at five.

ECONOMIC ANALYSIS, STATISTICS AND RESEARCH

The Bank, through its Research Department, provides the public with comprehensive, accurate and timely information on domestic economic and financial developments. As such, the Bank sustained its periodic publications, including the Monthly Economic and Financial Developments (MEFD) report, Quarterly Economic Review (QER), Quarterly Statistical Digest (QSD), the Annual Report and the Financial Stability Report (FSR). In addition, the information compiled for the quarterly Bank Lending Conditions Survey (BLCS) was disseminated to the public via the Quarterly Monetary Policy Committee presentations. Further, in the March 2021 Edition of the QER, the Bank published findings from the annual survey on the "Gross Economic Contribution of The Financial Sector to the Economy" for 2020.

During the year, research projects undertaken by staff remained focused on several important economic themes. Papers were presented at the Research Department's internal seminars and at external conferences, which continued to be held virtually in 2021. Noteworthy, staff authored a publication on Housing and Fiscal Policies in The Bahamas, which was presented at the Regional Annual Monetary Studies Conference, hosted virtually by the Central Bank of Trinidad & Tobago. In addition, another study on Global Warming and The Bahamas, was presented at Barbados' 41st Annual Research Review seminar.

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

PRUDENTIAL SUPERVISION & REGULATION

Profile of Regulated Activities and Entities

The Central Bank's supervisory responsibilities encompass a range of licensed activities under the Banks and Trust Companies Regulations Act, 2020 and various subsequent amendments, the Credit Union Act, 2015, Payments System Act, 2012, and the Credit Reporting Regulations Act, 2018. Trends in the industry remained mixed, with client market trends evolving global regulatory standards and efficiency pressures continuing to impact balance sheet and operations consolidation. On the domestic side, the elevated private sector credit risks environment remained pivotal in constraining balance sheet expansion, particularly among banks. Meanwhile, international financial institutions continued to be impacted by both re-domiciling of clients and operations, as various standards, particularly around tax cooperation, take further effect, notwithstanding emerging growth opportunities outside of Europe and North America, which continue to prove lucrative. In addition, growth remained evident in ancillary structures nestled within international banking and trust, and within emerging domestic payments services products.

In 2021, the number of supervised banks and trust companies decreased by three to 214 (See Table 3). In particular one new license was issued, while three SFIs ceased operations. The entities comprised four less public banks and trust companies at 80; one less restricted operations at 127, and two additional non-active licensee at seven. Public entities, included 21 authorised dealers and agents, resident for exchange control purposes, allowed to transact with both the domestic and international clientele. These included the existing nine commercial banks (authorised dealers).

Meanwhile, the total number of private trust companies (PTCs) increased by four to 140 at end 2021. However, the number of registered representatives (RRs) for PTCs remained at 23, whereas six financial and corporate service providers continued in the space.

The number of money services firms, comprising payments services institutions and non-bank money transmission businesses (MTBs) remained at three and five, respectively. Meanwhile, related agents for MTBs and PSPs stood at a combined 28. Further financial co-operative credit unions remained at 10, inclusive of the Bahamas Cooperative League Limited.

In the domestic sector, total assets of commercial banks and trust companies stood at $10.9 billion, an increase of $116.1 million (1.1%) relative to 2020. The four Canadian banks accounted for approximately two-thirds of total domestic assets. Meanwhile, the COVID-19 pandemic has led to increased promotion of use of digital banking services. At end-2021, the branch network remained unchanged at 68.

Table 3: Regulated Entities

	2019	2020	2021
Banks and Trusts	221	217	214
Banks & Trusts	50	50	50
Banks	24	24	22
Trusts	147	143	142
Non-Licensee Reg. Representatives	6	6	6
Licensee Registered Representatives	25	23	23
PTC (Registered)	142	136	140
Non-Bank MTB	5	5	5
Non-Bank MTA	21	22	20
MTB Branches	116	116	98
Cooperative Credit Unions	10	10	10
Payment Services Providers	3	3	3
Payment Services Agents	0	1	8
Memo Items:			
Assets of Domestic Banks (B$Bil)	18.44	19.57	20.81
% change	5.8%	6.2%	6.3%
Assets of International Banks (B$Bil)	167.85	153.25	129.02
% change	1.1%	-8.7%	-15.8%

Source: Central Bank of The Bahamas

As to credit unions, total assets fell by $7.7 million (1.6%) to $474.6 million, as the sector's members continued to place net reliance on savings drawdown during the pandemic. However, the membership base increased by 3.4% to 47,231 persons.

Licensed international banks and trust companies decreased by 2 to 193 in 2021. Further, amid ongoing consolidation within the sector, total assets declined by US$24.2 billion (15.8%) to $129.0 billion as at end-December, 2021. With closure of operations largely contributing, fiduciary assets also reduced by approximately US$69.4 billion (31.1%) to $153.8 billion.

The surveillance process for banks and trust companies, included prudential meetings, financial analysis, on-site examinations, risk assessments and AML/CFT risk analysis. In particular, the formal assessment of key business risks and SFIs' control environment, is supplemented with the analysis of regulatory returns, and input from periodic meetings with senior management and their independent risk and control functions. Cooperation was also maintained with other regional and international regulators, including through supervisory colleges on domestic banks with activities spanning multiple jurisdictions. In the domestic sector, the systemic importance of commercial banks also continued to justify more frequent reporting and oversight of their operations.

The Bank also observed the thematic trend in the growth of interest and businesses in the digital assets space. SFIs provided predominantly custodial and banking services to crypto-service providers. With the passage of the Digital Assets and Registered Exchanges Act 2020, it is anticipated that SFIs will seek to expand their reach in this market. As such, the Central Bank is developing supervisory guidance for the industry, in line with the evolving global benchmarks for digital assets, and with a view particularly to promote robust standards for the financial integrity of transactions and prudential outcomes for the safety and soundness of SFIs operations.

In line with the Bank's external engagement strategy during 2021, the Bank held its bi-lateral exchange with the Securities Commission of The Bahamas, to discuss thematic trends and concerns experienced with SFIs under the supervisory remit of both regulatory bodies. This collaboration was mutually beneficial, as the sharing of core information enhanced the assessment of the risk profiles of the joint licensees and the appropriate deployment of supervisory tools.

Supervisory and Regulatory Developments

During 2021, the Bank continued to monitor SFIs' approach to adapting their operations under the restrained conditions of the COVID-19 pandemic, and the identified risk management challenges of the environment. Firms sustained their hybrid work arrangements to comply with health and safety measures, and encouraged their staff, particularly with client-facing roles to become vaccinated, although no official vaccine mandates existed for The Bahamas. Firms also invested in technologies to support their operations including the deployment of more smart ABMs, in the case of the commercial banks. The pandemic continued to pose heightened cybersecurity and fraud risk, for which awareness and education campaigns persisted, particularly to mitigate these risks for clients of domestic SFIs. Meanwhile, commercial banks and credit unions offered targeted support to distressed borrowers, having ended more large-scale loan deferral programmes by end 2020.

Regulatory attention also sharpened around SFIs preparedness to address operations risks posed by severe hurricanes. Following the 2020 Hurricane Preparedness Survey, the Central Bank engaged with the Association of International Banks & Trusts ("AIBT") and the Clearing Banks Association ("CBA") to release, in July 2021, two industry-developed codes of practice around practical guidance for dealing with such disruptions. One addressed Maintenance of Effective Communication with Clients and the other Managing Catastrophe-Related Staff Issues before, after and during a catastrophic hurricane. The codes of practice offer practical industry guidance on how to effectively manage staff and communications with customers before, during and after a catastrophic event.

Several other regulatory developments were of note, including an action plan to operationalize the recovery and resolution framework that became effective under the new Banks and Trust Companies Regulation Act 2020. The Bank received significant support on the process from an IMF technical assistance mission, in October, 2021 and from which a follow up mission is scheduled for mid-2022. Two substantive deliverables in 2021, therefore, were the release of a draft Recovery Planning Guidelines for public licensees and the commencement of a pilot for two commercial banks to produce their recovery plans by 31st May, 2022. In the absence of banks and credit unions submitting recovery plans, the Central Bank continues to monitor their financial position, through the monthly asset quality assessments and other key prudential indicators, as well as meetings with executive management of the financial institutions to ensure the timeliness of supervisory intervention measures.

Supervisory Effectiveness

The Bank maintained its focus on more effective supervisory interventions and refining administrative processes.

Supervisory actions are defined in three categories:

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

The Central Bank monitors supervisory effectiveness by the pace at which SFIs resolve directives and requirements. During March 2020 to September 2021, total number of directives outstanding decreased from 17 to 12, after 14 additional ones were issued and a total of 19 were resolved. Of the remaining 12 directives, as at September 2021, 5 progressing satisfactorily, as compared to a single directive not progressing satisfactorily; and 6 that were too new on which to assess progress. The number of requirements due for resolution remained at a relatively steady state; however, SFIs did not generate a substantial rate of closure, due mainly to limitations on resourcing deployment and priorities during the pandemic.

The Bank approved 276 applications for "approved persons" for the year 2021. In continuing its commitment to ensure appropriate corporate governance structures, as well as 'fit and proper' management of firms within the jurisdiction, the Bank reviewed and recommended approval for the appointment of 101 directors, 98 Money Laundering Reporting & Executive Officers and 77 senior officials/officers.

Table 4: Applications for Approved Persons

	2019	2020	2021
Directors	80	79	101
Money Laundering Reporting & Executive Officers	176	85	98
Senior Officials	54	29	77
Total	**310**	**193**	**276**

Source: Central Bank of The Bahamas

AML/CFT and Other Oversight

As part of the continuous supervision of anti-money laundering (AML) and terrorist financing (TF) risks, the Bank received the second round of annual AML data returns from SFIs. These submissions help to enhance supervisory oversight by identification of trends and emerging risks. Summary analysis of the data collected from 2019 and 2020 was published in November 2021. The Bank also continued to gain an understanding of SFIs' self-assessments control of ML/TF risks. Notably during the year, new and updated assessments of the Payment Service Providers (Money Transmission Businesses and Payment Services Institutions) were conducted.

Drawing on data analytics, the Bank implemented an automated tool to monitor annual SWIFT inbound and outbound wire transfers against The Bahamas. The tool is expected to provide new insights on the characteristic of Bahamian cross-border payments, identify patterns of relevance, among others, in the sectors, jurisdictions and institutions of counterparties and intermediaries.

The Bank engaged in several initiatives during the year to further strengthen its AML/CFT engagement across domestic and international stakeholders, as well as to achieve greater leadership and recognition in this space. In January 2021, the Bank, in collaboration with the IDB, hosted the second global research conference, focusing on empirical approaches to AML and financial crime suppression. The conference achieved international attention as a result of the growing number of participants and attendees.

Additionally, the third edition of the Correspondent Banking Newsletter was issued in September 2021 to the international correspondent banking community. The Newsletter focused on Bahamian AML/CFT developments for the period 2020-2021.

In December 2021, in conjunction with the Group of Financial Services Regulators, the Bank released the publication of the second edition of The Bahamas AML/CFT Report for 2019 to 2020. The Report detailed the various AML/CFT work conducted by regulatory bodies and public/private agencies, highlighting the increased inter-agency cooperation and industry participation within The Bahamas regarding financial crime risk management.

Representatives from the Bank continued to participate in The Bahamas' Identified Risk Framework Steering Committee (IRFSC), which met weekly to discuss related work within the jurisdiction. The IRFSC also spearheaded the official efforts to remediate deficiencies cited in the AML/CFT Mutual Evaluation Report (MER) of The Bahamas, which was issued by the Caribbean Financial Action Task Force (CFATF) in July, 2017. In December 2021, as a result of actions taken and the progress made by The Bahamas in relation to its 2017 MER, the CFATF re-rated the country. Consequently, The Bahamas is now compliant or largely compliant in 38 of the total 40 FATF Recommendations.

Data Analytics

The Bank collects financial data through the Online Reporting and Information Management System (ORIMS), to inform the risk-based supervision of SFIs. In addition, the Bank conducts periodic surveys about emergent issues or shocks facing the financial sector. In November 2021, the Bank issued a survey to SFI on thematic AML issues, including gathering information on business conducted with digital asset service providers and other items. The results of that survey are expected to be available during the first quarter of 2022.

An additional survey on technology risk management is being developed for issuance during the first quarter of 2022. This survey will seek to identify the areas of technology risk arising from the deployment of recent or emerging technologies or practices by SFIs.

Compliance and Timeliness of SFI Reporting

During 2021, the Bank experienced some improvement in SFI regulatory reporting compliance, with an on-time compliance rate of approximately 84.0% from the 70.0%-75.0% exhibited by SFIs over the past years. Enhanced monitoring and analysis of regulatory submissions will be sustained to ensure improvement and compliance, with further engagement undertaken with individual SFIs and their external auditors.

Table 5: On-site Examinations Conducted

	2019	2020	2021
Examinations			
Domestic Licensees	2	2	2
Other Licensees	27	7	9
Follow-up /Special Focus	17**	7	8**
Regulator Initiated	3*	0	1*
Discovery Reviews	7*	0	0
Financial Credit Unions	3	2	0
Total	**32**	**11**	**11**
Reports			
Finalized Reports	19	12	12
Reports in Progress	3	2	1
Total	**22**	**14**	**13**

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

Examinations Programme

In 2021, the Bank conducted 11 virtual examinations, one of which was at the request of the SFI's parent regulator (See Table 5). The examination rate has roughly halved since the March 2020 COVID-19 outbreak, due to reasons, inclusive of the inherent constraints with conducting remote examinations. Notably the number of examinations completed remained unchanged year over year.

The risk areas examined during the year focused primarily on corporate governance, credit, fiduciary, money laundering, terrorist and proliferation financing (ML/TF), and operational risk, with ML/TF risk a focus of all examinations. The SFIs selected for examinations were identified through the supervisory planning process, which establishes a minimum frequency for such contacts; and some were selected on an elevated risk weighted basis, relative to how they were likely to be impacted by emerging threats. The Bank issued 12 Examination Reports to SFIs, including two that were outstanding from 2020. As at 31st December 2021, there was one report in the process of being finalized.

Domestic SFIs Risks

Credit Risk Review

Supervisory focus remained on ensuring that the domestic banks were deploying effective strategies to reduce the level of non-performing loans (NPLs) in the banking system, recognizing that the widespread loan payment deferral programs had expired in late 2020 and that a number of deferred loans would potentially transition into delinquency. In this vein, half yearly and ad-hoc meetings were held remotely with senior bank executives to discuss the strategies deployed to manage this risk.

There was a notable reduction from 2020 to 2021 in the number and value of credit facilities on deferral in the banking system. Underpinned by the onset of the recovery of the Bahamian economy and improvement in the financial capacity of some borrowers, the level of deferred credits in the system remained under surveillance, along with the system's approach to governance and management of the risks associated with this book of assets. Surveillance also continued of the credit risk management frameworks of SFIs.

The industry's NPLs rate firmed to 9.6% from 8.5% at end-December 2020. While facilities granted COVID-19 deferral are not included in NPLs, the share of these accommodations in the total private loan portfolio decreased to just 0.1% at end 2021. This compared to a deferral rate of 8.5% of loans at 31st December, 2020, and a peak of more than 30.0% at 30th June, 2020.

Stress Testing

Credit risks scenarios feature prominently in stress tests of the robustness of the banking system. Liquidity and interest rate risks were also monitored on an on-going basis, with the former being subject to more enhanced monitoring, over the past two years, given the potential impact on banks' operations due to the COVID-19 pandemic. The credit risk stress test uses extreme, but plausible, stress 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. Broad observations from consolidated results are provided relative to liquidity and interest rate risk stress tests. Given the high capital and liquidity positions of banks, stress test results have reflected a resilient system. The Bahamian economy via the COVID-19 pandemic, has provided a real-world stress that confirmed the results of the Bank's stress testing.

There are no immediate financial stability concerns, given the commercial banks' high capital buffers and satisfactory provisioning levels. The credit stress scenarios examined shocks to NPLs of 100%, 150% and 200% and the consequent impact of these on statement of income and ultimately capital. The consolidated results, which produced simulated declines in banks' capital levels of up to 7.95%, consistently yielded no capital injection requirement. At all levels of shocks, capital remained well above the established trigger and target ratios of 14.0% and 17.0%. In particular, the banking sector's average capital to risk-weighted assets ratio fluctuated between 26.87% and 32.14%.

Stress test results continued to show that commercial 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.

Simulations further indicate that the risk to near-term depletion of liquidity was negligible. This was attributed to the high level of liquidity across the banking system, supported by the continued cautious posture to lending.

Capital Adequacy

Commercial banks' capital levels remained robust in 2021, with a reported capital to risk-weighted assets ratio of 26.4% and the common equity tier 1 capital to risk weighted assets ratio of 24.6%, well above the established regulatory target and trigger ratios of 17.0% and 14.0%, respectively.

Credit Unions

Supervision of credit unions remained focused on multiple risk-based outcomes around AML/KYC, corporate governance and credit risk management frameworks; and remediation efforts against on-site examination findings.

As to credit risk, the Central Bank, particularly monitored credit unions' progress in managing delinquencies precipitated by the pandemic. Similar to banks, credit unions offered wide-ranging loan payment deferrals to eligible and impacted members at the onset of the pandemic. During the year, the Central Bank continued to monitor this portfolio of assets closely given the sector's very thin capital and liquidity buffers. At end-2020, approximately 20.8% of the sector's loans were under deferral arrangements, decreasing to 1.2% near the close of 2021. However, the NPL rate firmed to an estimated 12.5% at end-2021 from 10.6% in 2020.

Money Services Businesses

The heightened supervisory focus on reputational risks, inclusive of AML/CFT, and operational risk management continued for MTBs and payment services institutions (or PSPs). This emphasis ensures that all key exposures, were being effectively identified, measured, mitigated and monitored. Due to restrictions emanating from the COVID-19 pandemic, the customer base among MTBs and PSPs grew significantly during the year, as well as the usage of digital wallets, electronic transfers and bill payments, among others.

The moratorium placed on the consideration of new licence applications for MTBs and PSPs remained in effect during the year. It is expected to be extended through to September, 2022 to assist with facilitating the stable, orderly adjustment of the expanded list of participants within the payments space.

Basel II and III Implementation Programme

The Central Bank released several Discussion Papers between August and December, 2018 (First Round Consultation) setting out proposals for changes to the Basel II/III capital and liquidity frameworks. Feedback from the industry was taken into account in the draft Bahamas Capital Regulations, 2020, which were released for a Second Round Consultation period ending January, 2021. The proposed regulations construct a simpler yet effective prudential framework, through proportionate application of the Basel international standards. The Bank, meanwhile engaged a cross-section of SFIs in a pilot exercise to test the revised capital reporting and related forms. The regulations are planned to come into effect in 2022.

Guidance Notes and Policies

In December 2021, the Central Bank released revised Credit Risk Guidelines, draft Internal Audit and Recovery Planning Guidelines for a sixty-day consultation period. The revised Credit Risk Guidelines, which will replace and expand upon the Impaired Assets Guidance featured IFRS9 updates, asset classifications guidance and further clarifications on the total debt service ratio. Meanwhile, the draft Internal Audit Guidelines offer a framework for assessing the effectiveness of the internal audit function in SFIs. Finally, the pending Recovery Planning Guidelines propose a general approach for supervised financial institutions to develop recovery plans. This would further modernize the recovery and resolution framework for banks and credit unions in The Bahamas, in line with international best practices.

Crisis Management

The suite of legislation brought into force in September, 2020 strengthened the financial sector crisis management framework, particularly for the resolution of banks and brought the Deposit Insurance Corporation (DIC) more closely in line with international standards. These comprised the Central Bank of The Bahamas, Act 2020, the Banks and Trust Companies Regulation Act, 2020, the Protection of Depositors (Amendment) Act, 2020 and the Protection of Depositors (Amendment) Bye-laws, 2020. In 2021, the IMF conducted a mission to provide technical assistance to the Central Bank and the Corporation in operationalizing the new bank recovery and resolution framework and amended deposit insurance legislation. The Central Bank developed an action plan for 2022 to progress several key recommendations emanating from the mission. This would encompass engagement with the Ministry of Finance and other financial services regulators; proposing amendments to strengthen supervisory provisions in the Bahamas Co-operative Credit Unions Act, 2015; pursuing stronger domestic inter-agency cooperation and coordination; and bolstering the operational arrangements for the DIC.

Administrative Monetary Penalties

Monetary penalties imposed under the existing regulations totalled $1.3 million in 2021, compared to $1.1 million in 2020. Sanctions totalling $1.6 million have been levied and collected since 2016, for breaches commonly classified under 29 different categories–the most active being late or erroneous filing of regulatory reports.

Credit Bureau

The credit bureau transitioned to live operations at end-April 2021, with a majority of the domestic banks commencing reporting to the bureau and other credit information providers at varying stages of preparation to begin reporting. Inclusive of banks, credit unions, public utilities and insurance companies, at least 38 entities were identified as having a statutory obligation to report information to the credit bureau. CRIF Information Services Bahamas Limited, the bureau operator, engaged with all designated credit information providers to prepare for the electronic reporting of data, and engaged in public education outreach to consumers on the eventual role of the bureau. By end 2021, some credit information providers were already positioned to access credit reports, albeit the completeness of the reports remains partial until all information providers have begun filing data.

Regulatory Cooperation

In 2021, the Bank received five information requests from five foreign regulatory authorities (See Table 6). The Bank responded to all five requests.

Table 6: 2021 Requests for Cooperation

Country	Requests Received From Foreign Regulators
British Virgin Islands	1
Mauritius	1
Nevis	1
Switzerland	1
United States	1
Total Requests	**5**

Source: Central Bank of The Bahamas

DEPOSIT INSURANCE CORPORATION

With technical and administrative support provided by the Central Bank, the Deposit Insurance Corporation (DIC) continued to advance 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 Corporation is mandated to provide insurance protection and support for Bahamian dollar depositors in member banks and credit unions, up to a maximum of $50,000 for any single depositor. At end-2021, the DIC had 18 member institutions.

At end-December, 2021 insurable deposits and insured deposits totalled $7.6 billion and $2.2 billion, respectfully. Meanwhile, credit unions' insurable deposits were $409.1 million and insured deposits amounted to $333.0 million. As such, the coverage ratio, which represented the share of insured deposits out of insurable/eligible deposits, was 29.2% for banks and 81.4% for credit unions.

Banks' other insurable liabilities totalled $52.3 million, consisting of $41.7 million in accrued interest and $10.6 million in stored value cards. For credit unions, accrued interest totalled $2.8 million.

As to funding, the DIC premiums collections increased by 14.5% to $3.7 million. Of this, $3.5 million were attributed to banks and $0.2 million to credit unions. Premiums continue to be assessed at the rate of one twentieth of one per cent (0.05%) of deposits, averaged over liabilities as at 31st March and 30th September of the previous year.

In 2021, total assets of the DIC increased by approximately 7.9% ($5.3 million) to $72.6 million over 2020, representing both premium and net investment income inflows.

INFORMATION TECHNOLOGY

The Bank progressed a number of strategic Information Technology (IT) projects during the year. These included continued implementation of the modernised enterprise resource planning solution which will support the financial and human resources management systems. Varied projects also advanced virtualization tools for remote work, mobile device management, data analytics and robotic process automation. Meanwhile, expansion of robotic process automation systems, continued to re-engineer, streamline and harmonize less complex manual processes across a wider cross-section of the organization.

The cloud computing policy also took further structure, considerate of the assurances required around cyber security and data protection given increasing, necessary dependence on remote computing services and resources. The Board is expected to approve this framework in 2022.

The IT Department also provided strategic support to various operating functions within the Bank, requiring data analytics and information management assistance, through the delivery of several data warehouses, standardized data reports and user self-service within the Bank's corporate business analytics platform.

FACILITIES MANAGEMENT AND HEALTH & SAFETY IN THE WORKPLACE

The Bank conducts its business from the Main Building situated between Market Street on the west and Frederick Street on the east, and the leased Trimark building, located to the north of the main building. The Bank also owns three protected historical buildings, namely, the Great House, which serves as the staff cafeteria; Balcony House, a two-storied period building presently managed by the Antiquities, Monuments and Museums Corporation (AMMC) as a museum; and Verandah House, formally used as a training facility by the Bahamas Institute of Financial Services (BIFS), and now converted into a gym for employees. An Exchange Control Representative Office is located in Freeport, Grand Bahama, in the Grand Bahama Office of The Prime Minister, in the Harold DeGregory Complex.

The Bank focused on various projects in 2021, in an effort to enhance workplace safety arrangements. These included capacity building within the security operations, with further training and exposure provided by local law enforcement agencies and specialist firms.

As part of its green initiative, the Bank sustained its efforts to carefully monitor its energy consumption. Total utility costs—including water & sewerage, electricity, cable and telecommunications—increased modestly by 2.2% in 2021, when compared to the prior year. The growth was primarily due to a rise in communications to support the remote working environment. However electricity and water & sewerage costs decreased across the Bank's properties.

Preparations were also sustained for the medium to long-term occupancy needs of the Bank. In particular, the pre-construction work on the New Premises, earmarked for the Royal Victoria Gardens, in the City of Nassau advanced substantially towards completion. This effort focused on completion to an 85.0% architectural design works, pre-qualification of general contractors to bid on the construction; and demolition and removal of dilapidated structures from the construction site. In parallel, the Bank advanced through most of the technical preparation for the design of the Cash and Data Centre, which will also support the Bank's Business Continuity Programme (BCP). This facility is planned for construction in the western area of New Providence.

Additional enhancements were also made to protect the security, safety and functionality of the Bank's existing properties. These focused, among other issues, on addressing air quality improvement within the workplace and upgrading ventilation systems for critical IT infrastructure.

STAFF COMPLEMENT AND RELATIONS

The Bank's human resources (HR) operations continued to centre on recruitment, training, employee compensation and benefits. Important initiatives included a Strategic Workforce Planning exercise, an updated Employee Engagement Survey and commissioning of a new Compensation Study.

In 2021, the staff complement decreased by two to 272, amid a rise in the turnover rate by 1.9 percentage points to 8.42% (See Table 7). There were 23 employee separations—14 resignations, two terminations, six retirements and one death; while 17 new persons were engaged. Given heavy emphasis on training, 39 positions were staffed though internal staff movements, inclusive of 25 promotions and 14 lateral transfers. At year-end, there were 47 vacancies existing at the Bank.

The employee complement comprised 190 non-management, 67 in middle management and 15 in executive management. The female to male ratio remained at almost 2:1.

During the annual Employee Recognition and Awards Ceremony, held 19th January, 2022, the Bank recognized 45 employees, who attained 5, 10, 15, 20, 25, 30, 35 and 40 years of continuous service.

The Bank also awards employees for exemplary performance and for their exceptional contribution to the strategic goals of the organization. The Governor's Award is a recognition of the hard work, diligent efforts and consistent focus of members of the Central Bank family, in ensuring that the organization lives up to its mandate. Nominations were invited from all employees on behalf of their colleagues. A Blue Ribbon Committee assessed the nominations and made recommendations of six (6) finalists for the Award. This year's process added a finalist interview component to ascertain their direct contributions to the strategic goals. The winner of the coveted 2021 Governor's Award and nominees were announced on 1st February, 2022. The 2021 Governor's Award winner is commended for contribution to the development of a moveable collateral registry for The Bahamas, which advanced the project to the ready-to-launch phase. The winner also provided greater strengthening of team members around forecasting and modelling, resulting in migration of the Bank's forecasting model from annual to quarterly projections of key economic data. Additionally, the winner participated in the Bahamas Sustainability Committee and provided assistance with growth modelling.

Table 7: Workforce Metrics

	2019	2020	2021
Staff Complement	264	274	272
Gender Distribution (%)			
Male	37.1	39.1	39.3
Female	62.9	60.9	60.7
Turnover Rate (%)*	8.9	6.6	8.4

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

Employee Relations

In 2021, the HR Department sought to deepen staff engagement, through team-building sessions on "Mental Wellness" given by the Bank's Employee Assistance Provider, Living a Healthy Lifestyle seminar and Work Life Balance sessions by external facilitators. To complement these initiatives, a session on "Making the Right Turn" was offered to assist employees in navigating through the pandemic. Awareness sessions were also provided on National Insurance benefits and the Bank's medical plan.

As most employees worked remotely, communications were maintained through departmental meetings, monthly Open Management Meetings for all managers, and weekly management meetings with Department Heads. In addition, in March and September 2021, the Department organized the Governor's meeting with employees to discuss key initiatives of the Bank's Strategic Plan 2021-2025.

The Bank remained engaged in open and constructive communications with both staff unions. This included negotiations on a new industrial agreement with the respective mid-management and non-management bargaining representatives, the Bahamas Communications and Public Managers Union (BCPMU), and the Union of Central Bankers (UCB). Both agreements expired on 31st December, 2020.

Wellness Programmes

The Bank maintains a variety of health and wellness initiatives. The Zest Wellness Programme continued with a slightly reduced staff participation rate of 78.4%. While motivating healthy lifestyle behaviour, the initiative featured virtual sessions, mainly focused on coping with the COVID-19 pandemic, eating healthy, staying active, being productive and finding balance between work and family. Additionally, the Great House Cafeteria remained a source of nutritional quality meals to further advance the health and wellness program. On a weekly and bi-weekly basis, the Bank funded on-site COVID-19 testing for staff and continued to host the Ministry of Health's seasonal influenza inoculations. In addition, the Employee Assistance Program (EAP) provided continued mental wellbeing support for staff.

Due to the COVID-19 pandemic and national restrictions, the Bank suspended key social engagement activities. Impacted events included the annual Family Fun Day, Christmas Party for employees and the Christmas Party for children of employees; sporting events, the Cultural Arts Festival and monthly social gatherings.

Staff Development and Training

The Bank's training and capacity development regiment ensures that staff have the technical competencies to effectively deliver on the Bank's statutory remit. Training activities were conducted mostly on virtual platforms and included topics on anti-money laundering (AML) fundamentals, banking supervision, information technology, information security, topics related to monetary policy and exchange controls and a range of soft skills essential for effective performance.

In its core capacity building activities, the Bank partnered for training with international and other agencies that provide technical assistance, including the Association of Certified Anti-Money Laundering Specialists (ACAMS), the Association of Supervisors of Banks of the Americas (ASBA), the International Monetary Fund (IMF), and the IMF's Caribbean Regional Technical Assistance Centre (CARTAC), the Centre for Latin American Monetary Studies (CEMLA), the Caribbean Financial Action Task Force (CFATF), the Financial Action Task Force (FATF), the Alliance for Financial Inclusion (AFI), and the Institute of Internal Auditors (IIA). Training was also accessed locally through courses, seminars and workshops provided by the Bahamas Institute of Financial Services (BIFS), the Bahamas Institute of Chartered Accountants (BICA), and various tertiary-level institutions.

Of a non-technical nature, but essential to the workplace, the Bank also facilitated the annual retirement seminar for staff with five or fewer years to retirement. In addition, two induction training workshops were held to orient new staff to the organisation. Of note, inductees were required to complete attestation following presentations on the Code of Conduct Policy and Anti-fraud, Anti-bribery and Anti-corruption Policy & Strategy. These presentations and sessions on review of key HR policies, held during the workshops, were open to all employees as refreshers. In particular, all employees were required to review and attest to the Code of Conduct Policy and the Anti-fraud, Anti-bribery and Anti-Corruption Policy & Strategy annually.

During 2021, 15 employees received approvals for certification studies related to anti money laundering, governance, risk and compliance, project management, risk management; and for pursuit of degrees in banking and finance, business administration, computer information systems, and quantitative management. Also, two employees were granted paid in-service awards to pursue graduate degrees in economics and operations research & analytics, respectively.

Workforce Assessment and Capacity Building Consultancy

In January 2021, the Bank commissioned a Strategic Workforce Plan study to assess the optimal approach to talent resourcing for 2021-2025, supported by an Employee Engagement Survey to consider input from internal stakeholders. As per the engagement survey results, implicit leadership, personal initiative and satisfaction were cited as areas of strength within the workplace; while scope was identified to strengthen the employee recognition framework.

The Bank periodically reviews its compensation framework against industry comparators to inform constructive changes. To this end, the latest consultancy was engaged in October 2021, with the actionable results expected during the first half of 2022.

In its efforts to further align individual targets to the Bank's Strategic Plan and improve overall performance, the Bank embarked on a process to strengthen the Performance Management System. The process commenced during the fourth quarter of 2021, with a Performance Management Survey to receive input from staff and their respective union representatives.

Executive Professionals and Apprentice Programmes
In 2020, the Bank initiated the Executive Professionals and Apprentice Programmes to recruit entry level talent, respectively, at the graduate and undergraduate levels of university studies. During 2021, the three Executive Professionals and five Apprentice interns continued their rotation in core Departments and Units, namely Bank Supervision, Banking, Finance, Information Technology, Research and the Governor's Office (Project Sand Dollar). The interns also collaborated on a group research on Financial Technology and Bahamian Economic Development.

Summer Internship Programme
The 2021 Summer Internship programme was held in virtual format, facilitating technical workshops that expose future college graduates to the central banking environment. The seven-week programme commenced in June, 2021 for five interns who were guided by senior staff members in preparation of their research papers. The research papers were presented in July, 2021 at a Roundtable Forum. The Bank has determined to further strengthen this format to increase the outreach to students who might be attracted to careers in finance, financial regulation and economic policy.

COMMUNITY INVOLVEMENT AND OUTREACH

The Bank continued to support outreach to local schools with a virtual presentations on the Role and Functions of Central Bank. The Bank was also represented through the HR Department on the Education Committee for the Bahamas Institute for Financial Services.

The Central Bank's patronage and support of Bahamian art and culture was maintained in 2021, through exhibitions and public art collaborations with other cultural institutions. In April, the Bank celebrated the completion of Abby Smith's mural at the Stapledon School for children and adults with intellectual disabilities; and in November, the completion of Ruthjeana Johnson's mural at the historic Reinhard Hotel in New Providence. Both artists won awards in the 2020 "Bigger Picture: Murals and Public Art" competition.

Additionally, the Bank staged the 38th annual versions of the Open Call and the High School art competitions. Although completely virtual, both competitions saw an uptick in submissions, with increased participation from the Family Islands. The Open Call Competition under the theme "Hindsight is 2020", received 65 total entries from which, ten awardees were selected, as well as a list of honourable mentions and special recognitions. The competition's virtual exhibition also exceeded average historical in-person viewership, with over 900 visits in the first few weeks of launch. Furthermore, of 120 submissions for the High School Competition "One Moment in Time", the judging recognised twelve students from 11 different schools.

The Central Bank, in collaboration with the National Art Gallery of The Bahamas (NAGB) and the Antiquities, Monuments, and Museums Corporation (AMMC), hosted the Annual Conference of the Museums Association of the Caribbean (MAC) in November. Over 250 delegates from 23 countries participated in this three-day virtual event. The conference covered a wide array of topics, including digital artworks collections, health and wellness, and social justice among others. It is expected that The Bahamas host the event in an in-person format in 2022.

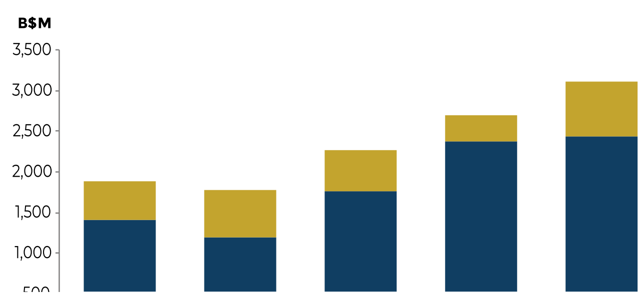
2021 FINANCIAL HIGHLIGHTS

The Bank's financial statements for the year ended 31st December 2021, along with comparable figures for 2020, are presented on pages 45 to 126 of this report.

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

During 2021, the Bank's total assets grew by $425.0 million (15.8%) to $3,118.4 million. External assets—which constituted 78.0% of the total—increased by $50.6 million (2.1%) to $2,432.8 million, largely due to the IMF's Special Drawing Rights (SDRs) allocation. By component, SDRs holdings more than doubled to $418.9 million from $179.2 million in 2020. Further, foreign currency cash and deposit balances rose by $16.3 million (5.3%) to $323.8 million. Conversely, the Bank's holdings of marketable securities reduced by $204.5 million (11.0%) to $1,663.1 million and the Reserve Tranche, by $0.8 million (2.8%) to $27.0 million.

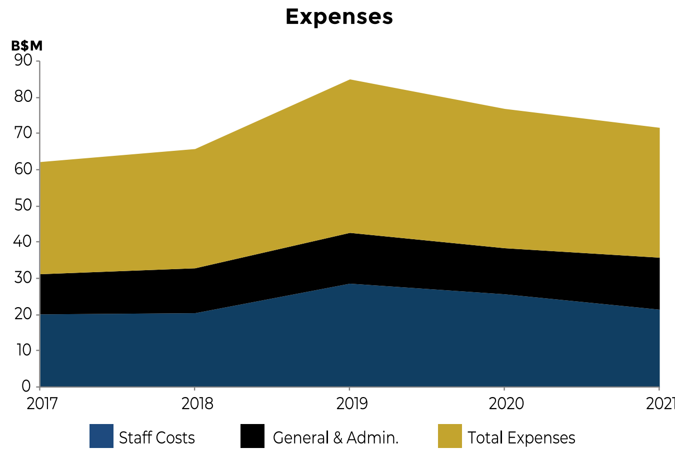
Assets



Total domestic assets more than doubled to $685.7 million from $311.3 million in 2020, underpinned by a rise in advances to the Government to $266.1 million from just $5.8 million in the previous year. In addition, Bahamas Registered Stock holdings expanded by $108.0 million (46.4%) to $340.9 million; and the Bank's Treasury bill portfolio expanded to $14.0 million from $13.8 million in the prior year. Claims represented as Bridge Authority Bonds totalled $0.5 million from negligible levels in the preceding year, owing mainly to secondary market purchases from pension funds; while loans to the Bahamas Development Bank (BDB) decreased by $0.1 million (5.3%) to $1.9 million and bonds held stabilized at $4.1 million. The value of the Bank's property, plant & equipment increased by $5.1 million (27.2%) to $23.9 million and currency inventory by $0.6 million (5.5%) to $12.3 million. Also of note, intangible assets increased slightly by $0.1 million (1.2%) to $6.0 million.

The Bank's total demand liabilities, increased by $184.7 million (8.1%) to $2,461.7 million. Contributing, the unremunerated deposits of commercial banks grew by $72.0 million (4.6%) to $1,643.1 million, following inflows from the Government's repayment of some short-term debt owed to these institutions. In addition, currency in circulation rose by $17.2 million (3.1%) to $563.7 million; and Government and related agency deposits advanced by $98.2 million (73.2%) to $232.4 million. Liabilities represented by health insurance subsidies also moved higher by $1.1 million (14.4%) to $8.7 million, while Investment Currency Market liabilities firmed by $0.4 million (10.9%) to $4.2 million. In contrast, the accounts payable reduced by $3.2 million (32.0%) to $6.7 million.

The gross income earned by the Bank fell by $16.3 million (30.8%) to $36.6 million in 2021, as the interest income from investment sources, declined by $4.3 million (10.5%) to $36.1 million. In particular, interest on foreign investments decreased by $7.5 million (26.9%); however, returns on domestic investments grew by $0.3 million (2.4%) to $11.9 million, while interest on loans increased more than three-fold to $3.9 million from $1.1 million in the prior year. Meanwhile, income from "other" miscellaneous sources contracted to $0.5 million from $12.6 million in 2020.



During the year, total expenses reduced by $2.7 million (6.9%) to $35.7 million. This was largely attributed to lower staff costs, by $4.2 million (16.4%) to $21.5 million, reflecting the windup of the Defined Benefit Pension Plan. In an offset, general and administrative costs firmed by $0.5 million (5.0%), while depreciation expenses edged up $0.1 million (3.7%).

Against this backdrop, the Bank registered reduced comprehensive net income of $0.7 million, compared to $11.3 million in 2020.

OUR ENVIRONMENT

OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

Despite the ongoing spread of the Novel Coronavirus (COVID-19) pandemic and new variants, preliminary indications are that the domestic economy recovered by 13.7% in 2021, following a 23.8% contraction in 2020. Widespread vaccination efforts and the gradual easing of globally imposed travel restrictions aided a steady resumption of tourism activity, with earlier-timed, sizeable gains in the high value-added air segment and seasonally resumed sea traffic, much later in the calendar year. Further, construction output was under-girded by a number of varied-scale foreign investment projects, while domestic residential and commercial activity remained subdued. Against this backdrop, indications are that the unemployment rate remained above pre-COVID levels, as the number of unemployed persons stayed elevated. Domestic inflationary pressures also heightened as global oil prices trended upwards.

In the fiscal sector, the overall deficit widened considerably in FY2020/21. The disruption in economic activities related to COVID-19 persisted in a falloff in revenue collections and a rise in expenditure, mainly associated with elevated health and social sector needs related to the pandemic. Fiscal outlays also continued on the reconstruction of key infrastructure, following the 2019 major storm. Over the first half of FY2021/22, the overall deficit narrowed significantly, timed with the resumption of tourism activities and the start of a VAT-led restoration of total revenue, which outstripped the expansion in aggregate expenditure. Deficit financing during the new fiscal year, was more proportionately weighted towards the domestic market, whereas net foreign currency borrowing supported relatively more of the FY2020/21 needs.

At end-December 2021, the ratio of the Direct Charge on the Government to GDP declined by 5.0 percentage points to 92.1% compared with a 38.5 percentage point increase during the previous year. Further, the National Debt—inclusive of Government loan guarantees to the public sector—grew by $859.1 million (8.7%) to $10,717.0 million at end-December, 2021, a moderation from the previous year's $1,400.7 million (16.6%) growth. Similarly, the National Debt-to-GDP ratio decreased by 6.0 percentage points to 95.6%, following a 37.5 percentage points increase to 101.6% in 2020.

Developments in the monetary sector featured an expansion in the deposit base, which outweighed the rise in domestic credit. This contributed to a buildup in both bank liquidity and external reserves. Inflows to the banking system included the receipt of Special Drawing Rights (SDRs) from the IMF in 2021. In this environment, at end-2021 the stock of external reserves was equivalent to an estimated 36.8 weeks of the current year's total merchandise imports, relative to 56.8 weeks in the previous year, remaining well above the 12.0 weeks international benchmark.

Reflective of the conclusion of loan deferral schemes that were implemented to support persons and businesses impacted by the COVID-19 pandemic, banks' credit quality indicators weakened slightly during the review year. Domestic Banks reported a net profit for 2021, a reversal from a net loss in the previous year, owing in large measure to the decrease in provisioning for bad debt and non-staff related expenses. Meanwhile, the weighted average interest rate spread narrowed during the year, as the reduction in the average loan rate overshadowed the rise in the corresponding deposit rate.

In the external sector, the estimated current account deficit narrowed over the review year. Undergirded by a recovery in tourism earnings, the services account reverted to a surplus position from a deficit in the previous year, when international restrictions to contain the spread of COVID-19 eliminated travel receipts. In contrast, the estimated surplus on the capital account decreased considerably, while the financial account inflows moderated from the previous year's notable expansion, which had included debt-financed inflows to the Government.

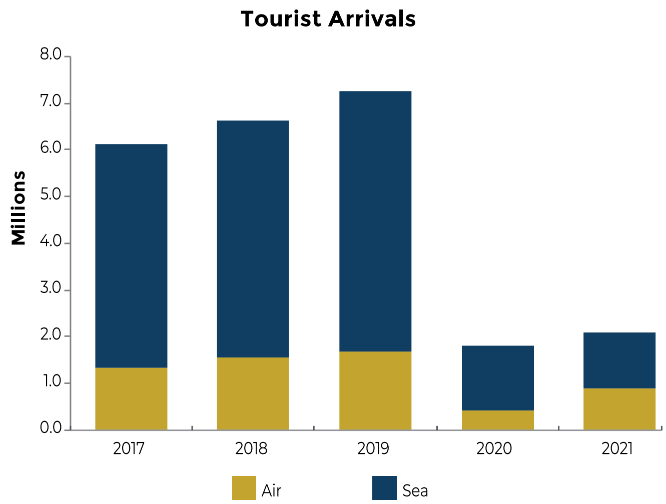
REAL SECTOR

Tourism

Amid widespread vaccination efforts in the major source markets and the gradual relaxation of globally imposed travel restrictions to curtail the spread of COVID-19, tourism output recovered in 2021, albeit below pre-pandemic levels. Developments were underpinned by sustained gains in the high value-added air segment and the resumption in sea traffic.

According to data from the Ministry of Tourism, total tourist arrivals grew by 17.1% to 2.1 million in 2021, following a sharp reduction by 75.2% in 2020. While, this represented just 29.0% of 2019 levels, air arrivals, indicative of high-yielding stopover tourism, increased more than two-fold to 886,629 arrivals, compared to 418,329 visitors a year earlier. This outcome capitalized on an earlier second quarter resumption in visitor flows, in contrast to the delay for cruise activity, under voluntarily constrained occupancy, until the third quarter of the year. Consequently, the sea component, reflected an 11.8% reduction to 1.2 million passengers in 2021, which was still a notable slowdown from the 75.4% falloff in 2020.

A breakdown by first port of entry, revealed that overall arrivals to New Providence rose by 22.2% to 1.1 million, following the 78.2% decline in the preceding year. Notably, air arrivals rebounded to 651,571 passengers from 322,377 in 2020, albeit 75.3% below the 2019 results. Meanwhile a moderated 21.5% decrease in sea arrivals registered to 463,713 passengers, considerably lower than the 79.6% contraction in the preceding year. Likewise, visitors to the Family Islands grew by 17.1% to 900,014, primarily driven by air arrivals, which advanced to 215,307 from 84,242 in 2020; while the sea segment stabilized at 684,707 visitors, following a 69.6% retrenchment in the previous year. In Grand Bahama, visitor arrivals reduced by 24.4% to 85,320, easing from the 78.5% retrenchment in the prior year, as air arrivals resumed by 68.7%, and the reduction in the sea segment moderated to 35.2%.



As a subset of the stopover market, significant positive trends were also observed in the private vacation rental market. Data provided by AirDNA revealed a recovery in off-resort business activity, as total room nights sold increased by 62.8%, in contrast to the 46.9% reduction a year earlier. In terms of the components, both entire place and hotel comparable listings rose by 64.8% and by 47.4%, respectively, after a 47.8% and 38.6% decrease in 2020. In addition, occupancy levels for hotel comparable rentals grew on average by 8.1 percentage points to 45.0%, while the accompanying average daily rate (ADR) firmed by 12.8% to $172.50. Similarly, occupancy levels for entire place listings moved higher on average, by 13.3 percentage points to 49.2%, and the associated ADR appreciated by 16.2% to $478.79.

Construction

During 2021, construction sector activity continued to be under-girded by several ongoing foreign investment projects. In addition, domestic private sector investment, as represented by residential and commercial building activity, showed modest signs of improvement. However, forward looking indicators remained lacklustre over the near term.

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—rose by $11.7 million (14.5%) to $92.6 million, following the $32.5 million (28.6%) decline in 2020. Residential disbursements—which accounted for 98.0% of the total—increased by $12.1 million (15.4%) to $90.7 million, relative to the 25.7% falloff in the prior year. In contrast, the commercial component decreased by $0.4 million (17.5%), although lower than the $5.3 million (70.0%) reduction a year earlier.

Forward-looking indicators of domestic activity were still subdued. Total mortgage commitments—for new construction and repairs—reduced in number by 73 (18.3%) to 325, with the associated value contracting by $19.9 million (23.9%) to $63.2 million. A breakdown by loan category revealed that residential approvals fell in number by 63 (16.8%) to 312, while the corresponding value declined by $8.7 million (13.1%) to $57.5 million. In addition, commercial commitments decreased in number by 10 to 13, with the associated value lower by $11.2 million (66.2%) at $5.7 million.

In terms of interest rates, the average financing cost for residential mortgages narrowed by 24 basis points to 6.22%. Conversely, the average rate for commercial mortgages widened by 95 basis points to 7.14%.

Table 8: Selected Economic Indicators

	2019	2020 (% Change)	2021
Real GDP*	1.9	(23.8)	13.7
Unemployment Rate (May)	9.5	n.a.	n.a.
Hotel Occupancy (%)**	62.8	37.7	n.a.
Total Arrivals	9.5	(75.3)	17.1
Mortgage Disbursements	(7.4)	(29.1)	46.9
Inflation	2.5	0.0	2.9
National Debt/GDP Ratio (%)*	64.1	101.6	95.6

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

Prices

Reflecting mainly higher imported fuel costs, inflation as measured by the change in the average Retail Price Index (RPI) for The Bahamas accelerated to 2.9% in 2021, from a muted 0.04% in 2020. Contributing to this outturn, average prices rose for transport, by 9.3%; for clothing & footwear, by 8.2%; and communication, by 6.1%, after posting respective reductions a year earlier. Average cost gains were also recorded for housing, water, gas, electricity & other fuels (3.0%)—the most heavily weighted component—and education (1.9%), vis-à-vis decreases in the prior year. Further, average inflation quickened for alcohol beverages, tobacco & narcotics (5.2%), food & non-alcoholic beverages (2.1%) and furnishing, household equipment & routine household maintenance (2.1%). Providing some offset, price gains slowed for health (2.5%) and restaurants & hotels (1.0%). However, the average cost declined for miscellaneous goods & services (0.7%), following a rise in the prior year. In addition, the average price decrease for recreation & culture extended to 4.7% from 0.7% a year earlier.

Amid the rise in global oil prices, domestic energy costs increased over the review year. Specifically, the average per gallon price for both gasoline and diesel, firmed by 8.1% and by 33.9%, to $4.39 and $4.91 per gallon, respectively, vis-à-vis declines of 10.9% and 15.3% in 2020. However, given the fuel cost hedging arrangements, the Bahamas Power and Light's (BPL) fuel surcharge held steady at 10.50 cents per kilowatt-hour (kWh) in the review year.

FISCAL OPERATIONS

FY2020/2021 Performance

Following the implementation of measures to mitigate the adverse effects of the COVID-19 pandemic during FY2020/21, the Government's overall fiscal deficit increased significantly to $1,334.8 million from $825.7 million in FY2019/20 (See: Table 9); approximately $7.7 million (0.6%) above the original budgeted amount. In terms of the components, total expenditures grew by $323.1 million (11.1%) to $3,243.6 million; exceeding projected outflows by $154.0 million (5.0%), amid increased outlays for health and social assistance, related to the COVID-19 pandemic. However, aggregate revenue declined by $186.0 million (8.9%) to $1,908.8 million; although an estimated $146.3 million (8.3%) higher than the budgeted amount.

Table 9: Fiscal Indicators (B$ Millions)

	FY2018/19p	FY2019/20p	FY2020/21p	FY2021/22 Approved Estimates	FY2021/22 Preliminary[1] Estimates
Government Revenue	2,426.3	2,094.8	1,908.8	2,246.5	1,127.1
as % of GDP	18.4	18.5	19.4	18.8	9.4
Government Expenditure	2,645.6	2,920.5	3,243.6	3,198.3	1,414.8
as % of GDP	20.1	25.8	33.0	26.7	11.8
Surplus/(Deficit)	(219.3)	(825.7)	(1,334.8)	(951.9)	(287.6)
as % of GDP	(1.7)	(7.3)	(13.6)	(8.0)	(2.4)

Source: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1] July - December, 2021

REVENUE

Tax revenue—at 84.4% of total collections—decreased by $238.6 million (12.9%) to $1,611.7 million, but was still approximately $98.3 million (6.5%) higher than anticipated. Underpinned primarily by revenue losses related to COVID-19, net VAT collections reduced by $135.4 million (15.5%) to $740.1 million for the fiscal year, albeit surpassing the budgeted projections by $73.8 million (11.1%). In addition, stamp taxes on financial and realty transactions decreased by $9.4 million (14.0%) to $57.5 million. Receipts from excise taxes also declined by $29.3 million (14.2%) to $176.3 million, while proceeds from specific taxes—primarily gaming—fell by $2.1 million (5.2%) to $37.8 million. Similarly, levies on international trade & transactions contracted by $103.9 million (25.8%) to $299.1 million, largely explained by a falloff in departure and import taxes, of $114.7 million (91.5%) to $10.7 million and $32.0 million (14.3%) to $192.4 million, respectively, reflective of depressed international travel and reduced economic activity. In contrast, property taxes rose by $43.1 million (43.0%) to $143.5 million; while taxes on the use of goods increased by $2.5 million (1.6%) to $154.9 million, due primarily to a rise in income from company, motor vehicle and marine licenses.

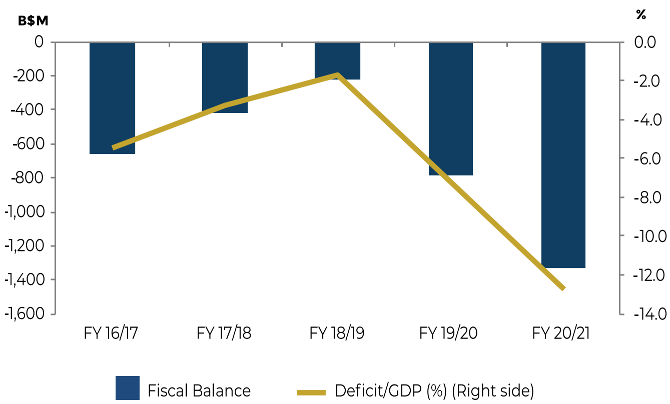
Non-tax revenue grew by $52.5 million (21.5%) to $296.9 million over the prior year—and exceeded the budgeted amount by $49.8 million (20.2%). Contributing, income from other "miscellaneous" and unidentified taxes increased more than two-fold to $37.5 million, explained by a realised $16.8 million premium on the recently issued $225.0 million international bond, which was sold above par. Further, collections from the sale of goods & services advanced by $24.3 million (16.1%) to $175.2 million, led by a notable rise in proceeds from immigration fees. Similarly, reimbursements and repayments grew by $3.3 million (8.3%) to $42.9 million, while proceeds from fines, penalties & forfeits, edged up by $1.1 million (21.9%) to $5.9 million. Meanwhile, capital revenue remained at negligible levels over the review fiscal year.

EXPENDITURE

Current expenditure—which constituted 88.6% of total outlays—expanded by $339.2 million

(13.4%) to $2,872.6 million; approximately $298.5 million (11.6%) above the budgeted allocation. In terms of the components, outlays for social assistance benefits increased considerably, by $217.0 million to $405.2 million, reflective of a surge in subsistence support to displaced households. Similarly, interest payments on public debt grew by $77.7 million (22.3%) to $422.5 million, associated with higher interest payments on both external and internal debt. Gains were also recorded in outlays for the use of goods and services, by $46.8 million (8.3%) to $613.6 million; and general subsidies, by $46.6 million (10.9%) to $474.1 million, largely attributed to a rise in support to public corporations and private entities. In addition, other "miscellaneous" payments rose by $14.8 million (6.3%) to $249.9 million, owing largely to an expansion in current transfer payments. In a modest offset, outlays for compensation of employees contracted by $60.9 million (8.0%) to $700.8 million, and grants declined by $2.2 million (25.9%) to $6.4 million.

Fiscal Indicators



Capital outlays contracted by $16.1 million (4.2%) to $371.1 million—lower than the budgeted estimates by $144.5 million (28.0%). Underlying this outturn, was a significant reduction in spending on mostly infrastructure-related capital transfers, which reduced by $54.8 million (36.3%) to $96.2 million. In contrast, asset acquisitions rose by $38.7 million (16.4%) to $274.9 million, due mainly to a notable increase in spending on fixed assets.

First Six Months of 2021/2022

As the economy experienced a measured onset of recovery from the pandemic-related downturn, during the first six months of FY2021/22 the Government's overall deficit reduced significantly to $287.6 million from $734.3 million in the same period of FY2020/21. Under restoring VAT collections, total revenue rebounded by $453.8 million to $1,127.1 million, outstripping the $7.1 million (0.5%) rise in aggregate expenditure, to $1,414.8 million.

The half-year tax receipts grew by $389.8 million, (68.4%) to $959.3 million. Notably, VAT flows rebounded to $573.5 million from a compressed $286.4 million in the prior fiscal period. Other tax revenues also registered significant strengthening during the six-month period. Further, non-tax receipts grew by $63.7 million (61.3 %) to $167.6 million, led by significant gains in proceeds from sales of goods and services and property income.

In terms of expenditure, the growth was largely attributed to a rise in current spending, by $12.8 million (1.0%) to $1,311.1 million during the six-month period. These included higher disbursements for public debt interest payments, personal emoluments and subsidies for public health facilities. In an offset, capital outlays contracted by $5.7 million (5.2%) to $103.7 million, underpinned by a falloff in capital transfers and a decrease in the acquisitions of non-financial assets.

Budgetary financing for the six-month period was obtained primarily from domestic sources, which totalled $1,074.6 million, led by loans & advances ($525.0 million), long term bonds ($276.8 million) and net Treasury bills/notes ($272.8 million). Meanwhile, external project-based loans financing amounted to $23.7 million. Debt repayments for the period totalled $711.0 million, the majority ($663.9 million), of which repaid Bahamian dollar obligations.

National Debt

During 2021, the Government's Direct Charge increased by $899.9 million (9.6%) to $10,317.9 million, notably lower than the prior year's growth of $1,684.7 million

Table 10: Debt Indicators

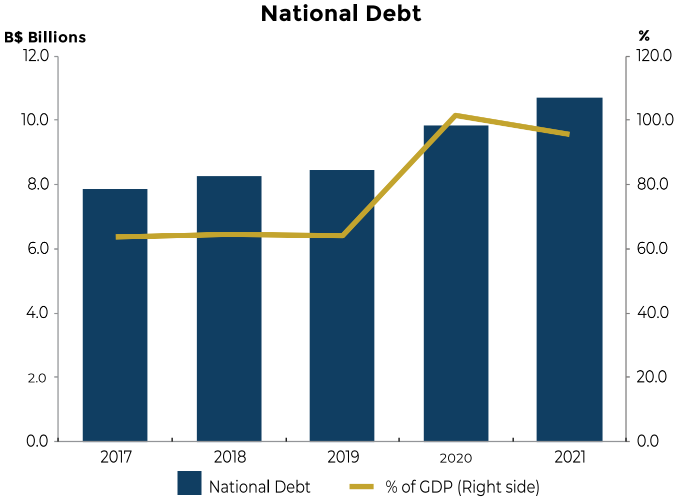
	2019p	2020p	2021p
		B$ Millions	
A. Total F/C Debt	3,476.0	4,784.0	5,032.8
i) External Debt	3,123.1	4,478.0	4,760.8
ii) Internal F/C Debt	352.9	306.0	272.1
B. National Debt	8,457.3	9,857.9	10,717.0
i) Direct Charge	7,733.2	9,417.9	10,317.9
C. Debt Service Ratio (%)*	6.3	22.7	12.0
		% of GDP	
A. Total F/C Debt	26.3	49.3	44.9
i) External Debt	23.7	46.2	42.5
ii) Internal F/C Debt	2.7	3.2	2.4
B. National Debt	64.1	101.6	95.6
i) Direct Charge	58.6	97.1	92.1

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

(21.8%), which encapsulated a weaker period in the economy. As a result, the ratio of the Direct Charge to GDP firmed by 1.5 percentage points to approximately 96.6%, vis-à-vis a 36.3 percentage points rise in 2020 (See Table 10). Bahamian Dollar denominated debt—at 56.2% of the total—rose by $591.1 million (11.4%) to $5,797.3 million. Further, foreign currency claims grew by $308.8 million (7.3%) to $4,520.6 million. An analysis by holder classification showed that banks held the largest share of Bahamian dollar debt (40.4%), followed by the private sector (40.0%), the Central Bank (10.6%) and public corporations (9.0%).

For the year, Government's contingent liabilities contracted by $40.9 million (9.3%) to $399.1 million. As a result, the National Debt, which includes these liabilities, rose by $859.1 million (8.7%) to $10,717.0 million at end-December, a moderation from the previous year's $1,400.7 million (16.6%) growth. However, the National Debt-to-GDP ratio decreased by 6.0 percentage points to 95.6%, following a 37.5 percentage point increase to 101.6% in 2020.

National Debt



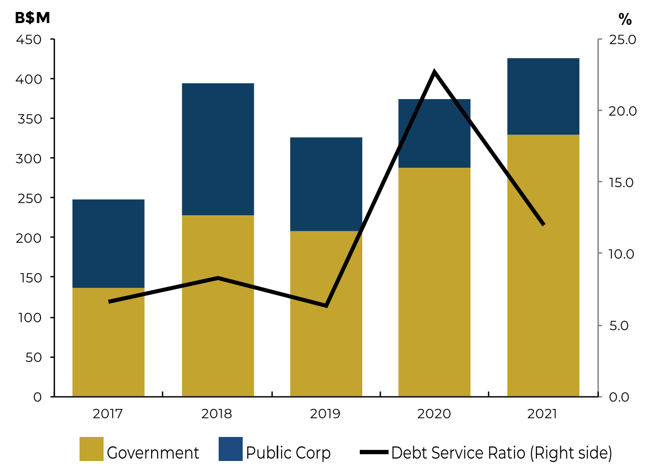
Foreign Currency Debt

Foreign currency debt increased by $248.8 million to $5,032.8 million in 2021. New drawings tapered considerably to $409.7 million from $1,946.7 million in 2020; whereas amortization payments reduced more substantially to $154.4 million from $666.5 million in the previous year. The Government's debt obligations—which constituted 89.8% of the aggregate—expanded by $308.8 million to $4,520.6 million; however, the public corporations component fell by $60.0 million to $512.2 million.

Foreign currency debt service payments contracted sharply to $426.5 million, from $868.6 million in 2020. The Government's debt service portion reduced by $207.9 million to $328.8 million. Similarly, the public corporations' segment declined by $234.1 million to $97.8 million. The Government's debt service to total revenue ratio reduced to 14.1%, from 17.4% in 2020, while the debt service to exports ratio stood at 14.1%, higher than the 3.4% in the prior year.

A disaggregation by creditor profile showed that the majority of the foreign currency debt was held by private capital markets (49.2%), followed by multilateral institutions (23.5%), external financial institutions (20.4%), domestic banks (5.6%) and bilateral financial institutions (1.3%). At end-December, the average age of foreign currency debt decreased marginally to 9.0 years, from 9.2 years in the previous year. By currency, the majority of the debt was denominated in US dollars (89.1%), followed by the IMF's SDRs (5.1%), Swiss franc (3.4%), Chinese yuan (1.3%) and euro (1.1%), respectively.

Public Sector F/C Debt Service



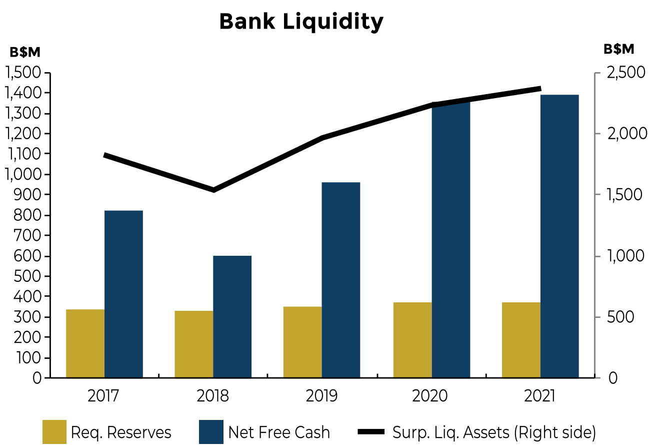
MONEY, CREDIT AND INTEREST RATES

Monetary Sector

During 2021, monetary sector developments featured a modest build-up in liquidity and external reserves, as the expansion in the deposit base outpaced the growth in domestic credit. Meanwhile, banks' credit quality indicators weakened, as the rise in the non-performing segment, overshadowed the falloff in short-term arrears. In contrast, banks' overall profitability rebounded, reflecting contractions in bad debt provisioning and non-staff related expenses. Moreover, the weighted average interest rate spread narrowed, owing primarily to the decline in the average lending rate, which contrasted with the slight increase in the corresponding deposit rate.

Liquidity

Banking sector liquidity remained at elevated levels in 2021. Growth in balances held with the Central Bank further boosted average net free cash balances—a narrow measure of liquidity—by $242.1 million (20.6%), to $1,417.5 million; although a moderation from the $413.7 million (54.3%) accumulation a year earlier. An analysis of the monthly trend revealed that while average balances reduced during the first quarter of the year, to the lowest level of $1,292.0 million at end-March, holdings followed a positive trend in the ensuring months, peaking at $1,577.4 million in July, before declining over the remaining months to close the year at $1,387.9 million. Consequently, the ratio of net free cash reserves to Bahamian dollar deposits edged up to 18.5% from 18.4% in 2020.



Led by expanded Treasury bill holdings, excess liquid assets—a broader measure of liquidity, inclusive of holdings of Government securities—averaged $2,300.4 million per month, 9.3% higher than the preceding period. On a monthly basis, liquid assets were relatively stable over the first five months of the year, reaching its lowest level of $2,144.6 million in February. However, balances trended upwards in the ensuing months, to peak at $2,424.4 million in July, before declining to $2,373.8 million in December, for an annual gain of $143.3 million (6.4%). Further, the balance of surplus liquid assets exceeded the statutory requirement by 175.9%, up from 171.4% in 2020.

Money Supply

The overall money supply (M3) grew by $356.6 million (4.5%), for an average stock of $8,220.8 million in 2021. This reversed the prior year's contraction of $28.8 million (0.4%). A disaggregation by components revealed that narrow money (M1) rose by $243.5 million (7.0%), extending the $223.7 million (6.9%) accumulation in the previous year. Contributing to this development, the build-up in demand deposits quickened to $230.5 million (7.4%), from $187.5 million (6.4%) in the preceding year. In addition, currency in circulation increased by $13.0 million (3.5%), although a slowdown from the $36.2 million (10.8%) growth in 2020.

Similarly, broad money (M2) rose by $267.5 million (3.6%), outpacing the prior year's gain of $200.6 million (2.7%). Underlying this outturn, the decline in fixed accounts moderated to $72.6 million (3.2%) from $174.4 million (7.2%) in the preceding year; albeit, savings accretions narrowed to $96.6 million (5.4%) from $151.3 million (9.2%) in 2020, as the growth in private sector deposits slackened. Meanwhile, foreign currency deposits expanded by $89.2 million (24.9%), contrasting with a $229.4 million (39.0%) decline in 2020, owing largely to an increase in private sector placements.

As a proportion of the overall money stock (M3), Bahamian dollar demand deposits comprised the largest share, at 40.5%, followed by fixed (26.4%) and savings (22.9%) balances. Foreign currency deposits and currency in active circulation represented smaller shares, of 5.5% and 4.7%, respectively.

Table 11: Flow of Bank Credit (B$ Millions)

	Outstanding as at 2019	Absolute Changes 2020	Absolute Changes 2021	Outstanding as at 2021
Destination				
Government (net)	2,620.9	(91.4)	403.6	2,933.1
Central Bank	395.9	(218.0)	280.0	457.9
Domestic Banks	2,225.0	126.6	123.6	2,475.2
Rest of Public Sector	444.5	(120.5)	(8.8)	315.2
Central Bank	7.0	(0.1)	0.2	7.1
Domestic Banks	437.5	(120.4)	(9.0)	308.1
Private Sector	5,891.6	(125.5)	(85.4)	5,680.7
Domestic Banks	5,891.6	(125.5)	(85.4)	5,680.7
Consumer	2,208.4	(53.8)	(138.0)	2,016.6
Mortgages	2,647.3	(21.1)	(22.1)	2,604.1
Other Loans	1,035.9	(51.1)	75.2	1,060.0
Financing				
Liabilities (Net of Government)	7,843.1	(32.2)	340.4	8,151.3
Currency	336.8	36.2	13.0	386.0
Total Deposit liabilities	7,506.3	(68.4)	327.4	7,765.3
Demand deposits	3,322.3	5.5	313.6	3,641.4
Savings deposits	1,667.3	155.0	102.0	1,924.3
Fixed Deposits	2,516.7	(228.9)	(88.2)	2,199.6
International reserves	1,758.1	624.1	50.6	2,432.8
Other net external liabilities	32.6	(272.9)	145.4	(94.9)
Capital and surplus	2,621.5	48.8	(89.5)	2,580.8
Other (net)	283.1	(2.8)	254.6	534.8

Source: Central Bank of The Bahamas

Domestic Credit

During 2021, public sector-led domestic credit expansion contrasted with the net reduction in the previous year, when net external borrowing temporarily reduced the Government's net exposures to the domestic banking system.

In particular, domestic credit of the banking system grew by $309.3 million (3.6%), almost reversing the $337.4 million (3.8%) reduction registered in 2020. The Bahamian dollar component remained dominant at 96.4% of the aggregate. Meanwhile, net claims on the Government expanded by $403.6 million (16.0%), contrasting with a $91.4 million (3.5%) decline in the previous year. In addition, the falloff in credit to the rest of the public sector moderated to just $8.8 million (2.7%) from $120.5 million (27.1%) a year earlier.

The contraction in private sector credit moderated to $85.4 million (1.5%) from $125.5 million (2.1%) in 2020. A disaggregation by sector revealed that personal loans—which comprised 72.2% of the total—registered an accelerated reduction of $162.7 million (3.3%), vis-à-vis $71.0 million (1.4%) in the prior year. In addition, declines in outstanding credit occurred for agriculture ($8.4 million), manufacturing ($6.0 million), professional & other services ($1.3 million) and private financial institutions ($1.0 million); while a muted decrease was registered for mining & quarrying. Conversely, credit extensions were registered for distribution ($30.3 million), construction ($14.2 million), "miscellaneous" purposes ($8.1 million), transport ($4.7 million), fisheries ($2.9 million) and tourism ($2.0 million); while a modest accretion occurred for entertainment & catering.

A further breakdown of personal loan activity indicated that net consumer credit repayments widened to $143.0 million (6.6%), from $49.4 million (2.2%) in the preceding year. In addition, the reduction in credit for housing extended to $22.1 million (0.8%), from the same magnitude a year earlier. In contrast, overdrafts rose by $2.4 million (5.1%), after a decline of $0.5 million (1.0%) in 2020.

A disaggregation of Bahamian dollar consumer credit revealed that notable net repayments occurred for debt consolidation ($59.7 million), "miscellaneous" purposes ($33.1 million), credit cards ($28.3 million), private cars ($11.4 million) and travel ($6.5 million). More modest net reductions were posted for home improvements ($3.0 million) and education ($2.0 million); while a muted decrease was recorded for taxis & rented cars. In contrast, net lending increased for land purchases ($4.6 million), while muted gains of less than $1.0 million were registered for furnishings & domestic appliances and medical services.

Interest Rates

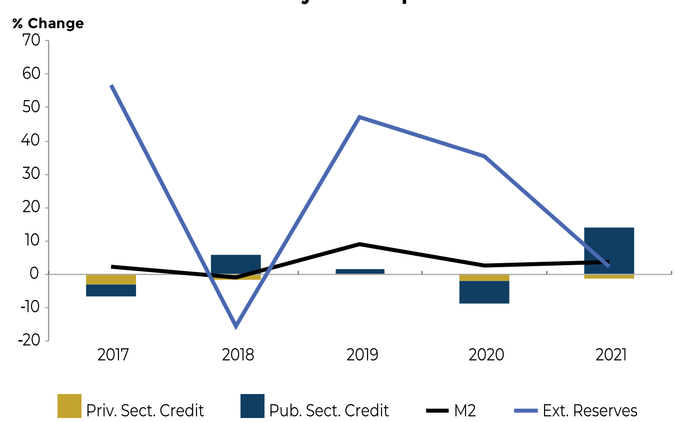
During the year, the weighted average interest rate spread on domestic banks' loans and deposits narrowed by 44 basis points, to 9.50 percentage points in 2021. In particular, the average loan rate reduced by 37 basis points, to 10.02%, contrasting with a 7 basis points rise in the mean rate on deposits, to 0.52%.

In terms of lending, declines were recorded for the average rate on commercial mortgages, by 1.2 percentage points, to 6.03%, on consumer loans, by 18 basis points to 12.34% and residential mortgages, by 12 basis points, to 5.14%. Conversely, the rate on overdrafts rose by 37 basis points, to 10.21%.

With regard to deposits, the average rate paid on demand deposits increased by 7 basis points, to 0.66%. In contrast, the average rate on savings deposits fell by 4 basis points, to 0.40%. Meanwhile, the range on fixed maturities shifted to 0.27%-1.21%, from 0.28%-0.86% in 2020.

In other interest rate developments, the average 90-day Treasury bill rate firmed by 72 basis points to 2.51%. Meanwhile, the Central Bank's benchmark Discount rate and the commercial banks' Prime rate were maintained at 4.00% and 4.25%, respectively.

Monetary Developments



Net Foreign Assets

Total net foreign assets of the banking system rose by $196.0 million (9.1%) to $2,337.9 million, although lower than the $351.2 million (19.5%) expansion in 2020. In particular, the Central Bank's external reserves balance grew by $50.6 million (2.1%) to $2,432.8 million, albeit a slowdown from the $624.1 million (35.5%) buildup in the preceding period, which had included proceeds from Government's external borrowings. In contrast, commercial banks' net foreign liabilities reduced by $145.4 million to $94.9 million, a reversal from a $272.9 million increase in 2020.

A monthly trend analysis showed that external reserves balances were relatively stable over the first four months of the year at $2,273.0 million, recording its lowest level in March. A steady rise followed, peaking at $2,749.3 million in August, with the receipt of Special Drawing

Rights (SDRs) from the IMF. Seasonally elevated foreign currency demand set in, as the balance trended downward through the remainder of 2021, and stood at $2,432.8 million at end-December. Overall, the average monthly levels reached $2,466.9 million, a gain of $372.8 million (17.8%), compared with the prior year.

As it relates to underlying foreign currency transactions affecting reserves, the Central Bank recorded net sales of $200.9 million in 2021, contrasting with net purchases of $684.2 million in the previous year. Leading this development, net inflows from the Government normalized at $233.9 million, vis-à-vis $1,133.9 million in the preceding year, when Government received sizeable inflows from external borrowing activities. In addition, net sales to public corporations—primarily for fuel imports—more than tripled to $278.4 million, from $90.9 million a year earlier. In a modest offset, the Bank's net sales to the commercial banks moderated to $156.4 million, from $358.9 million in 2020.

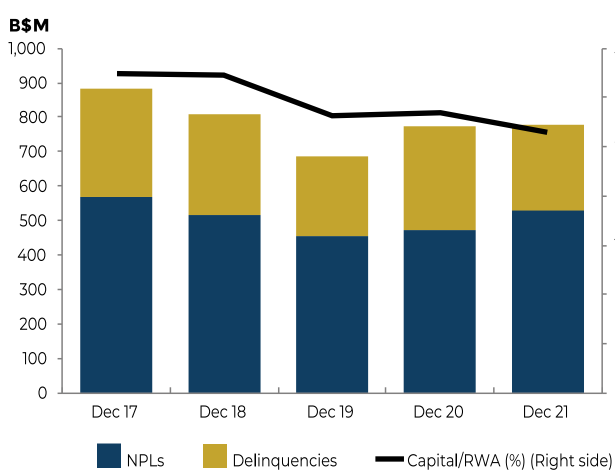
At end-December, the stock of external reserves stood at an estimated 36.8 weeks of the current year's total merchandise imports, compared to 56.8 weeks in the previous year and above the international benchmark of 12.0 weeks. After adjusting for the statutory requirement to maintain reserves equivalent to 50% of the Bank's demand liabilities, "useable" reserves increased by $41.0 million (3.3%), to $1,216.2 million.

Banking Sector Performance

Credit Quality

Banks' credit quality indicators weakened further during the review year, as the effects from the ongoing COVID-19 pandemic persisted. Total private sector loan arrears rose by $6.7 million (0.9%) to $779.8 million, after an $86.7 million (12.6%) deterioration in the prior year. Consequently, the ratio of arrears to total private sector loans firmed by 0.4 percentage point to 14.2%, vis-à-vis the increase of 1.7 percentage points a year earlier.

Private Sector Loan Arrears



Private Sector Arrears by Loan Category

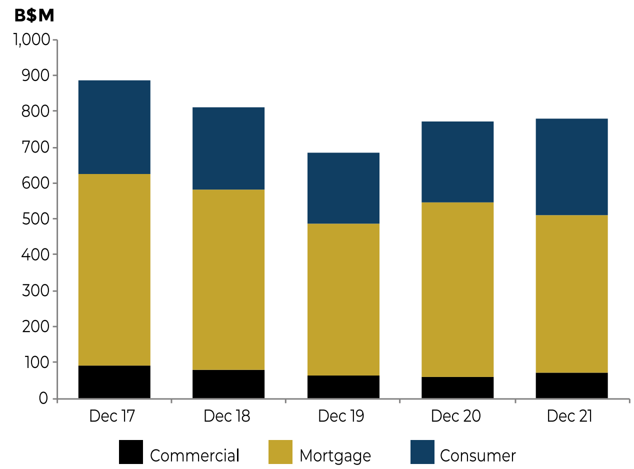


Table 12: Commercial Banks' Financial Soundness Indicators (%)*

	2019	2020	2021
Capital Adequacy			
Regulatory capital/RWAs**	28.1	28.4	26.4
Regulatory Tier 1 capital/RWAs**	27.0	27.0	24.7
Asset Quality			
NPLs/Private Sector Loans	8.0	8.5	9.6
NPLs to Capital	19.0	19.5	22.5
Earnings & Profitability			
Return on assets	2.4	(0.1)	2.3
Return on equity	10.7	(0.3)	10.9
Liquidity			
Liquid assets to total domestic assets	29.6	32.4	33.8

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

The rise in total delinquencies was largely concentrated in the non-performing loans (NPL) segment, which grew by $53.4 million (11.2%), to $527.9 million, exceeding the $20.6 million (4.5%) build-up in 2020. However, short-term (31-90 day) arrears reduced by $46.6 million (15.6%) to $251.9 million, partly reversing the $66.2 million (28.5%) growth in the prior year. In line with these developments, the ratio of NPLs to total private sector loans rose by 1.2 percentage points to 9.6%; while short-term arrears as a ratio of total private sector loans decreased by 74 basis points, to 4.6%.

Disaggregated by loan type, consumer delinquencies firmed further by $41.3 million (18.1%) to $269.9 million, as compared to the $30.2 million (15.2%) increase a year earlier. The associated arrears ratio rose by 2.7

percentage points to 13.3%. Further, commercial arrears grew by $13.2 million (22.7%) to $71.4 million, contrasting with a $6.4 million (9.9%) falloff in 2020, and moving the relevant loan ratio higher by 1.0 percentage point to 8.0%. In contrast, mortgage arrears contracted by $47.8 million (9.8%) to $438.4 million, a turnaround from the $63.0 million (14.9%) growth in the preceding year. As a result, the corresponding ratio narrowed by 1.5 percentage points to 17.2%. Moreover, the NPL rates for consumer loans rose to 9.9% from 6.8% in the prior year and for commercial credit to 5.3% from 4.9%. However, the mortgage ratio was incrementally reduced to 11.0% from 11.1% at end-2020.

Capital Adequacy and Provisions

Banks maintained high capital adequacy ratios during the year, while tempering loss provisions relative to the more aggressive loss recognition in the first year of the pandemic. Although the ratio of capital to risk weighted assets fell by 2.0 percentage points to 26.4% at end-December, it remained well above the prudentially prescribed target and trigger ratios of 17.0% and 14.0%, respectively (See Table 12).

Banks reduced provisions for loan losses by $62.5 million (10.9%) to $512.6 million, a modest retreat from 2020's build-up of $149.3 million (35.1%). As a result, the ratio of total provisions to total loans declined by 73 basis points to 8.4%. In addition, the ratios of total provisions to arrears, and to NPLs both narrowed, by 8.7 percentage points to 65.7%, and by 24.1 percentage points to 97.1%, respectively. Further, the ratio of specific provisions to NPLs fell by 9.1 percentage points to 75.4%. Moreover, banks wrote-off an estimated $171.4 million in delinquent loans, while recoveries totalled $31.0 million in 2021.

Bank Profitability

Domestic banks reported recovered net profit of $254.7 million in 2021, after the pandemic-influenced net loss of $6.7 million in the preceding year. The improvement was due to reductions in bad debt provisioning and non-staff related expenses. The net interest margin reduced by $5.8 million (1.1%) to $533.0 million, following a decrease of a similar magnitude in the prior period. In particular, interest income declined by $4.3 million (0.7%) to $573.1 million, while interest expense increased by $1.5 million (4.0%) to $40.1 million. In contrast, income from commission & foreign exchange transactions rose by $9.3 million (22.7%) to $50.5 million, resulting in an uptick in the gross earnings margin of $3.5 million (0.6%) to $583.6 million.

Operating costs decreased by 11.6% ($53.8 million) to $411.3 million. Contributing to this development, non-staff outlays—including professional services, Government fees and maintenance—declined by 20.8% ($60.7 million). In addition, occupancy costs fell by 4.1% ($0.6 million). Meanwhile, staffing costs grew by 4.1% ($6.4 million). Consequently, the net earnings margin rose by 49.9% ($57.4 million), to $172.3 million. Further, banks recorded a net gain from "non-core" operations, of $82.4 million, vis-à-vis a net loss of $121.6 million in the previous year. The outturn was largely attributed to a falloff in banks' provisioning for bad debt of 63.6% ($162.1 million) to $92.8 million. Further, "other" fee-based income rose by 30.3% ($45.6 million); while in a partial offset, depreciation costs increased by 20.6% ($3.6 million).

Reflecting these developments, the gross earnings margin ratio narrowed by 11 basis points to 5.04%, as the interest margin ratio contracted by 18 basis points, to 4.60%, while the commission & foreign exchange income ratio rose by 7 basis points to 0.44%. In contrast, the net earnings margin ratio firmed by 46 basis points to 1.49%, attributed to a reduction in the operational costs ratio, by 58 basis points, to 3.55%. As a result, after accounting for "non-core" operations, the net income (return on assets) ratio stood at 2.20%, contrasting with a negative 0.05% in 2020.

Capital Market Developments

Domestic capital market developments were largely positive in 2021, reflective of the gradual improvement in the domestic economy. The volume of shares traded on the Bahamas International Securities Exchange (BISX) registered a more than twofold expansion to 12.0 million, following a reduction of 37.2% in 2020. Correspondingly, the total value of traded shares rose sharply to $108.4 million, relative to the prior year's 34.8% decline to $27.9 million. Reflecting these developments, the BISX All Share Index—a market capitalisation weighted index—appreciated by 6.5% to 2228.24 points, a reversal from the 6.2% falloff in the prior year. Further, the market capitalisation of listed securities increased by 5.9% to $9.3 billion, albeit lower than the 58.4% growth in the previous year.

At end-2021, the number of publicly traded securities on BISX, excluding public debt instruments, was unchanged at 37, and comprised 20 common shares, 8 preference shares and 9 bonds. However, the number of BRS rose by 21 to 231, elevating the total number of debt tranches to 240, as the number of publicly traded securities on the exchange totalled 268.

INTERNATIONAL TRADE AND PAYMENTS

According to provisional estimates on the external sector accounts, the estimated current account deficit narrowed by $163.4 million (6.9%) to $2,210.0 million over 2020

(See Table 13). Underlying this outturn, the services account position reverted to a surplus of $1,311.3 million from a deficit of $129.8 million in the prior year, on account of the recovery in travel receipts. In contrast, the capital account surplus was more normalized at $55.1 million from $546.8 million the previous year, which had included Hurricane Dorian re-insurance inflows. Further, net financial account inflows, excluding reserve assets, moderated to $1,495.5 million from $2,316.3 million in 2020, which had comprised largely of Government debt-financed inflows.

Table 13: Balance of Payments Summary (B$ Millions)

	2019p	2020p	2021p
I. CURRENT ACCOUNT	(345.5)	(2,373.4)	(2,210.0)
i) Merchandise Trade (net)	(2,313.9)	(1,630.7)	(2,630.9)
Exports	695.3	393.3	564.6
Imports	3,009.2	2,024.0	3,195.5
of which: Oil	752.5	450.3	787.3
ii) Services (net)	2,638.1	(129.8)	1,311.3
Travel	3,790.2	857.0	2,570.3
Other	(1,152.1)	(986.8)	(1,259.0)
iii) Primary Income (net)	(603.1)	(439.5)	(734.2)
iv) Secondary Income (net)	(66.6)	(173.4)	(156.2)
II. CAPITAL AND FINANCIAL ACCOUNT			
i) Capital Account (Transfers)	907.8	546.8	55.1
ii) Financial Account[1]	(187.2)	(2,316.3)	(1,495.5)
of which: Direct Investment	(369.2)	(374.8)	(253.3)
III. NET ERRORS AND OMISSIONS	185.1	(131.1)	(710.9)
IV. CHANGES IN EXTERNAL RESERVES	561.8	624.1	50.6

Source: Central Bank of The Bahamas
1 ( ) = net inflows

The estimated merchandise trade deficit increased to $2,630.9 million from $1,630.7 million in 2020. In particular, a $1,171.5 million (57.9%) resumption in imports to $3,195.5 million, outstripped the $171.3 million (43.6%) growth in exports to $564.6 million. Specifically, net payments for fuel purchases almost doubled to $787.3 million from the pandemic-constrained $450.3 million in the previous year, while also influenced by rising average prices. In particular, the average cost per barrel for bunker-c fuel more than doubled to $96.33 from $41.33, while propane rose by 57.6% to $69.62 per barrel. Likewise, average per barrel cost for kerosene jet-fuel appreciated by 53.2% to $86.21; motor gas, by 62.3% to $101.18; aviation gas, by 24.3% to $112.48; and for gas oil, by 3.5% to $65.57.

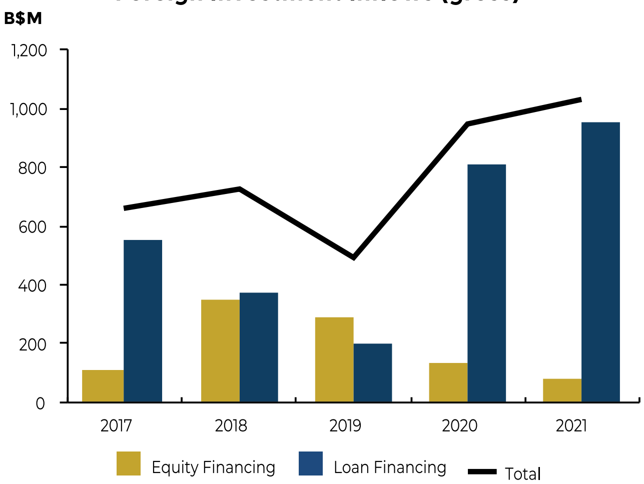
The services account position reverted to an estimated surplus of $1,311.3 million from a deficit of $129.8 million in 2020. Contributing to this outturn, net travel receipts—mainly personal travel—rebounded to $2,570.3 million from $857.0 million a year earlier, occasioned by the recovery in tourism output from the COVID-19 related downturn in the previous year. Further, net payments for Government goods and services reduced by $106.3 million (58.1%) to $76.7 million. Providing some offset, net outflows for "other business" services grew by $109.2 million (30.2%) to $470.9 million, while net payments for insurance services were higher by $122.6 million (79.8%) at $276.1 million. In addition, net outflows for transport increased to $272.4 million from $172.4 million, explained by gains in both air ($43.2 million) and sea ($56.7 million) transport. Likewise, net outflows for construction services advanced by $44.5 million (75.5%) to $103.5 million. Meanwhile, net charges for 'telecommunications, computer and information services' and the use of intellectual property edged up by $1.1 million each, to $52.0 million and $7.5 million, respectively.

During 2021, the primary income account deficit (against wages and investment income) widened to $734.2 million from $439.5 million in the prior year. The outturn was attributed to a considerable rise in net investment income outflows to $642.7 million from $343.7 million in 2020. Specifically, remuneration of direct investments extended to $250.1 million from just $12.3 million last year, while net remittances against portfolio investment holdings outflows more than doubled to $211.6 million. In contrast, "other" net investment income outflows decreased by $45.3 million (18.3%) to $202.8 million. Meanwhile, net outflows for employees' compensation declined by $4.3 million (4.5%) to $91.5 million.

The secondary income account deficit, which predominantly reflects net transfers, narrowed by $17.2 million (9.9%) to $156.2 million, as "other" net private current transfer outflows reduced to just $12.3 million from $80.1 million last year. Conversely, various private financial and non-financial net outflows rose by $35.4 million (25.4%) to $175.0 million, relative to a year earlier, inclusive of a rise in the workers' remittances portion. Further, general Government net inflow transfers decreased by $15.2 million (32.9%) to $31.1 million.

The capital account surplus primarily capital transfers—which comprised financial corporations, non-financial corporations, households and non-financial institutions serving households (NPISHs)—reduced markedly to $55.1 million, from the estimated $546.8 million in 2020, which reflected Hurricane Dorian re-insurance claims settlements.

Foreign Investment Inflows (gross)



The net financial inflows (denoting net investment inflows) declined to $1,495.5 million from $2,316.3 million in the previous year, which had included debt-financed inflows to the Government. Underlying this development, net portfolio transactions reversed to a net outflow of $447.1 million, following an inflow of $656.8 million a year earlier, as debt securities liabilities (predominantly public sector) decreased by an estimated $378.6 million, vis-à-vis a net increase of $470.3 million in 2020. Similarly, resident's equity and investment transactions recorded net outflows of $68.5 million, in comparison to a net inflow of $186.5 million in the previous year. Further, the net private direct investment inflows fell to $253.3 million from $374.8 million, as equity and investment fund share inflows decreased by $89.4 million (73.1%) to $33.0 million, and debt instruments inflows, by $32.1 million (12.7%) to $220.3 million. Providing some offset, "other investment" inflows expanded to $1,689.4 million from $1,284.8 million in the preceding year, as banks' net currency and deposit receipts broadened to $624.0 million relative to $475.2 million in the prior year. Further, bank's net external loan exposures rose further by $67.2 million to $809.6 million, compared to $742.4 million a year earlier. However, "other" accounts receivable/payable net inflows reduced to $16.2 million from $60.1 million in the preceding year. The net financial position also incorporated the net increase IMF SDRs allocation of $239.6 million (inclusive of valuation adjustments), compared to a gain of $7.1 million in 2020.

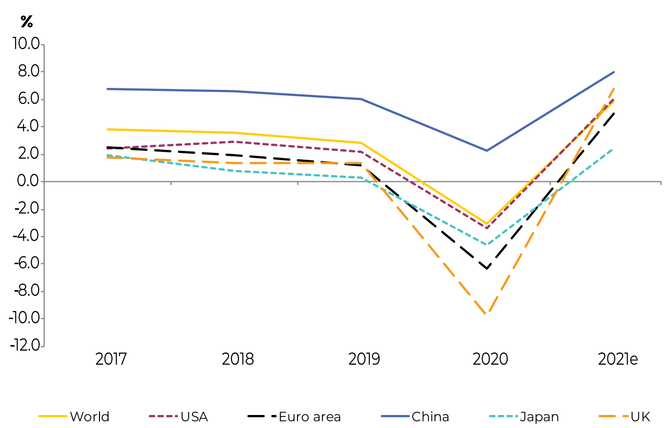
In line with these developments, and after adjusting for net errors and omissions, the surplus in the reserve assets, which corresponds to the change in the Central Bank's external reserves, decreased notably to $50.6 million from $624.1 million in 2020.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy grew by an estimated 5.9% in 2021, a turnaround from a contraction of 3.1% in 2020, amid increased vaccination efforts against COVID-19 and the relaxation of measures to control the spread of the virus. Against this backdrop, labour market conditions improved. However, inflationary pressures heightened, owing to a rise in global oil prices and supply shortages. Meanwhile, in an effort to stabilize their economies and encourage growth, the major central banks either sustained or enhanced their accommodative monetary policy stance.

Among the developed markets, real GDP in the United States, advanced by an annual rate of 5.7%, a reversal from the 3.4% decline in 2020, primarily driven by increases in personal consumption expenditure (PCE), residential and non-residential fixed investment, exports, and private inventory investment. Similarly, in the United Kingdom, real output increased by an estimated 7.5% in 2021, a switch from a 9.9% contraction in the previous year, buttressed by improvements in health & social work services, and household consumption. Likewise, the euro area's real output grew by an annualized 5.2% during the review year, overturning the 6.8% downturn in the prior year. In the Asian economies, Japanese real output rose to 1.7%, vis-à-vis a 4.8% falloff a year earlier, owing to gains in public spending and private consumption. Meanwhile, China's economy strengthened by 8.1% over the review year, higher than the 2.3% in 2020.

Major Economies' Growth Rates



Labour market conditions improved for most of the leading economies during the year, due to increased inoculations and the re-engagement of workers. In the United

States, the jobless rate narrowed by 2.5 percentage points to an annual average of 5.6% in 2021, as the number of unemployed persons decreased by 483,000, underpinned by accretions in leisure & hospitality, professional & business services, manufacturing, construction, and transportation & warehousing. Similarly, in the United Kingdom, the jobless rate fell by 1.0 percentage points to 4.1%, as the total number of employed persons rose by 436,000 from the year earlier. In addition, the euro area's unemployment rate declined by 1.2 percentage points to 7.0% in December 2021, reflecting a 1.8 million reduction in unemployed persons. Conversely, in the major Asian economies, the jobless rate in China and Japan rose by 90 and 50 basis points, to 5.1% and 2.8%, respectively.

Global inflationary pressures increased in 2021, underpinned by supply shortages, a rise in consumer demand and elevated international oil prices. Specifically, annual inflation in the United States, moved higher to 7.0% in 2021 from 1.4% in 2020—the largest gain since June 1982—bolstered by a rise in the costs of gasoline, used cars & trucks, energy and food. In the United Kingdom, the inflation rate firmed to an annualized 4.8% from 0.8% in 2020, attributed to higher costs for housing & household services and transport. Further, the euro area's annual average prices advanced by 5.0%, vis-à-vis a decrease of 0.3% in 2020, owing to an uptick in energy and services costs. In Asia, Japan's annual inflation rate quickened to 0.8% from 0.6% in the prior year. In contrast, China's inflation rate narrowed by 1.6 percentage points to 0.9%.

In an effort to contain rising inflation, the major central banks sustained their accommodative monetary policy stance, with some institutions introducing additional quantitative easing measures. In particular, in the United States, the Federal Reserves retained the target range for the federal funds rate at 0.00%-0.25% and announced plans to begin reducing the monthly pace of net asset purchases by $20.0 billion for Treasury securities and $10.0 billion for mortgage-backed securities by mid-January of 2022. In Europe, the European Central Bank maintained its key policy interest rates on the main refinancing operations (0.00%), the marginal lending facility (0.25%) and the deposit facility (0.50%). The European Central Bank also kept its previously implemented pandemic emergency purchase programme (PEPP), while committing to extending its monthly purchases under its asset purchase programme (APP) by €40 billion in the second quarter of 2022 and €30 billion in the third quarter. In an attempt to stabilize the country's rising inflation, the Bank of England increased its benchmark interest rate by 15 basis points to 0.25% and maintained its Government bond purchase programme at £895.0 billion. In Asia, the Bank of Japan retained its key policy rate at -0.1% and announced plans to extend its financing support to businesses for six-months into 2022. The People's Bank of China left its 7-day reserve repo rate at 2.2%, and conducted reverse repurchase operations totalling US$7.9 billion, to maintain liquidity in the banking system.

Although fiscal policy remained expansionary to cushion the economic fallout from COVID-19, advanced economies scaled back on stimulus measures. As a result, the IMF estimated that the average fiscal deficit to GDP ratio in advanced economies declined to 8.8% in 2021, from 10.8% in 2020. With the announcement and approval of fiscal packages, the United States' estimated that the federal deficit to GDP ratio narrowed to 10.8% from 14.9% in the preceding year. In the United Kingdom, the deficit moved lower to 11.9% from 12.5% in the preceding year. In Asia, Japanese policies assisted in shrinking the deficit to 9.0% from 10.3% in 2020, while Chinese intermediation resulted in an estimated deficit of 7.5%, lower than the 11.2% recorded in the prior year. In contrast, in the euro area with less fiscal space, the ratio firmed to 7.7% from 7.2% of GDP in the previous year.

The United States dollar appreciated against most of the major currencies during the review year. In particular, the dollar increased vis-à-vis the Japanese Yen, by 11.5% to ¥115.08 and the euro, by 7.5% to €0.88. Similarly, the dollar rose relative to the Swiss franc, by 3.1% to CHF0.91 and the British Pound, by 1.0% to £0.74. Conversely, the dollar weakened versus the Chinese Yuan, by 2.6% to CNY6.36 and the Canadian dollar, by 0.7% to CAD$1.26.

Major stock market indices registered broad-based gains in 2021, supported by the resumption of economic activity following the global lockdown in 2020. Specifically, in the United States, the S&P 500 and the Dow Jones Industrial Average (DIJA) grew by 26.9% and by 18.7%, respectively. Similarly, the European bourses moved higher, with France's CAC 40 increasing by 28.9%, Germany's DAX, by 15.8% and the United Kingdom's FTSE 100, by 14.3%. The Asian market also posted gains, as Japan's Nikkei 225 rose by 4.9% and China's SE Composite by 4.8%.

Primary commodity prices increased during the year, as the easing of COVID-19 lockdown measures led to a recovery in global demand. Specifically, average crude oil prices grew by 68.1% to $71.04 per barrel over the year. Further, on a point-on-point basis, average costs increased by 54.5% to $79.20 per barrel at end-December 2021, in comparison to 2020. Likewise, in the precious metal market, the average costs of silver moved higher by 20.8% to $25.00 per troy ounce and for gold, by 0.8% to $1,792.28 per troy ounce.

Major economies recorded mixed outcomes in their external trade balances in 2021. In the United States, the trade deficit expanded by $204.2 billion (30.2%) to $880.9 billion, as the 20.8% rise in imports surpassed the 17.7% growth in exports of goods and services. In the United Kingdom, the trade deficit widened by £6.5 billion to £21.5 billion, as imports grew by 8.4%, outstripping the 4.9% gain in exports. Further, the euro area's trade surplus narrowed by €105.5 billion (45.1%) to €184.7 billion, owing to a 21.4% increase in imports, which outweighed the 14.1% rise in exports. Meanwhile, in Japan, the trade balance reversed to a deficit of ¥1,475.9 billion, vis-à-vis a surplus of ¥388.3 billion in the previous year, reflecting a 24.3% growth in imports, which eclipsed the 21.5% expansion in exports. Conversely, China's trade surplus grew by 26.4% to US$646.7 billion during the year, as exports rose by 29.9%, offsetting the 30.1% rise in imports.

DOMESTIC ECONOMIC OUTLOOK FOR 2022

The Bahamian economy should expand further in 2022, largely supported by ongoing improvements in the tourism sector. However, continued gains in tourism output will remain contingent upon the alleviation of globally imposed COVID-19 travel restrictions, increased vaccination rates across countries and the success of public health initiatives. Meanwhile, construction sector output is anticipated to receive continued stimulus from several varied-scale foreign investment-led projects, both in the capital and the Family Islands, along with post-hurricane rebuilding works. In this environment, the unemployment rate is projected to remain above pre-COVID levels, but with continuing workforce, reengagement concentrated predominantly in the construction and tourism sectors. The economy is expected to experience continued, elevated inflation, due to higher international oil prices, and increased costs on other imported goods, as a result of global supply chain shortages, and geopolitical tensions in Eastern Europe.

In the fiscal sector, although subsiding, the net financing needs of the Government will remain elevated. Fiscal resources pressures should continue at heightened levels for health and social welfare, associated with COVID-19 and costs for sustained restoration of key infrastructure that was damaged by the 2019 major hurricane. In the meantime, some revenue collection gap remain, which continues to dissipate as taxable economic activity recovers to pre-pandemic levels. The project budgetary shortfall that is expected will be financed from a blend of external and domestic borrowings, but with increased sustainability of domestic sources.

Near-term monetary conditions are likely to be marked by continued high levels of banking sector liquidity, as commercial banks retain their conservative lending stance. While there is a potential for further incremental weakening in banks' credit quality conditions, particularly over the first half of 2022, some stabilization and onset of improvement is expected by the end of the calendar period. Notwithstanding, banks are expected to maintain healthy capital levels, and are assessed as having already provisioned for the bulk of pandemic related credit losses.

In the outlook, although some net drawdown in external reserves are anticipated, balances are poised to stay above international benchmarks; and remain more than adequate to sustain the Bahamian dollar currency peg. Nevertheless, outcomes will remain dependent on the balance of supply and demand factors in the foreign exchange earnings sector, with the recovery in tourism receipts, weighed against the ongoing outflow needs for public debt service, fuel imports and increased private sector imports.

The downside risks to the economy stems from uncertainties surrounding the COVID-19 pandemic, as it relates to the emergence of new variants and the effectiveness of vaccines and vulnerabilities within the domestic health sector infrastructure. The economy is also at the continuing risk of disruption from major hurricanes. Further, current geopolitical tensions pose additional risks to the global supply chain, particularly related to the price of oil.

CENTRAL BANK OF THE BAHAMAS

FINANCIAL STATEMENTS
for the Year Ended December 31, 2021

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

Opinion

We have audited the accompanying financial statements of the Central Bank of the Bahamas (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and reserve and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Bahamas as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Central Bank of The Bahamas Act, 2020 as amended.

Basis for Opinion

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

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 2021. 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 2021 (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.

BDO

Other Information (cont)

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

BDO

Chartered Accountants
Nassau Bahamas
25 April 2022

APPENDIX TO THE AUDITORS' REPORT

Detailed Description of Our Responsibilities

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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, 2021
(Expressed in Bahamian dollars)

	Note	2021 $	2020 $
ASSETS			
EXTERNAL ASSETS	6		
Cash and deposits with banks	3	323,822,280	307,566,820
Foreign Government Securities	7	1,500,587,304	1,701,959,861
Marketable Securities	8	162,485,626	165,618,818
International Monetary Fund:	9		
Bahamas Reserve Tranche		26,991,559	27,775,941
Special drawing rights – holdings		418,877,284	179,235,583
		2,432,764,053	2,382,157,023
DOMESTIC ASSETS			
Cash on hand	3	28,518	7,119
Bahamas Government Treasury bills	16	13,951,251	13,814,961
Advances to Bahamas Government	11	266,079,180	5,809,695
Bahamas Government Registered Stocks	12	340,899,934	232,872,471
Loans to Bahamas Development Bank	13	1,901,290	2,007,962
Bahamas Development Bank bonds	10	4,092,683	4,049,795
Bridge Authority bonds	14	450,467	43,964
Clifton Heritage Authority bonds	15	651,115	651,106
Currency inventory		12,331,427	11,687,379
Retirement benefit asset – Employees	33	181,088	-
Receivables and other assets	17	13,704,278	13,775,440
Property, plant and equipment	4	23,858,114	18,753,320
Intangible asset	5	5,954,314	5,885,127
Right of use assets	24	1,593,680	1,967,337
		685,677,339	311,325,676
TOTAL ASSETS		**3,118,441,392**	**2,693,482,699**

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, 2021
(Expressed in Bahamian dollars)

	Note	2021 $	2020 $
LIABILITIES			
DEMAND LIABILITIES			
Notes in circulation	18	533,568,761	516,214,365
Coins in circulation	18	30,142,343	30,330,788
Digital currency in circulation		303,785	192,625
Deposits by commercial banks	19	1,643,120,990	1,571,108,399
Deposits by Bahamas Government and Bahamas Government agencies		232,439,999	134,206,559
Deposits by international agencies	20	255,298	255,211
Accounts payable and other liabilities		6,722,442	9,888,137
Lease liabilities	24	1,662,509	2,017,199
Investment Currency Market payable		4,232,114	3,816,359
Health insurance subsidy benefit for retirees	34	8,661,991	7,572,806
Retirement benefit liability - Employees	33	-	578,193
Retirement benefit liability - Governors and Deputy Governors	35	607,722	880,039
		2,461,717,954	2,277,060,680
OTHER LIABILITIES			
International Monetary Fund:	9		
Special drawing rights allocation		418,852,722	179,218,740
TOTAL LIABILITIES		**2,880,570,676**	**2,456,279,420**
EQUITY AND RESERVES			
Authorised and fully paid capital	21	3,000,000	3,000,000
Exchange equalisation account	21	11,281,511	12,062,638
Contingency reserve		750,000	750,000
Other reserves		10,389,415	10,389,415
Building fund	21	43,680,403	40,680,403
Fair Value Reserve	21	(3,079,984)	(2,240,720)
General reserve	21	171,849,371	172,561,543
TOTAL EQUITY AND RESERVES		**237,870,716**	**237,203,279**
TOTAL LIABILITIES, EQUITY AND RESERVES		**3,118,441,392**	**2,693,482,699**

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

Director **Director**

25 April 2022
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, 2021
(Expressed in Bahamian dollars)

	Note	2021 $	2020 $
INCOME			
Interest income:	22		
Foreign investments		20,435,870	27,971,340
Domestic investments		11,921,232	11,638,496
Loans		3,940,949	1,145,193
		36,298,051	40,755,029
Interest expense		(149,949)	(350,795)
Net interest income		**36,148,102**	**40,404,234**
Net foreign exchange (loss)/gain		(781,127)	1,119,846
Net trading gains on Bahamas Government Registered Stocks		188,512	141,510
Realised gain on Marketable Securities			
Externally Managed Marketable Securities	8	1,079,329	3,344,729
Foreign Government Securities	7	1,185,750	-
Unrealised (loss)/gain on Marketable Securities		(7,699,546)	1,315,616
Bank license fees income		4,211,457	3,394,065
Other income		2,305,133	3,240,001
Total income		**36,637,610**	**52,960,001**
EXPENSES			
Staff costs	23	21,496,982	25,722,067
General and administrative	23	10,361,327	9,868,151
Depreciation	4	2,273,450	2,191,711
Amortisation of intangible asset	5	1,256,845	288,594
Amortisation of Right of Use Assets	24	336,080	314,060
Total expenses		**35,724,684**	**38,384,583**
NET INCOME		**912,926**	**14,575,418**
OTHER COMPREHENSIVE LOSS			
Items that will or may be reclassified to net income			
Valuation loss on Bahamas Government Registered Stock		(839,264)	(1,349,944)
Items that will not be reclassified to net income			
Actuarial gain/(loss) on defined benefit pension plan for employees		776,544	(1,631,960)
Actuarial (loss)/gain on group insurance subsidy		(699,929)	15,866
Actuarial gain/(loss) on defined pension plan benefit for Governors and Deputy Governors		517,160	(324,112)
Total other comprehensive loss		**(245,489)**	**(3,290,150)**
TOTAL COMPREHENSIVE INCOME		**667,437**	**11,285,268**

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, 2021
(Expressed in Bahamian dollars)

	Authorised & Fully Paid Capital $	Exchange Equalization Account $	Contingency Reserve $	Other Reserves $	Building Fund $	Fair Value Reserve $	General Reserve $	Total $
Balance at January 1, 2020	**3,000,000**	**10,942,792**	**750,000**	**10,389,415**	**30,680,403**	**(890,776)**	**171,046,177**	**225,918,011**
Comprehensive income								
Net income	-	-	-	-	-	-	14,575,418	**14,575,418**
Other comprehensive income								
Allocation to building fund (Note 21)	-	-	-	-	10,000,000	-	(10,000,000)	-
Appropriation of foreign exchange gain (Note 2 (b) ii)	-	1,119,846	-	-	-	-	(1,119,846)	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	(1,349,944)	-	**(1,349,944)**
Actuarial loss on defined benefit pension plan for employees (Note 33)	-	-	-	-	-	-	(1,631,960)	**(1,631,960)**
Actuarial gain on health insurance subsidy benefit for retirees (Note 34)	-	-	-	-	-	-	15,866	**15,866**
Actuarial loss on defined benefit pension plan for Governors and Deputy Governors (Note 35)	-	-	-	-	-	-	(324,112)	**(324,112)**
Total comprehensive income	-	1,119,846	-	-	10,000,000	(1,349,944)	1,515,366	**11,285,268**
Balance at December 31, 2020	**3,000,000**	**12,062,638**	**750,000**	**10,389,415**	**40,680,403**	**(2,240,720)**	**172,561,543**	**237,203,279**

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, 2021
(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, 2021	**3,000,000**	**12,062,638**	**750,000**	**10,389,415**	**40,680,403**	**(2,240,720)**	**172,561,543**	**237,203,279**
Comprehensive income								
Net income	-	-	-	-	-	-	912,926	**912,926**
Other comprehensive income								
Allocation to building fund (Note 21)					3,000,000		(3,000,000)	-
Appropriation of foreign exchange loss (Note 2 (b) ii)	-	(781,127)	-	-	-	-	781,127	-
Valuation gain on Bahamas Government Registered Stocks	-	-	-	-	-	(839,264)	-	**(839, 264)**
Actuarial gain on defined benefit pension plan for employees (Note 33)	-	-	-	-	-	-	776,544	**776,544**
Actuarial loss on health insurance subsidy benefit for retirees (Note 34)	-	-	-	-	-	-	(699,929)	**(699,929)**
Actuarial gain on defined benefit pension plan for Governors and Deputy Governors (Note 35)	-	-	-	-	-	-	517,160	**517,160**
Total comprehensive income	-	(781,127)	-	-	3,000,000	(839,264)	(712,172)	**667,437**
Balance at December 31, 2021	**3,000,000**	**11,281,511**	**750,000**	**10,389,415**	**43,680,403**	**(3,079,984)**	**171,849,371**	**237,870,716**

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

Central Bank of The Bahamas

Statement of Cash Flows
For the Year Ended December 31, 2021
(Expressed in Bahamian dollars)

	Note	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		**912,926**	**14,575,418**
Adjustments for non-cash items:			
Discount earned on foreign government securities - net	7	4,824,692	2,249,402
Depreciation	4	2,273,450	2,191,711
Gain on disposal of property, plant and equipment - net		(18,121)	-
Amortisation of intangible asset	5	1,256,845	288,594
Amortisation of Right of Use asset	24	336,080	314,060
Interest income		(41,122,744)	(43,004,431)
Gain on sale of Marketable securities			
Externally Managed Marketable Securities	8	(1,079,329)	(3,344,729)
Foreign Government Securities	7	(1,185,750)	-
Unrealised (gain)/loss on Marketable securities		7,699,546	(1,315,616)
Interest on lease liability		62,068	119,412
Interest expense		149,949	350,795
(Increase)/Decrease in operating assets			
Currency inventory		(644,048)	(2,169,608)
International Monetary Fund		8,547,112	(5,150,953)
Deposits with banks – with original contractual maturities greater than three months		5,000,000	10,000,000
Retirement benefit asset/liability - Employee		17,263	(72,403)
Receivables and other assets		71,162	1,706,113
Increase/(Decrease) in operating liabilities			
Notes in circulation		17,354,396	57,990,401
Coins in circulation		(188,445)	51,632
Digital currency in circulation		111,160	27,125
Deposits by commercial banks		72,012,591	328,353,997
Deposits by Bahamas Government and Bahamas Government agencies		98,233,440	20,133,737
Deposits by international agencies		87	(24)
Investment Currency Market payable		415,755	250,631
Health insurance subsidy benefit for retirees		389,256	4,404,050
Retirement benefit liability – Governors and Deputy Governors		244,843	204,656
Accounts payable and other liabilities		(3,165,695)	(3,756,648)
International Monetary Fund		(5,060,208)	7,146,403
Net cash from operating activities		**167,448,281**	**391,543,725**

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, 2021
(Expressed in Bahamian dollars)
(Continued)

	Note	2021 $	2020 $
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of foreign government securities	7	(882,980,313)	(1,798,071,226)
Proceeds from maturities/redemptions of foreign government securities	7	1,080,276,622	768,502,199
Purchase of marketable securities	8	(66,507,330)	(123,859,571)
Proceeds from sales of marketable securities	8	62,988,649	70,732,083
Purchase of property, plant and equipment	4	(7,378,244)	(7,742,091)
Proceeds from sale of property, plant and equipment		18,121	-
Additions to intangible asset	5	(1,326,032)	(6,173,721)
Purchase of Bridge Authority bonds	14	(399,300)	-
Proceeds on maturity of Bridge Authority bonds	14	-	-
Purchase of Clifton Heritage Authority Bonds	15	-	(10,000)
Purchase of Bahamas Government Registered Stock	12	(197,123,321)	(88,421,128)
Proceeds from sales and maturities of Bahamas Government Registered Stocks	12	89,873,316	104,074,337
Repayments of loans by Bahamas Development Bank	13	125,000	250,000
Purchase of Bahamas Government Treasury bills	16	(412,502,991)	(720,682,484)
Proceeds from the sales/maturities of Bahamas Government Treasury bills	16	412,384,833	841,855,536
Advances to Bahamas Government	11	(685,000,000)	(174,900,000)
Repayments from Bahamas Government	11	424,900,000	244,900,000
Interest received		40,177,449	40,739,621
Net cash used in investing activities		**(142,473,541)**	**(848,806,445)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of SDRs	9	(2,711,640)	(18,232,956)
Repayment of lease liabilities	24	(379,181)	(376,383)
Interest paid		(135,828)	(539,879)
Net cash used in financing activities		**(3,226,649)**	**(19,149,218)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**21,748,091**	**(476,411,938)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		247,063,772	723,475,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**268,811,863**	**247,063,772**

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

1. General Information

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

i) Compliance with IFRS

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

ii) Historical cost convention

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 2 (d), (e), (f), (m), (n), 24, 33, 34 and 35.

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, 2021 were either not relevant or not significant to the Bank's operations and accordingly did not have a material impact on the Bank's accounting policies or financial statements. The standards and amendments are as follows:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 , IAS 39, IFRS 7, IFRS 4, and IFRS 16)
- Amendments to IFRS 16 Covid-19 related Rent Concessions

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning January 1, 2022:

- IFRS 3 Business Combinations (Amendment to reference in Conceptual Framework for Financial Reporting)
- Amendments to IAS 16 Property, Plant, and Equipment
- Amendments to IAS 37 Provisions, contingent liabilities, and contingent assets
- Annual improvements to IFRS 9 Financial Instruments and IFRS 16 Leases

(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.

(c) Financial assets

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

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

i) Financial assets at fair value through profit or loss

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

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

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

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

ii) Financial assets at fair value through other comprehensive income

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

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

iii) Financial assets held at amortised cost

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets (continued)

iii) Financial assets held at amortised cost (continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(d) Impairment of financial assets (continued)

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(e) Property, plant and equipment (continued)

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

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

(f) Intangible asset

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

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

(g) Financial liabilities

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

2. Summary of Significant Accounting Policies (Continued)

(g) Financial liabilities (Continued)

i) Financial liabilities at fair value through profit or loss

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

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

ii) Other financial liabilities at amortised cost

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

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

(h) Provisions

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

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

2. Summary of Significant Accounting Policies (Continued)

(h) Provisions (Continued)

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

(i) Currency inventories

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

(j) Numismatic coins

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

(k) Investment currency market payable

In 2019, the investment current 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 authorised dealer retains 1.5% and remits 1% of the ICM Premium to the Bank which is recognised 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 are made by employees at 5% of basic salary and by the Bank at 18.8% up to June 2019.

Effective July 2019, the Pension Plan was amended to:

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

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 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 included 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:

	2021 $	2020 $
External Assets		
Cash in vault	2,257,386	6,426,423
Cash and deposit with banks	321,564,894	301,140,397
	323,822,280	307,566,820
Domestic Assets		
Cash on hand	28,518	7,119
	323,850,798	307,573,939
Less: Deposits with banks with original contractual maturities greater than three months	(55,038,935)	(60,510,167)
	268,811,863	**247,063,772**

Notes to the Financial Statements
December 31, 2021
(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, 2021	4,664,097	17,968,899	9,349,163	12,507,107	1,422,130	548,182	3,491,503	49,951,081
Additions	-	1,028,080	625,058	637,975	80,503	220,871	4,785,757	7,378,244
Disposals/Retirement	-	-	(187,543)	-	(820)	(92,340)	-	(280,703)
As at December 31, 2021	**4,664,097**	**18,996,979**	**9,786,678**	**13,145,082**	**1,501,813**	**676,713**	**8,277,260**	**57,048,622**
ACCUMULATED DEPRECIATION								
As at January 1, 2021	-	10,395,763	7,117,346	12,485,653	880,692	318,307	-	31,197,761
Charge for the year	-	873,551	1,041,918	143,295	171,122	43,564	-	2,273,450
Disposals/Retirement	-	-	(187,543)	-	(820)	(92,340)	-	(280,703)
As at December 31, 2021	**-**	**11,269,314**	**7,971,721**	**12,628,948**	**1,050,994**	**269,531**	**-**	**33,190,508**
NET BOOK VALUE								
As at December 31, 2021	**4,664,097**	**7,727,665**	**1,814,957**	**516,134**	**450,819**	**407,182**	**8,277,260**	**23,858,114**
COST								
As at January 1, 2020	2,452,938	17,523,725	8,003,086	12,507,107	1,283,187	448,792	-	42,218,835
Additions	2,211,159	445,174	1,349,021	-	145,844	99,390	3,491,503	7,742,091
Disposals/Retirement	-		(2,944)	-	(6,901)	-	-	(9,845)
As at December 31, 2020	**4,664,097**	**17,968,899**	**9,349,163**	**12,507,107**	**1,422,130**	**548,182**	**3,491,503**	**49,951,081**
ACCUMULATED DEPRECIATION								
As at January 1, 2020	-	9,646,819	6,511,541	11,862,215	716,457	278,863	-	29,015,895
Charge for the year	-	748,944	608,749	623,438	171,136	39,444	-	2,191,711
Disposals/Retirement	-		(2,944)	-	(6,901)	-	-	(9,845)
As at December 31, 2020	**-**	**10,395,763**	**7,117,346**	**12,485,653**	**880,692**	**318,307**	**-**	**31,197,761**
NET BOOK VALUE								
As at December 31, 2020	**4,664,097**	**7,573,136**	**2,231,817**	**21,454**	**541,438**	**229,875**	**3,491,503**	**18,753,320**

4. Property, Plant and Equipment (Continued)

New Premises Project

The Bank is constructing its new premises on the Royal Victoria Gardens ("RVG") site located between East Street and Parliament Street, south of Shirley Street, and north of East Hill Street in the city of Nassau, Bahamas. By resolution in Parliament, the Government of the Bahamas authorised the transfer of property to the Bank at a nominal cost of $10. The site preparation and demolition phase for the project began in 2020 and the architectural design are in the final stages. The Bank engaged various service providers and consultants for the project. As at December 31, 2021, the Bank has outstanding contractual commitments to service providers and consultants for the New Premises Project in the amount of $4,641,804 (2020: $8,808,063).

There is no final decision on how the current Central Bank premises will be utilised once the construction of the New Premises is completed thus the building & renovations along with the other assets continue to be depreciated on a straight-line basis without acceleration.

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. Initial costs related to the purchase of the land and design of the project. In 2020, the accumulated costs were transferred to land and work in progress in the amount of $2,211,159 and $268,708, respectively, upon conveyance of the land title. The Bank anticipated that the initial phase of construction will commence near the end of 2021 however this was rescheduled for late 2022. As at December 31, 2021, the Bank has outstanding contractual commitments on the Cash and Data Centre Project in the amount of $396,549 (2020: $413,499).

5. Intangible Asset

SAND DOLLAR PROJECT	**$**
COST	
As at January 1, 2021	6,173,721
Additions	1,326,032
As at December 31, 2021	7,499,753
ACCUMULATED AMORTISATION	
As at January 1, 2021	288,594
Amortisation	1,256,845
As at December 31, 2021	1,545,439
NET BOOK VALUE	
As at December 31, 2021	**5,954,314**
COST	
As at January 1, 2020	-
Additions	6,173,721
As at December 31, 2020	6,173,721
ACCUMULATED AMORTISATION	
As at January 1, 2020	-
Amortisation	288,594
As at December 31, 2020	288,594
NET BOOK VALUE	
As at December 31, 2020	**5,885,127**

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, 2021, the Bank has outstanding contractual commitments with the Sand Dollar developer in the amount of $312,801 (2020: $1,417,121).

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.

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 98.8% (2020: 104.6%) of such liabilities.

7. Foreign Government Securities

These generally represent internally managed marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years. At December 31, 2021, marketable securities held by the Bank, which mature after 5 years, constituted 10.72% (2020: 16.95%) of the Bank's external assets.

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

	2021	**2020**
	$	**$**
Beginning balance	1,696,247,843	668,928,218
Purchases at nominal value	881,160,000	1,788,423,761
Discount on purchases	1,820,313	9,647,465
Redemptions/maturities	(1,080,276,622)	(768,502,199)
Gain on redemption	1,185,750	-
Discount earned	683,055	1,018,638
Amortised premium	(5,507,747)	(3,268,040)
Total	1,495,312,592	1,696,247,843
Add: Accrued interest	5,274,712	5,712,018
Ending balance	**1,500,587,304**	**1,701,959,861**

These securities bear interest at rates varying between 0.05% and 6.00% (2020: 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:

	2021 $	2020 $
Beginning balance	164,656,804	106,868,971
Purchases	66,507,330	123,859,571
Sales	(62,988,649)	(70,732,083)
Realised gain	1,079,329	3,344,729
Unrealised gain	(7,699,546)	1,315,616
Total	161,555,268	164,656,804
Add: Accrued interest	930,358	962,014
Ending balance	**162,485,626**	**165,618,818**

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, 2021, The Bahamas was assigned a quota of SDR 182,400,000 (2021: SDR 182,400,000) which represents 0.04% (2021: 0.04%) of the total quota allocated by the IMF.

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

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

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

The Bahamian dollar is designated as an unusable currency which permits the Bank to pay the non-reserve portion of the quota in the form of promissory notes. Subsequent to its initial subscription into the IMF, the Bank has increased the IMF subscriptions of The Bahamas by issuing, non-negotiable, interest-free promissory notes which are payable if the IMF requires an emergency loan. Payment of the promissory notes will give rise to an equal and opposite receivable from the IMF. These promissory notes were issued by the Bank and the Government of The Bahamas on behalf of the Bank, in the Bahamian dollar equivalents of SDR 43,275,901 and SDR 114,698,515 (2020: 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:

	2021		2020	
	SDR	**$**	**SDR**	**$**
Quota	182,400,000	255,285,915	182,400,000	262,704,590
Subscription payments in promissory notes	(157,974,416)	(221,100,018)	(157,974,416)	(227,525,242)
Subscription payments in local currency	(5,140,304)	(7,194,338)	(5,140,304)	(7,403,407)
Reserve tranche	**19,285,280**	**26,991,559**	**19,285,280**	**27,775,941**

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

	2021		2020	
	SDR	**$**	**SDR**	**$**
Beginning balance	19,285,280	27,775,940	19,285,280	26,668,179
Purchase of SDRs	-	-	-	-
Currency movement	-	(784,381)	-	1,107,762
Total	**19,285,280**	**26,991,559**	**19,285,280**	**27,775,941**

SDR Holdings and SDR Allocation

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

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

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

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

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

9. International Monetary Fund (Continued)

SDR Holdings and SDR Allocation (continued)

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

SDR Holdings

	2021		2020	
	SDR	$	SDR	$
Beginning balance	124,422,623	179,201,722	113,481,828	156,925,575
Purchases	1,937,448	2,711,640	12,659,415	18,232,956
Remuneration and other charges	172,891,534	241,977,926	(1,718,620)	(2,475,274)
Currency movement	-	(5,060,586)	-	6,518,465
Total	299,251,605	418,830,702	124,422,623	179,201,722
Add: Accrued interest		46,582		33,861
Ending balance		**418,877,284**		**179,235,583**

SDR Allocation

	2021		2020	
	SDR	$	SDR	$
Beginning balance	124,413,351	179,188,368	124,413,351	172,041,965
Additional SDR	174,822,197	244,680,070	-	
Currency movement		(5,060,208)	-	7,146,403
Total	299,235,548	418,808,230	124,413,351	179,188,368
Add: Accrued interest		44,492		30,372
Ending balance		**418,852,722**		**179,218,740**

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.

The interest rate, which is the same on both SDR Holdings and allocation, varied between 0.05% and 0.08% (2020: 0.05% and 0.74%).

10. Bahamas Development Bank Bonds

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

	2021 $	2020 $
Balance	4,000,000	4,000,000
Add: Accrued interest	92,683	49,795
Total	**4,092,683**	**4,049,795**

These bonds bear interest at the Bahamian dollar prime rate of 4.25% (2020: 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 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) the Bank may provide temporary loans to the Government, where the amount of the loans, which may be outstanding at any one time, taken together with the Treasury bills or securities issued or guaranteed by the Government or a public corporation, shall not exceed, in aggregate, 30% of the average ordinary revenue of the Government or 30% of the estimated ordinary revenue of the Government, whichever is less. The loan should mature within 91 days and interest rate on the loan is based on market related interest rate.

At the year end date, advances to the Government were 0.29% (2020: 0.33%) of the lesser of such revenues.

The movements in advances for the year are as follows:

	2021 $	2020 $
Beginning balance	4,900,000	74,900,000
Additional advances	685,000,000	174,900,000
Repayments	(424,900,000)	(244,900,000)
	265,000,000	4,900,000
Add: Accrued interest	1,079,180	909,695
Ending balance	**266,079,180**	**5,809,695**

11. Advances to Bahamas Government (Continued)

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

Rate	2021 $	2020 $
1.922%	-	4,900,000
2.760%	75,000,000	-
2.793%	115,000,000	-
2.819%	75,000,000	
	265,000,000	**4,900,000**

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:

	2021 $	2020 $
Beginning balance	230,087,320	247,090,473
Purchases	197,123,321	88,421,128
Market value adjustment	(839,264)	(1,349,944)
Redemptions/maturities	(89,873,316)	(104,074,337)
Total	336,498,061	230,087,320
Add: Accrued interest	4,401,873	2,785,151
Ending balance	**340,899,934**	**232,872,471**

Bahamas Government Registered Stocks bear interest at rates ranging between 0.023% and 6.25% (2020: 0.083% and 6.10%).

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:

	2021 **$**	**2020** **$**
Beginning balance	2,000,000	2,250,000
Repayments	(125,000)	(250,000)
Total	1,875,000	2,000,000
Add: Accrued interest	26,290	7,962
Ending balance	**1,901,290**	**2,007,962**

The loans bear interest at 2.00% (2020: 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:

	2021 **$**	**2020** **$**
Beginning balance	43,300	43,300
Purchases	399,300	-
Maturities	-	-
Total	442,600	43,300
Add: Accrued interest	7,867	664
Ending balance	**450,467**	**43,964**

These bonds bear interest at rates ranging from 1.50% to 1.63% (2020: 1.50% to 1.63%) per annum over the Bahamian dollar prime rate with $19,300 and $24,000 maturing on March 24, 2024 and 2029, respectively.

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:

	2021 $	2020 $
Beginning balance	647,600	637,600
Purchases	-	10,000
Total	647,600	647,600
Add: Accrued interest	3,515	3,506
Total	**651,115**	**651,106**

16. Bahamas Government Treasury Bills

Bahamas Government Treasury bills are discounted at rates ranging between 2.79% and 99.33% (2020: 99.09% and 99.17%) maturing 91 to 182 days from acquisition.

	2021 $	2020 $
Beginning balance	13,769,837	134,942,889
Purchases	412,502,991	720,682,484
Redemptions/maturities	(412,384,833)	(841,855,536)
Total	13,887,995	13,769,837
Add: Discount earned	63,256	45,124
Ending balance	**13,951,251**	**13,814,961**

17. Receivables and Other Assets

The receivables and other assets is comprised of:

	2021 $	2020 $
Prepayments, deposits and advances	7,690,673	6,531,717
Employee loans	5,190,214	6,186,534
Numismatic coins	723,813	449,921
Due from Retirement Plan – Governors and Deputy Governors	209,456	133,268
Others	161,035	679,791
Total	13,975,191	13,981,231
Less: Provision for bad debt on employee loans	(270,913)	(205,791)
Ending balance	**13,704,278**	**13,775,440**

17. Receivables and Other Assets (Continued)

Information Technology (IT) Modernisation Project

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

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

As at December 31, 2021, the Bank has outstanding contractual commitments to service providers and consultants for the IT Modernisation project in the amount of $1,905,421 (2020: $880,079) with an anticipated completion time of April 25, 2022 (Phase 1) and December 31, 2022 (Phase 2).

18. Currency in Circulation

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

Notes	2021 $	2020 $
0.50	927,615	873,079
1.00	26,376,610	25,953,612
3.00	2,179,058	2,139,801
5.00	13,104,330	12,979,945
10.00	20,856,510	20,437,240
20.00	56,619,120	57,279,320
50.00	120,396,500	163,661,950
100.00	293,027,000	232,807,400
Other bank notes	82,018	82,018
	533,568,761	**516,214,365**

18. Currency in Circulation (Continued)

Coins	2021	2020
	$	$
Coins in circulation	23,499,743	30,330,788
Demonetised currency liability	6,624,600	-
	30,142,343	**30,330,788**

During 2019, the Bank announced that it would demonetise the one-cent coin on 31 December 2020, with an additional extension to 30 June 2021 for the public to redeem the coins. During the 18-month redemption process, an estimated $557,740 in one-cent coins were withdrawn from circulation. As currently disclosed in the Act, although the coins have been demonetised, liability remains. The Bank will recommend that the Government amend the Act to extinguish this liability.

19. Deposits by Commercial Banks

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

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

20. 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.

21. 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, 2021 and 2020, 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.

	2021 $	2020 $
Net income	912,926	14,575,418
Appropriation of foreign exchange loss/(gain)	781,127	(1,119,846)
Unrealised loss/(gain) on marketable securities	7,699,546	(1,315,616)
Distributable earnings per the Act	9,393,599	12,139,956
Other comprehensive loss	(245,489)	(3,290,150)
Distributable earnings net of other comprehensive loss stated in accordance with the Act	9,148,110	8,849,806

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.

21. Equity and Reserves (Continued)

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

Building fund - This account represents a reserve for construction of a new premises. During the year, the Bank appropriated $3,000,000 (2020: $10,000,000) from the general reserve to the building fund as approved by the Board of Directors.

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

The balance of the general reserve at the year-end amounted to $171,849,371 (2020: $172,561,543) equivalent to 7.0% (2020: 7.6%) of demand liabilities.

22. Income

	2021	2020
	$	$
Interest on foreign investments		
Demand deposits	357,663	2,184,928
Fixed deposits	302,344	3,910,451
Foreign Government and marketable securities	19,626,531	21,539,089
Interest Income on SDR	149,332	336,872
	20,435,870	27,971,340
Interest on domestic investments		
Bahamas Development Bank bonds	170,000	170,000
Bahamas Government Registered Stocks	11,137,062	10,112,510
Bridge Authority bonds	21,627	2,502
Bahamas Government Treasury bills	564,287	1,323,164
Clifton Heritage bonds	28,256	30,320
	11,921,232	11,638,496
Interest on loans		
Loans to Bahamas Development Bank	38,623	47,388
Government advances	3,749,848	908,818
Staff	152,478	188,987
	3,940,949	1,145,193
Interest expense on IMF allocation	(149,949)	(350,795)
Gains/(losses) on investments		
Net foreign exchange (loss)/gain	(781,127)	1,119,846
Realised gain on Marketable Securities		
Externally Managed Marketable Securities	1,079,329	3,344,729
Foreign Government Securities	1,185,750	-
Unrealised (loss)/gain on Marketable Securities	(7,699,546)	1,315,616
Net trading gain on Bahamas Government Registered Stocks	188,512	141,510
	(6,027,082)	5,921,701
Bank license fees income	4,211,457	3,394,065
Other income		
Bank statutory fines	313	1,737
Commission on foreign currency sales	1,342,091	1,951,488
Premium on Investment Currency Market	176,102	140,502
Other	786,627	1,146,274
	2,305,133	3,240,001
Total income	**36,637,610**	**52,960,001**

23. Expenses

	2021	2020
	$	$
Staff costs		
Salaries, wages and gratuity	15,745,298	16,703,921
Health insurance subsidy	648,303	4,615,147
Group insurance plan	1,875,724	1,673,850
Defined contribution plan	1,270,045	1,210,423
National insurance	569,874	542,744
Staff training	392,413	466,066
Responsibility allowance	218,120	218,030
Former Governors' retirement benefit	588,629	204,656
Defined benefit plan	17,263	(72,403)
Other	171,313	159,633
	21,496,982	**25,722,067**

	2021	2020
	$	$
General and administrative		
Professional fees	3,881,285	3,621,980
Currency	1,497,313	1,346,523
Utilities	1,275,214	1,244,128
Repairs and maintenance	926,055	1,204,441
Insurance	248,846	228,724
Subscription and membership fees	429,697	191,107
Rent and common area maintenance	147,993	146,679
Cash shipment	55,724	108,668
Directors' remuneration	82,825	63,450
Stationery and office supplies	1,182	14,129
Other	1,815,193	1,698,322
	10,361,327	**9,868,151**

24. 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.

24. Right of Use Assets and Lease Liabilities

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, 2021	1,967,337	-	1,967,337
Effect of lease modification	(37,577)	-	(37,577)
Amortisation	(336,080)	-	(336,080)
December 31, 2021	**1,593,680**	**-**	**1,593,680**

	Land and Buildings $	Vehicle $	Total $
January 1, 2020	1,148,938	4,350	1,153,288
Effect of lease modification	1,128,109	-	1,128,109
Amortisation	(309,710)	(4,350)	(314,060)
December 31, 2020	**1,967,337**	**-**	**1,967,337**

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, 2021	2,017,199	-	2,017,199
Effect of lease modification	(37,577)	-	(37,577)
Interest expense	62,068	-	62,068
Payments	(379,181)	-	(379,181)
December 31, 2021	**1,662,509**	**-**	**1,662,509**

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

Lease Liabilities (Continued)

	Land and Buildings $	Vehicle $	Total $
January 1, 2020	1,142,795	3,266	1,146,061
Effect of lease modification	1,128,109	-	1,128,109
Interest expense	119,378	34	119,412
Payments	(373,083)	(3,300)	(376,383)
December 31, 2020	**2,017,199**	**-**	**2,017,199**

The following are the amounts recognised in profit or loss:

	2021 $	2020 $
Amortisation on Right of Use asset	336,080	314,060
Interest expense on lease liabilities	62,068	119,412
	398,148	**433,472**

The maturity analysis of lease liabilities follows:

	2021 $	2020 $
1 year	308,753	312,472
2-5 years	1,259,920	1,307,910
Over 5 years	93,836	396,817
	1,662,509	**2,017,199**

Common area maintenance and non-lease components are recognised 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.

25. 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.

26. Commitments & Contingencies

(a) Contingencies

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

(b) Commitments

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:

	2021	2020
	$	$
Not later than one year	1,127,880	1,856,100
Later than one year but not later than five years	-	1,127,880

27. Concentration of Assets and Liabilities

	2021 $	2020 $
EXTERNAL ASSETS		
Geographic Region		
North America	60.30%	73.99%
Europe	0.00%	0.02%
Other	39.70%	25.99%
	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	90.18%	93.77%
Government Sector	9.82%	6.23%
	100.00%	100.00%
OTHER LIABILITIES		
Geographic Region		
North America	100.00%	100.00%
Industry		
Financial Sector	100.00%	100.00%

Section 22(2) of the Act allows the Bank to hold an aggregate amount of securities issued or guaranteed by the Government or a public corporation up to 20% of the average ordinary revenue of the Government, or 20% of the estimated ordinary revenue of the Government, whichever is less. At the statement of financial position date, such securities held by the Bank was 10.62% (2020: 14.73%) estimated ordinary revenues.

28. 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.

28. Related Party Transactions

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 recognised as bank license fee income as disclosed in Note 22.

During the year, the allocation received by the Bank of $4,211,457 (2020: $3,394,065) is net of the demolition cost of the vacated Post Office building located across the site of the New Premises Project on Royal Victoria Gardens in the amount to $688,543 (2020: $1,505,935). The old Post Office ground is not included of the land transferred by the Government to the Bank as disclosed in Note 4.

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:

	2021 $	2020 $
Senior officials' salaries and short-term benefits	2,944,530	2,692,922
Directors' remuneration	82,825	63,450
Post-employment benefits	148,720	148,158
	3,176,075	**2,904,530**

28. Related Party Transactions (Continued)

(b) Other assets include secured loans to employees totaling $4,919,300 (2020: $5,980,743), net of provision for bad debt totaling $270,913 (2020: $205,791), of which the following relates to key management personnel:

	2021 $	2020 $
Beginning of the year	517,766	540,261
Advances during the year	38,990	131,713
Repayments during the year	(146,866)	(154,208)
End of the year	**409,890**	**517,766**

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

	2021 $	2020 $
Defined benefit pension plan for Governors and Deputy Governors	989,663	804,438
Gratuity	142,660	80,341
End of the year	**1,132,323**	**884,779**

29. 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, 2021, the Bank held assets consisting of bank accounts in respect of the unclaimed customer deposits of $83,685,310 (2020: $68,399,603). These amounts are excluded from the statement of financial position.

The Insurance Commission of the Bahamas granted the Bank custody of unclaimed insurance from registered insurance companies in the amount of $4,465,474 (2020: $4,138,956) 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 $234,639,342 (2020: $195,463,442). These funds are also excluded from the statement of financial position.

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2021
(Continued)

30. Financial Instruments

Categories of Financial Instruments

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

30. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

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

Notes to the Financial Statements
December 31, 2021
(Continued)

30. 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, 2020				
EXTERNAL ASSETS				
Cash and deposits with banks	307,566,820	-	-	307,566,820
Foreign Government Securities	1,701,959,861	-	-	1,701,959,861
Marketable securities	-	165,618,818	-	165,618,818
International Monetary Fund:				
Bahamas reserve tranche	-	27,775,941	-	27,775,941
Special drawing rights - holdings	-	179,235,583	-	179,235,583
DOMESTIC ASSETS				
Cash on hand	7,119	-	-	7,119
Bahamas Development Bank bonds	4,049,795	-	-	4,049,795
Advances to Bahamas Government	5,809,695	-	-	5,809,695
Bahamas Government Registered Stock	-	-	232,872,471	232,872,471
Loans to Bahamas Development Bank	2,007,962	-	-	2,007,962
Bridge Authority Bonds	43,964	-	-	43,964
Clifton Heritage Authority Bonds	651,106	-	-	651,106
Bahamas Government Treasury Bills	-	-	13,814,961	13,814,961
Employee loans and other receivables	6,660,534	-	-	6,660,534
Total	**2,028,756,856**	**372,630,342**	**246,687,432**	**2,648,074,630**

30. Financial Instruments (Continued)

Categories of Financial Instruments (continued)

	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total Carrying Amount $
December 31, 2020			
DEMAND LIABILITIES			
Notes in circulation	-	516,214,365	516,214,365
Coins in circulation	-	30,330,788	30,330,788
Digital currency in circulation	-	75,125	75,125
Deposits by commercial banks	-	1,571,225,899	1,571,225,899
Deposits by Bahamas Government and Bahamas Government agencies	-	134,206,559	134,206,559
Deposits by International agencies	-	255,211	255,211
Accounts payable and other liabilities	-	9,888,137	9,888,137
Investment Currency Market payable	-	3,816,359	3,816,359
OTHER LIABILITIES			
International Monetary Fund: Special drawing rights allocation	179,218,740	-	179,218,740
Total	**179,218,740**	**2,266,012,443**	**2,445,231,183**

31. 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.

	2021 Carrying Value $	2021 Fair Value $	2020 Carrying Value $	2020 Fair Value $
FINANCIAL INSTRUMENTS				
Foreign Government Securities	1,500,587,304	1,505,724,661	1,701,959,861	1,818,662,263
Loans to Bahamas Development Bank	1,901,290	2,025,752	2,007,962	2,160,271
Bridge Authority bonds	450,467	474,034	43,964	45,224
Clifton Heritage Authority bonds	651,115	665,387	651,106	666,499
TOTAL	**1,503,590,176**	**1,508,889,834**	**1,704,662,893**	**1,821,534,257**

31. Fair Value Measurements (Continued)

Fair value of financial instruments (continued)

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

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

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

Fair value hierarchy and measurements

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

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

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

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

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

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised 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.

31. Fair Value Measurements (Continued)

Fair value hierarchy and measurements (continued)

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

31. 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, 2020			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
Marketable Securities	165,618,818	-	-	165,618,818
International Monetary Fund:				
Bahamas reserve tranche	27,775,941	-	-	27,775,941
Special Drawing rights - holdings	179,235,583	-	-	179,235,583
Financial assets at fair value through Other Comprehensive Income				
Bahamas Government Treasury bills	-	13,814,961	-	13,814,961
Bahamas Government Registered Stocks	-	232,872,471	-	232,872,471
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss				
International Monetary Fund:				
Special drawing rights allocation	179,218,740	-	-	179,218,740

Level 3

The Bank does not have a level three classification at December 31, 2021 and 2020.

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

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

	Fair value measurements as at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL ASSETS				
Cash and deposits with banks	307,573,939	-	-	307,573,939
Financial assets held at amortised cost				
Bahamas Development Bank bonds	-	4,049,795	-	4,049,795
Advances to Bahamas Government	-	5,809,695	-	5,809,695
Loans to Bahamas Development Bank	-	2,007,962	-	2,007,962
Bridge Authority bonds	-	43,964	-	43,964
Employee loans and other receivables	-	6,660,534	-	6,660,534
Foreign Government Securities	1,701,959,861	-	-	1,701,959,861
Clifton Heritage Authority bonds	-	651,106	-	651,106

	Fair value measurements as at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
FINANCIAL LIABILITIES				
Other financial liabilities				
Notes in circulation	516,214,365	-	-	516,214,365
Coins in circulation	30,330,788	-	-	30,330,788
Digital currency in circulation	192,625	-	-	192,625
Deposits by commercial banks	-	1,571,108,399	-	1,571,108,399
Deposits by Bahamas Government and Bahamas Government agencies	-	134,206,559	-	134,206,559
Deposits by international agencies	-	255,211	-	255,211
Accounts payable and other liabilities	-	9,888,137	-	9,888,137
Investment Currency Market payable	-	3,816,359	-	3,816,359

31. 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, 2021 was 4.25% (2020: 4.25%).

32. 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.

32. Risk Management (Continued)

Credit risk

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

Exposure to credit risk

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

	2021 $	2020 $
Cash and deposits with banks		
Aaa	256,694,777	275,905,208
Aa2	45,111,816	53,608
A1	15,010,458	25,181,581
Aa1	4,747,843	-
	321,564,894	301,140,397
Bahamas Development Bank Bonds		
Baa3	4,092,683	4,049,795
Advances to Bahamas Government		
Baa3	266,079,180	5,809,695
Bahamas Government Registered Stock		
Baa3	340,899,934	232,872,471
Loans to Bahamas Development Bank		
Baa3	1,901,290	2,007,962
Bridge Authority Bonds		
Baa3	450,467	43,964

32. Risk Management (Continued)

Credit risk (continued)

Exposure to credit risk (continued)

	2021 $	2020 $
Receivables and Other Assets	5,080,336	6,660,534
Bahamas Government Treasury Bills		
Baa3	13,951,251	13,814,961
Foreign Government Securities		
Aaa	1,500,587,304	1,701,959,861
Marketable Securities		
Aaa	162,485,626	165,618,818
Clifton Heritage Authority Bonds		
Baa3	651,115	651,106
International Monetary Fund		
Bahamas reserve tranche	26,991,559	27,775,941
Special drawing rights - holdings	418,877,284	179,235,583
	445,868,843	207,011,524
	3,063,612,923	**2,641,641,088**

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, 2021
(Continued)

32. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

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

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2021
(Continued)

32. Risk Management (Continued)

Currency risk (continued)

*(BSD equivalent)

	BSD	USD*	GBP*	EUR*	Other*	SDR*	Total
As of December 31, 2020							
Financial Assets							
Cash and deposits with banks	7,119	307,566,374	3,664	(5,668)	2,450	-	307,573,939
Foreign Government Securities	-	1,701,959,861	-	-	-	-	1,701,959,861
Marketable securities	-	165,618,818	-	-	-	-	165,618,818
International Monetary Fund:							
Bahamas reserve tranche	-	-	-	-	-	27,775,941	27,775,941
Special drawing rights - holdings	-	-	-	-	-	179,235,583	179,235,583
Domestic financial assets	265,910,488	-	-	-	-	-	265,910,488
Total financial assets	**265,917,607**	**2,175,145,053**	**3,664**	**(5,668)**	**2,450**	**207,011,524**	**2,648,074,630**
Financial Liabilities							
Notes in circulation	516,214,365	-	-	-	-	-	516,214,365
Coins in circulation	30,330,788	-	-	-	-	-	30,330,788
Digital currency in circulation	192,625	-	-	-	-	-	192,625
Deposits by commercial banks	1,571,108,399	-	-	-	-	-	1,571,108,399
Deposits by Bahamas Government and Bahamas Government agencies	134,206,559	-	-	-	-	-	134,206,559
Deposits by international agencies		255,211	-	-	-	-	255,211
Accounts payable and other liabilities	9,888,137	-	-	-	-	-	9,888,137
Investment Currency Market payable	3,816,359	-	-	-	-	-	3,816,359
International Monetary Fund:							
Special drawing rights allocation	-	-	-	-	-	179,218,740	179,218,740
Total financial liabilities	**2,265,757,232**	**255,211**	**-**	**-**	**-**	**179,218,740**	**2,445,231,183**
Net on-balance sheet position	**(1,999,839,625)**	**2,174,889,842**	**3,664**	**(5,668)**	**2,450**	**27,792,784**	**202,843,447**

32. Risk Management (Continued)

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

	Average Rate		Year-end Spot Rate	
	2021	**2020**	**2021**	**2020**
USD 1	1.0000	1.0000	1.0000	1.0000
GBP 1	1.3723	1.2918	1.3498	1.3656
EUR 1	1.1727	1.1468	1.1342	1.2228
SDR 1	1.4235	1.3959	1.3996	1.4403

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

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

At December 31, 2021, if BSD had weakened/strengthened by 10% against SDR with all other variables held constant, comprehensive income for the year would have been BSD 2,456 (2020: BSD 1,684) 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.

32. 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 1.97% (2020: 2.24%); however, if these securities had a reduced average yield of 0.49% (2020: 1.41%), 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 $14,744,805 (2020: $1,469,655). Had the yield been tilted towards the higher end of the spectrum, to 4.58% (2020: 3.39%), income for the year and equity at year end would have increased by $26,002,663 (2020: $4,283,927).

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 $4,981,353 (2020: $639,840), 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 $(4,981,353) (2020: $(639,840)).

	December 31, 2021 $	December 31, 2020 $
Fixed Rate Instruments		
Financial assets	2,174,210,211	1,105,020,432
Variable Rate Instruments		
Financial assets	888,893,802	591,306,465
Financial liabilities	418,852,723	179,218,740

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.

32. 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, 2021
(Continued)

32. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2021						
Financial Assets						
Cash and deposits with banks	68,459,810	12,007,941	243,383,047	-	-	**323,850,798**
Foreign Government Securities and Marketable Securities	18,167,460	67,692,604	246,095,953	907,882,446	260,748,841	**1,500,587,304**
Marketable securities	-	-	-	162,485,626	-	**162,485,626**
International Monetary Fund:						
Bahamas reserve tranche	26,991,559	-	-	-	-	**26,991,559**
Special drawing rights – holdings	418,877,284	-	-	-	-	**418,877,284**
Bahamas Development Bank bonds	-	-	-	-	4,092,683	**4,092,683**
Advances to Bahamas Government	266,079,180	-	-	-	-	**266,079,180**
Bahamas Government Registered stock	33,381	303	35,274,706	114,431,269	191,160,275	**340,899,934**
Bahamas Government Treasury Bills	-	-	13,951,251	-	-	**13,951,251**
Loans to Bahamas Development Bank	-	-	-	-	1,901,290	**1,901,290**
Bridge Authority bonds	-	-	-	450,467	-	**450,467**
Clifton Heritage Authority bonds	-	-	-	-	651,115	**651,115**
Receivables and other accounts	-	-	-	5,080,336	-	**5,080,336**
Total financial assets	**798,608,674**	**79,700,848**	**538,704,957**	**1,190,330,144**	**458,554,204**	**3,065,898,827**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2021
(Continued)

32. Risk Management (Continued)

Liquidity risk (continued)

	Up to 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $	Total $
Period of maturity						
As of December 31, 2021						
Financial Liabilities						
Notes in circulation	533,568,761	-	-	-	-	**533,568,761**
Coins in circulation	30,142,343	-	-	-	-	**30,142,343**
Digital currency in circulation	303,785	-	-	-	-	**303,785**
Deposits by commercial banks	1,643,120,990	-	-	-	-	**1,643,120,990**
Deposits by Bahamas Government and Bahamas Government agencies	232,439,999	-	-	-	-	**232,439,999**
Deposits by International agencies	255,298	-	-	-	-	**255,298**
Accounts payable and other liabilities	6,722,442	-	-	-	-	**6,722,442**
Investment Currency Market payable	4,232,114	-	-	-	-	**4,232,114**
International Monetary Fund: Special drawing rights allocation	418,852,722	-	-	-	-	**418,852,722**
Total financial liabilities	**2,869,638,454**	**-**	**-**	**-**	**-**	**2,869,638,454**
Net on-balance sheet position	**(2,071,029,780)**	**79,700,848**	**538,704,957**	**1,190,330,144**	**458,554,204**	**196,260,373**

Central Bank of The Bahamas

Notes to the Financial Statements
December 31, 2021
(Continued)

32. 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, 2020						
Financial Assets						
Cash and deposits with banks	65,286,881	10,143,336	232,143,722	-	-	**307,573,939**
Foreign Government Securities and Marketable Securities	75,995,413	235,392,776	611,628,907	375,134,349	403,808,416	**1,701,959,861**
Marketable securities	-	-	-	165,618,818	-	**165,618,818**
International Monetary Fund:						
Bahamas reserve tranche	27,775,941	-	-	-	-	**27,775,941**
Special drawing rights – holdings	179,235,583	-	-	-	-	**179,235,583**
Bahamas Development Bank bonds	-	-	-	-	4,049,795	**4,049,795**
Advances to Bahamas Government	5,809,695	-	-	-	-	**5,809,695**
Bahamas Government Registered stock	3,320,591	1,736,408	41,842,436	50,687,814	135,285,222	**232,872,471**
Bahamas Government Treasury Bills	-	-	13,814,961	-	-	**13,814,961**
Loans to Bahamas Development Bank	-	-	-	-	2,007,962	**2,007,962**
Bridge Authority bonds	-	-	-	43,964	-	**43,964**
Clifton Heritage Authority bonds	-	-	-	-	651,106	**651,106**
Receivables and other accounts	-	-	-	6,660,534	-	**6,660,534**
Total financial assets	**357,424,104**	**247,272,520**	**899,430,026**	**598,145,479**	**545,802,501**	**2,648,074,630**

Notes to the Financial Statements
December 31, 2021
(Continued)

32. 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, 2020						
Financial Liabilities						
Notes in circulation	516,214,365	-	-	-	-	**516,214,365**
Coins in circulation	30,330,788	-	-	-	-	**30,330,788**
Digital currency in circulation	192,625	-	-	-	-	**192,625**
Deposits by commercial banks	1,571,108,399	-	-	-	-	**1,571,108,399**
Deposits by Bahamas Government and Bahamas Government agencies	134,206,559	-	-	-	-	**134,206,559**
Deposits by International agencies	255,211	-	-	-	-	**255,211**
Accounts payable and other liabilities	9,888,137	-	-	-	-	**9,888,137**
Investment Currency Market payable	3,816,359	-	-	-	-	**3,816,359**
International Monetary Fund:						
Special drawing rights allocation	179,218,740	-	-	-	-	**179,218,740**
Total financial liabilities	**2,445,231,183**	**-**	**-**	**-**	**-**	**2,445,231,183**
Net on-balance sheet position	**(2,087,807,079)**	**247,272,520**	**899,430,026**	**598,145,479**	**545,802,501**	**202,843,447**

32. 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.

33. Retirement Benefit Plans

Defined Contribution Plan

	2021 $	2020 $
Amount recognised as an expense (Note 23)	1,270,045	1,210,423

Defined Benefit Plan

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

	2021 $	2020 $
Present value of obligation at start of year	17,882,952	17,559,745
Interest cost	923,853	953,802
Benefits paid	(1,229,343)	(1,356,589)
Actuarial (gain)/loss on obligation due to experience	(551,912)	236,413
Actuarial (gain)/loss on obligation due to financial assumption changes	(231,140)	489,581
Present value of obligation at end of year	**16,794,410**	**17,882,952**
Fair value of plan assets at start of year	17,304,759	18,541,109
Interest income	893,276	1,009,715
Contributions paid – both employees' and employer's	21,094	23,012
Benefits paid	(1,229,343)	(1,356,589)
Administrative costs	(7,780)	(6,522)
Return on plan assets, excluding interest income	(6,508)	(905,966)
Fair value of plan assets at end of year	**16,975,498**	**17,304,759**

33. 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:

	2021 $	2020 $
Present value of funded obligations	16,794,410	17,882,952
Fair value plan assets	(16,975,498)	(17,304,759)
	(181,088)	**578,193**

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

	2021 $	2020 $
Cash	1,152,610	65,980
Interest receivable	260,691	288,854
Bahamas Government Registered Stocks	14,537,676	15,915,776
Other bonds	369,115	369,115
Equity securities	700,000	700,000
Accounts payable	(44,594)	(34,966)
Total	**16,975,498**	**17,304,759**

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

	2021 $	2020 $
Administrative cost	7,780	6,522
Net interest income	30,577	(55,913)
	38,357	**(49,391)**
Remeasurements recognised in OCI	**(776,544)**	**1,631,960**

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

	2021	**2020**
	$	**$**
Net liability/(asset) at beginning of year	578,193	(981,364)
Net expense/(gain) recognised in net income	38,357	(49,391)
Employer contributions	(21,094)	(23,012)
Remeasurements recognised in OCI	(776,544)	1,631,960
	(181,088)	**578,193**

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:

	2021	**2020**
	$	**$**
Discount rate	5.50%	5.35%
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 $886,768 (2020: $103,749).

33. Retirement Benefit Plans (Continued)

Sensitivity and other results

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

	2021 $	2020 $
Pensioners	13,172,769	14,283,979
Vesting actives	3,621,641	3,598,973
	16,794,410	17,882,952

The pensioner liability of $13,172,769 (2020: $14,283,979), included $1,045,351 (2020: $1,320,086) relating to assumed cost of living adjustments.

The liability for actives of $3,621,641 (2020: $3,598,973), included of $69,653 (2020: $125,019) relating to assumed cost of living adjustments and $187,447 (2020: $227,358) relating to assumed future salary increases.

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2021 for 1% changes in discount rate and salary increases.

	2021		2020	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(1,408,999)	1,653,393	(1,544,622)	1,819,281
Future salary increases	51,113	(49,350)	62,527	(60,155)

If all members lived one year longer than projected, the liability at year-end would be $17,266,310 (2020: $18,383,386).

If the discount rate remained at 5.5% and mortality remained unchanged, the benefit obligation would be $17,025,500 (2020: $17,393,371).

The weighted average duration of the defined benefit obligation at December 31, 2021 is 9.1 years (2020: 9.3 years).

34. Health Insurance Subsidy Benefit for Retirees

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

	2021 $	2020 $
Present value of obligation at start of year	7,572,806	3,184,622
Interest cost	398,216	173,968
Current service cost	250,087	87,290
Past Service Cost – vested benefits	-	4,353,889
Benefits paid	(259,047)	(211,097)
Actuarial loss/(gain) on obligation due to experience	875,288	(129,944)
Actuarial (gain)/loss on obligation due to financial assumption change	(175,359)	114,078
Actuarial gain on obligation due to demographic assumption change	-	-
Present value of obligation at end of year	**8,661,991**	**7,572,806**
Contribution paid – employees' and employers' contributions	259,047	211,097
Benefits paid	(259,047)	(211,097)
	-	**-**

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

	2021 $	2020 $
Current service cost	250,087	87,290
Net interest cost	398,216	173,968
Past service costs – vested benefits	-	4,353,889
	648,303	**4,615,147**
Remeasurements recognised in OCI	**699,929**	**(15,866)**

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

	2021 $	2020 $
Net liability at beginning of year	7,572,806	3,184,622
Net expense recognised in net comprehensive (loss)/income	648,303	4,615,147
Employer contributions	(259,047)	(211,097)
Remeasurements recognised in OCI	699,929	(15,866)
	8,661,991	**7,572,806**

34. Health Insurance Subsidy Benefit for Retirees (Continued)

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

	2021 $	2020 $
Discount rate	5.50%	5.35%
Rate of Medical Subsidy Increases	4.00%	4.00%

Sensitivity and Other Results

The benefit obligation as at year-end comprises:

	2021 $	2020 $
Pensioners	4,504,918	3,783,957
Actives	4,157,073	3,788,849
Total	**8,661,991**	**7,572,806**

The following table illustrates the changes or sensitivity of the benefit obligation as at December 31, 2021 for 1% changes in discount rate.

	2021		2020	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount rate	(1,143,197)	1,441,683	(1,023,578)	1,296,301

If all members lived one year longer than projected, the liability would be $8,949,120 (2020: $7,828,652).

If the discount rate remained unchanged from 5.35% (2020: 5.65%) and mortality assumption remained unchanged, the benefit obligation would decrease by $175,359 (2020: increase by $114,078).

The weighted average duration of the defined benefit obligation at December 31, 2021 is 14.7 years (2020: 15.1 years).

35. Retirement Benefit Plan for Governors and Deputy Governors

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

	2021 $	2020 $
Present value of obligation at start of year	4,402,263	4,215,139
Interest cost	227,964	230,175
Current service cost	197,761	184,809
Benefits paid	(282,500)	(282,500)
Actuarial gain on obligation due to experience	(427,155)	(76,935)
Actuarial (gain)/loss on obligation due to financial assumption change	(64,575)	131,575
Present value of obligation at end of year	**4,053,758**	**4,402,263**
Fair value of plan assets at start of year	3,522,224	3,863,868
Expected return on plan assets	180,882	210,328
Benefits paid	(282,500)	(282,500)
Actuarial gain/(loss) on plan assets	25,430	(269,472)
Fair value of plan assets at end of year	**3,446,036**	**3,522,224**

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:

	2021 $	2020 $
Present value of funded obligations	4,053,758	4,402,263
Fair value of plan assets	(3,446,036)	(3,522,224)
	607,722	880,039

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:

	2021 $	2020 $
Current service cost	197,761	184,809
Net interest expense	47,082	19,847
	244,843	**204,656**
Remeasurements recognised in OCI	**(517,160)**	**324,112**

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

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

	2021 $	2020 $
Net liability at beginning of year	880,039	351,271
Net expense recognised in net income	244,843	204,656
Remeasurements recognised in OCI	(517,160)	324,112
	607,722	**880,039**

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

	2021 $	2020 $
Discount rate at end of year	5.50%	5.35%
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:

	2021 $	2020 $
Pensioners	3,064,095	3,597,825
Actives - Unvested	989,663	804,438
	4,053,758	4,402,263

The pensioner liability of $3,064,095 (2020: $3,597,825) included $758,562 (2020: $876,765) relating to assumed cost of living adjustments which are directly linked to assumed future salary increases.

The liability for actives of $989,663 (2020: $804,438) included $332,138 (2020: $289,352) relating to assumed future salary increases and cost of living adjustments.

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

The following table illustrates the changes or sensitivity of the benefit obligation as at 31 December 2021 for 1% changes in discount rate and salary increases.

	2021		2020	
	1% Increase $	1% Decrease $	1% Increase $	1% Decrease $
Discount	(390,280)	465,083	(413,657)	492,514
Future salary increases	26,817	(26,095)	29,502	(28,518)

If all members lived one year longer than projected, the liability at year-end would be $4,198,282 (2020: $4,571,315).

The weighted average duration of the defined benefit obligation at December 31, 2021 is 10.5 years (2020: 10.2 years).

36. Bahamas Government – IMF Loan

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

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

Scheduled GRA Purchases

Due Date	Repurchase Amount SDRs
1/09/2023	22,800,000
1/12/2023	22,800,000
1/03/2024	22,800,000
3/06/2024	22,800,000
3/09/2024	22,800,000
3/12/2024	22,800,000
3/03/2025	22,800,000
3/06/2025	22,800,000
TOTAL (SDRs)	**182,400,000**

36. Bahamas Government – IMF Loan (Continued)

Outstanding debt on the RFI is USD$255,285,216 as at 31 December 2021.

37. Subsequent event

The 2019 Novel Coronavirus infection (‘coronavirus’) or ‘COVID-19’ outbreak continues to pose a serious public health threat and interrupted the movement of people and goods throughout the world. Governments throughout the world instituted restrictions on individuals and businesses which in turn impacted overall financial performance.

The World Health Organization (WHO) announced the coronavirus as a global health emergency, which prompted the governments worldwide to put actions in place to slow the spread of COVID-19 including social distancing, curfews and total lockdowns of businesses. Despite recent easements and increased business activity the outbreak continues to represent a significant subsequent event with regards to the 31 December 2021 financial statements.

The Bank’s Board of Directors and Management are continuously evaluating the financial impact of COVID-19 and currently considers that there is no significant impact on the Bank’s ability to continue as a going concern.

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