

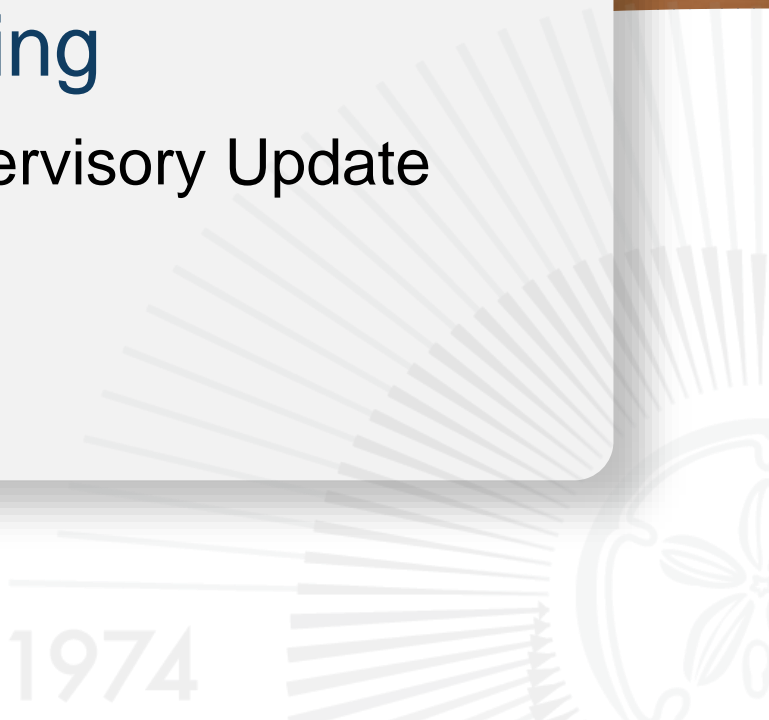
CENTRAL BANK OF THE BAHAMAS
1974-2024

Industry Briefing

Regulatory & Supervisory Update

● ● ●
12 February 2025

1974



2024

INDUSTRY BRIEFING
REGULATORY & SUPERVISORY UPDATE
VIRTUAL – VIA ZOOM
12 February, 2025 – 10:00am to 12:00pm

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Overview of the Financial Sector



Overview of the Financial Sector

Supervised Financial Institutions				
	2021	2022	2023	2024
Banks & Trust Companies	214	202	197	192
Banks & Trusts	50	46	46	44
Banks	22	21	20	19
Trusts	142	135	131	129
Non - licensee Registered Representatives	6	7	8	8
Private Trust Companies (Registered)	140	155	169	180
Money Transmission Businesses	5	5	5	5
Cooperative Credit Unions	10	8	8	8
Payment Services Providers	3	3	3	3

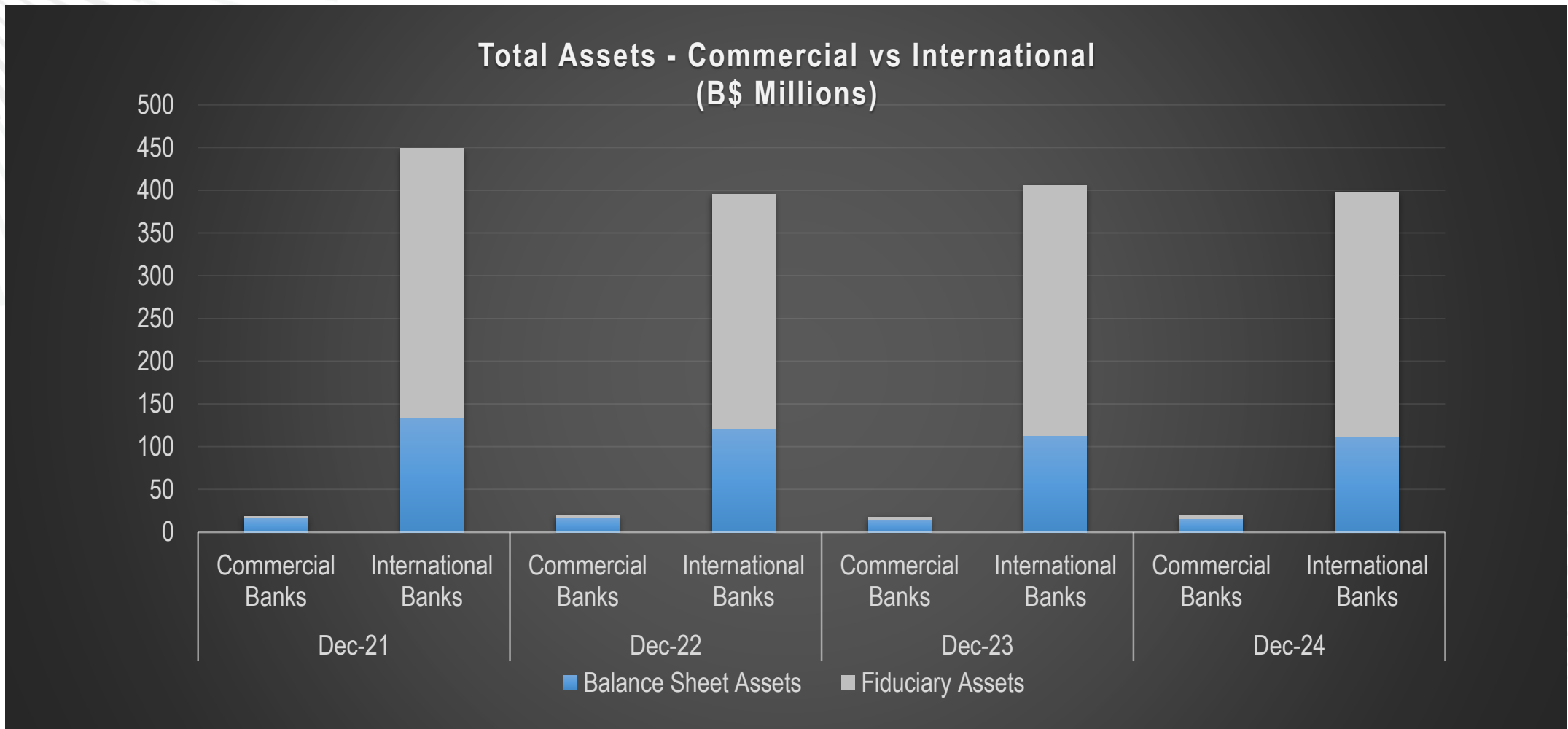
Overview of the Financial Sector

Total Assets - ALL SFIs

SFI TYPE	# of SFIs (as at Dec-24)	Dec-24			Dec-23
		Balance Sheet Assets (\$Millions)	Fiduciary Assets (\$Millions)	Total Assets (\$Million)	Total Assets (\$Million)
Banks & Trust Companies (Public)					
Authorized Dealers (including 10 Clearing Banks)	10	15,322	3,704	19,026	18,004
Authorized Agents (OLFIs)	9	4,150	139,793	143,943	152,690
International Home	18	1,248	53,063	54,311	47,902
International Host	32	106,752	92,280	199,032	204,042
Total Banks & Trust Companies	69	127,472	288,840	416,312	422,638
Credit Unions	6	518	-	518	495
Money Transmission Businesses	5	34	-	34	27
Electronic Money Service Providers	3	12	-	12	11
Registered Representatives	7	2	-	2	2

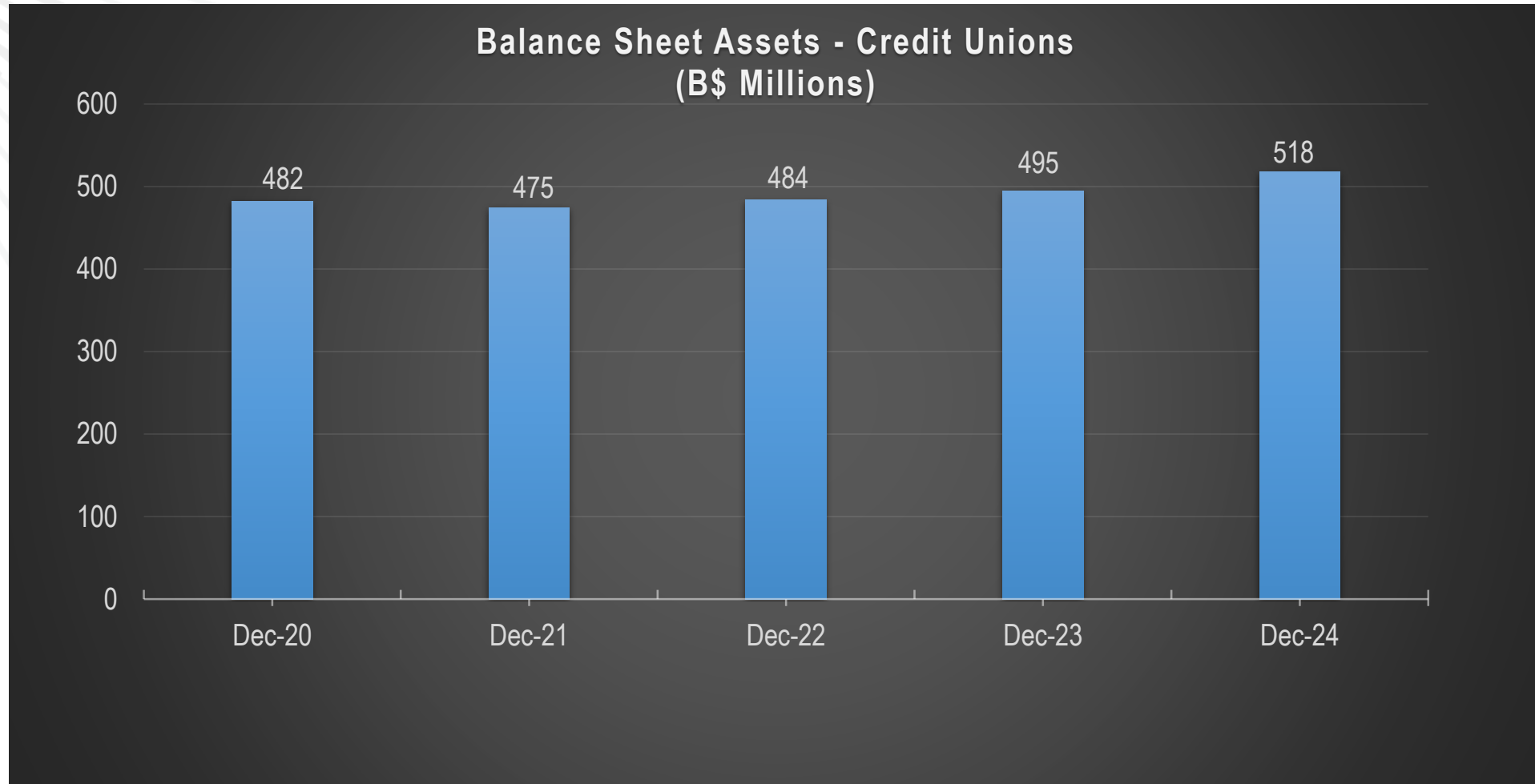
MTB Services				
Service Provided	2024		2023	
	# of Trnx	Value (\$000)	# of Trnx	Value (\$000)
Money Transmission Inward	172,519	64,954	211,416	72,778
Money Transmission Outward	308,616	116,771	366,588	130,007

Overview of the Financial Sector



Source: Central Bank of The Bahamas

Overview of the Financial Sector

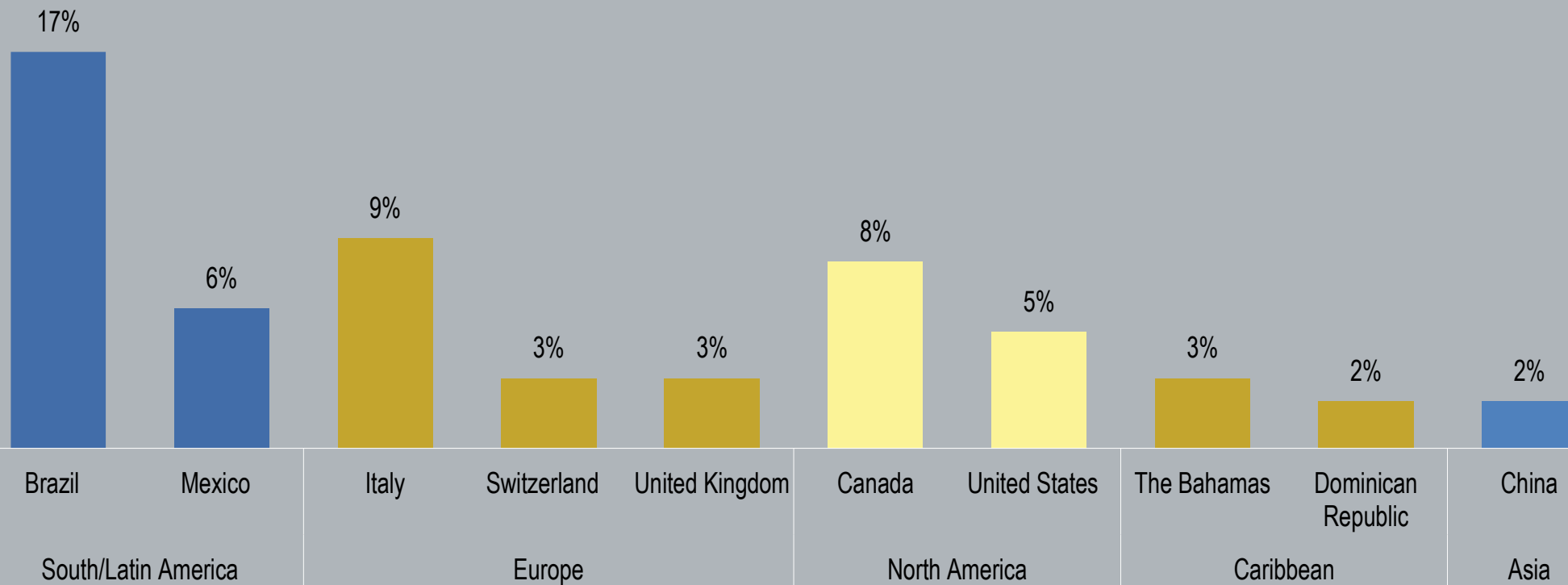


Overview of the Financial Sector

International Banks & Trust Companies

Country Concentration - 2023

Deposits & Fiduciary Assets



Economic Outlook



Economic Outlook

- Domestic Economic Developments
- The Real Sector
- Domestic Inflation
- Unemployment
- Monetary Sector Developments
- Lending Conditions
- Financial Sector Developments
- Near-Term Outlook for the Domestic Economy
- Risks to the Outlook

Domestic Economic Developments

Overview

Preliminary indications are that during 2024:

- The domestic economy maintained its moderated growth trajectory;
- Economic indicators normalized closer to their medium-term potential; and
- Tourism output registered healthy growth, bolstered by healthy gains in the sea segment, while the high value-added air component continued to face accommodation capacity constraints.

Tourism Developments

Official data from the Ministry of Tourism showed that total visitor arrivals rose by 16.2% to 11.2 million visitors in 2024 vis-à-vis 2023. The year-to-date increase in 2023 was 37.9%.

- Sea arrivals expanded to 9.5 million, from 7.9 million a year earlier.
- However, air arrivals decreased by a muted 0.2% to 1.7 million visitors, relative to 2023.

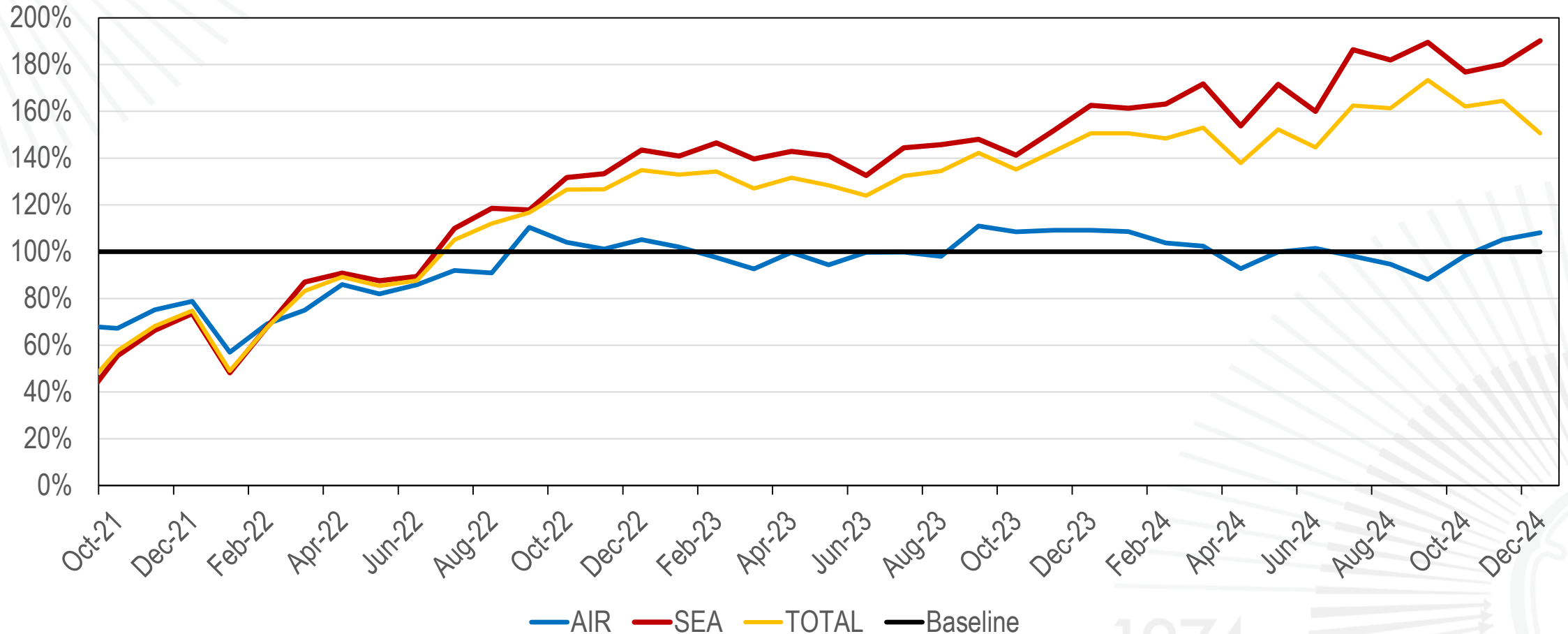
Tourism Developments 2024 vs. 2023

(January - November)

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2023	2024	2023	2024	2023	2024
Arrivals						
Air	16.7	-0.6	31.8	8.7	16.1	0.0
Sea	45.8	25.3	45.1	1.2	41.6	17.9
Total	35.7	17.6	43.8	1.9	39.4	16.6

Tourism Developments 2024 vs. 2023

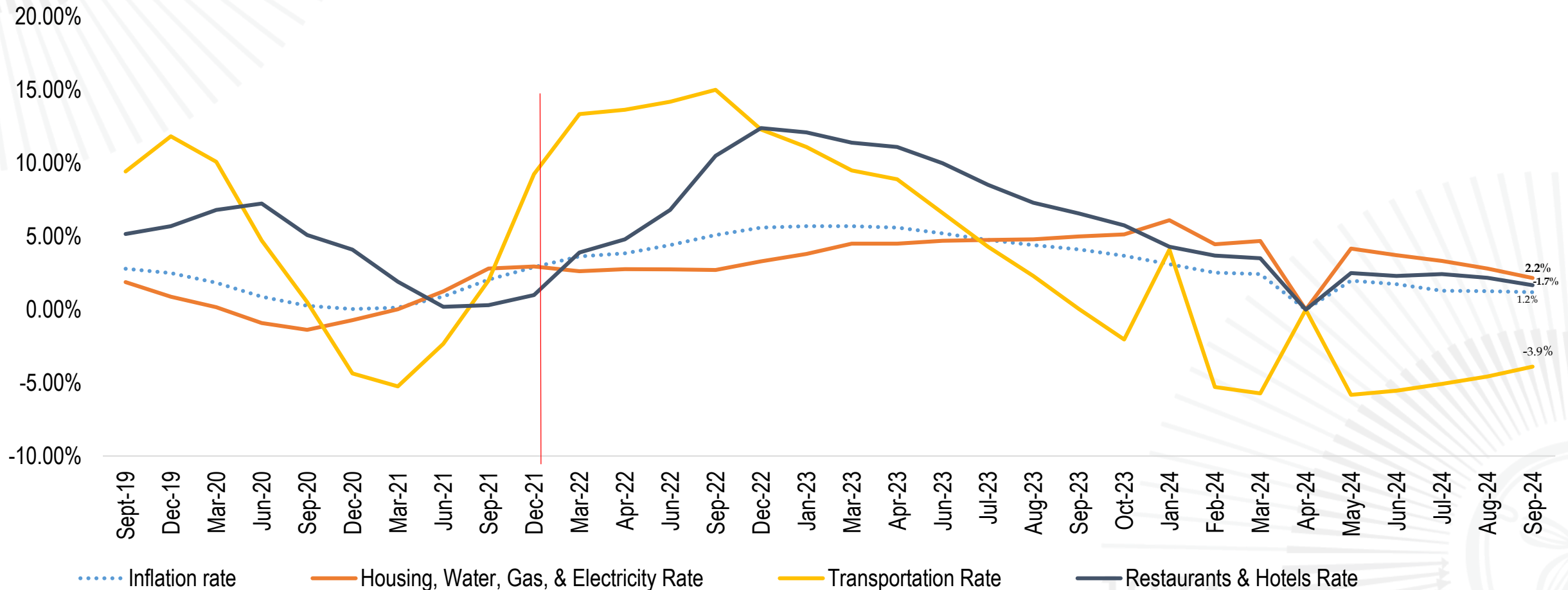
Tourism Arrivals vs Pre-Pandemic Baseline
(2018/19=100%)



Source: Central Bank of The Bahamas

Retail Price Index

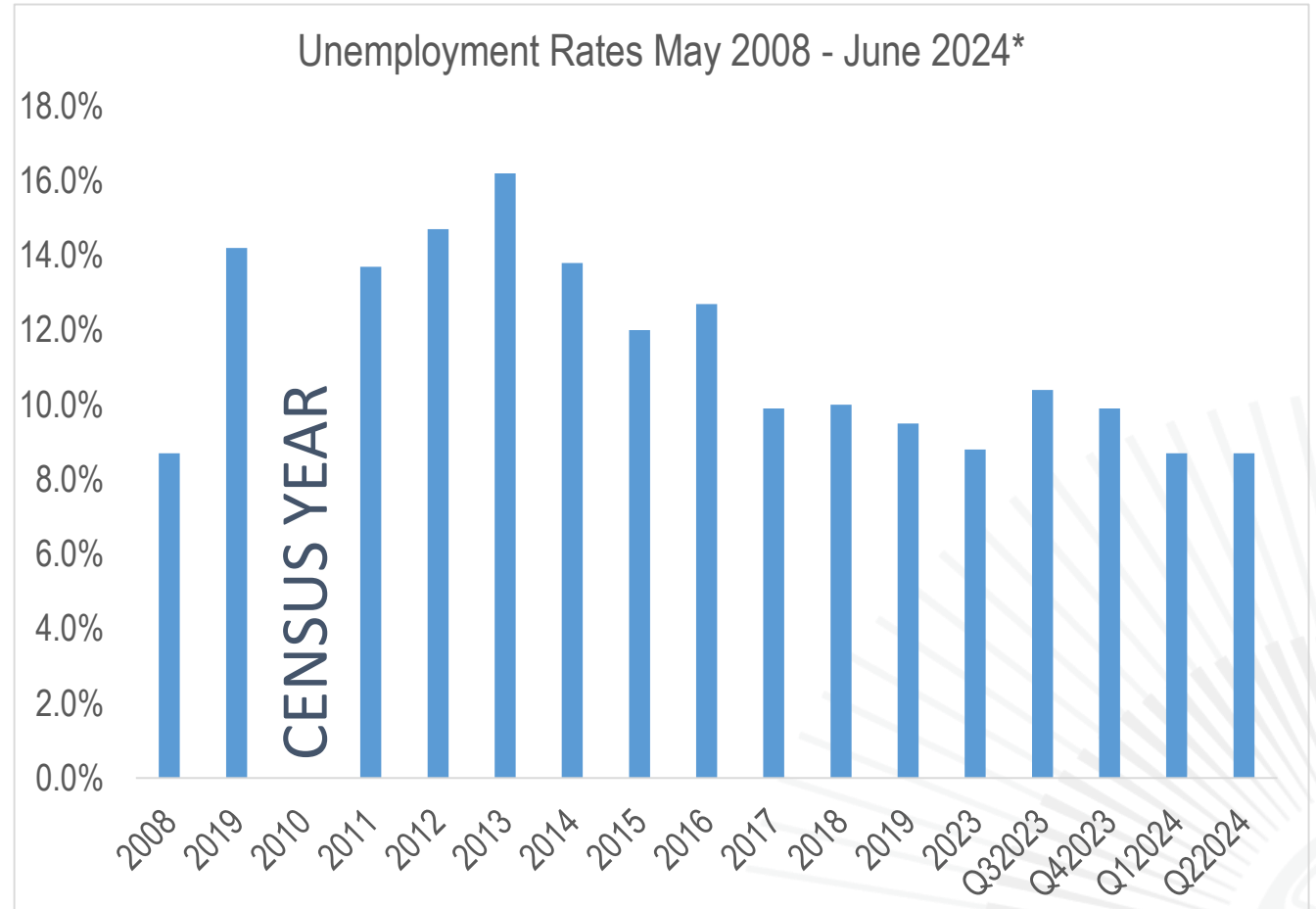
In the 12 months to September 2024, inflation moderated to 1.2% from 3.9% in the same period of 2023, led by a reduction in average costs for transportation.



Source: Bahamas National Statistical Institute and Central Bank of The Bahamas

Unemployment (Quarter 2, 2024)

- The unemployment rate fell to 8.7% during the second quarter of 2024, same as the first quarter.
- The number of employed persons edged down to 213,210 from 213,585 in the previous quarter.
- The labour force participation rate was estimated at 73.4%, slightly lower than the 73.8% in the previous quarter.



* Compilation of quarterly unemployment data commenced in the third quarter of 2023.

Monetary Developments: Liquidity Conditions & External Reserves (2024 vs. 2023)

Liquidity

Banking sector liquidity featured a buildup in 2024, despite the growth in domestic credit surpassing the rise in the deposit base.

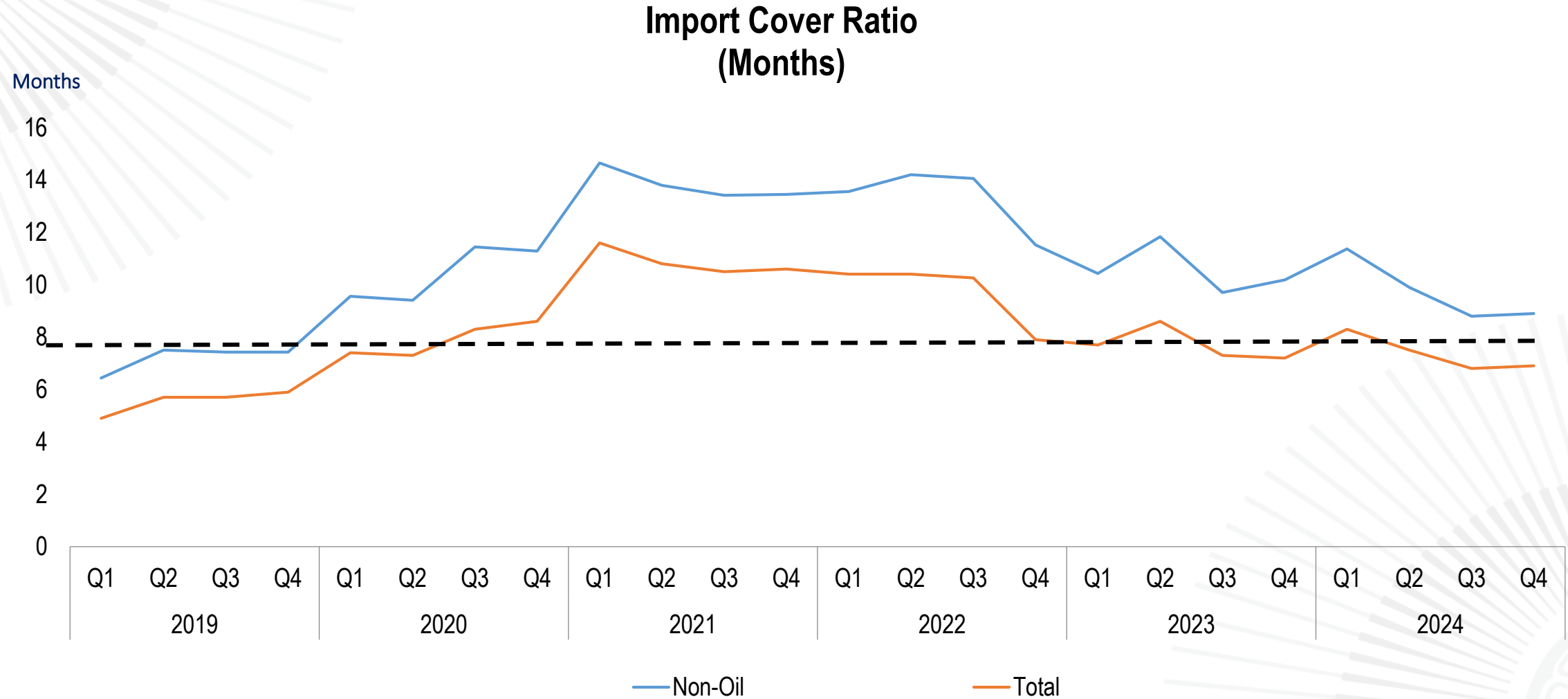
- Excess reserves increased by \$18.2 million, a reversal from a \$61.0 million reduction in the comparable period of 2023.
- Excess liquid assets rose by \$75.9 million, albeit lower than the \$111.4 million accumulation in the previous year.

External Reserves

External reserves grew by \$268.7 million, for an ending balance of \$2,620.0 million in 2024, a reversal from a \$243.5 million decline in 2023.

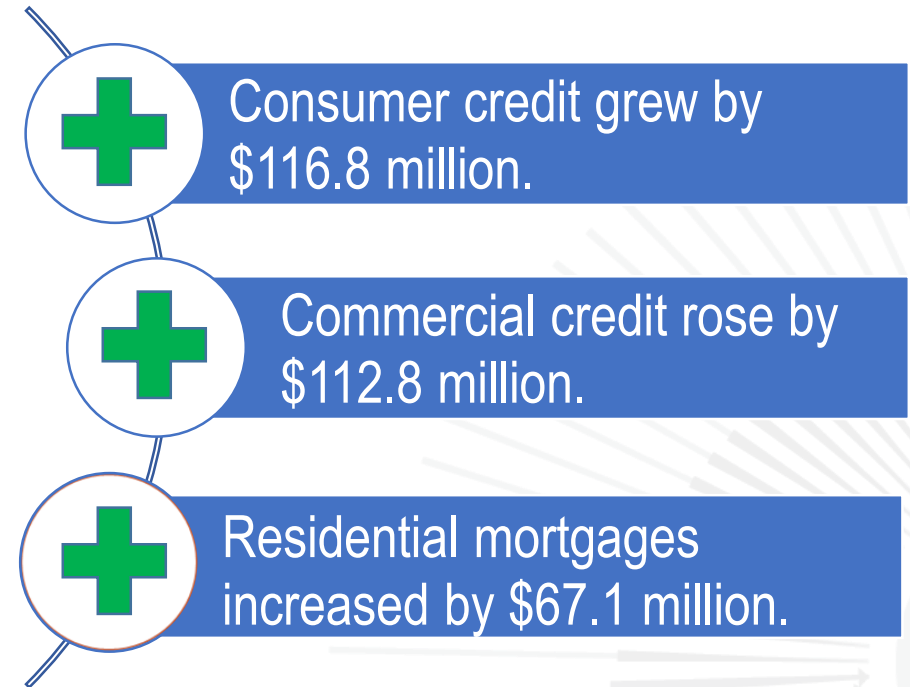
- Balances were equivalent to an estimated 6.9 months of the current year's total merchandise imports, vis-à-vis 7.2 months in 2023.

Import Cover Ratio (Months) 2019 - 2024



Lending Conditions 2024 vs. 2023

- Total Bahamian dollar domestic credit expansion almost doubled to \$428.1 million to \$9,180.0 million in 2024, from \$221.9 million in the prior year.
- Net claims on the Government increased by \$116.7 million, albeit lower than the \$175.5 million growth in 2023.
- Credit to the rest of the public sector grew by \$14.8 million, extending the \$3.9 million buildup in the year prior.
- Private sector credit accelerated markedly to \$296.7 million in 2024, from a \$50.3 million in 2023.



Financial Sector Developments in 2024

Banks' credit quality indicators improved during 2024

Total private sector loan arrears reduced by \$12.3 million (2.6%) to \$469.5 million, with the corresponding ratio declining by 34 basis points to 8.2%.

Short-term arrears declined by \$10.8 million (6.7%) to \$151.9 million, resulting in the attendant ratio narrowing by 23 basis points to 2.6%.

Non-performing loans fell by \$1.5 million (0.5%) to \$317.7 million, as the relevant ratio decreased by 11 basis points to 5.5%.

Mortgages still accounted for the majority of arrears, at 63.1%, followed by consumer arrears (26.1%) and commercial arrears (6.6%).

Outlook for 2025

- The domestic economy's moderated pace of **growth** is expected to persist in 2025, undergirded by the tourism sector's performance and several new and ongoing foreign investment projects. This pace of expansion is estimated to be closer in line with the economy's medium-term growth potential.
- The **unemployment** rate is anticipated to continue on a downward trajectory, with job opportunities concentrated mainly in the construction and tourism sectors.
- Domestic **inflation** is projected to continue its downward trend, underpinned by a decrease in global oil prices. Although, the threat of a trade war between major global powers can trigger a hike in inflation.
- In the **fiscal sector**, the Government's fiscal deficit is expected to continue to trend downwards, as conditions remain favourable for consolidation. The estimated budgetary gap is anticipated to require a combination of domestic and external borrowings, with a higher reliance on funding from domestic sources.

Outlook for 2025

- **Banking sector liquidity** is forecasted to remain high in 2025, but with stable to slightly reduced levels possible during the year.
- Banks' **capital levels** are anticipated to remain well above the Bank's minimum requirement of 17.0%, thereby mitigating any financial stability concerns.
- **External reserve balances** are projected to decrease in 2025, although remaining at healthy levels; staying well above international benchmarks, bolstered by robust trends in tourism and other net private sector activities.
- Balances are expected to remain more than sufficient to sustain the **Bahamian dollar currency peg**.

Risks to The Outlook

- **Tourism:** Any resumption in major central banks' counter-inflation policies could adversely impact the travel spending capacity of key source market consumers.
- **Employment:** Insufficient or slowed pace of private investments, could impede job creation.
- **Inflation:** Ongoing geopolitical tensions in Eastern Europe and the Middle East, a decrease in oil production, food supply disruptions and tariff threats could result in higher prices.
- **Fiscal:** Diminished access to credit markets could limit the fiscal capacity to stimulate the economy.
- **External Reserves:** A rise in foreign currency demand for rebuilding works and constrained output in the tourism sector could accelerate the drawdown in external reserves.

Thematic Trends from On-Site Examinations



Thematic Trends from On-Site Examinations

Engagement with SFIs in 2024

Peer Group	Activity	Risk Areas Examined
International Firms (3)	Discovery Review	
Commercial Banks (1)	Onsite Examinations	CG, ML/TF
Credit Unions (1)	Onsite Examinations	CG, ML/TF, Credit, Ops
Money Transfer Business (2)	Onsite Examination	CG, ML/TF, Ops
International Firms (10)	Onsite Examination	CG, ML/TF, Credit
International Firms (1)	Assistance to Foreign Regulator	ML/TF

Risk Areas
CG – Corporate Governance
ML/TF – Money Laundering/ Terrorist Financing
Credit – Credit Risk
Ops – Operational Risk

Thematic Trends from On-Site Examinations

Common Themes (Deficiencies)

Money Transmission Businesses/Electronic Money Service Providers

- The alignment of the Board and Senior Management's composition with section 4.2 of the Central Bank's Corporate Governance Guidelines,
- The ML/TF/PF Risk Assessment was not completed,
- The appropriate duty segregation within the three lines of defense was not evident, and
- The internal audit function and process must be enhanced to align with best practices and the Guidelines for Internal Auditors and Audit Committees, issued in December 2022.

Thematic Trends from On-Site Examinations

Common Themes (Deficiencies)

International Banks and Trust Companies and Credit Unions

- To ensure that a formal Succession Plan for all key management positions, as envisaged by Section 4, paragraph 5.2(f) of the Corporate Governance Guidelines is developed, and
- A documented periodic assessment of the Board's effectiveness against its responsibilities, including that of the Independent Non-Executive Director (INED); as contemplated in sections 4.13 and 7.2 of the Central Bank's Corporate Governance Guidelines was not in place.

Thematic Trends from On-Site Examinations

Common Themes (Deficiencies)

- The need for Compliance Officers (CO)/Money Laundering Reporting Officer's (MLRO) to attend Board meetings to present their Compliance Reports,
- The need for the performance assessment of the CO/MLRO to reflect input from the Board of Directors, ensuring the independence that is envisaged in Section 5.8 of the Central Bank's Corporate Governance Guidelines is maintained,
- The need to ensure that all Board members (including the INED) receive annual AML/CFT/CPF training, and
- The need for timeframes around the investigation, reporting and follow-up with the Financial Intelligence Unit of Suspicious Transactions Reports.

Thematic Trends from On-Site Examinations

Common Themes (Deficiencies)

- The internal audit function is strengthened by its review and implementation of key requirements of the Central Bank's Guidelines for Internal Auditors and Audit Committees, and
- The appropriate duty segregation within the credit initiation and adjudication functions was not evident.

Focus for 2025 On-Site Examinations

To conduct:

- ML/TF/PF Examinations, and
- Standalone Common Reporting Standard (CRS) Examinations.

Overview of AML Supervision



AML Supervision

AML Data Returns

- Migration to software solution, STRIX AML, during 2025.
- 2021-2023 Summary Report publication.

Notable findings from the 2023 Returns include:

- The domestic sector was found generally to have a low concentration of high-risk customers; while in the international sector, approximately 22 percent of accounts were associated with high-risk customers, a marginal decline from 23 percent during 2022.
- There has been a significant increase in instances of fraud in the domestic sector. The domestic sector has implemented measures to address these issues and the Central Bank continues to closely monitor the situation.
- SFIs continue to conduct mandatory AML/CFT/CFP training. There was an improvement in staff and director training during 2023 when compared to 2022.
- Data quality is reasonable, and reflects improvement from prior year submissions.

AML Supervision

ML/TF/PF Risk Assessments Enhancements

Supervisory Risk Assessment

- **Launch of the STRIX AML Risk Assessment Tool**
 - Automates ML/TF risk assessment for supervised financial institution (SFIs).
 - AML Data Return enhanced and replaced by AML Survey.
 - No longer submitted via ORIMS.
 - Questions will now be fed directly into the STRIX tool.
- **AML Survey Release**
 - AML Survey to be released during the first quarter.
 - Responses due second quarter, 2025.
- **Industry Orientation sessions on STRIX Tool**
 - Scheduled between February and March 2025.

SFI ML/TF Risk Assessment

- SFIs must continue to conduct ML/TF self-risk assessments on an annual basis, but are no longer required to submit the ML/TF self-risk assessments annually as of 2025, unless otherwise advised.

2024 AML Supervision

AML Supervisory Initiatives

Sanctions Thematic Review

- Conducted by AML Analytics Ltd (May 2024).
- 61 SFIs participated in the live screening test (July 2024) Feedback (September 2024).
- International banks and trust companies—those with the highest sanctions exposure—showed a 90 percent effectiveness rate for client screening and a 91 percent rate for transaction screening, compared to a global benchmark of 96 percent.
- Feedback Letters issued in October and November 2024. SFIs are reminded to submit Board of Director's attestation confirming remediation of identified issues.

Next Steps and Guidance:

- Sanctions Screening Guidance Notes expected to be released in the second quarter 2025.
- Risk-Based retesting is expected to be conducted in the third quarter 2025.

AML Supervision

AML Outreach and External Engagements

Research Conference on Financial Crime

- Sixth Annual Bahamas Research Conference on Financial was held January 2025.
- Featured local and international experts on emerging AML issues and Financial Crime included:
 - Vice President of the Financial Action Task Force (FATF);
 - Division Chief of Inter-American Development Bank (IADB) Innovation For Citizen Services Division;
 - Executive Director of the Caribbean Financial Task Force (CFATF); and
 - Executive Secretary of Financial Action Task Force of Latin America (GAFILAT).

The Group of Financial Services Regulators (GFSR)

- Joint Guidance Note on SFIs Targeted Financial Sanctions Reporting.
- Joint Guidance Note on Proliferation, Proliferation Financing.
- Joint Guidance Note for the treatment of Politically Exposed Persons.
- 2021-2023 AML/CFT Report Publication.

AML Supervision

AML Outreach and External Engagements

Identified Risk Framework Steering Committee (IRFSC)

- Participation in The Bahamas' IRFSC 2024 – initiative include:

National Risk Assessment

- Industry Briefing in December 2024 under the theme:
Strengthening Compliance: Insights on the National Risk Assessment and FATF Recommendations 24 & 25;
- The Bahamas' National Anti-Money Laundering Risk Strategy 2025 - 2028; and
- The Bahamas Report on the 2022 Money Laundering Risk Assessment Summary of Key Findings issued December 2024.

AML Supervision

AML Outreach and External Engagements National Risk Assessment

Developing the Risk Assessment Methodology

- **Financial Action Task Force (FATF) Standards**
 - FATF 40 Recommendations;
 - FATF 11 Immediate Outcomes; and
 - **FATF Guidance Notes on:**
 - National Money Laundering and Terrorist Financing Risk Assessment;
 - Transparency and Beneficial Ownership; and
 - FATF Report on Trade-Based Money Laundering: Trends and Development.
- **World Bank's National Risk Assessments Tool Guidance Manual** included three modules:
 - Module 3 – Banking Sector Vulnerability (inclusive of Credit Unions).
 - Module 6 – Money Transmissions Business and Payment Institutions Vulnerability.
 - Module 7c – Trust Sector Vulnerability.
- **AML Data 2017 - 2022:** AML Data Return, AML Onsite Examinations and Off-site Supervision.
- **Survey Completion:** GFSR Agencies circulated ML surveys to registrants and licensees.

AML Supervision

AML Outreach and External Engagements

National Risk Assessment

Key Aspects of the World Bank National Risk Assessment Tool

Sector Assessment

I. Product Inherent Vulnerability Variables

- Total size/value, Average transaction size, Client-base profile, Existence of investment/deposit feature, Level of cash activity, Frequency of international transactions.

II. General AML Controls Input Variables

- Comprehensiveness of AML Legal Framework, Effectiveness of Supervision, Regulatory Enforcement and Sanctions, Compliance of Banks' Staff, Quality of Customer Due Diligence (CDD) Framework.

III. Output Charts Assessment

- Shows the sector's inherent vulnerability and final vulnerability taking into account the impact of the AML controls.

AML Supervision

AML Outreach and External Engagements

National Risk Assessment

Overview of ML Risk and AML Controls		
Supervised Financial Institution by Sector	Inherent Vulnerability ML Risk	Final ML (Residual) Risk (Inclusive of AML Controls)
Banking Sector:		
International Banks	Medium - High	Medium
Domestic / Commercial Banking	Medium	Medium - Low
Credit Unions	Medium	Medium - Low
Trust and Corporate Service Providers	High	Medium - High
Money Transmission Businesses	Medium-High	Medium
Payment Services Institutions (EMSPs)	Medium	Medium - Low

AML Supervision

AML Outreach and External Engagements

The Bahamas' CFATF Fifth Round Mutual Evaluation Readiness

- Event Date: October 2026.
- IRFSC Working group meetings
 - Monthly meetings. Biweekly meetings beginning March 2025.
 - Led by the National Identified Risk Framework Coordinator – Office of the Attorney General and Ministry of Legal Affairs.
- Assessment Focus
 - Evaluation of the 11 Immediate Outcomes;
 - Review of the FATF 40 Recommendations; and
 - Recommendation 24 and 25.

Common Reporting Standards (CRS)

- Regulatory Agencies to act as Designated Supervisory Authorities.
- Group of Financial Services Regulators CRS Working Group Established.
- Development of Harmonized CRS Supervisory Framework.
- Data Collection/ Sector Risk Assessments / Risk Assessments of Reportable Financial Institutions.

Resolution Framework



Resolution & Crisis Management Functions

Fostering an environment for a stable and sound financial system

Resolution

Functions include:

- Feasible Resolutions of SFIs
-
- Maintain Financial Stability
-
- Protect & Enhance Public Confidence
-
- Effective Wind-down of failed SFI
-
- Resolvability Assessments
-
- Resolution Toolkit/ Plans

Crisis Management

Functions include:

- Prevention Micro (RBS)
-
- Prevention Macro (Prudential Analysis)
-
- Crisis Communication Plan/Strategy
-
- Coordination with stakeholders
-
- Formalize the Crisis Framework
-
- Cross-Sectional Crisis Simulation

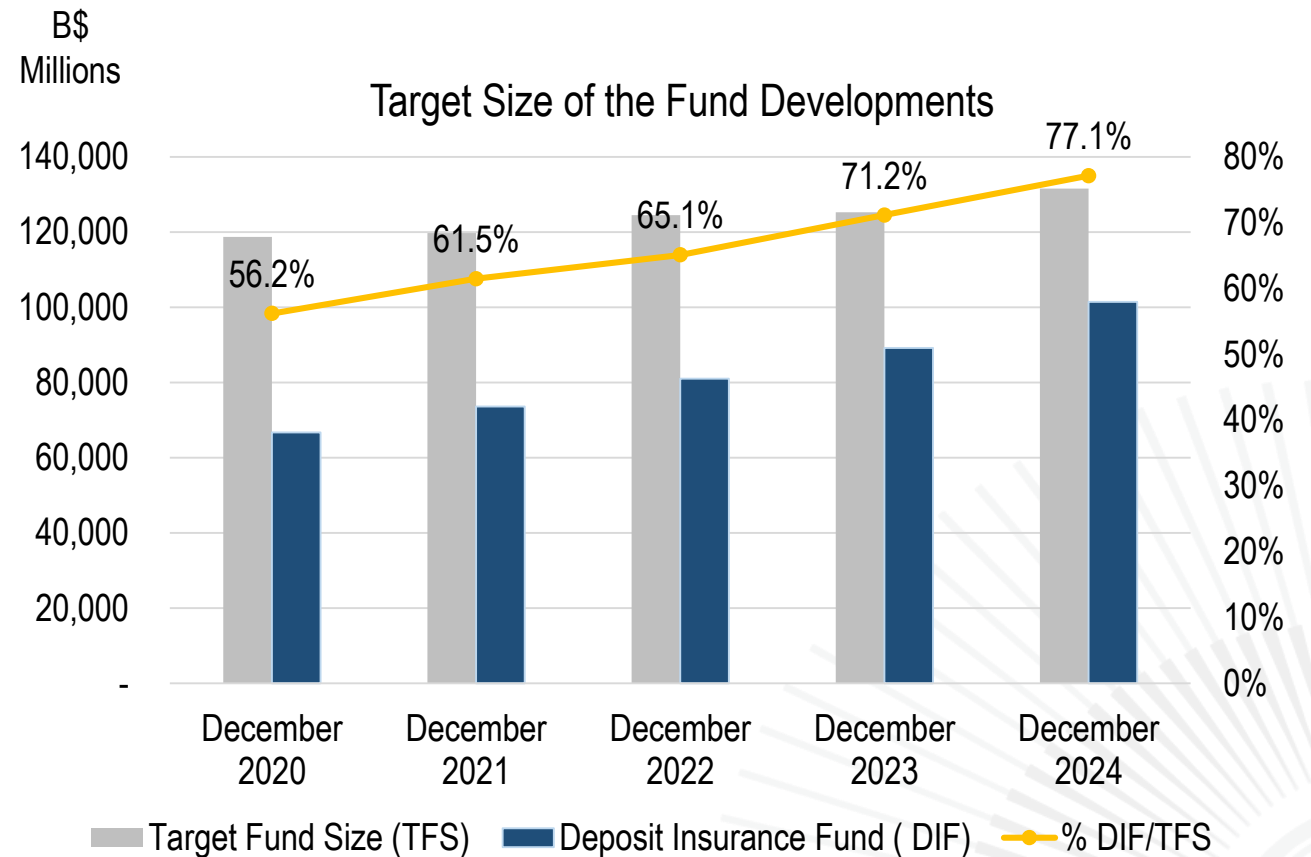
Deposit Insurance Corporation

Functions include:

- Manage the Deposit Insurance Fund
-
- Facilitate Claims Pay-outs
-
- Protect Depositors
-
- Consistent Public Engagement
-
- Assist in decision making (Resolution)
-
- Collect Premiums and Monitor Membership

Deposit Insurance Funding

- Premiums increased in January 2024, to 1/10 of 1% of insurable deposits.
- The target size is estimated at \$130.0 million (i.e. 4.67%).
- The fund at end-2024 is approximately \$101.4 million with an annual increase of 11% on average over the last 5 years.
- The gap between the target size and the fund is steadily decreasing.
- The fund is estimated at 3.6% of insured deposits and is expected to meet the industry standard by 2026.



2025 Resolution & Deposit Insurance Initiatives



Deposit Insurance
“Single Customer View”
Template Exercise.



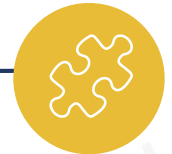
DIC Public Relation
Events Calendar.



Crisis Management
Strategy & Planning.



Resolution Toolkit.



Resolvability
Assessment &
Recovery Plans.



Policy Initiatives



2024

Policy Initiatives

Basel III Implementation

- Dividends Regulation
- Large Exposure
- Liquidity Framework



General Updates

- Update of Legislative References



Governance

- Compliance Officer Guidelines
- Corporate Governance Guidelines



Emerging Risks

- Regulatory Sandbox
- Climate Risk
- Agency Banking



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Legislative Update

- **Bahamas Co-operative Credit Unions (Amendment) Bill, 2025**
 - Strengthens supervisory oversight of Credit Unions.
 - Enhanced resolution and crisis management framework.
 - Amends administrative and operational functions (Board of Directors and Committees).

- **Transactions in Movable Property Security Interest Bill, 2025 (“Collateral Registry”)**
 - Establishes a collateral registry to facilitate use of movable property as collateral.
 - “Movable Property” Bill currently scheduled for debate in House of Assembly.

- **Dividend Regulations**
 - Addresses amendments to notice of dividend payment and administrative penalties.
 - Scheduled for completion by end of Q1-2025.

SandDollar



Adoption Strategy



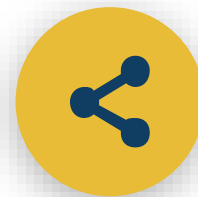
Comprehensive three-year approach to adoption efforts. Focus: increasing public awareness and education, developing a sustainable incentives program, and fostering partnerships with critical stakeholders.



1. Education



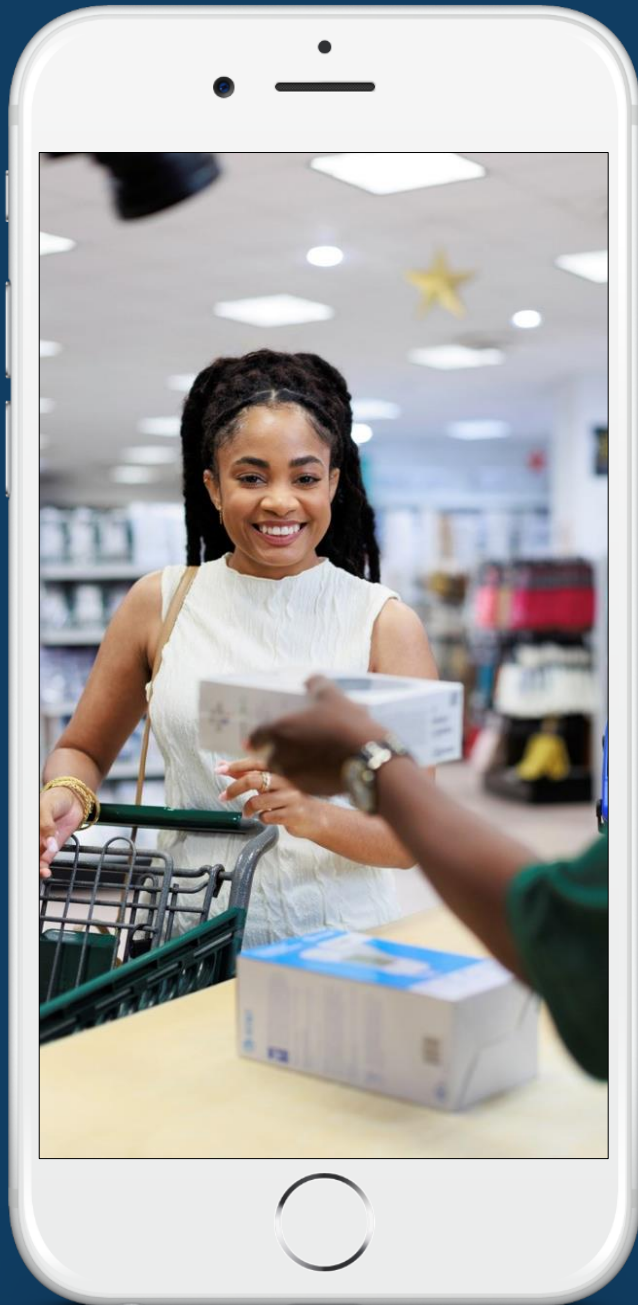
2. Incentives



3. Engagement

High Visibility Industries

- Educational Institutions
- Charities/Non-Governmental Organizations
- Gas Stations
- Privately Owned Public Transportation
- Restaurants and Food Delivery Services
- Grocery and Convenience Stores
- Beauty Services
- Home Repair and Maintenance
- Import Services/Shipping Companies
- Utility Companies



Three Year Work Plan

Year 2

Scaling and Expansion

- expand SandDollar customer support services
- + population adoption
- + merchant adoption
- + monthly transactions

Year 1

Foundation and Initial Adoption

- launch SandDollar Academy
- + population adoption
- + system uptime
- + monthly transactions

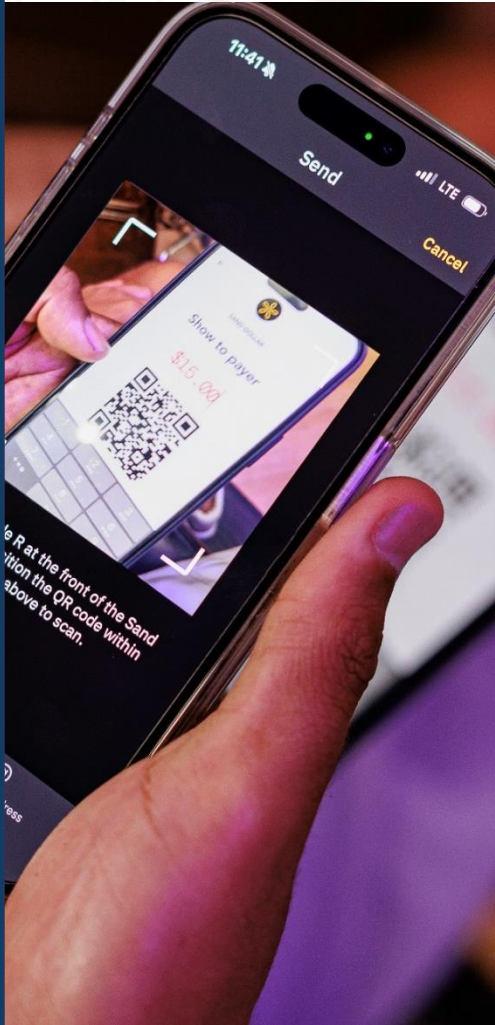
Year 3

Consolidation and Optimisation

- + adoption in remote areas
- + population adoption
- + merchant adoption
- + monthly transactions

SandDollar Wallet Provider Expectations

1. Brand alignment.
2. How-to documentation and videos.
3. Consistent customer service for SandDollar clients.
4. Timely issue and incident reporting.
5. Timely implementation of system-wide patches and solutions.
6. More detailed reporting (data analysis).
7. Improved responsiveness.



\$2,622,538.07

SandDollars in
Circulation

\$4,399,731.28

Wallet Top-ups

2,034

Merchant Wallets

133,481

Consumer Wallets



For more detailed information about this presentation or our services, please contact us at



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