



U.S.\$200,000,000

# The Commonwealth of The Bahamas

6.625% Notes due 2033

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The notes bear interest at the rate of 6.625% per year. Interest on the notes is payable on May 15 and November 15 of each year, beginning on November 15, 2003. The notes will mature on May 15, 2033. We may redeem some or all of the notes at any time. The redemption prices are discussed under the caption "Description of the Notes—Optional Redemption."

The notes are our direct, general, unsecured and unconditional obligations and rank *pari passu*, without any preference or priority of payment, among themselves and with all our other present and future unsecured public external indebtedness.

Application has been made to list the notes on the Luxembourg Stock Exchange.

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The notes have not been registered under the Securities Act or any state securities laws. Accordingly, the notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933 and outside the United States in accordance with Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the notes, see "Notice to Investors."

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**Price: 98.936% plus accrued interest, if any, from July 31, 2003.**

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The initial purchasers delivered the notes to purchasers in book-entry form through Depository Trust Company, Morgan Guaranty Trust Company of New York, as operator of the Euroclear System, and Clearstream Banking, société anonyme, on or about July 31, 2003.

**Citigroup**  
**RBC Capital Markets**

September 12, 2003

The Commonwealth of The Bahamas



**You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with different information. We have not, and the initial purchasers have not, made an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.**

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This offering memorandum has been prepared by us solely for use in connection with the offering of the securities described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities.

Notwithstanding anything in this offering memorandum to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of any offering and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective investor relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. We have furnished the information contained in this offering memorandum. The initial purchasers have not independently verified any of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of any such information.

Neither the U.S. Securities and Exchange Commission, any state securities commission nor any other regulatory authority, has approved or disapproved the securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act of 1933 (the "Securities Act") and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "Plan of Distribution" and "Notice to Investors."

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

In this offering memorandum, we rely on and refer to certain economic and financial data. We obtained some of this data from independent publications or other publicly available information. To our knowledge, based on the information provided, no facts have been omitted which would render such information misleading.

We confirm that to the best of our knowledge, as of the date hereof, the information contained in this offering memorandum relating to The Bahamas and the notes is in all material respects in accordance with the facts and does not omit anything likely to affect the import of such information in any material respect. We are responsible for the accuracy and completeness of such information in all material respects, and we accept responsibility accordingly.

This offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us or the initial purchasers.

In connection with this offering, and for the sole purposes of stabilization activity which impacts upon the United Kingdom, Citigroup Global Markets Limited may over-allot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail for a limited period after the issuance of the notes. However, there may be no obligation on Citigroup Global Markets Limited to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

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#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY

WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## **STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE**

This offering memorandum includes “forward-looking statements” (within the meaning of Section 27A of the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”)) which represent the Government’s expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect on The Bahamas of Bahamian, U.S. and worldwide economic conditions, the ability of the Government to implement its strategies for economic growth, the ability of the Government to continue to attract tourists to The Bahamas, the possible effect of a hurricane on the Bahamian economy and other factors. All statements other than statements of historical facts included in this offering memorandum, including statements under “Summary of the Offering,” “Commonwealth of The Bahamas,” “The Economy,” “Monetary and Financial System,” “External Sector of the Economy,” “Government Finance,” “Public Sector Debt” and elsewhere herein, are forward-looking statements. Although the Government believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Certain important factors that could cause actual results to differ materially from the Government’s expectations are disclosed in this offering memorandum, including in conjunction with the forward-looking statements included in this offering memorandum.

## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this offering memorandum, unless otherwise specified, all currency amounts are denominated in Bahamian dollars (“\$”). The Bahamian dollar circulates freely with the U.S. dollar (“U.S.\$”) in The Bahamas and its value has been maintained by the government (the “Government”) at parity with the U.S. dollar since 1973, as described in “Monetary and Financial System—Exchange Rates and Exchange Controls.”

All economic and financial data included in this offering memorandum are presented on a calendar year basis, except for Government revenue and expenditure data (historical and budgetary) which are presented on a fiscal year basis and except for other data as otherwise indicated. The fiscal year of The Bahamas currently consists of the twelve months ending June 30 of each year. Government finance statistics are compiled in accordance with the government finance statistics manual prepared by the International Monetary Fund, or the “IMF.”

Certain revenue, expenditure and other financial information included in this offering memorandum for certain fiscal periods, and certain economic data for certain calendar years, are available only on a provisional basis pending final compilation and completion of analysis by the Government as described in “Government Finance—Budget Process.” Government accounts are considered “provisional” until the audit report, prepared by the Auditor-General, relating to such accounts is presented to Parliament. Provisional information is identified herein as “2002” or “Fiscal 2002/2003” and provisional information for other fiscal years is referred to in a corresponding manner. The fiscal year 1997/1998 accounts have been audited by the Auditor-General and are pending submission to Parliament for consideration. The Auditor-General has not yet completed its review of the Government’s accounts for fiscal years 1998/1999 to 2001/2002. Certain economic data for the year ended December 31, 2002 is not available as of the date hereof.

The archipelagic nature of The Bahamas and the openness of its economy makes the preparation of national accounts data unusually difficult. Firm estimates of GDP and its components were prepared until 1994 by the Department of Statistics of the Commonwealth of The Bahamas. Estimates of GDP data after 1994 that are included in this offering memorandum either have been prepared by the IMF, which used 1994 Government data as a starting point for such estimates, or are Government estimates based on GDP data prepared by the IMF.

As used herein, the term “public sector debt” includes direct internal and external debt of the Government and, unless the context otherwise requires, internal and external debt of the public corporations of The Bahamas. In light of the Government’s ownership interest in these entities, the Government is the guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by the public corporations is subject to Government approval. The Government also provides financial assistance to certain of these public corporations to enable them, among other things, to meet their obligations under various loan agreements as described in “Government Enterprises—Public Corporations” and “Public Sector Debt.”

Components contained in tabular information in this offering memorandum may not add up to the totals set forth in the tables due to rounding.

As used herein, the term “n.a.” is used to identify economic or financial data that is not available.

## **SUBMISSION TO JURISDICTION**

The Bahamas is a foreign sovereign government. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States against The Bahamas. The Government has (1) agreed that any legal suit, action or proceeding arising out of or relating to the notes may be instituted by the noteholders in any U.S. federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, (2) to the fullest extent that it may effectively do so under applicable law, waived any objection to venue of any such legal suit, action or proceeding, and (3) subject to certain exceptions, waived any immunity (including sovereign immunity) from the jurisdiction of any such U.S. federal or New York

state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York. The Government has appointed the Consul General of the Commonwealth of The Bahamas in New York, New York, as its agent for service of process. The above-mentioned submission to jurisdiction, appointment of an agent for service of process and waiver of immunity are subject to significant limitations and qualifications as set forth under “Description of the Notes—Governing Law and Submission to Jurisdiction.”

## SUMMARY OF THE OFFERING

*The following summary is qualified in its entirety by, and is subject to, the detailed financial and other information contained elsewhere in this offering memorandum.*

### Commonwealth of The Bahamas

The Commonwealth of The Bahamas is an archipelago of approximately 700 islands and cays, covering nearly 100,000 square miles of the Atlantic Ocean. From its westernmost island, which lies approximately 50 miles east of Florida, The Bahamas stretches 750 miles in a southeasterly direction to within 50 miles of Haiti and Cuba. The total population of The Bahamas is approximately 300,000, most of which is concentrated on New Providence (on which the capital of the country, Nassau, is located) and Grand Bahama.

The Bahamas, which was formerly a British colonial territory, became an independent self-governing nation within the British Commonwealth on July 10, 1973. The political system in The Bahamas is based on the British Westminster model with a Governor-General, a Prime Minister and a bicameral Parliament. The Bahamas has enjoyed political stability since independence. The two primary political parties in The Bahamas are the Progressive Liberal Party, the current ruling party, which holds parliamentary majority, and the Free National Movement, which was in office from 1992 until May 2002. See “Commonwealth of The Bahamas—Government and Political Parties.”

The tourism and financial services industries are the strengths of The Bahamian economy. These two sectors of the economy together accounted for an estimated 55% of the GDP of the country in 2002 and over 60% of employment. Over the past five years, tourism has represented an estimated 40% of GDP and employed, directly or indirectly, over half of the workforce. In 2002, The Bahamas attracted over 4.4 million visitors, who spent approximately \$1.67 billion in the country. More than 80% of these visitors were from the United States. Over the past several years, the Government has intensified efforts to improve the competitiveness of the tourism sector, principally by promoting new investment in hotels and other facilities, improving the infrastructure of The Bahamas, developing and enhancing tourist attractions and expanding marketing efforts. The financial services sector of the economy has accounted for an estimated 15% of GDP over the past five years. The Bahamas has traditionally been an attractive location for offshore financial services businesses because of its favorable tax regime and legislative environment. The Government enacted several measures in 2000 to strengthen the regulatory and supervisory regime in order to comply with international “best practices” standards and enhance the attractiveness of The Bahamas as an offshore financial services center. As of December 31, 2002, there were 301 banks and trust companies licensed in The Bahamas, and the Government estimates that the total asset base of offshore banks and trust companies was approximately \$279 billion, placing The Bahamas among the top ten offshore banking centers in the world.

The IMF estimates that real GDP of The Bahamas grew from 1997 to 2002 at an average annual rate of 2.63%. The Government estimates that nominal GDP increased by 2.0% in 2002 and will increase by 2.9% in 2003, although these estimates are preliminary and are subject to completion of analysis of economic data. The annual inflation rate has been no more than 2.0% in the last three years, and the Government expects that the fixed parity between Bahamian and U.S. dollars that has existed since 1973 will help the inflation level remain relatively stable.

The Government’s overall strategy is to promote the long-term economic development of The Bahamas while maintaining economic and social standards. The key elements of this strategy include:

- measures to increase the competitive strength of the tourism industry;
- broadening the scope of the international services provided to investors and facilitating foreign direct investment;
- reinforcement of the domestic economy through the development of the links between the agricultural and manufacturing sectors and the tourism sector; and
- maintenance of the Government’s existing credit ratings and strong financial position through effective management of Government revenues and expenditures.

Additional information about the Government and The Bahamas may be found on the Government’s website at <http://www.bahamas.gov.bs>. Information contained on the Government’s website is not incorporated into, and does not constitute a part of, this offering memorandum.



## Selected Economic and Financial Information

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions, except percentages)					
<b>The Economy:</b>						
Nominal GDP <sup>(1)</sup>	\$ 3,940.0	\$ 4,190.0	\$ 4,573.0	\$ 4,920.0	\$ 4,917.0	\$ 5,058.0
Increase (decrease) in nominal GDP <sup>(2)</sup>	5.1%	6.3%	9.2%	7.5%	1.5%	2.0%
Annual inflation rate	0.5%	1.3%	1.6%	1.6%	2.0%	1.9%
Balance of payments						
Current account balance	\$ (665.1)	\$ (995.7)	\$ (406.1)	\$ (500.6)	\$ (388.1)	\$ (357.1)
Capital account balance	405.4	860.0	585.2	420.4	241.9	440.2
Foreign exchange reserves	219.5	338.8	404.0	342.6	312.4	373.2
Estimated increase (decrease) in real GDP <sup>(2)</sup>	3.3%	3.0%	5.9%	4.9%	(2.0)%	0.7%
	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>
	<b>1997/1998<sup>P</sup></b>	<b>1998/1999<sup>P</sup></b>	<b>1999/2000<sup>P</sup></b>	<b>00/01<sup>P</sup></b>	<b>01/02<sup>P</sup></b>	<b>02/03<sup>P</sup></b>
<b>Government Finance:</b>						
Revenue and grants	\$ 764.0	\$ 803.8	\$ 918.5	\$ 957.5	\$ 974.0	\$ 913.0
Expenditure <sup>(3)</sup>	837.3	874.0	956.2	856.8	1026.2	1085.0
Overall budget deficit	(73.3)	(70.2)	(37.7)	(16.4)	(169.3)	(172.0)
Overall budget deficit as a percentage of nominal GDP <sup>(2)</sup>	1.7%	1.5%	0.8%	0.3%	3.4%	2.2%
	As of December 31,					
	1997	1998	1999 <sup>P</sup>	2000 <sup>P</sup>	2001 <sup>P</sup>	2002 <sup>P</sup>
<b>Public Sector Debt:</b>						
Public sector debt <sup>(4)</sup>	\$ 1,708.1	\$ 1,780.3	\$ 1,882.7	\$ 1,878.9	\$ 1,961.6	\$ 2,207.0
Public sector debt as a percentage of nominal GDP	43.4%	42.5%	41.2%	38.2%	39.3%	43.1%
Foreign currency public sector debt	\$ 400.8	\$ 399.0	\$ 397.3	\$ 383.4	\$ 379.8	\$ 500.6
Foreign currency public sector debt as a percentage of nominal GDP	10.2%	9.5%	8.7%	7.8%	7.6%	9.8%
Foreign currency public sector debt service <sup>(5)</sup>	\$ 95.2	\$ 72.2	\$ 71.7	\$ 64.2	\$ 83.5	\$ 112.1
Foreign currency public sector debt service ratio <sup>(6)</sup>	5.2%	2.6%	3.0%	2.4%	3.3%	4.4%

(1) Represents Ministry of Finance estimates based on GDP growth rate data prepared by the IMF.

(2) Represents IMF estimates.

(3) Includes financial assistance to public corporations and excludes repayment of principal of Government debt.

(4) Includes direct internal and external debt of the Government and the public corporations (whether or not guaranteed by the Government).

(5) Includes all principal and interest payments on foreign currency debt of the Government and the public corporations (whether or not guaranteed by the Government). See "Public Sector Debt—Debt of Public Corporations."

(6) Represents foreign currency public debt service as a percentage of exports of goods and non-factor services. Non-factor services are services that do not generate interest, dividends or profits.

Sources: Ministry of Finance and Treasury Accounts and Treasury Statistical Summary Printouts.

### The Offering

Issuer .....	The Commonwealth of The Bahamas.
The Notes .....	U.S.\$200,000,000 6.625% Notes Due 2033.
The Offering .....	The notes are being offered only (a) within the United States to “qualified institutional buyers” (as defined in Rule 144A) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (b) outside the United States in reliance on Regulation S under the Securities Act.
Issue Price.....	98.936% of the principal amount of the notes.
Maturity Date .....	The notes will mature on May 15, 2033.
Interest Payment Dates .....	The notes bear interest from their dates of original issuance payable semiannually in arrears on May 15 and November 15 of each year, commencing on November 15, 2003.
Status of Notes .....	The notes are direct, general, unsecured and unconditional obligations of the Government and rank <i>pari passu</i> , without any preference or priority of payment, among themselves and with all other present and future unsecured Public External Indebtedness (as defined under “Description of the Notes—Negative Pledge”) of the Government. See “Description of the Notes—Status of the Notes.”
Optional Redemption.....	<p>The notes are redeemable at any time by the Government, in whole or in part, at a redemption price equal to the greater of:</p> <ul style="list-style-type: none"> <li>• 100% of the principal amount of the notes to be redeemed; or</li> <li>• the sum of the present values of the Remaining Scheduled Payments (as defined under “Description of the Notes—Optional Redemption”) discounted, on a semiannual basis, at a rate equal to the sum of the applicable Treasury Rate (as defined under “Description of the Notes—Optional Redemption”) plus 25 basis points.</li> </ul> <p>In either case, accrued interest, if any, will be paid to the date of redemption.</p>
Negative Pledge and Certain Covenants .....	The notes contain a negative pledge covenant and certain affirmative covenants. See “Description of the Notes—Negative Pledge” and “—Covenants.”
Use of Proceeds .....	Approximately U.S.\$125 million of the net proceeds from the sale of the notes was used by the Government to repay a U.S.\$125 million consortium loan, and the remaining U.S.\$70.6 million of the net proceeds will be used by the Government for financing general development in The Bahamas.

Withholding Taxes .....	Payments of principal and interest in respect of the notes are not currently subject to withholding taxes in The Bahamas. The Government will, subject to certain exceptions, pay Additional Amounts (as defined herein) in respect of any future Bahamian withholding taxes as will result in receipt by the holders of notes of such amounts as would have been received by them had no withholding or deduction for such taxes been required. See “Description of the Notes—Additional Amounts.”
Form, Denomination and Transfer of Notes.....	<p>The notes were issued only in fully registered form, without interest coupons, in integral multiples of U.S.\$1,000.</p> <p>The notes sold in the United States to qualified institutional buyers in reliance on Rule 144A are represented by a Global Note (the “Restricted 144A Global Note”) deposited with the Fiscal Agent (as defined herein) as custodian for Depository Trust Company, or DTC, and registered in the name of DTC’s nominee. The notes sold outside the United States in reliance on Regulation S are represented by a separate Global Note (the “Regulation S Global Note,” and, together with the Restricted 144A Global Notes, the “Global Notes”) deposited with the Fiscal Agent as custodian for DTC and registered in the name of DTC’s nominee.</p> <p>DTC credited portions of the principal amount of the Global Notes to the accounts of persons who have DTC accounts (the “DTC participants”) designated by the Initial Purchasers (as defined herein), and ownership in such interests in the Global Notes is shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Notes). Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in Global Notes. See “Description of the Notes—Form, Denomination, Book-Entry Procedures and Transfer.”</p>
Fiscal Agent.....	JPMorgan Chase Bank.
Governing Law.....	The notes are governed by and construed in accordance with the laws of the State of New York, United States of America.
Listing .....	Application has been made to list the notes on the Luxembourg Stock Exchange.

## COMMONWEALTH OF THE BAHAMAS

### General

The Commonwealth of The Bahamas is an archipelago of approximately 700 islands and cays, covering nearly 100,000 square miles of the Atlantic Ocean. From its westernmost island, which lies approximately 50 miles east of Florida in the United States, The Bahamas stretches 750 miles in a southeasterly direction to within 50 miles of Haiti and Cuba. There are a total of 29 major islands, 661 cays and approximately 2,387 rocks, which together aggregate 5,382 square miles. The two main islands are New Providence (on which the capital of the country, Nassau, is located and which has an area of approximately 80 square miles) and Grand Bahama (which has an area of approximately 530 square miles). The geography of The Bahamas is relatively low and flat, with rock formations creating low ridges beyond which lie many lagoons.

The 2000 Census Report recorded the population of The Bahamas at 303,611 and estimated the average annual population growth from 1990 to 2000 at approximately 1.99% per annum. The most heavily populated islands in The Bahamas are New Providence, with a population of 210,832 or 69% of the population of the country, and Grand Bahama, with a population of 46,994 or 15% of the population, in each case, according to the 2000 Census Report. The other islands (the "Family Islands") are more sparsely populated. The population in The Bahamas is relatively young, with over 70% of the population under the age of 35 and approximately one-third of the population under the age of 15. The ethnic composition of the population in the country is predominantly of African descent, with a substantial minority consisting of immigrants from the United Kingdom, other countries in Europe and North America. English is the official language of The Bahamas.

The Bahamas has a tropical climate with a relatively even temperature throughout the year, which generally varies between 75 and 89 degrees Fahrenheit. The islands are kept warm in the winter months by the Gulf Stream, while the southerly tradewinds ensure a comfortable temperature during the summer months. The hurricane season generally lasts from June to November. The last major hurricane that caused devastating effects to New Providence island occurred in 1929. The occurrence of a major hurricane could have a material adverse effect on the economy and financial condition of The Bahamas. In addition, threats of hurricanes in the general vicinity of the country during the hurricane season have had and could have an adverse effect on the economy.

According to the World Bank, The Bahamas is a high-income economy, with per capita nominal gross national income (or GNI, which the World Bank formerly referred to as GDP) of U.S.\$14,860 in 2000, the most recent year for which such data is available, as compared with U.S.\$34,100 in the United States and U.S.\$5,070 in Mexico during the same period. In addition, according to the World Bank, life expectancy in 2001 in The Bahamas was 69.6 years, as compared with 77.5 years in the United States and 73.4 years in Mexico; and the infant mortality rate in 2001 was 13 per thousand live births in The Bahamas, compared with seven per thousand live births in the United States and 24 per thousand live births in Mexico.

The adult literacy rate in 2001 in The Bahamas was 95.5%, as compared with nearly 100% in the United States and 91.4% in Mexico, according to the World Bank. Education in The Bahamas is under the jurisdiction of the Ministry of Education and is based on three main levels: primary (ages 5-11), secondary (ages 11-16+) and higher education. Two hundred schools exist in The Bahamas, of which 158 are public schools and 42 are independent schools. Higher education is offered in The Bahamas by five resident institutions, including the Government-sponsored College of The Bahamas, and numerous non-resident institutions.

### Government and Political Parties

The Bahamas, which was formerly a British colonial territory, became an independent self-governing nation within the British Commonwealth on July 10, 1973. The Bahamas has enjoyed political stability since independence.

The Bahamas recognizes the British monarch as its formal head of state. An appointed Governor-General serves as the British monarch's representative in The Bahamas. The Governor-General is appointed based on the Prime Minister's recommendation and generally acts in accordance with the advice of the Cabinet.

The political system in The Bahamas is based on the British Westminster model. Parliament consists of the House of Assembly and the Senate. The House of Assembly is comprised of 40 members who are elected by universal adult suffrage at least every five years. The Prime Minister is appointed by the Governor-General from the ranks of the majority party in the House of Assembly. The Senate is comprised of 16 members who are appointed by the Governor-General as follows: nine on the advice of the Prime Minister; four on the advice of the Leader of the Opposition; and three on the advice of the Prime Minister after consultation with the Leader of the Opposition. All members of the House of Assembly and Senators vacate their seats upon dissolution of Parliament.

Following the most recent general election held on May 2, 2002, the House of Assembly now comprises 29 members from the Progressive Liberal Party, or the "PLP," seven members from the Free National Movement, or the "FNM," and four independent members. The Honorable Perry Gladstone Christie M.P., who is leader of the PLP, is the Prime Minister. The Leader of the Opposition is the Honorable Alvin Smith M.P. The FNM and the PLP are generally considered to be centrist political parties in terms of political philosophy and policies.

The executive business of the country is conducted by a Cabinet currently consisting of the Prime Minister and 15 other ministers. The ministers are appointed by the Governor-General on the advice of the leader of the Government, who generally is also the Prime Minister.

Judicial power is vested in the Judicial Committee of the Privy Council (based in the United Kingdom), The Bahamas Court of Appeal, the Supreme Court and the Magistrates' Courts. Appeals in almost all matters lie from the Supreme Court to The Bahamas Court of Appeal, with further appeal in certain instances to the Judicial Committee of Her Majesty's Privy Council. The Governor-General appoints the Chief Justice of the Supreme Court on the advice of the Prime Minister after consultation with the Leader of the Opposition. The Governor-General appoints the other justices with the advice of the Judicial and Legal Service Commission. The Judicial Committee of Her Majesty's Privy Council serves as the highest appellate court. English common law is the basis of the Bahamian legal system.

### **Membership in International Organizations**

The Bahamas is a member of various regional and international organizations, including the British Commonwealth of Nations, the United Nations and its agencies, the IMF and the World Bank. The Bahamas also has membership in the Non-Aligned Movement, the Caribbean Community, or CARICOM, the Caribbean Development Bank, the Organization of American States, the Inter-American Development Bank, or the "IADB," and the World Customs Organization. The Bahamas is a signatory to the Conotou Agreement, which associates the African, Caribbean and Pacific States with the European Union, and to the Caribbean Basin Initiative with the United States. The Government is also pursuing membership with the World Trade Organization, which has granted The Bahamas observer status, and is involved in negotiations regarding the proposed Free Trade Area of the Americas.

### **Poverty**

The Department of Statistics, with assistance from the IADB, determined that the poverty rate in The Bahamas was 9.1% in 2001, the most recent year for which such information is available. During the same period, the poverty rate for the United States was 11.7% and the poverty rate for Mexico was 41.1%. The central tenet of the Government's strategy to reduce poverty is to encourage job creation through foreign and domestic investments in the economy. The Government's poverty reduction strategy also includes strengthening the social safety net through effective rationing of the Government's social assistance programs.

## THE ECONOMY

### General

The Bahamian economy is highly dependent upon the tourism and financial services industries. These two sectors of the economy together traditionally account for an estimated 55% of the overall GDP of the country and over 60% of employment. Tourism has represented an estimated 40% of GDP over the last five years and has employed, directly or indirectly, over half of the workforce. In 2002, The Bahamas attracted over 4.4 million visitors, who spent approximately \$1.67 billion in the country. More than 80% of these visitors were from the United States. Over the past five years, the Government has intensified efforts to improve the competitiveness of the tourism sector, principally by promoting new investment in hotels and other facilities and expanding marketing efforts. The financial services sector of the economy has accounted for an estimated 15% of GDP over the last five years. The Bahamas has traditionally been an attractive location for offshore financial services businesses because of its favorable tax regime and legislative environment. In 2000, a compendium of legislation was enacted to strengthen the regulatory and supervisory regime to bring the financial sector into compliance with best international standards and practices, and to enhance the attractiveness of The Bahamas as an offshore financial services center.

The following table sets forth summary GDP information for each of the years from 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions, except as otherwise indicated)					
Nominal GDP <sup>(1)</sup>	\$ 3,940	\$ 4,190	\$ 4,573	\$ 4,920	\$ 4,917	\$ 5,058
Increase (decrease) in nominal GDP <sup>(2)</sup>	5.1%	6.3%	9.1%	7.6%	(0.1)%	2.0%
Nominal per capita GDP <sup>(1)</sup>	\$ 13,633	\$ 14,314	\$ 15,354	\$ 16,238	\$ 15,956	\$ 16,276
Population (in thousands) <sup>(3)</sup>	289	294	298	304	310	316
Estimated increase (decrease) in real GDP <sup>(2)</sup>	3.3%	3.0%	5.9%	4.9%	(2.0)%	0.7%

(1) Represents Ministry of Finance estimates based on GDP growth data prepared by the IMF.

(2) Represents IMF estimates.

(3) Represents Department of Statistics estimates.

Sources: Ministry of Finance and Department of Statistics.

For more detailed information on trends in GDP, see “—Gross Domestic Product.”

The Bahamian economy is an open economy and, as a result, reflects fluctuations in trade and investments much more readily than a less open economy. The external sector of the Bahamian economy is largely driven by the international services sector, which consists primarily of tourism and financial services. The Bahamas usually has a current account deficit because it imports significant volumes of goods and services to support the tourism industry. This deficit generally increases when foreign direct investments increase. The recurrent account deficit has, however, been offset by a capital account surplus due to the inflow of capital into the economy, particularly in connection with new investment in tourist facilities.

The budget of The Bahamas for Fiscal 2003/2004 reflects the Government’s commitment towards halting any further decline of The Bahamas’ financial position and slowing the increase in Government debt levels. The Government has placed a high priority on reducing the ratio of Government debt to GDP. The Fiscal 2003/2004 budget envisages an overall budget deficit of \$122 million, as compared with a projected deficit of \$172 million in Fiscal 2002/2003. See “Government Finance.”

### Gross Domestic Product

The IMF estimates that real GDP of The Bahamas grew from 1997 to 2002 at an average annual rate of 2.63%. The Government estimates that nominal GDP increased by 2.0% in 2002 and will increase by 2.9% in 2003. The Government’s nominal GDP estimates for 2003 reflect a number of major investment projects that recently have been finalized, most notably the \$600 million expansion of the Atlantis resort on Paradise Island (see “—Principal Sectors of the Economy—Tourism”). Such estimates are preliminary and are subject to completion of analysis of economic data. In recent years, The Bahamas has had low inflation, and the annual inflation rate has been no more than 2.0% in the last three years.

The following table sets forth nominal GDP and expenditures (and as a percentage of nominal GDP) of The Bahamas for 1997 through 2002.

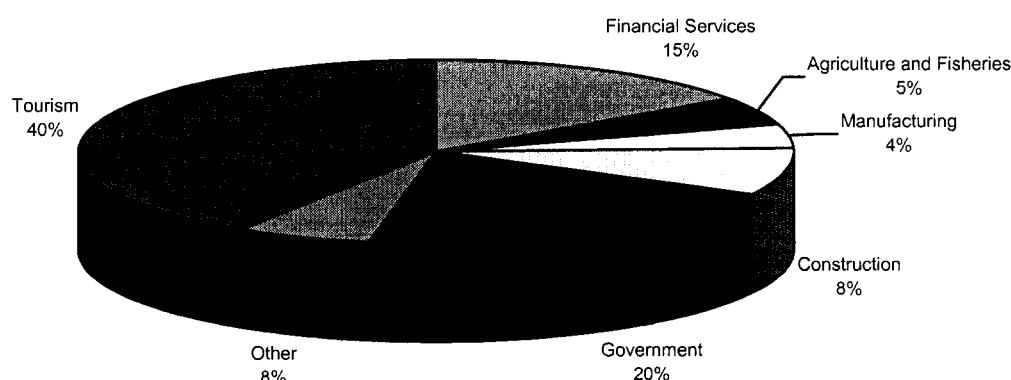
	Years Ended December 31,											
	1997		1998		1999		2000		2001		2002	
	(In millions and as a percentage of nominal GDP)											
Nominal GDP <sup>(1)</sup>	\$3,940.0	100%	\$4,190.0	100%	\$4,573.0	100%	\$4,920.0	100%	\$4,917.0	100%	\$5,058.0	100%
Add: Imports of goods and services	2,395.7	61	2,727.2	65	2,730.2	60	3,106.1	63	2,818.4	56	2,758.1	54
Total supply of goods and services	6,335.7	161	6,917.2	165	7,305.2	160	8,026.1	163	7,813.4	156	7,875.2	154
Less: Exports of goods and services	1,839.1	47	1,896.2	45	2,417.3	53	2,723.7	55	2,564.1	51	2,568.0	51
Total goods and services available for domestic expenditure	\$4,496.6	114%	\$5,021.0	120%	\$4,887.9	107%	\$5,302.4	108%	\$5,249.3	105%	\$5,268.7	103%

(1) Represents Ministry of Finance estimates based on GDP growth data prepared by the IMF.

Source: The Central Bank of The Bahamas.

### Principal Sectors of the Economy

The following chart sets forth the Government's estimates of the contributions of the principal sectors of the Bahamian economy to total nominal GDP of The Bahamas in 2002:



The Government estimates that the principal sectors of the Bahamian economy contributed approximately the same amount in 2001 to the total nominal GDP of The Bahamas.

The following discussion briefly describes the principal non-Governmental sectors of the economy. For a description of the Governmental sector, see "—Government" and "Government Enterprises."

#### Tourism

Tourism is the major sector in the Bahamian economy, accounting for an estimated 40% of GDP and employing, directly or indirectly, over half of the workforce in 2002. With its tropical climate, close proximity to the United States, accessibility and political stability, The Bahamas attracted more than 4.4 million visitors, who spent approximately \$1.67 billion in the country in 2002.

The Government has maintained efforts to improve the competitiveness of the Bahamian tourism sector, principally by promoting new investment in hotels and other facilities, upgrading the tourism infrastructure, and expanding marketing efforts. See "The Economy—Economic Policies and Strategy." Recent Government promotions of new investments in tourism facilities include the \$600 million expansion of the Atlantis resort on Paradise Island announced in April 2003. The owner of the resort agreed to the expansion project in exchange for a variety of Government concessions, including an exemption on import duties on construction materials, an agreement not to issue any new casino licenses on New Providence for 20 years from the earlier of completion of the expansion or December 31, 2007, an extension of casino-tax concessions that were set to end in 2009, and an agreement from the Government to expand electricity and telephone systems to accommodate the resort. The investment will add rooms, restaurants and

retail and convention space to the resort. The Government estimates that the expansion project will create approximately 2,000 permanent jobs for Bahamians. Additional recent tourism investments in The Bahamas include the expected openings of the Four Seasons Resort in Exuma in the fall of 2003 and the Carnegie Club Resort in Abaco by the end of 2004. The Government also recently approved a number of additional tourism-related construction projects that the Government expects will bolster The Bahamas' tourism industry. These construction projects include (i) two hotels, residential developments and a mini-resort/conference center in Abaco, (ii) luxury residences, a golf course, a marina and a hotel in Eleuthera, (iii) condominiums, a golf course and a resort in Exuma, and (iv) a hotel in Grand Bahama.

The 2003/2004 budget also includes features designed to upgrade the tourism infrastructure, such as provisions for repair and maintenance work at Prince George Dock and the improvement of facilities at Nassau International Airport and the airports in Exuma and Marsh Harbour. The budget provides that these projects will be financed by user fees collected by statutory authorities.

The Ministry of Tourism's total budget was \$77.9 million in Fiscal 2001/2002 and is \$69.4 million in Fiscal 2002/2003. To address the recent downturn in the tourism industry, the Government's marketing of The Bahamas as a travel destination to U.S. residents has focused on The Bahamas' close proximity to the United States. The Government's marketing efforts also include encouraging U.S. and foreign tourists visiting Florida to visit The Bahamas during a portion of their trip due to The Bahamas' proximity to Florida.

The following table sets forth selected data relating to the tourism industry for 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002 <sup>(1)</sup>
	(In millions, except as otherwise indicated)					
Stopover visitors						
Total visitors	1.6	1.5	1.6	1.5	1.5	1.4
Increase (decrease)	(1.0)%	(5.6)%	3.3%	(2.2)%	(0.4)%	(6.7)%
Total expenditures	\$ 1,307.4	\$ 1,244.4	\$ 1,463.6	\$ 1,564.4	\$ 1,483.6	\$ 1,516.7
Cruise visitors						
Total visitors	1.8	1.7	2.0	2.5	2.6	2.8
Increase (decrease)	3.9%	(1.3)%	14.6%	26.8%	1.6%	9.8%
Total expenditures	\$ 105.2	\$ 105.5	\$ 114.9	\$ 148.0	\$ 147.6	\$ 151.2
Total visitors <sup>(2)</sup>	3.5	3.3	3.6	4.2	4.2	4.4
Increase (decrease)	1.1%	(3.1)%	9.0%	15.2%	(0.5)%	5.2%
Total expenditures <sup>(3)</sup>	\$ 1,416.1	\$ 1,354.0	\$ 1,582.9	\$ 1,719.2	\$ 1,636.4	\$ 1,673.9
Increase (decrease)	1.3%	(4.4)%	16.9%	8.6%	(4.8)%	2.3%
Average visitor nights per stopover visitor (in nights)	6.0	6.8	7.1	6.5	6.0	n.a.
Average occupancy rate	69.4%	70.3%	68.6%	67.2%	60.5%	63.2%
Average daily room rates (in \$)	\$ 100.42	\$ 109.61	\$ 132.45	\$ 147.51	\$ 148.26	\$ 155.67

(1) Figures for 2002 are preliminary.

(2) Includes stopover, cruise and day visitors.

(3) Represents total expenditures of stopover, cruise and day visitors.

Source: Ministry of Tourism.

The performance of the Bahamian tourism sector is, and will continue to be, dependent largely upon economic and other conditions in the United States and other countries from which visitors originate. Primarily because of the terrorist attacks on the United States on September 11, 2001, and the global economic downturn, the number of cruise visitors increased 9.8% in 2002 and 1.6% in 2001 compared to a 26.8% increase in 2000. The more lucrative stopover traffic decreased by an estimated 6.7% in 2002 as compared to a decrease of 0.4% in 2001. The Government expects that the recent decline in the value of the U.S. dollar will result in an increase in tourism in The Bahamas later this year. There can be no assurance that future economic and other conditions in the United States and other countries will not have an adverse effect on the tourism sector of the Bahamian economy or that Government and private sector initiatives to improve the competitiveness of the tourism industry of the country will be effective. Any significant decline in the performance of the tourism sector is likely to have a negative effect on the overall financial condition of The Bahamas.

Preliminary indications are that tourism expenditures increased by 2.3% to \$1,673.9 million in 2002 following a decrease of 4.8% to \$1,636.4 million in 2001. Total arrivals to The Bahamas increased by 5.2% to a record 4.4 million tourists in 2002 compared to a decline of 0.5% in 2001. Despite a decrease in the total number of visitors in the more lucrative stopover segment, total tourism expenditures grew in 2002 due to hotel pricing increases, principally in New Providence, and increased hotel room sales in Grand Bahama. The cruise visitor segment also experienced increased expenditures in 2002, increasing by 2.4% compared to a decline of 0.3% in 2001. Stopover visitors accounted for approximately 90.6% of total expenditures in 2002. The Government expects that the number of stopover visitors will increase in 2004 with the anticipated openings of the Four Seasons Resort and the Carnegie Club Resort.

The Government does not expect that Severe Acute Respiratory Syndrome (SARS) will have a significant impact on the Bahamian tourism industry. The Government has implemented SARS detection measures at all major ports of entry and developed a comprehensive quarantine program for all visitors. In addition, only a small percentage of the tourists visiting The Bahamas arrive



from Asian countries, and not more than 5% of the tourists visiting The Bahamas in recent years have arrived from Canada, including the Toronto area. The Government also has not seen a significant impact on the tourism sector as a result of the recent war in Iraq.

### ***Financial Services***

The financial services sector is the second largest segment of the Bahamian economy, in terms of its contributions to GDP and employment. In 2002, this sector accounted for an estimated 15% of GDP and employed an estimated 11% of the workforce.

The Bahamas has successfully promoted itself as a choice jurisdiction for conducting financial services, ranging from offshore banking, asset protection trusts and international business companies to estate planning and ship registration. The Government believes The Bahamas continues to be an attractive jurisdiction for financial service businesses because of (i) the absence of corporate and personal income taxes, (ii) its accessibility and geographic proximity to the United States, (iii) skilled professional support, (iv) political, social and economic stability, (v) its strong regulatory framework, and (vi) minimal exchange controls for transactions between nonresident parties. The Bahamas' commitment to improving its standing as an established offshore financial center has been bolstered by the recent enactments and amendments of various legislation designed to strengthen The Bahamas' anti-money laundering regime and improve the level of regulatory supervision of financial institutions in The Bahamas, as described in "Monetary and Financial System—Financial Sector."

In terms of institutional participation, the level of offshore banking business in The Bahamas has changed significantly in the last five years. As of December 31, 2000, 410 bank and trust companies were licensed to operate within or from within The Bahamas. As a result of new regulatory standards enacted in December 2000, particularly with regard to the requirement that banks conform to physical presence standards (see "Monetary and Financial System—Financial Sector"), the number of bank and trust companies licensed to operate within or from within The Bahamas decreased to 301 as of December 31, 2002. Of these 301 institutions, 189 were public financial institutions, consisting of 122 Bahamian incorporated eurocurrency operations, 42 eurocurrency branches of foreign banks, and 25 authorized dealers and agents. These institutions carry out a variety of operations ranging from retail banking to portfolio management and trust services. The remaining 112 institutions are restricted, non-active or nominee licensees. As of December 31, 2002, the total asset base of offshore banking and trust institutions was estimated to be approximately \$279 billion, placing The Bahamas among the top ten offshore banking centers in the world. Although Government revenues derived from license fees has declined by 31% since fiscal year 2002/2003, total employment in the sector has remained stable.

Outside of the banking sector, statistics compiled by The Bahamas' Securities Commission indicate a modest increase in the number of active mutual funds under management, from nearly 700 in 2001 to 706 in 2002. The value of assets under management also rose moderately from \$94.5 billion in 2001 to \$97.3 billion in 2002. In the insurance sector, the number of registered insurance companies increased by three in 2002 to a total of 147. Of the 147 registered insurance companies, the number of insurers located outside The Bahamas remained at 27 in 2002. Based on the latest available information, the asset base of the domestic insurers was in excess of \$680 million in 2001.

The Government has appointed, under the auspices of the Ministry of Financial Services and Investments, a private sector Financial Services Consultative Forum, which has been mandated to advise the Government and make recommendations on new financial products and the streamlining of certain regulatory requirements that would enhance The Bahamas' competitiveness in international business services. To date, the Forum, along with the Securities Commission, has promoted a new Investment Funds Act that will replace the Mutual Funds Act of 1995 and create enhanced regulatory capabilities of the Securities Commission. The Investment Funds Act also will provide more flexibility to the financial services industry with respect to the types of financial services products offered in The Bahamas. The Investment Funds Act has passed both Houses of Parliament and, upon the Securities Commission recommendation, will be brought into operation. The Forum also has signaled its intention to promote an amendment to the International Business Companies Act to enhance the financial products available in The Bahamas and to promote new legislation relating to protected cell companies, insurance companies, foundations, purpose trusts and the Perpetuities Act.

### ***Construction and Manufacturing***

The construction sector accounted for an estimated 8% of the GDP of The Bahamas and employed an estimated 11% of the workforce in 2002. The following table sets forth the construction activity in The Bahamas for the years ended December 31, 1997 through 2002.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Building Permits:</b>						
Number	2,695	2,942	3,206	3,208	3,053	3,063
Value (in millions)	\$316.4	\$483.1	\$646.5	\$536.6	\$752.0	\$533.0
<b>Building Starts:</b>						
Number	1,153	1,234	1,065	1,064	1,010	1,324
Value (in millions)	\$458.6	\$163.5	\$162.5	\$193.4	\$177.9	\$275.8
<b>Building Completions:</b>						
Number	1,130	1,371	1,250	1,519	1,706	1,602
Value (in millions)	\$171.0	\$512.5	\$247.7	\$300.0	\$324.0	\$304.8

Source: Department of Statistics, Quarterly Bulletin of Construction Statistics.

Tax incentives and new tourism-related projects at Carnegie Club (in Abaco), Emerald Bay (in Exuma) and Crab Cay (in Exuma), as well as the \$600 million project at the Atlantis resort, are expected to increase the level of construction activity in the near future. The Government expects that residential real estate purchases by non-Bahamians in New Providence, Grand Bahama and the Family Islands will also increase during the next year. In addition, the Government, through legislative initiatives such as the Hotel Encouragement Act of 1954, provides incentives to hotel owners to develop and upgrade their hotel facilities. See “—Economic Policies and Strategy.”

The manufacturing sector accounted for an estimated 4% of the GDP of The Bahamas and employed an estimated 4% of the workforce in 2002. The manufacturing industry is mostly of a “niche” type and is concentrated in industrial estates on Grand Bahama, many of which are foreign owned and produce goods almost exclusively for export. Major establishments include an oil storage facility (owned by Bahamas Oil Refinery Company), a rum factory (owned by Bacardi & Company Ltd.) and a salt mining facility (owned by Morton International, Inc.). In addition, there are small, locally-owned light industries located in the Government’s industrial park facilities which produce for the local market. Activities of such businesses include (i) mattress and pillow manufacturing, (ii) paper converting, (iii) ice, soft drink, perfume, clothing and crystal production and (iv) printing and publishing.

### ***Agriculture and Fisheries***

The agricultural and fisheries sector, which accounted for an estimated 5% of GDP in The Bahamas and employed an estimated 4% of the workforce in 2002, is dominated by the export of fisheries products, mainly crawfish to Europe and North America. The following table sets forth the value of agricultural and fisheries production for 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
Agricultural production:						
Poultry products	\$ 27.4	\$ 26.4	\$ 22.5	\$ 24.4	\$ 24.2	\$ 24.5
Fruits and vegetables	21.6	20.2	15.7	20.9	29.2	21.3
Meat	1.0	1.3	1.2	1.3	1.3	1.1
Other	5.6	7.0	6.9	6.9	7.4	7.2
Total	<u>\$ 55.6</u>	<u>\$ 54.8</u>	<u>\$ 46.3</u>	<u>\$ 51.4</u>	<u>\$ 62.1</u>	<u>\$ 54.1</u>
Fishing production	\$ 69.5	\$ 65.0	\$ 71.9	\$ 80.8	\$ 67.5	\$ 102.7
Crawfish exports	59.5	57.4	71.5	84.8	67.7	95.8

Source: Ministry of Agriculture and Fisheries.

Agricultural production consists mainly of fruit and vegetables directed to the local market, although citrus fruits and seasonal vegetables are also exported. The main producing islands are Abaco, Eleuthera, Andros, Exuma, Grand Bahama, New Providence, Cat Island and Long Island.

As measured by total landings, the value of fishing production has grown over the last two years, increasing by 52% from 2001 to 2002. Principal catches are lobster (crawfish), conch, shallow water scalefish (groupers, snappers, jacks, and grunts) and deep water snappers. In 2002, favorable pricing and increased production all contributed to a sizeable gain in the recorded value of fisheries output for 2002 to \$102.7 million from \$67.5 million in 2001. Crawfish tails accounted for nearly two-thirds of overall product weight and 90% of the recorded value of fisheries output in 2002. The overall product weight and recorded value for crawfish tails in 2002 increased by an estimated 49.9% and 65.8%, respectively.

### ***Government***

The Government plays a significant role in the Bahamian economy, accounting for an estimated 20% of GDP in recent years and employing an estimated 29% of the workforce. The Government participates in the communications, transportation, utilities, hotel and banking industries through its ownership of 24 public corporations. The Government is continuing to pursue a program of privatization, as described in “Government Enterprises,” and is in the final stages of privatizing Bahamas Telecommunications Company Limited, or “BTC,” which is the dominant provider of telecommunication services in The Bahamas.

The Government is currently in the process of establishing the Bahamian Flight Information Region (FIR), pursuant to which the Government will provide air traffic control services for commercial airplanes traveling through The Bahamas’ airspace. The U.S. Federal Aviation Administration currently provides these air traffic control services. By establishing the Bahamian FIR, the Government will be able to collect fees on commercial airplanes using Bahamian airspace. The Government expects that the operation of the Bahamian FIR will provide the funding necessary to improve Bahamian air traffic control systems and airports without increasing taxes.

## Economic Policies and Strategy

The economic strategy of the Government is to pursue sound macroeconomic and fiscal policies that will enhance the competitiveness of the Bahamian economy and the attractiveness of the economy to domestic and international investments. The Government believes that the economic stability created by sound macroeconomic and fiscal policies will lead to increased investments in The Bahamas that will generate new job opportunities and additional income for Bahamians. The Government's economic policies principally focus on building the tourism, financial services, manufacturing and agriculture and fisheries sectors as well as developing and improving the electronic commerce capabilities of The Bahamas.

### Strategy

The key elements of the Government's strategy include the following:

- *Increase Competitiveness of Tourism Industry.* The Government is promoting The Bahamas as the premier vacation destination in the region. The promotion of tourism has included (i) increasing tax incentives to the hotel industry to upgrade and expand their facilities, (ii) upgrading the tourism infrastructure, including Bahamian cruise ship port facilities, Nassau International Airport and electrification and road construction on the Family Islands, (iii) stimulating the development of new tourist destinations within The Bahamas, (iv) expanding marketing efforts and (v) introducing measures designed to increase the level of cruise visitors. See “—Principal Sectors of The Economy—Tourism.”
- *Broaden Scope of International Services Sector.* The Bahamas is encouraging the expansion of its financial services industry by (i) promoting the availability of a broader range of financial products, such as mutual funds and its stock exchange, and (ii) updating the financial services legislative and regulatory framework. See “—Principal Sectors of The Economy—Financial Services.” The Bahamas also has adopted several initiatives designed to encourage expansion into other types of international services, such as transshipment operations and yacht and ship maintenance and repair facilities, in order to bring The Bahamas closer to becoming a full-range international services economy.
- *Reinforce Domestic Economy Through Sectoral Integration.* The Government has adopted several major initiatives to encourage the services sector's use of domestic agricultural and manufactured goods. These initiatives have included (i) relief from taxes to companies that purchase and sell locally-produced goods and services and (ii) providing local entrepreneurs with guaranteed loans to produce these goods and services. The Government's initiatives in this area have encouraged the manufacturing of gift items, mattresses, pillows and agricultural produce for sale to hotel and resort facilities.
- *Maintain Financial Condition of The Bahamas.* The Government is continuing to focus on its overall financial condition by maintaining the Government's existing credit ratings and strong financial position through effective management of government revenues and expenditures, which the Government believes will lead to a reduction in the overall deficit, a balanced fiscal budget and the maintenance of the fixed exchange rate between the Bahamian dollar and the U.S. dollar. The Government's priority is to consolidate its fiscal position by reducing the overall deficit.

### Legislative Incentives to Promote Growth

The Government has a history of successfully using tax and other incentives to promote growth. For example, to facilitate developments in the Freeport area, the Hawksbill Creek Agreement was executed in 1955, providing for a contract between the Grand Bahama Port Authority, Ltd. and the Government. This program allowed the use of 233 square miles of crown land for development purposes, along with a series of fiscal concessions, including guaranteed freedom from taxation and custom duties. Under the Hawksbill Creek Agreement, customs exemptions extend until 2054 and relief from real property and certain other taxes extends until 2015. The Grand Bahama Port Authority is committed to (i) ongoing infrastructure developments within the Freeport area and the island of Grand Bahama, (ii) promotion of the development of an international university on Grand Bahama, (iii) encouragement of second-home investments in the Port Area and (iv) establishment of an organization to market investment on Grand Bahama internationally. As of December 31, 2002, there were a total of 2,919 businesses licensed by the Grand Bahama Port Authority.

Foreign investors in The Bahamas can benefit from various legislative incentives, including relief from customs duties on approved raw materials, equipment and building supplies, exemptions from business licenses and real property taxes for up to twenty years, and assurance of unrestricted repatriation of capital, profits and dividends. The Government also assists foreign investors in acquiring publicly owned lands for approved developments on concessionary terms and, in the case of overseas investors, permits access to Bahamian capital markets for proposed projects expected to produce a net gain to the economy. Joint ventures between Bahamian and foreign investors are encouraged.

The Government also accommodates foreign investment through its policies regarding the granting of residency permits to non-Bahamian investors and land purchases by foreigners. Major international investors and acceptable owners of residences valued at \$250,000 or more are given accelerated consideration for annual or permanent residency permits. These actions further earlier legislative initiatives that eliminated the prior discriminatory differential in the stamp tax applicable to non-Bahamians acquiring local property and the bias in real property tax assessments against nonresident owners.

### ***International Trade Agreements to Promote Growth***

In addition to the Government's domestic initiatives, persons may benefit from tax relief offered to Bahamian exports under various international agreements. Under the Caribbean Basin Initiative, approved products manufactured in The Bahamas, such as fresh and frozen seafood, tropical fruit products and winter vegetables, ethnic and specialty foods, handicrafts, giftware, wood products (including furniture and building materials), recreational items such as sporting goods and toys, and other items may qualify for duty-free entry into the United States. The Canadian government offers similar incentives under Canada's equivalent of the Caribbean Basin Initiative, the CARIBCAN program. Under the Conotou Agreement, a wide range of goods manufactured in The Bahamas may be exported to the European Union with little or no duties.

### ***Electronic Commerce Initiatives***

In 2000, the Government commenced work on an initiative to transform the Bahamian economy to a digital economy and thereby create an environment in which businesses have confidence in the electronic systems used to conduct commercial transactions in The Bahamas. The key elements of this initiative include the following:

- establishing a reliable, viable and affordable telecommunications infrastructure;
- educating skilled persons to perform the tasks associated with an electronic workplace;
- developing a legal and regulatory framework conducive to e-commerce; and
- delivering Government services electronically to add value to those services being offered in the private sector.

As part of this initiative, the following three pieces of enabling legislative measures were passed by Parliament in January 2003: (1) the Electronic Communications and Transactions Act, which provides, among other things, for the legal recognition of electronic transactions, electronic contracts and electronic signatures, (2) the Computer Misuse Act, which criminalizes certain wrongful actions involving computers, such as computer hacking, and (3) the Data Protection (Privacy of Information) Act 2003, which is designed to protect an individual's privacy with respect to certain personal information collected electronically. Prior to the enactment of this legislation, the Government eliminated customs duties on computer software and on all computers and related equipment to encourage businesses to access information electronically, and the Bahamas Development Bank made loans available to small and medium-sized businesses for the purchase of new computer equipment.

The Government is also focusing on creating an e-literate population. A pilot exercise is currently being tested in primary schools in The Bahamas that integrates the use of computers in the teaching process. Twenty-seven schools across The Bahamas have been chosen for the pilot, and seven of these schools are now computer interactive. The Government is also discussing developing courses with the College of The Bahamas that will provide students with the skills required for employment in the information technology industry.

### ***Development Agencies***

The main Government agencies established to assist in the economic development process are the Bahamas Development Bank, The Bahamas Investment Authority, or the "BIA," and The Bahamas Agricultural and Industrial Corporation, known as the "BAIC."

The Bahamas Development Bank began operations in 1978 to provide medium- and long-term financing for development enterprises, cooperatives and small businesses. The Bahamas Development Bank has been instrumental in the development of local enterprises in the fisheries, tourism, transportation and light manufacturing sectors. Funding for loans granted by the Bahamas Development Bank comes from a number of international, regional and local sources. At December 31, 2001, there were a total of \$41.2 million in loans outstanding from the Bahamas Development Bank. See "Government Enterprises—Public Corporations."

The BIA operates out of the Ministry of Financial Services and Investments and has been created as a "one-stop shop" to streamline and coordinate procedures governing foreign direct investments as well as domestic initiatives. The BIA engages in policy formulation, investment priorities, project proposal review and analysis, and post-approval support and monitoring.

The BAIC is responsible for (i) stimulating, facilitating and encouraging the development of agriculture and small manufacturing operations and cottage industries in The Bahamas, (ii) processing and marketing local agricultural produce, (iii) assisting in the creation and promotion of business and industrial development throughout the islands, (iv) providing technical assistance and (v) expanding and creating economic opportunities for Bahamians to participate in the economic development of The Bahamas.

As part of its functions, the BAIC oversees activities in the Government's Industrial Park located on New Providence. The Industrial Park provides manufacturing and processing operations with covered factory space and with all the necessary infrastructure at substantially subsidized rental rates. In addition to the subsidized rental rates, BAIC provides the Industrial Park with maintenance and security services. There are currently 12 companies operating in the Industrial Park that produce such items as paper products, boxes, plastic containers, detergents and other cleaning materials, ice cubes, furniture and other items.

## Employment and Labor

The following table sets forth the annual average rate of unemployment in The Bahamas for 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
Average unemployment rate	9.8%	7.8%	7.8%	n.a. *	6.9%	9.1%

\* The Government does not compile unemployment data for census years. A census is conducted by the Department of Statistics every ten years for each year ending in "0."  
Source: Department of Statistics.

The unemployment rate increased in 2002 due to a number of international factors affecting the tourism industry, including a reduction in the number of visitors from the United States following the September 2001 terrorist attacks. The Government has projected that the unemployment rate will decline over the next several years as a result of a number of tourism-related projects, including the \$600 million expansion of the Atlantis resort, the reopening of Club Med in San Salvador, the \$130 million Carnegie Club project in Abaco and similar projects expected in the near future in Exuma Cays, South Eleuthera, Rum Cay, Cat Island, Grand Bahama and other Family Islands.

The average household income in The Bahamas for 2002 and 2001 was \$39,379 and \$38,995, respectively.

The Government entered into an agreement in June 1999 with The Bahamas Public Service Union, which represents the majority of public service workers in The Bahamas. The Government was obligated under this agreement to pay union members a total of \$24 million on July 1, 2003. The Government has proposed deferring the payment to The Bahamas Public Service Union until December 2003, but The Bahamas Public Service Union has not yet agreed with the Government's proposal.

## Inflation

The inflation rate in The Bahamas tends to parallel movements in inflation rates in the United States, reflecting the openness of the Bahamian economy and the fixed exchange rate. The Bahamas has, in recent years, experienced relatively low inflation rates. Despite higher energy costs, domestic inflation stabilized at 1.9% in 2002. The domestic inflation rate in 2001 was 2.0%. Accelerated price increases for education costs and furniture and household goods in 2002 were offset by slowed cost advances on most other goods and services.

## Environmental Policy

The Government is committed to pursuing economic development in an ecologically sound manner. Accordingly, the Government has announced its plans to merge the Bahamas Environmental Science and Technology Commission (BEST) with the Department of Environmental Health Services to create a new Department of Environmental Planning charged with overseeing the environmental aspects of all real estate developments in The Bahamas. The Government also recently announced its plans to create a national authority to purchase and protect Clifton Cay, a historical landmark in The Bahamas.

## Litigation

The Commonwealth is not involved in any material litigation or arbitration proceedings.

Bahamasair Holdings Ltd. ("Bahamasair") is a party in a civil lawsuit in the Superior Court of Justice, Ontario, Canada, in which former aircraft lessors to Bahamasair have claimed, among other things, that The Boeing Company and related entities, collectively referred to herein as "Boeing," bribed officers of Bahamasair and former Government officials in an aircraft purchase transaction. The lessors are seeking from Boeing, Bahamasair and other individual defendants in excess of \$400 million (Canadian) in damages, \$50 million (Canadian) in punitive damages, and prejudgment and post judgment interest, for losses they claim they incurred resulting from the alleged bribery scheme. The case is currently in the discovery phase. The trial is scheduled to commence on January 5, 2004, and to continue for several months. Bahamasair denies any involvement in a bribery scheme, is vigorously contesting the claims and considers the lawsuit to be without merit. In light of the preliminary phase of the case, the Government cannot predict the outcome of this litigation or Bahamasair's exposure, if any, to liability. In addition, the Government has not determined whether it would provide any financial or other support to Bahamasair if an adverse judgment were rendered against Bahamasair. The Government is not a party to the lawsuit.

## **Miscellaneous**

The Bahamas was listed on the “Priority Watch List” of the Office of the U.S. Trade Representative’s Special 301 annual report released on May 1, 2003. The Bahamas was placed on the Priority Watch List because of the Office of the U.S. Trade Representative’s concerns over provisions in Bahamian law permitting the compulsory licensing to Bahamian cable operators of retransmissions of premium cable television programming, and the amount of remuneration paid for the compulsory licensing of free over-the-air broadcasts. No legal consequences result from being placed on the Priority Watch List, but such a designation does indicate that the U.S. Government has indicated a preference for The Bahamas to amend its compulsory licensing provisions. The Government currently is considering introducing new legislation to address the concerns raised by the Office of the U.S. Trade Representative.

## **MONETARY AND FINANCIAL SYSTEM**

### **Central Bank**

The Central Bank of The Bahamas, or the “Central Bank,” was established under The Central Bank of The Bahamas Act in 1974, which was superseded in 2000 by an Act with the same name. The main function of the Central Bank is to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the economy, particularly the fixed parity between the Bahamian and U.S. dollars that has existed since 1973. The Central Bank also assumes a key role in overseeing and promoting the soundness and integrity of the banking system.

The Central Bank has at its disposal traditional instruments of monetary policy, including open market operations, discount rate adjustments, variable reserve ratios, selective credit controls and “moral suasion.” Through its various departments, the Central Bank acts as lender of last resort to banks, arranges the issue and redemption of Government securities, provides clearing facilities to banks, administers exchange controls, acts as advisor and banker to the Government and other public corporations, manages the country’s external reserves, and governs the licensing and supervision of banks in The Bahamas.

### **Financial Sector**

As of December 31, 2002, the financial system of The Bahamas consisted of 301 bank and trust companies that were licensed to operate within or from within the country, of which 189 were public financial institutions and 112 were restricted, non-active or nominee licensees. Banking activities dominate the financial services sector in The Bahamas.

Of the 301 banks and trust companies licensed in The Bahamas as of December 31, 2002, 25 are permitted to conduct operations in the domestic market. These comprise nine commercial banks that are authorized to deal in foreign currency, one savings and loan institution and 15 trust companies, whose domestic activities are limited. As of December 31, 2002, total commercial bank domestic assets were \$5.5 billion. The operations of Bahamian domestic banks include a large offshore component, with the commercial bank foreign assets totaling \$136.7 billion. The Government has guaranteed certain indebtedness of the Bahamas Development Bank. The Government otherwise has not explicitly or implicitly guaranteed financial assistance to any banks operating in The Bahamas, including any banks conducting offshore banking activities.

Since the mid-1960s when capital began flowing into The Bahamas as a result of its favorable tax regime, The Bahamas has evolved into a choice international center for financial services, which accounted for an estimated 15% of the country’s GDP in 2002. During the late 1980s and early 1990s, the Government enacted additional legislative and regulatory initiatives aimed at enhancing the financial services sector and strengthening the regulatory environment.

Nevertheless, in 2000, the Financial Actions Task Force, or FATF, the Financial Stability Forum, or FSF, and the Organization for Economic Cooperation and Development, or the OECD, all cited The Bahamas unfavorably with respect to its anti-money laundering efforts and oversight of offshore financial services providers. In particular, the FATF listed The Bahamas as non-cooperative in the fight against global money laundering, the FSF categorized The Bahamas as a jurisdiction generally perceived as having legal infrastructures, supervisory practices, or resources that are not sufficient relative to the size of the jurisdiction’s financial services sector, and the OECD labeled The Bahamas a “tax haven.” In response to these concerns, the Government initiated a comprehensive legislative effort to bolster regulations and reinforce restrictions applicable to money laundering activities and the offshore financial services sector. In December 2000, a compendium of ten new and amended pieces of legislation was enacted. Generally, the legislation addresses three major concerns: (1) customer identification, reporting of suspicious transactions and transparency, (2) financial supervision practices, and (3) international cooperation. In addition, in order to bolster the regulatory framework for the financial services sector, greater autonomy was granted to the Central Bank, which has responsibility for licensing and regulating banks and trust companies, and the following three supervisory bodies were created: (1) the Inspector of Financial and Corporate Service Providers, which has responsibility for licensing financial and corporate service providers not otherwise licensed by the Central Bank, the Securities Commission, the Registrar of Insurance or the Gaming Board, (2) the Compliance Commission, an anti-money laundering supervisory institution, and (3) the Financial Intelligence Unit, or the “FIU,” a new administrative body established to receive, analyze and disseminate information relating to money laundering, drug dealings, bribery and other offenses. As a result of these legislative enactments, The Bahamas was removed from the FATF’s list of non-cooperative nations in June 2001.

In 2000, the Government also asked the IMF to conduct an assessment of the country’s financial sector pursuant to the IMF’s Financial Sector Assessment Program. The Financial Sector Assessment Program, which was jointly established by the IMF and the World Bank in 1999, examines the strengths, risks, and vulnerabilities of a country’s financial system. The Government believes that the IMF will complete its assessment of The Bahamas’ financial sector by the end of the year, and The Bahamas intends to make the results of the IMF’s assessment publicly available as recommended by the FSF.

The Government believes that the enactment and implementation of its new legislation described below, as well as The Bahamas’ participation in the IMF’s Financial Sector Assessment Program, satisfactorily addresses the concerns raised by the FATF, the FSF and the OECD and brings the financial sector into compliance with best international standards and practices. However, as a result of these initiatives and the new physical presence guidelines for banks disclosed below under “—Bank Regulation and

Supervision,” the number of banks and trust companies licensed in The Bahamas has declined in 2001 and 2002, as described in “The Economy—Principal Sectors of the Economy—Financial Services.”

Legislation specifically addressing customer identification, reporting of suspicious transactions and transparency includes, in addition to the Central Bank of The Bahamas Act and the Banks and Trust Companies Regulation Act described below:

- *Financial Transactions Reporting Act.* The Financial Transactions Reporting Act requires financial institutions to verify the identify of account holders and report transactions known or reasonably suspected to be related to offenses specified in the Proceeds of Crime Act described below. The Act defines financial institutions broadly to include financial intermediaries and establishes record keeping requirements. The Act also created the Compliance Commission, as described above.
- *Financial Intelligence Unit Act.* This law establishes the FIU and provides the FIU with the power to obtain the information necessary to carry out its functions, to halt transactions for up to three days upon the receipt of a suspicious transactions report or the request of a foreign regulatory authority, and to freeze bank accounts for up to five days upon request from a foreign regulatory authority or the Commissioner of the Police of The Bahamas. In December 2001, the FIU issued Suspicious Transactions and Anti-Money Laundering Guidelines to assist the financial sector industry with the implementation of the new laws.
- *International Business Companies Act.* This Act, which replaces a 1989 Act with the same name, provides for the elimination of bearer shares in new companies and for the recall and substitution of existing bearer shares. The Registrar General is required to maintain records of the location of the registered agent, the registered office and the directors and officers of companies in The Bahamas. The registered agent, in turn, is required to maintain a register with the names and addresses of the beneficial owners of the company. This Act also sets forth new provisions for the incorporation, registration and operation of international business companies, or “IBCs,” in The Bahamas. IBCs are flexible corporate vehicles governed by the International Business Companies Act.
- *Financial and Corporate Service Providers Act.* The Financial and Corporate Service Providers Act requires all financial and corporate service providers to be licensed by the Act or the Bank and Trust Companies Regulation Act (see below). Only licensees under the Act or bank and trust companies licensed under the Bank and Trust Companies Regulation Act may incorporate IBCs in The Bahamas. Under prior legislation, any person could incorporate an IBC in The Bahamas. All financial and corporate service providers licensed under the Act also must verify the identity of, and obtain certain information about, each of its clients. In addition, the Act created the Inspector of Financial and Corporate Service Providers, as described above.

Legislation specifically addressing financial oversight practices includes:

- *Central Bank of The Bahamas Act.* The Central Bank is specifically authorized under the Central Bank of The Bahamas Act, which replaces a 1974 Act with the same name, to disclose to overseas regulatory authorities information necessary to enable those authorities to exercise their regulatory functions in connection with civil or administrative investigations conducted by such authorities.
- *Banks and Trust Companies Regulation Act.* The Banks and Trust Companies Regulation Act, which replaces an earlier Act with the same name, provides for enhanced administrative authority for overseeing licensees and specifically delineates the authority of the Governor of the Central Bank to, among other things, grant and revoke bank and trust licenses, impose conditions or limitations on licenses, and amend or revoke any authorization contained in a license. The Governor may also require any director or officer of a licensee to be replaced, appoint an advisor to make recommendations to the licensee with regard to the conduct of the licensee’s affairs, appoint a receiver to assume control of a licensee in the interest of the licensee’s creditors, approve or replace an auditor of the licensee, and generally require licensees to take such actions as the Governor considers necessary. The Act also created the Inspector of Banks and Trust Companies, which has the duty of, among other things, reviewing bank and trust companies’ practices generally, conducting on-site and off-site examinations of bank and trust companies, and examining and making recommendations to the Governor with respect to license applications. The Inspector of Banks and Trust Companies is also permitted under the Act to share information with foreign banking supervisors for the purposes of facilitating consolidated supervision.

Legislation specifically addressing international cooperation includes, in addition to the Financial Intelligence Unit Act:

- *Proceeds of Crime Act.* The Proceeds of Crime Act, which replaces and consolidates the Money Laundering (Proceeds of Crime) Act of 1996 and the Tracing and Forfeiture of the Proceeds of Drug Trafficking Act, authorizes the search, seizure and confiscation by the Government of the proceeds from money laundering crimes and authorizes the registration of foreign confiscation orders in The Bahamas. The law also expands the offenses subject to search, seizure and confiscation



to include drug dealing, bribery, money laundering and other offenses that may be brought before the Bahamian Supreme Court.

- *Dangerous Drugs Act.* Consistent with the objectives of the Proceeds of Crime Act, this Act, which replaces a prior Act with the same name, provides the Government with the power to seize, or cause to be forfeited, assets relating to drug trafficking.
- *Evidence (Proceedings in other Jurisdictions) Act.* The Bahamas is authorized under this Act to assist foreign authorities in obtaining evidence in The Bahamas for foreign civil or commercial proceedings.
- *Criminal Justice (International Cooperation) Act.* The Criminal Justice (International Cooperation) Act authorizes The Bahamas to cooperate with foreign authorities in connection with foreign criminal proceedings.

These legislative initiatives fostering international cooperation are supplemented by three existing Mutual Legal Assistance Treaties to which The Bahamas is a party with the United States, Canada and the United Kingdom.

The Bahamas further strengthened its standing in the international finance industry in January 2002 by establishing a Tax Information Exchange Agreement with the United States. Pursuant to this agreement, The Bahamas and the United States have committed to sharing information on criminal matters by 2004 and on civil proceedings by 2006. This agreement also secures the U.S. Treasury Department's endorsement of The Bahamas' "know your customer" rules for purposes of the Qualified Intermediary regime. For additional information regarding the financial services sector, see "The Economy—Principal Sectors of the Economy—Financial Services."

The Government currently is working on finalizing a bill on terrorism that will be incorporated within the framework of the recently enacted anti-money laundering legislation described above. The bill implements those provisions of U.N. Security Council Resolution 1373 on counter-terrorism measures that are not addressed by existing Bahamian legislation by prohibiting any person from conducting fund-raising efforts for terrorist purposes or possessing "terrorist property," which is defined as money or other property which has been or is likely to be used for terrorism purposes.

### **Monetary Policy**

The Central Bank conducts the monetary policy of The Bahamas. The Central Bank's monetary policy is to maintain stable credit and other conditions to support the fixed parity between the Bahamian and U.S. dollars while simultaneously allowing economic development objectives to be pursued. The stability objective includes maintaining the domestic as well as the external value of the currency, while the development objective requires promoting and supporting a high level of domestic production, employment and growth. The Government is also currently considering a gradual move toward a more flexible and market-oriented framework for liquidity and credit management to help expand the domestic credit market and foster competition in the banking sector.

The Central Bank imposed a ceiling on outstanding credit in September 2001 following the terrorist attacks in the United States. This ceiling allows banks to provide new credit only to the extent possible from repayments on existing loans or advances, and provided the bank's total amount of loans and advances outstanding remain within prescribed limits. This ceiling on outstanding bank credit remains in effect.

The following table sets forth the monetary and credit aggregates for 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
Currency in active circulation	\$ 109.7	\$ 125.6	\$ 148.4	\$ 151.4	\$ 153.5	\$ 154.8
Demand deposits	409.1	470.8	609.8	652.3	623.2	662.9
Money supply (M1)	518.8	596.4	758.2	803.7	776.7	817.7
Savings deposits	392.9	437.9	548.0	596.1	604.6	630.7
Fixed deposits	1,554.4	1,809.1	1,888.5	2,063.7	2,244.0	2,296.2
Money supply (M2) <sup>(1)</sup>	2,466.1	2,843.5	3,194.7	3,463.6	3,625.3	3,744.6
Foreign currency deposits	41.5	60.7	53.0	86.3	91.8	91.6
Money supply (M3) <sup>(2)</sup>	\$2,507.6	\$2,904.2	\$3,247.6	\$3,549.9	\$3,717.1	\$3,836.2
Private sector credit	\$2,488.1	\$2,767.3	\$3,071.4	\$3,511.1	\$3,781.8	\$3,925.6
Net credit to Government	416.8	449.4	491.5	504.2	622.8	648.2
Credit to rest of public sector	88.5	136.4	172.8	143.2	148.8	219.4
Total domestic credit	\$2,993.4	\$3,353.1	\$3,735.7	\$4,158.5	\$4,553.4	\$4,793.2
Other net external liabilities <sup>(3)</sup>	\$ (332.9)	\$ (362.7)	\$ (454.5)	\$ (426.3)	\$ (546.9)	\$ (730.5)
Official foreign reserves	219.5	338.8	404.0	342.6	312.4	373.2
Bank liquidity	30.6	41.2	80.9	41.6	56.5	88.9

(1) Represents the sum of M1, savings deposits and fixed deposits.

(2) Represents the sum of M2 and foreign currency deposits.

(3) Represents the domestic banks' net external position. The liabilities comprise the deposits of nonresidents, foreign share capital and the net balances due to head offices and to other banks abroad by domestic banks. The assets cover the net balances held by domestic banks with their head offices and other banks abroad, holdings of foreign notes and coins, foreign securities, commercial bills and loans and advances made to nonresidents.

Source: The Central Bank of The Bahamas.

Money supply growth slowed for the third consecutive year to 3.2% in 2002 from 4.7% in 2001 and 9.3% in 2000 as a result of a continuation in the general weakness of the economy, which was precipitated by the decline in the United States economy in 2001, the negative impact on the tourism sector and travel industry of the September 11, 2001 terrorist attacks, and the economic and investment uncertainty resulting from the war in Iraq in 2003. Consequently, foreign currency inflows from tourism and foreign investments were notably weaker as compared to their levels in the late 1990s. Fixed deposit growth was outweighed by savings deposit gains and a rebound in demand balances.

Personal loans have accounted for over 61.5% of overall domestic bank credit over the past six years. Allocations to other sectors were broadly spread across categories and remained relatively constant over the last six years, with the next largest allotments commanded by construction (7.2%), tourism (5.8%), wholesale and retail trade (5.7%), and professional services (3.6%) at December 31, 2002.

Foreign currency loans of the commercial banks to the private sector have grown steadily over the past six years, moving from \$263.1 million in 1997 to \$469.4 million as of December 31, 2002, representing an average annual growth rate of nearly 19.1%.

## Bank Regulation and Supervision

The Central Bank has overall supervisory responsibility for banks and trust companies licensed to do business in and from within The Bahamas. The Central Bank exercises its licensing and supervisory authority with the objective of protecting both depositors and the reputation of The Bahamas as a safe international jurisdiction. The Central Bank subscribes to the principles of the Basle Concordat. The Central Bank is a member of the Caribbean Banking Supervisors Group, the Offshore Group of Banking Supervisors, and the Commission of Latin American and Caribbean Banking Supervisory and Inspection Organization, a regional group of banking supervisors.

The supervisory and regulatory functions of the Central Bank are strongly focused on the licensing approval phase, which involves, among other things, the consideration of whether the applicant is a "fit and proper person," a review of the capitalization of a company to determine if minimum capitalization requirements are met, and a review of the internal controls of a company to monitor and detect risk. Once a license is issued, the supervisory process of the Central Bank then involves monitoring and controlling the activities of the banks in accordance with established rules and regulations, and determining viability from the perspective of liquidity, solvency and risk exposure. Offshore banks are exempt from certain measures imposed by the Central Bank on domestic banks relating to reserve requirements, prescription of interest rates, restrictions on the holdings of foreign assets, foreign exchange transactions and other credit measures. The Central Bank employs various tools in exercising supervisory oversight of the licensees, which include disclosures, off-site examinations, prudential dialogues, external audits, on-site inspections and prudential norms. These tools have been carefully tailored to promote high banking standards and the stability and soundness of the banking system while providing sufficient flexibility to facilitate growth in business.

The Central Bank's supervisory role has grown recently as a result of Parliament's adoption in December 2000 of the Central Bank of The Bahamas Act and the Banks and Trust Companies Regulation Act, each of which is discussed above in "Financial Sector." Following the approval of the new legislation, the Central Bank launched an ambitious on-site supervision program focusing primarily on the evaluation of anti-money laundering systems and procedures by banks and trust companies. Pursuant to this program, the Central Bank conducted 115 examinations in 2001 and 102 examinations in 2002, and the Central Bank continues to conduct examinations and re-examinations of banks and trust companies as part of this ongoing program.

In addition, in May 2001 the Government issued new minimum physical presence guidelines for banks and trust companies operating in The Bahamas to increase the Central Bank's supervisory abilities. The guidelines, which become fully binding on July 1, 2004, provide that no banking or trust entity may be licensed in The Bahamas unless strict minimum operating requirements are met, including (a) maintaining the primary records of the licensee and performing other operational and administrative services at its offices in The Bahamas, (b) appointing a local, non-executive director to serve on the licensee's board of directors, and (c) appointing two local senior officials to be responsible for the licensee's operations in The Bahamas. Banks and trust companies without full physical presence will be required to discontinue their operations in The Bahamas by July 1, 2004.

The Central Bank's supervisory and regulatory regime also has been substantially enhanced by the Corporate Governance Guidelines issued in December 2001, which become effective on December 31, 2003. The guidelines require bank and trust company licensees to implement comprehensive risk management controls and systems, and outlines the duties and responsibilities of directors of licensees with respect to corporate governance. Compliance with the Corporate Governance Guidelines by banks and trust companies is subject to annual review by the Central Bank.

### **Exchange Rates and Exchange Controls**

The unit of currency in The Bahamas is the Bahamian dollar. The Government has maintained effective parity of the Bahamian dollar with the U.S. dollar since February 1973. The U.S. dollar circulates freely with the Bahamian dollar. The official buying and selling rates for the U.S. dollar are \$1.0025 and \$1.0040, respectively, per U.S.\$1.00.

The Central Bank administers exchange controls under the provisions of the Exchange Control Regulations Act. The Central Bank, however, delegates to authorized dealers the authority to approve allocations of foreign exchange for certain payments. The Bahamas does not impose restrictions on current account transactions, although exchange controls are used to monitor developments in this area.

In the case of capital account transactions, all transfers to countries outside The Bahamas require exchange control approval and outflows of resident-owned capital are restricted. The use of official exchange for direct investment abroad is limited in amount and is restricted to investments that are expected to meet certain balance of payments criteria. Investments abroad that do not meet these criteria may be financed by foreign currency borrowings, by purchases of foreign currency at a premium of 25% over the official market rate in the investment currency market maintained by the Central Bank (the "Investment Currency Market"), or by use of retained profits of foreign subsidiary companies. Twenty percent of the 25% premium on Investment Currency Market transactions is refunded once the proceeds from the sale of the investment are repatriated. Purchases and sales of foreign currency in the Investment Currency Market, which opened in 1995, totaled \$168.4 million and \$701.6 million, respectively, during the year ended December 31, 2002. The use of investment currency is prescribed for transactions involving residents purchasing foreign currency-denominated securities from nonresidents and making direct investments outside The Bahamas.

The Government instituted measures in September 2002 to liberalize exchange controls by increasing the authority delegated to authorized dealers and relaxing certain capital account restrictions. The capital account measures simplified the process for purchasing foreign currency by resident companies and individuals by permitting such customers to apply directly to their banks for a broad range of personal and business transactions, including immigration matters, employee stock option plans, bail bond payments and direct outward investments where the Central Bank has determined that the economic benefit to The Bahamas of such investment has been adequately justified.

In financing overseas investments by borrowing, residents other than authorized banks must obtain the permission of the Central Bank to borrow foreign currency from nonresidents, and authorized dealers are subject to exchange control guidelines with respect to their lending in foreign currency to residents. Residents also must obtain the specific approval of the Central Bank to buy property outside The Bahamas, and if such purchases are for personal use, can only be made with foreign currency purchased in the Investment Currency Market.

Inward investment by nonresidents of The Bahamas is unrestricted, except with respect to investments in certain businesses statutorily reserved for Bahamians, such as wholesale and retail operations, restaurants, nightclubs and domestic newspapers and magazine publications. However, the consent of the Central Bank is required for the issue or transfer of shares in a Bahamian company to a nonresident and for the transfer of control of a Bahamian company to a nonresident. In addition, special procedures apply to investments in real property. As specified under the International Persons Landholding Act, land purchases by nonresidents must be registered with the Government's Investment Board and, if the land consists of five or more contiguous acres of undeveloped land for use other than as a single family dwelling, an application must be made for a permit.

## **Securities Markets**

The Bahamas International Stock Exchange, or the “Exchange,” began trading in May 2000. The level of domestic capital market activity at the Exchange diminished sharply in 2002. The trading volume on the Exchange in 2002 decreased by 23% from the trading volume in 2001, falling from an aggregate of 3.933 million traded shares in 2001 to 3.018 million traded shares in 2002. The value of equities listed on the Exchange declined by 38% in 2002, falling from an aggregate value of \$23.5 million in 2001 to \$14.6 million in 2002. The voluntary de-listing of one company on the Exchange reduced the total number of publicly listed companies trading on the Exchange to 16. The Government is currently assessing the long-term viability of the Exchange.

The Securities Commission of The Bahamas is responsible for administering the Securities Industry Act, the Securities Industry Regulations, the Mutual Funds Act and the Mutual Funds Regulations. This legislation empowers the Securities Commission to regulate the securities markets and mutual funds and is designed to ensure that adequate disclosure of material information for investment products is made to investors. The Securities Commission’s functions also include supervising and regulating the Exchange and market participants, responding to complaints and inquiries from investors, conducting investigations, and formulating principles to regulate and govern mutual funds, securities and capital markets.

## **International Insurance Industry**

The Bahamas increasingly is becoming an area of interest for companies seeking alternative domiciles to conduct international life insurance businesses and for companies seeking to incorporate offshore captive insurance companies (*i.e.*, a limited purpose insurance company formed to insure against the risks of its parent or subsidiary companies). The reasons for this increase in interest include the introduction of new insurance legislation incorporating innovative features unique to The Bahamas and the availability of the legal, regulatory and professional infrastructure necessary for the industry. The establishment, licensing and operation of the Bahamian insurance industry are governed by the External Insurance Act, as amended. The office of the Registrar of Insurance is responsible for administering the External Insurance Act and is the industry regulator.

## EXTERNAL SECTOR OF THE ECONOMY

The Bahamian economy is an open economy and, as a result, reflects fluctuations in trade and investments much more readily than a less open economy. The external sector of the Bahamian economy is largely driven by the international services sector, which consists primarily of tourism and financial services. The Bahamas customarily has a current account deficit because it imports significant volumes of goods and services to support the tourism industry. The Government has adopted several important initiatives designed to reduce the level of imports by encouraging the use of domestic agricultural and manufactured goods by the services sector and also to increase exports of domestically produced goods. See "The Economy—Economic Policies and Strategy." The current account deficit has largely been offset by a capital account surplus due to the inflow of private capital into the economy, particularly in connection with tourism-related projects.

### Foreign Trade

The following table sets forth the values by category of The Bahamas' imports and exports for 1997 to 2001, the last year for which such information is available.

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(In millions)				
<b>Imports:<sup>(1)</sup></b>					
Food and live animals	\$ 232.7	\$ 260.1	\$ 261.8	\$ 278.7	\$ 273.8
Beverages and tobacco	27.2	35.3	49.4	52.2	60.1
Crude materials (except fuel)	35.6	45.3	48.1	60.9	46.7
Mineral fuels, lubricants, etc.	148.5	112.7	172.5	207.5	292.8
Animal and vegetable oils	3.6	3.9	3.7	3.7	3.5
Chemicals	167.5	160.5	153.2	183.3	146.6
Manufactured goods	286.7	358.7	313.2	371.3	297.7
Machinery and transport equipment	466.0	555.8	500.7	526.5	518.0
Miscellaneous manufactures and other items	218.8	257.7	222.0	281.9	260.2
Other commodities and transportation	35.4	26.4	26.7	36.4	29.3
<b>Total imports</b>	<b>\$1,622.0</b>	<b>\$1,816.4</b>	<b>\$1,751.3</b>	<b>\$2,002.4</b>	<b>\$1,928.7</b>
<b>Exports:<sup>(1)</sup></b>					
Domestic exports					
Crude salt	\$ 21.6	\$ 12.9	\$ 13.6	\$ 10.5	\$ 13.5
Crawfish, fish and other crustaceans	62.5	70.4	76.6	86.6	72.1
Rum/cordials and liqueurs	5.2	12.3	31.0	29.6	38.4
Other domestic exports	12.7	42.6	72.8	117.5	104.5
<b>Total</b>	<b>102.0</b>	<b>138.2</b>	<b>194.1</b>	<b>244.2</b>	<b>228.5</b>
<b>Re-exports:<sup>(2)</sup></b>					
Mineral fuels, lubricants, etc.	0.0	0.0	36.9	85.0	68.8
Chemicals	33.0	40.2	45.6	13.9	12.5
Machinery and transport equipment	30.5	78.2	99.5	143.5	45.2
Other	15.9	43.7	49.8	68.2	20.8
<b>Total re-exports</b>	<b>79.4</b>	<b>162.1</b>	<b>231.8</b>	<b>310.6</b>	<b>147.3</b>
<b>Total exports</b>	<b>\$ 181.4</b>	<b>\$ 300.3</b>	<b>\$ 425.9</b>	<b>\$ 554.8</b>	<b>375.8</b>

(1) All export and import data is provisional.

(2) Represents goods that are imported into The Bahamas, held in The Bahamas and then re-exported to various countries.

Source: External Trade Statistic Report, Department of Statistics.

### Geographic Distribution of Trade

The largest trading partner of The Bahamas is the United States, which primarily reflects the close proximity of the countries, the effective parity of U.S. and Bahamian dollars, and the generally favorable relationship between the countries. The Bahamas also conducts a substantial amount of trade with Canada, the United Kingdom and other countries comprising the European Union. According to the Government's most recent estimates, the U.S. received 76.8% of non-oil exports and accounted for roughly 83.1% of all imports in 2001. Corresponding numbers for the European Union were 11.2% and 1.3%, and for other countries (among them, the UK, Canada, Caribbean countries and others) were 12.0% and 15.6%, respectively. Given its heavy reliance on trade with the United States, The Bahamas' economy is, and will continue to be, dependent upon economic and other conditions in the United States.

The following table sets forth the distribution of imports and non-oil exports (including re-exports) by country/region for 1997 to 2001, the last year for which such information is available.

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(In millions)				
<b>Imports:*</b>					
United States	\$1,469.6	\$1,559.9	\$1,515.7	\$1,749.4	\$1,602.4
United Kingdom	11.8	16.9	21.0	13.7	9.9
Canada	10.9	39.5	21.7	22.2	19.9
Caribbean Commonwealth	3.1	4.9	5.9	10.2	17.9
European Union (excluding United Kingdom)	26.8	25.5	40.3	25.2	25.7
O.P.E.C.	9.1	n.a.	16.1	38.6	108.3
Other countries	90.6	169.7	130.6	143.1	144.6
Total	<u>\$1,622.0</u>	<u>\$1,816.4</u>	<u>\$1,751.3</u>	<u>\$2,002.4</u>	<u>\$1,928.7</u>
<b>Exports:*</b>					
United States	\$ 133.2	\$ 169.7	\$ 333.7	\$ 428.1	\$ 288.8
United Kingdom	3.8	8.9	14.1	9.6	12.0
Canada	3.9	6.2	7.8	8.2	5.9
Caribbean Commonwealth	1.8	5.0	3.9	3.3	2.5
European Union (excluding United Kingdom)	22.7	85.4	36.4	39.6	42.0
O.P.E.C.	n.a.	n.a.	0.0	29.4	0.0
Other countries	16.0	25.0	30.0	36.6	24.6
Total	<u>\$ 181.4</u>	<u>\$ 300.3</u>	<u>\$ 425.9</u>	<u>\$ 554.8</u>	<u>\$ 375.8</u>

\* All export and import data is provisional.  
Source: Department of Statistics.

### Balance of Payments

The balance of payments is used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is comprised of two accounts: (1) the current account, which comprises net exports of goods and services (the difference in value of exports minus imports), net financial and investment income, and net transfers; and (2) the capital account, which is the difference between financial capital inflows and financial capital outflows.

The following table sets forth the balance of payments for 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions, except percentages)					
<b>Current Account:</b>						
Goods (net) <sup>(1)</sup>						
Exports	\$ 246.2	\$ 362.9	\$ 523.2	\$ 787.1	\$ 765.0	\$ 740.3
Imports	(1,547.9)	(1,736.8)	(1,772.5)	(2,115.7)	(1,876.3)	(1,775.8)
Total	(1,301.7)	(1,373.9)	(1,249.3)	(1,328.6)	(1,111.3)	(1,035.5)
Services (net)						
Travel	1,166.1	1,098.3	1,272.6	1,426.3	1,339.6	1,388.5
Investment income	(116.7)	(164.6)	(88.6)	(110.5)	(127.2)	(159.7)
Other	(452.2)	(589.9)	(377.2)	(531.2)	(530.9)	(592.9)
Total	597.2	343.8	806.7	784.5	681.4	636.0
Transfers (net)						
Total	39.3	34.3	36.5	43.3	41.8	42.4
Current account surplus/(deficit)	(665.2)	(995.7)	(406.1)	(500.6)	(388.1)	(357.1)
Current account surplus/(deficit) as a percentage of nominal GDP	(16.9)%	(23.8)%	(8.9)%	(10.2)%	(7.8)%	(7.0)%
<b>Capital Account:</b>						
Long-term capital flows (net)						
Private	\$ 318.5	\$ 835.4	\$ 496.8	\$ 452.6	\$ 143.4	\$ 292.2
Public	25.7	(5.3)	(4.9)	(2.5)	(22.0)	(35.5)
Total	344.2	830.1	491.9	450.1	121.4	256.7
Short-term capital flows (net)	61.3	29.9	93.3	(29.6)	120.4	205.4
Capital account surplus	\$ 405.4	\$ 860.0	\$ 585.2	\$ 420.4	\$ 241.9	\$ 440.2
Net errors and omissions <sup>(2)</sup>	316.2	255.0	(113.9)	18.7	116.0	(22.2)
Changes in external reserves decrease (increase)	\$ (56.5)	\$ (119.3)	\$ (65.3)	\$ 61.1	\$ 29.9	\$ (60.1)

(1) All import and export figures in this table are estimates derived from foreign exchange payment information collected by the Central Bank. Such estimates differ from the import and export figures provided by the Department of Statistics that are located in other portions of this offering memorandum because the Central Bank and the Department of Statistics collect import and export data from different sources. The Central Bank will reconcile any discrepancies between its data and the Department of Statistics' data once the Department of Statistics has prepared definitive, non-provisional trade data.

(2) When all actual balance of payments entries are totaled, the resulting balance will almost inevitably show a net credit or a net debit. That balance is the result of errors and omissions in compilation of statements. Some of the errors and omissions may be related to recommendations for practical approximation to principles. In balance of payments, the standard practice is to show separately an item for net errors and omissions. Labeled by some compilers as a balancing item or statistical discrepancy, that item is intended as an offset to the overstatement or understatement of the recorded components.

Source: The Central Bank of The Bahamas.

The Bahamas' external current account deficit largely reflects the trends in tourism receipts and, to a lesser degree, the fiscal policy of the Government. The current account deficit decreased in 2002 to \$357.1 million from \$388.1 million in 2001 and \$500.6 million in 2000. The goods trade deficit decreased in 2002 to \$1,035.5 million from \$1,111.3 in 2001 as a result of a reduction in imports and moderated consumer demand. The services account surplus also decreased to \$636.0 million in 2002 from \$681.4 million in 2001 as a result of an increase in net investment income outflows and other net payments for external services despite an increase in net travel inflows, including both tourist travel and travel by Bahamians, of 3.7%. Since September 2001, a credit restraint policy has been instituted to limit the potential foreign currency outflows associated with consumer credit. The result of this policy has been a gradual softening in imports in line with prevailing economic conditions.

The long-term capital account traditionally runs at a surplus, reflecting private sector investment net inflows offset in part by public sector net outflows in recent years. However, the amount of such inflows into the economy fluctuates considerably from year to year and has been substantially less in the past two years. Factors affecting foreign direct investments in the economy during the past two years have included the September 11, 2001 terrorist attacks on the United States, the generally weak recovery of the United States economy and the general uncertainty created by the war in Iraq. The capital account surplus rose to \$440.2 million in 2002 from \$241.9 million in 2001 as a result of increased private foreign direct investments and elevated short-term inflows through the banking system. Public sector net external debt servicing totaled \$35.5 million in 2002 compared to \$22.0 million in 2001, while other foreign currency borrowings through domestic banks pushed short-term inflows higher to \$205.4 million from \$120.4 million in 2001. Total net private sector investments strengthened to \$292.2 million from \$143.4 million in 2001, corresponding to a broad rebound of direct equity investments, foreign real estate purchases and borrowings.

Foreign direct investment inflows are expected to strengthen during 2003 and 2004 and to be accompanied by a widening of the trade deficit. Nonetheless, such developments are likely to have a positive impact on external reserves.

The table below sets forth the official foreign exchange reserves in each of the years from 1997 through 2002. The Central Bank has no gold reserves.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
Balances with bankers	\$ 135.8	\$ 243.5	\$ 180.6	\$ 119.3	\$ 44.5	\$ 126.3
Foreign securities	75.1	86.7	214.8	215.1	260.0	238.3
Special drawing rights at IMF	0.0	0.0	0.0	0.1	0.1	0.1
Reserve position at IMF	8.6	8.6	8.6	8.1	7.8	8.5
Total	\$ 219.5	\$ 338.8	\$ 404.0	\$ 342.6	\$ 312.4	\$ 373.2

Source: The Central Bank of The Bahamas.

As of December 31, 2002, external reserves totaled \$373.2 million, representing an increase of 19.5% as compared with year-end 2001. This increase largely reflects tightened domestic credit policies imposed in September 2001 after the terrorist attacks in the United States, and the rapid recovery in tourism in 2002. For the first four months of 2003, a continuing increase in tourism in The Bahamas helped provide an \$86.7 million increase in external reserves as compared to a \$61 million improvement for the same period in 2002. However, The Bahamas continues to have a relatively low level of international reserves, which could increase the Bahamian economy's vulnerability to external factors.

According to the IMF, foreign exchange reserves, substantially all of which are in U.S. dollars, averaged 2.26 months of imports of non-oil merchandise over the period 1998 to 2002.



## GOVERNMENT ENTERPRISES

### Public Corporations

Traditionally, the Government has played a significant role in the economy through its ownership and management of 24 public corporations. The public corporations are corporate entities established under special authorizing statutes or are incorporated under ordinary company legislation but are wholly-owned or majority-owned by the Government.

In light of the Government's ownership interests in the public corporations, the Government is a guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by the public corporations is subject to Government approval. At December 31, 2002, the total debt of the public corporations was \$484.7 million, of which \$369.0 million was contractually guaranteed by the Government. See "Public Sector Debt—Debt of Public Corporations."

Certain of the public corporations have incurred substantial and recurring net losses and have significant negative net worth balances. Bahamasair, Hotel Corporation (as defined below) and WSC (as defined below) have, in particular, had poor financial performance. The most recent audit reports for the financial statements for these public corporations contain qualifications expressing doubt about their respective ability to continue as going concerns without the continued support of the Government. The Government anticipates that subsequent audit reports will contain similar qualifications.

The Government is providing financial assistance totaling \$29.95 million for Fiscal 2002/2003 to certain of the public corporations (Bahamasair, WSC and the Broadcasting Corporation of The Bahamas) to enable them, among other things, to meet their obligations under various loan agreements. See "Government Finance—Revenues and Expenditures." In addition, certain of the public corporations have from time to time failed to meet certain covenants contained in various loan agreements, including, depending upon the public corporation involved, financial, information reporting or other covenants. These public corporations have obtained waivers for past covenant noncompliance problems as well as prospective short-term relief in respect of the relevant covenants.

The following is a brief description of the major public corporations of The Bahamas. The financial information included in such description constitutes the most recent available information for such public corporations.

The Bahamas Electricity Corporation, or the "BEC," was established to provide electricity for consumption on most islands in The Bahamas. As of the fiscal year ended September 30, 2001, BEC had total assets of \$577.5 million, total liabilities of \$320.4 million and total shareholder's equity of \$257.1 million. BEC's net income for the fiscal year ended September 30, 2001 was \$17.8 million.

The Hotel Corporation of The Bahamas, or the "Hotel Corporation," currently owns two hotels. As of December 31, 2001, the Hotel Corporation had total assets of \$106.3 million, total liabilities of \$62.2 million and total shareholder's equity of \$44.2 million. For the year ended December 31, 2001, the Hotel Corporation had a net loss of \$7.88 million.

Bahamas Mortgage Corporation, or the "BMC," grants mortgages for the purchase, construction and rehabilitation of residential premises and participates in financing construction of housing units and projects. As of the fiscal year ended June 30, 2001, BMC had total assets of \$166.2 million, total liabilities of \$104.4 million and total shareholder's equity of \$61.8 million. For the fiscal year ended June 30, 2001, BMC had net income of \$2.3 million.

The Water & Sewerage Corporation, or the "WSC", protects water resources, regulates the extraction, use and supply of water, disposes of sewerage and grants and controls water rights. As of December 31, 2001, WSC had total assets of \$148.1 million, total liabilities of \$75 million and total shareholder's equity of \$73.1 million. For the year ended December 31, 2001, WSC had a net loss of \$7.1 million.

The Broadcasting Corporation of The Bahamas, or the "BCB," provides radio and television broadcasting services in The Bahamas and operates facilities in Nassau and Freeport. As of June 30, 2000, BCB had total assets of \$13.66 million, total liabilities of \$12.52 million and total shareholder's equity of \$1.14 million. For the year ended June 30, 2000, BCB had a net loss of \$1.1 million.

Bahamasair provides passenger and cargo transportation services in The Bahamas and between The Bahamas and Florida. As of the fiscal year ended June 30, 2002, Bahamasair had total assets of \$38.7 million, total liabilities of \$125.4 million and total shareholder's deficit of \$86.7 million (comprising capital contributions of \$233.1 million and an accumulated deficit of \$319.8 million). For the fiscal year ended June 30, 2002, Bahamasair had a net loss of \$26.5 million.

The BTC develops and maintains telecommunications stations for radio telegraph and radio telephone communications between points within and outside The Bahamas and develops, maintains and controls telephone systems and service for public and private use. As of December 31, 2001, BTC had total assets of \$468.7 million, total liabilities of \$181.3 million and total shareholder's equity of \$287.4 million. BTC's net income for the year ended December 31, 2001 was \$57.4 million. The Government currently is in the process of selling a 49% ownership interest in BTC. See "—Privatization."

The Bank of The Bahamas International (“Bank of The Bahamas”) provides retail and commercial banking services to the local Bahamian market. The Government owns 51.8% of the outstanding shares of Bank of The Bahamas and public stockholders own the remaining 48.2% of the outstanding shares. As of the fiscal year ended June 30, 2002, Bank of The Bahamas had total assets of \$335.9 million, total liabilities of \$301.7 million and total shareholder’s equity of \$34.2 million. For the fiscal year ended June 30, 2002, Bank of The Bahamas had net income of \$6.3 million.

For a description of the debt of the public corporations, see “Public Sector Debt—Debt of Public Corporations.”

Certain other public corporations in operation at present in The Bahamas are the Central Bank, the Bahamas Development Bank, and the National Insurance Board. These corporations are mainly financial or promotional in nature.

The primary functions of the Central Bank are to promote and maintain monetary stability and credit and balance of payment conditions conducive to the orderly development of the economy and to oversee and promote the soundness and integrity of the banking system. As of December 31, 2002, the Central Bank had total assets of \$586.7 million, total liabilities of \$491.6 million, and capital and reserves of \$95.1 million. For the year ended December 31, 2002, the Central Bank had a net profit of \$4.9 million. See “Monetary and Financial System.”

The Bahamas Development Bank was established to provide medium- and long-term financing for development enterprises, cooperatives and small businesses in The Bahamas. As of December 31, 2001, the Bahamas Development Bank had total assets of \$41.8 million, total liabilities of \$35.7 million and total shareholder’s equity of \$6 million. For the year ended December 31, 2001, the Bahamas Development Bank had a net loss of \$2.3 million. The Bahamas Development Bank currently has accumulated losses of \$13 million and mounting non-performing loans. The Bahamas Development Bank is seeking to remedy this situation by increasing its collection efforts.

The National Insurance Board administers specific benefit programs, including workman’s compensation, retirement, maternity, death and short- and long-term disability pursuant to The Bahamas’ national insurance program established in the National Insurance Act and Regulations. As of December 31, 2001, the National Insurance Board had total assets of \$1.12 billion, total liabilities of \$23.6 million and reserves of \$1.09 billion. For the year ended December 31, 2001, the NIB had net income of \$64.67 million.

#### **Privatization**

The Government intends to continue to reduce its role in the economy through privatization. The Government is in the process of reviewing three bids for the purchase of a 49% ownership interest in BTC to a strategic investor and expects to complete this sale by the end of the year. In earlier privatization efforts, the Government divested four hotel properties at a total value of \$10.25 million in 1994, divested another hotel property for \$8.5 million in May 1995, and reduced the Government’s ownership in Bank of The Bahamas from 100% to 50%, thereby raising a total of \$11.5 million, through two separate share offerings in September 1994 and October 1995.

## GOVERNMENT FINANCE

### Budget Process

By virtue of the Constitution of The Bahamas and implementing acts, the Ministry of Finance is the central agency responsible for the preparation of the Government's budget, with the supreme approval authority vested in The Bahamas Parliament. The Constitution requires the Ministry of Finance to prepare, before the end of each fiscal year, annual estimates of revenues and expenditures for public services for the succeeding fiscal year. The budget system ensures that approved expenditures are spent only for approved purposes and are not exceeded. Accordingly, the budget, accounting and audit systems ensure financial and legal accountability of the executive branch of the Government to the legislature.

The budget consists of recurrent and capital revenues and recurrent and capital expenditures. The most significant recurrent revenues are customs duties, business fees, real property taxes and other tourism related taxes. Capital revenues consist of proceeds from the sale of Government assets. Recurrent expenditures comprise day-to-day operating expenditures of the Government and debt service. Capital expenditures consist of expenditures related to infrastructure and physical assets.

The budgetary process for each fiscal year begins in December prior to the fiscal year when a program of activities, including implementation dates, is agreed upon within the Ministry of Finance. In the following January, an assessment of the macro-economic environment for the coming fiscal year is undertaken, based primarily on forecasts for the Bahamian economy, the anticipated effect of the U.S. economic conditions on the Bahamian economy and, in particular, the state of the stopover visitor segment of the tourism industry. The assessment is discussed internally within the Ministry of Finance, and estimates are sought from other ministries and departments of the Government. Estimates obtained from other ministries and departments are subsequently examined by the Budget Division of the Ministry of Finance for compliance with policy and their accuracy, completeness and reasonableness. When necessary, budget hearings are held to discuss specific estimates. Final estimates are integrated in a comprehensive budget document for submission to the Cabinet for deliberation. Thereafter, the Cabinet authorizes the Minister of Finance to present the budget to Parliament.

Following the end of each fiscal year, Government accounts are prepared by the Treasury Department and audited by the Audit Department and, together with the audit report, are then presented to Parliament. The accounts contain detailed information on the Government's revenues (including grants, capital revenues and borrowings) during the prior year and the Government's expenditures (including debt service, equity and subsidy transfers to the public corporations). Until the audit report is presented to Parliament, the Government accounts are labeled as "provisional."

The Government's fiscal management program continues to focus on strengthening the overall budgetary situation through improvements in tax administration and enforcement capacity, enhancement of revenues and containment of expenditures and a carefully considered privatization program.

The fiscal year of The Bahamas consists of the twelve months ending June 30 of each year.

### Fiscal 2002/2003 Budget

The Fiscal 2002/2003 budget, approved by Parliament in June 2002, reaffirmed the Government's commitment to fiscal prudence and to pursuing policies to strengthen the Bahamian economy while giving priority to the improvement of social welfare. The budget featured provisions for the establishment of the Ministry of Financial Services and Investments and a mandate that the Ministry of Financial Services and Investments develop new initiatives in the financial services and e-commerce areas. The Fiscal 2002/2003 budget also reflected the importance of trade liberalization initiatives to The Bahamas by including provisions for the reorganization of the Ministry of Economic Development into the Ministry of Trade and Industry with the central responsibility for coordinating The Bahamas' negotiations with the World Trade Organization and the Free Trade Area of the Americas. See "Commonwealth of The Bahamas—Membership in International Organizations." The Fiscal 2002/2003 budget also outlined new incentives for the development of the Family Islands Development through the proposed creation of duty-free Economic Enterprise Zones in depressed communities. The budget also provided for the elimination of the stamp tax for first-time home buyers for homes valued less than \$250,000 for an initial period of five years. In addition, the Government announced in January 2003 its plans to conduct a comprehensive review of The Bahamas' existing tax system to determine the changes necessary to align the tax system trade liberalization obligations that The Bahamas may assume under the World Trade Organization and the Free Trade Area of the Americas.

The Fiscal 2002/2003 budget forecasts an overall deficit of \$147 million as compared with a projected deficit of \$164 million in Fiscal 2001/2002. Inclusive of net lending (\$29.95 million) to public corporations, the expenditure target was set at \$1.19 billion, which is \$66 million, or 5.9%, below the 2001/2002 budget. Approximately 38% of recurrent expenditure was for personnel emoluments (*i.e.*, personnel expenditures) and 19.6% for purchases of goods and services. Capital spending was budgeted at \$155 million. Total revenues, which are estimated at \$973 million, are expected to exceed the Fiscal 2001/2002 budget by 11.2%. To cover financing requirements, the Government had total new borrowings of \$211 million, with \$30 million from existing loan arrangements. Total Government debt repayment was projected at \$40.8 million, consisting of \$28.1 million in Bahamian dollars and \$12.70 million in foreign currency.

The Fiscal 2003/2004 budget forecasts an overall deficit of \$122 million as compared with a projected deficit of \$172 million in Fiscal 2002/2003. The budget forecast reflects the Government's estimate that improved revenue administration will yield an additional \$30 million in revenues in Fiscal 2003/2004. Inclusive of net lending (\$29 million) to public corporations, the expenditure target was set at \$1.2 billion, which is \$18 million, or 1.5%, above the 2002/2003 budget. Capital spending is budgeted at \$145 million. Total revenues, which are estimated at \$1.0 billion, are expected to exceed the Fiscal 2002/2003 budget by 3.6%. To cover financing requirements, the Government has planned total new borrowings of \$199 million, with \$26 million to be provided from existing loan arrangements (not including the offering of notes contemplated in this offering memorandum). Total Government debt repayment is projected at \$77 million, consisting of \$64.8 million in Bahamian dollars and \$12.27 million in foreign currency (not taking into account the use of proceeds from this offering).

The following table sets forth the Government's revenue, expenditure and financing transactions for Fiscal 1997/8 to Fiscal 2001/02, for the nine months ended March 31, 2003 and the budget for Fiscal 2002/03.

	<u>Fiscal 1997/1998<sup>P</sup></u>	<u>Fiscal 1998/1999<sup>P</sup></u>	<u>Fiscal 1999/2000<sup>P</sup></u>	<u>Fiscal 2000/01<sup>P</sup></u>	<u>Fiscal 2001/02<sup>P</sup></u>	<u>Nine Months Ended 3/31/03<sup>P</sup></u>	<u>Budget 2002/03</u>
	(In millions)						
<b>Revenue and grants:</b>							
Tax revenue	\$ 684.3	\$ 728.0	\$ 840.0	\$ 857.0	\$ 772.2	\$ 613.2	\$ 879.8
Non-tax revenue	78.5	75.8	78.2	100.5	84.7	54.3	77.8
Capital revenue	0.7	—	0.3	—	—	—	3.0
Grants	0.5	—	—	—	—	—	2.2
<b>Total</b>	<b>764.0</b>	<b>803.8</b>	<b>918.5</b>	<b>957.5</b>	<b>856.8</b>	<b>667.5</b>	<b>962.8</b>
<b>Expenditure:</b>							
Current expenditure	713.6	746.8	817.4	846.5	895.1	668.3	953.9
Capital expenditure	90.5	94.9	106.7	85.0	103.6	51.4	127.4
<b>Total</b>	<b>804.1</b>	<b>841.7</b>	<b>924.1</b>	<b>931.5</b>	<b>998.7</b>	<b>719.7</b>	<b>1,081.3</b>
<b>Net lending (repayment)</b>	<b>33.2</b>	<b>32.3</b>	<b>32.1</b>	<b>42.5</b>	<b>27.5</b>	<b>28.4</b>	<b>28.0</b>
<b>Overall budget surplus (deficit)</b>	<b>\$ (73.3)</b>	<b>\$ (70.2)</b>	<b>\$ (37.7)</b>	<b>\$ (16.5)</b>	<b>\$ (169.4)</b>	<b>\$ (80.6)</b>	<b>\$ (146.5)</b>
<b>Internal borrowing:</b>							
Bahamian dollars	—	—	—	20.0	26.9	—	n.a.
Treasury bills (net)	6.0	—	—	—	35.1	19.8	n.a.
Loans/advances	—	—	—	—	—	—	n.a.
Government securities	\$ 121.0	\$ 126.7	\$ 78.0	\$ 55.8	\$ 95.7	125.0	n.a.
<b>Total</b>	<b>127.0</b>	<b>126.7</b>	<b>78.0</b>	<b>75.8</b>	<b>157.7</b>	<b>144.8</b>	<b>186.2</b>
<b>Foreign currency</b>							
Loans	—	—	—	—	125.0	25.0	—
Government securities	—	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>125.0</b>	<b>25.0</b>	<b>0.0</b>
<b>Total internal borrowing</b>	<b>\$ 127.0</b>	<b>\$ 126.7</b>	<b>\$ 78.0</b>	<b>\$ 75.8</b>	<b>\$ 282.7</b>	<b>\$ 169.8</b>	<b>\$ 186.2</b>
<b>External borrowing:</b>							
Government securities	—	—	—	—	—	—	—
Loans	5.5	18.5	22.4	4.0	18.6	7.9	29.7
<b>Total external borrowing</b>	<b>\$ 5.5</b>	<b>\$ 18.5</b>	<b>\$ 22.4</b>	<b>\$ 4.0</b>	<b>\$ 18.6</b>	<b>\$ 7.9</b>	<b>\$ 29.7</b>
<b>Debt repayment:</b>							
Internal							
Bahamian dollars	51.7	55.0	1.0	60.4	76.4	48.4	54.1
Foreign currency	8.3	9.7	11.8	6.7	34.5	5.0	5.0
<b>Total</b>	<b>60.0</b>	<b>64.7</b>	<b>12.7</b>	<b>67.1</b>	<b>110.9</b>	<b>53.4</b>	<b>59.1</b>
External	23.3	9.6	7.9	8.5	33.4	6.1	7.7
<b>Total debt repayment</b>	<b>\$ 83.3</b>	<b>\$ 74.3</b>	<b>\$ 20.6</b>	<b>\$ 75.6</b>	<b>\$ 144.3</b>	<b>\$ 59.5</b>	<b>\$ 66.9</b>
<b>Net borrowing (after debt repayment)</b>	<b>\$ 49.2</b>	<b>\$ 70.9</b>	<b>\$ 79.7</b>	<b>\$ 4.2</b>	<b>\$ 157.1</b>	<b>\$ 118.2</b>	<b>\$ 149.0</b>
<b>Cash balance change increase (decrease)</b>	<b>19.6</b>	<b>(3.1)</b>	<b>(19.4)</b>	<b>10.3</b>	<b>(3.4)</b>	<b>(21.0)</b>	<b>0.0</b>

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

## Revenues and Expenditures

The Government's overall budget deficit increased to \$169.4 million (an estimated 3.3% of nominal GDP) for Fiscal 2001/2002 from \$16.5 (0.3% of nominal GDP) million for Fiscal 2000/2001. The Fiscal 2001/2002 deficit was exacerbated by a global slowdown

in the economy and the terrorist attacks on the United States on September 11, 2001, which caused recurrent expenditures to rise and the recurrent balance to move from a surplus to a deficit. The overall deficit is expected to narrow in Fiscal 2002/2003 as a result of the modest recovery in the global economy, the Government's decision to cut spending by 5% and recent measures enacted by the Government to strengthen the collection of customs duties, stamp taxes, real property taxes and taxes on tourism activities.

For the first nine months of Fiscal 2002/2003, the Government estimates that the overall deficit increased \$80.5 million compared to a \$71.3 million overall deficit for the first nine months of Fiscal 2001/2002. Revenue collections for the first nine months of Fiscal 2002/2003 increased by \$32.8 million (or 5.2%) over the first nine months of Fiscal 2001/2002 to \$667.5 million, representing approximately 73.1% of the Fiscal 2002/2003 budget forecast, while Government expenditures, including net lending, increased 5.9% over the first nine months of Fiscal 2001/2002 to \$748.1 million, representing approximately 67.4% of the Fiscal 2002/2003 budget forecast. Overall tax collections for this period increased by \$35.8 million (or 6.2%) over the same period in Fiscal 2001/2002 based largely on increased tax collections on international trade transactions and departure taxes.

### Current Revenues

The Bahamas does not have a system of direct taxation, but instead relies on indirect taxes, mainly in the form of customs duties, stamp taxes, real property taxes and taxes on tourism activities. The majority of the revenue collected derives from taxes on international trade, which has represented 58.2% of total revenue over the past five fiscal years. Non-tax revenue, comprising various fees, services charges and property sales, has accounted for 9.7% of total revenue over the past five fiscal years.

A significant restructuring of the tax system in The Bahamas could occur in response to trade liberalization obligations that The Bahamas would assume as a member of the World Trade Organization and the Free Trade Area of the Americas. The Government commissioned a comprehensive review of its tax system in January 2003.

The following table sets forth the Government's current revenues for Fiscal 1997/1998 to Fiscal 2001/2002 and the budget for Fiscal 2002/2003.

	<u>Fiscal</u> <u>1997/1998<sup>P</sup></u>	<u>Fiscal</u> <u>1998/1999<sup>P</sup></u>	<u>Fiscal</u> <u>1999/2000<sup>P</sup></u>	<u>Fiscal</u> <u>2000/01<sup>P</sup></u>	<u>Fiscal</u> <u>2001/02<sup>P</sup></u>	<u>Budget</u> <u>2002/03<sup>P</sup></u>
	(In millions)					
<b>Tax revenue</b>						
Property tax	\$ 28.7	\$ 29.7	\$ 31.6	\$ 33.4	\$ 33.2	\$ 40.2
Selective tax on services	32.0	30.6	41.4	40.7	36.9	48.5
Business and professional license	33.7	58.5	54.9	54.7	55.8	59.9
Motor vehicle tax	13.6	14.7	15.8	15.9	16.8	18.1
Departure tax	55.0	57.9	61.5	61.2	63.3	63.7
Import tax	356.6	362.4	439.7	415.2	384.7	442.0
Stamp tax from imports	87.0	88.9	100.4	109.4	94.2	114.5
Export tax	11.5	8.0	12.7	13.9	14.3	17.7
Stamp tax from exports	0.6	0.3	0.3	0.1	0.1	—
All other stamp tax	62.6	77.4	78.4	80.7	71.7	67.5
Other tax	7.4	9.9	6.8	34.4	5.9	7.8
<b>Total tax revenue<sup>(1)</sup></b>	<b>\$ 684.3</b>	<b>\$ 728.0</b>	<b>\$ 840.0</b>	<b>\$ 857.0</b>	<b>\$ 772.2</b>	<b>\$ 879.8</b>
<b>Non-tax revenue</b>						
Income						
Public enterprises <sup>(2)</sup>	\$ 5.2	\$ 4.7	\$ 3.3	\$ 6.9	\$ 2.4	\$ 0.2
Other sources	22.5	22.9	21.6	22.7	22.0	21.3
Total	27.7	27.6	24.9	29.6	24.3	21.5
Fines, forfeits and admin. fees	50.4	47.3	52.0	70.1	59.5	55.6
Sales of Government property	0.4	0.8	1.3	0.7	0.8	0.6
<b>Total non-tax revenue</b>	<b>\$ 78.5</b>	<b>\$ 75.8</b>	<b>\$ 78.2</b>	<b>\$ 100.5</b>	<b>\$ 84.6</b>	<b>\$ 77.8</b>
Capital revenue	0.7	0.0	0.3	0.1	—	3.0
Grants	0.5	—	—	—	—	2.2
<b>Total revenue and grants<sup>(1)</sup></b>	<b>\$ 764.0</b>	<b>\$ 803.8</b>	<b>\$ 918.5</b>	<b>\$ 957.5</b>	<b>\$ 856.8</b>	<b>\$ 962.8</b>

(1) Excludes tax refunds in the amounts of \$4.2 million, \$10.3 million, \$3.5 million, \$2.6 million, \$4.8 million and \$0.1 million for the years from Fiscal 1997/1998 to Fiscal 2002/2003 budget.

(2) Includes public corporations.

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

### Current and Capital Expenditure

The substantial portion of current expenditures is for the purchase of goods and services and personal emoluments (*i.e.*, personnel expenditures), although a major proportion of capital expenditure is earmarked for development programs of the public corporations. On a functional basis, education accounts for the largest single category of expenditures, averaging 19.1% over the past

five years, followed by healthcare with 15.7% and interest payments with 10.9%. Outlays on social services approximate 6.2% of total spending.

The following table sets forth the Government's expenditure for Fiscal 1997/1998 to Fiscal 2001/2002, for the nine months ended March 31, 2003, and for the Fiscal 2002/2003 budget.

	<u>1997/98<sup>P</sup></u>	<u>1998/99<sup>P</sup></u>	<u>1999/00<sup>P</sup></u>	<u>2000/01<sup>P</sup></u>	<u>2001/02<sup>P</sup></u>	<u>Nine Months Ended 3/31/03<sup>P</sup></u>	<u>Budget 2002/2003</u>
	(In millions)						
<b>Current expenditure:</b>							
Consumption	\$ 535.0	\$ 560.7	\$ 528.0	\$ 546.4	\$ 582.0	\$ 430.1	\$ 624.9
Purchases of goods and services	154.8	176.5	166.6	182.8	194.9	127.7	211.9
Personal emoluments	380.2	384.2	361.5	363.6	387.2	302.4	413.0
Transfer payments <sup>(1)</sup>	178.6	186.0	289.4	300.1	313.1	238.2	329.0
Interest payments	96.6	98.6	94.0	90.8	100.7	76.2	104.2
Internal borrowings	86.5	91.7	87.9	84.2	93.9	71.5	96.7
Bahamian dollars	83.0	87.9	85.2	82.3	92.1	68.7	95.2
Foreign currency	3.5	3.8	2.7	1.9	1.8	2.8	1.5
External borrowings	10.1	6.9	6.0	6.6	6.8	4.7	7.5
Subsidies and other transfers	82.0	87.5	195.4	209.3	212.4	162.0	224.8
Subsidies	12.2	13.3	108.6	116.0	112.1	91.5	128.9
Transfers to nonfinancial public enterprises <sup>(2)</sup>	7.4	7.6	6.8	10.4	12.6	7.2	8.1
Transfers to public corporations <sup>(3)</sup>	2.1	1.8	1.3	2.3	1.4	1.2	5.2
Transfers to households	41.1	43.0	55.0	53.0	57.3	42.6	55.9
Transfers to non-profit institutions	13.2	15.5	18.1	22.0	23.4	16.6	20.2
Transfers abroad	6.1	6.3	5.6	5.6	5.5	2.9	6.5
Total current expenditure	<u>\$ 713.6</u>	<u>\$ 746.8</u>	<u>\$ 817.4</u>	<u>\$ 846.5</u>	<u>\$ 895.1</u>	<u>\$ 668.3</u>	<u>\$ 953.9</u>
<b>Capital expenditure:</b>							
Capital formation	\$ 64.3	\$ 57.9	\$ 65.3	\$ 53.6	\$ 79.7	\$ 42.5	\$ 89.3
Acquisition of assets	17.3	30.9	34.5	24.2	21.0	6.5	31.0
Land	4.3	2.7	4.7	5.9	8.4	2.5	9.5
Equities	9	9	—	—	—	—	1.5
Other	12.0	27.3	29.7	18.3	12.6	4.0	20.0
Transfers to nonfinancial public enterprises	1.6	1.8	2.8	6.5	2.2	1.7	6.4
Transfers to public corporations <sup>(4)</sup>	7.3	4.2	4.1	0.7	0.7	0.7	0.7
Total capital expenditures	<u>\$ 90.5</u>	<u>\$ 94.9</u>	<u>\$ 106.7</u>	<u>\$ 85.0</u>	<u>\$ 103.6</u>	<u>\$ 51.4</u>	<u>\$ 127.4</u>
Total expenditure	<u>\$ 804.1</u>	<u>\$ 841.7</u>	<u>\$ 924.1</u>	<u>\$ 931.5</u>	<u>\$ 998.7</u>	<u>\$ 719.7</u>	<u>\$ 1,081.3</u>

(1) Includes interest payments and subsidies and other transfers.

(2) Includes public corporations.

(3) Represents Government transfers to public corporations used to make interest payments.

(4) Represents Government transfers to public corporations used to make principal payments.

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

## **PUBLIC SECTOR DEBT**

### **General**

The public sector debt of The Bahamas consists of direct internal and external debt obligations of the Government and the public corporations. The Government believes that the level of public sector debt continues to be relatively low as compared with many other countries and that public sector debt as a percentage of GDP is also relatively small. The Bahamas has never defaulted in the payment of principal or interest on any of its internal or external indebtedness to any non-Government lender or investor.

At December 31, 2002, the public sector debt of The Bahamas totaled \$2,322.6 million, including \$369.1 million which represented guaranteed debt of the public corporations, \$32.7 million which represented the Educational Guarantee Fund, and \$115.6 million which represented non-Government-guaranteed debt of the public corporations. Of the \$1,805.2 million in direct debt obligations of the Government, \$1,575.5 million (or 87.3%) represented debt denominated in Bahamian dollars and the balance of \$229.8 million (or 12.8%) represented debt denominated in foreign currencies, chiefly U.S. dollars.

As used herein, the term “external debt” means debt initially incurred or issued outside The Bahamas, regardless of the currency of denomination, while “internal debt” means debt initially incurred or issued in The Bahamas, regardless of the currency of denomination.

All long-term borrowings by the Government must be approved by Parliament. The legal authorization for the issuance of the notes offered hereby is set forth in a resolution of the House of Assembly, dated June 25, 2003, which authorizes the Minister of Finance to borrow U.S.\$200 million in the currency of the United States. The Government does not expect that this financing will detract from the Government’s aim of reducing its fiscal deficit or reducing its debt-to-GDP ratio.

Short-term advances by the Central Bank to the Government may not exceed the lesser of 10% of the average ordinary revenue of the Government for the last three years or 10% of the estimated ordinary revenue set forth in the most recently approved budget estimates. At December 31, 2002, the Central Bank advanced to the Government \$71.8 million, which is 8.7% of average ordinary revenue and 7.9% of estimated ordinary revenue. In addition, the Public Treasury Bills Act limits the amount of Treasury Bills outstanding to the lesser of 25% of the average ordinary revenue for the year or 25% of the estimated ordinary revenue set forth in the most recently approved budget estimates. At December 31, 2002, outstanding Treasury Bills amounted to \$179.4 million, which is 23.2% of the average ordinary revenue for the year and 20.4% of the estimated ordinary revenue.

The Government is also considering developing a formal public debt management framework covering both Government and non-Government guaranteed obligations to keep the Government informed about the size and schedule of direct and contingent liabilities and alternative sources of funding.

For a description of foreign currency loans by Bahamian banks to the private sector, see “Monetary and Financial System.”

The following table sets forth the public sector debt of The Bahamas for 1997 to 2002.

	As of December 31,					
	1997 <sup>P</sup>	1998 <sup>P</sup>	1999 <sup>P</sup>	2000 <sup>P</sup>	2001 <sup>P</sup>	2002 <sup>P</sup>
	(In millions)					
<b>Direct Charge</b>						
<b>External Debt (by Instrument)</b>						
Government Securities	\$ 56.0	\$ 56.0	\$ 50.5	\$ 50.5	\$ 50.5	\$ 25.0
Loans	40.1	37.2	55.2	64.2	70.9	74.3
Total External Debt	\$ 96.1	\$ 93.2	\$ 105.7	\$ 114.7	\$ 121.4	\$ 99.3
<b>External Debt (by Holder)</b>						
Commercial Banks	\$ 11.4	\$ 6.1	\$ 25.3	\$ 25.2	\$ 20.1	\$ 14.4
Offshore Financial Institutions	7.3	6.9	1.0	0.5	0.5	—
Bilateral Financial Institutions	—	—	—	—	—	—
International Financial Institutions	27.4	30.1	29.4	39.0	50.8	59.9
Private Capital Markets	50.0	50.0	50.0	50.0	50.0	25.0
Total External Debt	\$ 96.1	\$ 93.1	\$ 105.7	\$ 114.7	\$ 121.4	\$ 99.3
<b>Internal Debt (by Instrument)</b>						
Foreign Currency	\$ 51.8	\$ 44.4	\$ 29.8	\$ 21.2	\$ 36.8	\$ 130.4
Government Securities	29.2	29.2	21.0	16.0	11.0	5.0
Loans	22.6	15.2	8.8	5.2	25.8	125.4
Bahamian Dollars	1,228.3	1,293.8	1,373.5	1,378.3	1,444.7	1,575.5
Advances	50.0	53.5	53.5	53.5	56.9	71.8
Treasury Bills	132.5	132.5	132.5	132.5	168.6	179.4
Government Securities	1,033.9	1,099.9	1,180.6	1,186.4	1,213.6	1,304.1
Loans	12.0	7.9	6.9	5.9	5.5	20.2
Total Internal Debt	\$ 1,280.1	\$ 1,338.1	\$ 1,403.3	\$ 1,399.5	\$ 1,481.5	\$ 1,705.9
<b>Internal Debt (by Holder)</b>						
Foreign Currency	\$ 51.8	\$ 44.4	\$ 29.8	\$ 21.2	\$ 36.8	\$ 130.4
Commercial Banks	51.2	44.4	29.8	21.2	36.8	130.4
Other Local Financial Institutions	0.6	—	—	—	—	—
Bahamian Dollars	1,228.3	1,293.8	1,373.5	1,378.3	1,444.7	1,575.5
The Central Bank	141.8	61.9	73.1	128.9	190.6	182.8
Commercial Banks	254.4	357.9	405.0	352.5	370.8	394.6
Other Local Financial Institutions	2.4	3.6	6.4	4.3	3.1	3.1
Public Corporations	587.5	623.8	607.7	590.5	562.3	619.3
Other	242.1	246.6	281.2	302.2	317.9	375.6
Total Internal Debt	\$ 1,280.1	\$ 1,338.1	\$ 1,403.3	\$ 1,399.5	\$ 1,481.5	\$ 1,705.9
Total Foreign Currency Debt*	\$ 147.9	\$ 137.5	\$ 135.4	\$ 135.9	\$ 158.2	\$ 229.8
<b>Total Direct Charge</b>	\$ 1,376.2	\$ 1,431.3	\$ 1,509.0	\$ 1,514.2	\$ 1,602.9	\$ 1,805.2
<b>Contingent Liabilities</b>						
Bahamas Development Bank	\$ 4.1	\$ 4.5	\$ 6.6	\$ 6.4	\$ 21.1	\$ 27.1
Bahamas Electricity Corporation	142.2	158.0	157.2	153.3	145.7	134.1
Bahamas Water & Sewerage Corporation	26.1	27.5	33.7	33.4	37.2	36.8
Bridge Authority	—	—	28.0	28.0	28.0	28.0
Broadcasting Corporation	1.4	1.4	—	—	—	—
Bahamasair	43.2	42.8	37.1	31.2	7.1	45.4
Bahamas Mortgage Corporation	114.9	115.0	111.1	107.6	99.5	97.6
Educational Guarantee Fund	—	—	—	4.8	20.1	32.7
Total Contingent Liabilities	\$ 331.8	\$ 349.0	\$ 373.7	\$ 364.6	\$ 358.8	\$ 401.8
<b>Total National Debt</b>	\$ 1,708.0	\$ 1,780.3	\$ 1,882.7	\$ 1,878.9	\$ 1,961.6	\$ 2,207.0

\* External plus internal foreign currency debt.

Source: Treasury Accounts and Treasury Statistical Summary Printouts.



The following table sets forth (in percentages) the public sector debt outstanding by remaining maturity as of December 31, 2002.

<u>Remaining Years to Maturity</u>	<u>Bahamian Dollar</u>	<u>Foreign Currency</u>
Less than 5	24%	69%
5-10	23%	13%
10-15	28%	10%
15 years or more	25%	8%
Total	100.0%	100.0%

Total Government debt has increased since 2000, reflecting a weakening of the Government's fiscal accounts. The Government recognizes that continued debt accumulation may increase the vulnerability of the Bahamian economy to adverse domestic or external factors. As a result, the Government has placed a high priority on reducing the ratio of Government debt to GDP.

### Internal Debt

Total direct internal Government debt was \$1,705.9 million as of December 31, 2002, representing an increase of approximately 15.1% over the corresponding amount as of December 31, 2001. Internal debt has been incurred or issued only in Bahamian dollars and U.S. dollars. However, no restrictions exist to prevent the incurrence or issuance of public debt in The Bahamas in other currencies or composite currencies.

The following table sets forth the composition of the direct internal debt of the Government by holder of such debt for 1997 to 2002.

	<u>As of December 31,</u>					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<u>(In millions)</u>					
Bahamian dollars						
The Central Bank	\$ 141.8	\$ 61.9	\$ 73.1	\$ 128.9	\$ 190.6	\$ 182.8
Commercial banks	254.4	357.9	405.1	352.5	370.8	394.6
Other local financial institutions	2.4	3.6	6.4	4.3	3.1	3.1
Public corporations	587.5	623.8	607.7	590.5	562.3	619.3
Other	242.1	246.6	281.2	302.2	317.9	375.6
Total	\$ 1,228.3	\$ 1,293.8	\$ 1,373.5	\$ 1,378.3	\$ 1,444.7	\$ 1,575.5
Foreign currency						
Commercial banks	51.2	44.4	29.8	21.2	36.8	130.4
Other local financial institutions	0.6	—	—	—	—	—
Total	51.8	44.4	29.8	21.2	36.8	130.4
Total internal debt	\$ 1,280.1	\$ 1,338.1	\$ 1,403.3	\$ 1,399.5	\$ 1,481.5	\$ 1,705.9

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

As of December 31, 2002, internal debt represented 94.5% of The Bahamas' total direct Government debt. Of the \$1,705.9 million in total internal direct debt of the Government at December 31, 2002, approximately 92.4% was denominated in Bahamian dollars. From 1997 to 2002, internal direct debt rose 33.5%.

For a description of the internal debt (guaranteed and other) of the public corporations, see "—Debt of Public Corporations."

### External Debt

Total direct external Government debt was \$99.3 million as of December 31, 2002, representing a decrease of approximately 18.2% over the corresponding amount as of December 31, 2001. The external debt set forth in the table below is denominated principally in U.S. dollars.

In April 1997, The Bahamas completed a sovereign note offering in the international capital markets. The Bahamas issued U.S.\$25 million of 7.35% Notes due 2002 and U.S.\$25 million of 7.70% Notes due 2007. The 7.35% Notes matured on April 15, 2002, and were repaid on such date. The 7.70% Notes, which will mature on April 15, 2007 and are not redeemable prior to such date, provide for semi-annual interest payments.

The following table sets forth the composition of the direct external debt of the Government by holder of such debt for 1997 to 2002.

	As of December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
Commercial banks	\$ 11.4	\$ 6.1	\$ 25.3	\$ 25.2	\$ 20.1	\$ 14.4
Offshore financial institutions	7.3	6.9	1.0	0.5	0.5	—
Bilateral	—	—	—	—	—	—
International financial institutions	27.7	30.1	29.4	39.0	50.8	59.9
Private capital markets	50.0	50.0	50.0	50.0	50.0	25.0
Total	<u>\$96.4</u>	<u>\$93.1</u>	<u>\$105.7</u>	<u>\$114.7</u>	<u>\$121.4</u>	<u>\$99.3</u>

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

For a description of the external debt (guaranteed and other) of the public corporations, see “—Debt of Public Corporations.”

Historically, The Bahamas has not relied heavily on external debt. As of December 31, 2002, external debt, including non-Governmental guaranteed debt of public corporations, accounted for approximately 22.68% of total direct Government debt.

### Foreign Currency Debt

The following table sets forth the composition of the foreign currency public sector debt (including the debt of public corporations) for 1997 to 2002.

	As of December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
Direct internal debt	\$ 51.8	\$ 44.4	\$ 29.8	\$ 21.2	\$ 36.8	\$ 130.4
Direct external debt	96.1	93.2	105.7	114.7	121.4	99.3
Total direct debt	<u>\$147.9</u>	<u>\$137.6</u>	<u>\$135.5</u>	<u>\$135.9</u>	<u>\$158.2</u>	<u>\$229.8</u>
Government-guaranteed debt of public corporations	<u>\$210.4</u>	<u>\$227.6</u>	<u>\$229.4</u>	<u>\$219.1</u>	<u>\$192.0</u>	<u>\$180.7</u>
Total public sector debt	<u>\$358.3</u>	<u>\$365.2</u>	<u>\$364.9</u>	<u>\$355.0</u>	<u>\$350.2</u>	<u>\$446.6</u>
Non-Government-guaranteed debt	\$ 39.1	\$ 32.5	\$ 32.5	\$ 28.5	\$ 29.6	\$ 53.9
Total (including non-Government guaranteed debt of public corporations)	<u>\$400.8</u>	<u>\$399.0</u>	<u>\$397.3</u>	<u>\$383.4</u>	<u>\$379.8</u>	<u>\$500.6</u>

Source: Treasury Accounts and Public Corporations Reports.

The following table sets forth foreign currency public sector debt (including the debt of public corporations) by holder of such debt for 1997 to 2002.

	As of December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
<b>Multilateral:</b>						
Inter-American Development Bank	\$ 141.1	\$ 168.2	\$ 171.3	\$ 181.9	\$ 193.7	\$ 196.0
World Bank	7.1	5.6	4.2	2.7	1.2	0.6
European Union, European Investment Bank	17.1	20.0	25.0	23.2	22.8	19.2
Caribbean Development Bank	25.1	23.2	23.3	21.1	19.6	20.7
Total multilateral	\$ 190.4	\$ 217.0	\$ 223.8	\$ 228.9	\$ 237.3	\$ 236.5
<b>Bilateral:</b>						
International Commercial Bank of China	—	—	—	—	—	—
Export Development Corporation	\$ 32.7	\$ 29.1	\$ 25.4	\$ 21.8	—	—
Total bilateral	32.7	29.1	25.4	21.8	—	—
Commercial	116.1	96.0	95.6	81.1	91.2	238.9
Suppliers/Other	57.3	56.9	52.5	51.6	51.3	25.2
Total foreign currency public sector debt	\$ 396.5	\$ 399.0	\$ 397.3	\$ 383.4	\$ 379.8	\$ 500.6

Source: Treasury Accounts and Public Corporations Reports.

The Government's indebtedness to the World Bank will continue to decrease as a result of The Bahamas' having graduated from various World Bank loan programs. Indebtedness to the IADB has increased over the past six years, primarily as a result of additional borrowings for infrastructural development and, in particular, education projects.

Substantially all foreign currency public sector debt borrowings were at variable interest rates linked primarily to LIBOR or the U.S. prime rate. The profile of foreign currency public sector debt (including non-Government-guaranteed debt of public corporations) as of December 31, 2002 was as follows:

Currency	% Share
U.S. dollar	96.1%
Swiss franc	0.5
Eastern Caribbean dollar	0.1
ECU	2.9
Japanese yen	0.4
<b>Total</b>	<b>100.0%</b>

### Bahamian Dollar Debt

Public sector debt denominated in Bahamian dollars reflected average annual growth of 5.1% between 1997 and 2002, primarily due to expanded capital projects, particularly in the area of infrastructural development. At December 31, 2002, public sector Bahamian dollar-denominated public debt (including the debt of public corporations) consisted of \$1,575.5 million in direct debt from internal loans and a total of \$213.8 million of total public corporation debt (of which \$152.1 million was contractually guaranteed by the Government). Substantially all Bahamian dollar public sector debt borrowings were at variable interest rates linked to the Bahamian prime rate.

The following table sets forth the composition of the public sector debt (including the debt of public corporations) in Bahamian dollars in each of the years from 1997 to 2002.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
Total direct debt	\$ 1,228.3	\$ 1,293.8	\$ 1,373.5	\$ 1,378.3	\$ 1,444.7	\$ 1,575.5
Government-guaranteed debt	121.4	121.4	144.3	140.8	146.7	152.1
Total public sector debt	1,349.7	1,415.2	1,517.8	1,519.1	1,591.4	1,727.6
Non-Government-guaranteed debt	48.8	46.0	49.8	49.7	57.5	61.7
Total (including non-Government guaranteed debt of public corporations)	\$ 1,398.5	\$ 1,461.2	\$ 1,567.6	\$ 1,568.8	\$ 1,648.9	\$ 1,789.3

Source: Treasury Accounts and Public Corporations Reports.

### Debt of Public Corporations

In light of the Government's ownership interests in the public corporations, the Government is a guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by the public corporations is subject to Government approval, as described in "Government Enterprises." Guaranties by the Government of any public corporation indebtedness is in addition to the Government's direct indebtedness.

The following table shows the composition of the internal and external debt of public corporations (including both the debt contractually guaranteed by The Bahamas and the debt not supported by the Government's guarantee) for each of the years from 1997 to 2002.

	As of December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions)					
<b>External debt:</b>						
Government-guaranteed loans						
Bahamas Electricity Corporation	\$ 141.3	\$ 158.0	\$ 157.2	\$ 153.3	\$ 145.7	\$ 134.1
Water and Sewerage Corporation	21.0	22.3	28.5	28.2	32.1	31.7
Bahamas Development Bank	4.1	4.5	6.6	6.4	7.1	10.1
Bahamasair	43.2	42.8	37.1	31.2	7.1	4.8
Total	209.5	227.6	229.4	219.1	192.0	180.7
Non-Government-guaranteed loans						
Bahamas Telecommunication Corp.	10.5	10.5	10.5	10.5	10.5	10.5
Bahamasair	2.1	—	—	—	—	—
Bahamas Electricity Corporation	17.6	17.6	17.6	16.8	15.6	13.9
Water and Sewerage Corporation	—	—	1.5	1.1	0.7	0.2
Total	30.2	28.1	29.6	28.5	26.9	24.6
Total external debt	\$ 239.7	\$ 255.7	\$ 259.1	\$ 247.6	\$ 218.9	\$ 205.3
<b>Internal debt:</b>						
Bahamian dollars						
Government-guaranteed loans						
Bahamas Mortgage Corp.	114.9	114.9	111.1	107.6	99.5	97.6
Bahamas Broadcasting Corporation	1.4	1.4	—	—	—	—
Bahamas Development Bank	—	—	—	—	14.0	17.0
Bahamasair	—	—	—	—	—	4.4
Bridge Authority	—	—	28.0	28.0	28.0	28.0
Water and Sewerage Corporation	5.2	5.2	5.2	5.2	5.2	5.2
Total	121.4	121.4	144.3	140.8	146.7	152.1
Non-Government-guaranteed loans						
Bahamas Electricity Corporation	10.8	10.5	10.2	9.8	10.5	16.1
Bahamas Telecommunication Corporation	18.2	17.2	16.9	21.6	29.3	29.2
Water and Sewerage Corporation	—	—	4.6	—	—	—
Bahamas Development Bank	6.0	6.3	7.8	8.6	7.9	7.2
Hotel Corporation	6.6	4.9	3.4	2.6	2.6	2.3
Bahamasair	7.1	7.1	7.1	7.1	7.1	6.9
Bahamas Broadcasting Corporation	—	—	—	—	—	—
Total	48.8	46.0	49.8	49.7	57.5	61.7
Total Bahamian dollar	170.2	167.4	194.1	190.5	204.2	213.8
Foreign currency						
Government-guaranteed loans						
Bahamas Electricity Corporation	0.9	—	—	—	—	—
Bahamasair	—	—	—	—	—	36.2
Total	0.9	—	—	—	—	36.2
Non-Government-guaranteed loans						
Bahamas Electricity Corporation	—	—	—	—	2.7	17.0
Bahamas Telecommunication Corporation	—	—	—	—	—	12.3
Bahamasair	3.5	—	—	—	—	—
Hotel Corporation	8.8	5.8	2.8	—	—	—
Total	12.3	5.8	2.8	—	2.7	29.3
Total foreign currency	13.2	5.8	2.8	—	2.7	65.5
Total internal debt	\$ 183.5	\$ 173.2	\$ 196.9	\$ 190.5	\$ 206.9	\$ 279.3
Total debt	\$ 423.2	\$ 428.9	\$ 456.0	\$ 438.1	\$ 425.8	\$ 484.7

Source: Quarterly Reports from Public Corporations.

## Total Debt Service

The following table sets forth the public sector debt service indicators (including the debt service of public corporations) for the period from 1997 to 2002.

	As of December 31,					
	1997	1998	1999	2000	2001	2002
<b>Foreign currency</b>						
Total debt service as a percentage of exports of goods and non-factor services	5.5%	2.6%	3.0%	2.3%	3.1%	4.1%
Debt service/GDP	2.6	1.7	1.6	1.3	1.7	2.2
Public sector debt/GDP	10.1	9.5	8.7	7.8	7.6	9.8
<b>Bahamian dollars</b>						
Debt service/GDP	3.7	3.1	3.3	3.0	3.3	3.3
Public sector debt/GDP	35.4	34.9	34.3	31.9	33.0	34.9

Source: Treasury Accounts and The Central Bank of The Bahamas.

During the six-year period ended December 31, 2002, foreign currency debt service accounted for an average of 1.85% of GDP and Bahamian dollar debt service accounted for an average of 3.28% of GDP. The foreign currency public sector debt to GDP ratio fell from 10.1% in 1997 to 7.6% in 2001, before accelerating to 9.8% in 2002, and the Bahamian dollar public sector debt to GDP ratio declined from 35.4% in 1997 to 31.9% in 2000, followed by an increase to 33% in 2001 and an increase to 34.9% in 2002. If Government debt accumulation continues to increase, the vulnerability of the Bahamian economy to adverse domestic or external factors may also increase.

The following table sets forth the public sector debt service schedule (including the debt service of the public corporations) for each of the years from 1997 to 2002.

	As of December 31,					
	1997	1998	1999	2000	2001	2002
	(In millions, except percentages)					
<b>Foreign currency:</b>						
Government	\$ 53.8	\$ 29.1	\$ 35.4	\$ 24.2	\$ 27.2	\$ 75.9
Public corporations	47.1	43.1	36.3	40.1	56.3	36.2
Total foreign currency debt service	100.8	72.2	71.7	64.2	83.5	112.1
Government debt service to Government revenue	7.4%	3.8%	4.1%	2.6%	3.0%	8.6%
<b>Bahamian dollars:</b>						
Government	\$142.5	\$125.3	\$131.9	\$133.4	\$149.8	\$154.1
Public corporations	4.5	6.7	19.9	16.4	17.0	12.7
Total	147.0	131.9	151.7	149.8	166.8	166.9
Government Bahamian dollars debt service to Government revenue	19.5%	16.5%	15.2%	14.2%	16.3%	17.4%
Total debt service	\$247.8	\$204.1	\$223.4	\$214.1	\$250.3	\$279.0

Source: Treasury Accounts and Public Corporations Reports.

From 1997 to 2002, Bahamian dollar debt service requirements grew at an annual average rate of 2.94%, whereas foreign currency debt service recorded average annual growth of 5.08%, for growth in overall debt service of 3.22%. In recent years, the debt service requirements for Bahamian dollar debt have outweighed such requirements for foreign currency debt, consistent with the higher Bahamian dollar debt burden. From 1998 to 2001, the ratio of foreign currency debt service to government revenues remained relatively stable within a low range of 2.6% to 4.1%. However, the ratio rose in the first half of 2002, which boosted the ratio to 8.6% for that year.

The following table sets forth the projected public sector debt service schedule (including the debt service of the public corporations) as of December 31, 2002.

	Years Ended December 31									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	(In millions)									
<b>Amortization:</b>										
Bahamian dollars										
Government	\$ 53.3	\$ 57.6	\$ 65.0	\$ 65.7	\$ 60.0	\$ 60.0	\$ 60.0	\$ 66.0	\$ 70.0	\$ 77.0
Public corporations	5.1	7.8	7.1	12.9	11.0	9.5	12.8	19.4	17.1	6.7
Total	58.4	65.4	72.1	78.6	71.0	69.5	72.8	85.4	87.1	83.7
Foreign currency										
Government	31.3	45.6	45.3	45.3	54.7	14.0	12.3	10.6	9.2	4.5
Public corporations	21.8	35.4	33.7	31.2	28.4	29.7	47.3	17.9	11.2	11.1
Total	53.1	81.0	79.0	76.5	83.1	43.7	59.6	28.5	20.4	15.6
Total amortization	\$ 111.5	\$ 146.4	\$ 151.1	\$ 155.1	\$ 154.1	\$ 113.2	\$ 132.4	\$ 113.9	\$ 107.5	\$ 99.3
<b>Interest:</b>										
Bahamian dollars										
Government	\$ 74.7	\$ 85.4	\$ 79.9	\$ 75.7	\$ 70.3	\$ 66.8	\$ 63.1	\$ 58.5	\$ 54.5	\$ 50.4
Public corporations	6.5	6.8	6.5	6.2	5.6	5.2	4.8	4.3	3.7	3.0
Total	81.2	92.2	86.4	81.9	75.9	72.0	67.9	62.8	58.2	53.4
Foreign currency										
Government	10.8	12.8	11.4	9.5	7.7	4.7	3.8	3.1	2.4	1.9
Public corporations	14.6	16.3	14.4	12.3	10.5	8.9	6.0	4.4	3.4	2.8
Total	25.4	29.1	25.8	21.8	18.2	13.6	9.8	7.5	5.8	4.7
Total interest	\$ 106.6	\$ 121.3	\$ 112.2	\$ 103.7	\$ 94.1	\$ 85.6	\$ 77.7	\$ 70.3	\$ 64.0	\$ 58.1
<b>Total Debt Service:</b>										
Bahamian dollars										
Government	\$ 128.0	\$ 143.0	\$ 144.9	\$ 141.4	\$ 130.3	\$ 126.8	\$ 123.1	\$ 124.5	\$ 124.5	\$ 127.4
Public corporations	11.6	14.6	13.6	19.1	16.6	14.7	17.6	23.7	20.8	9.7
Total	139.6	157.6	158.5	160.5	146.9	141.5	140.7	148.2	145.3	137.1
Foreign currency										
Government	42.1	58.4	56.7	54.8	62.4	18.7	16.1	13.7	11.6	6.4
Public corporations	36.4	51.7	48.1	43.5	38.9	38.6	53.3	22.3	14.6	13.9
Total	78.5	110.1	104.8	98.3	101.3	57.3	69.4	36.0	26.2	20.3
Total debt service	\$ 218.1	\$ 267.7	\$ 263.3	\$ 258.8	\$ 248.2	\$ 198.8	\$ 210.1	\$ 184.2	\$ 171.5	\$ 157.4

Source: The Central Bank of The Bahamas.

The table above does not give effect to the issuance of the notes offered hereby.

## Debt Record

Since gaining independence in 1973, The Bahamas has never defaulted in the payment of principal or interest on any of its internal or external indebtedness to any non-Government lender or investor.

### **USE OF PROCEEDS**

The net proceeds from the sale of the notes was approximately U.S.\$195.6 million. Approximately U.S.\$125 million of the net proceeds was used by the Government to pay off a U.S.\$125 million consortium loan provided by six banks, and the remaining U.S.\$70.6 million of the net proceeds will be used by the Government for financing general development in The Bahamas.



## DESCRIPTION OF THE NOTES

The notes were initially issued on July 31, 2003 under a Fiscal Agency Agreement dated as of July 31, 2003 (the “Fiscal Agency Agreement”), between the Government and JPMorgan Chase Bank, as Fiscal Agent (the “Fiscal Agent”, which term includes any successor as Fiscal Agent under the Fiscal Agency Agreement). A copy of the Fiscal Agency Agreement is available for inspection during normal business hours at the office of the Fiscal Agent and at any paying agents (the “Paying Agents”) with respect to the notes.

The following summaries of certain provisions of the notes and the Fiscal Agency Agreement are subject to, and are qualified in their entirety by reference to, the terms and conditions of the notes and the Fiscal Agency Agreement, including the definitions therein of certain terms.

### General

The notes were issued in an aggregate principal amount of U.S.\$200 million, bear interest from July 31, 2003 at a rate per annum of 6.625% and will mature at par on May 15, 2033. Interest on the notes is payable semiannually in arrears in equal installments on May 15 and November 15 of each year (each such date, a “Payment Date”), commencing on November 15, 2003, to the persons in whose names the notes are registered at the close of business on the May 1 or November 1, as the case may be, preceding each Payment Date. Interest on the notes is calculated on the basis of a 360-day year of twelve 30-day months.

The Government may replace the Fiscal Agent at any time, subject to the appointment of a replacement fiscal agent. If a replacement fiscal agent is appointed, the Government will, so long as the notes are listed on the Luxembourg Stock Exchange, publish a notice regarding such appointment in a leading newspaper having general circulation in Luxembourg. The Fiscal Agent is not a trustee for the holders of the notes and does not have the same responsibilities or duties to act for such holders as would a trustee. The Government may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Fiscal Agent.

The Government will maintain a principal paying agent, a transfer agent and a registrar in New York City and a paying agent and a transfer agent in Western Europe (which, so long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Exchange require, will be in Luxembourg). The Government may replace a paying agent at any time, subject to the appointment of replacement paying agent. If a replacement paying agent is appointed, the Government will, so long as the notes are listed on the Luxembourg Stock Exchange, publish a notice regarding such appointment in a leading newspaper having general circulation in Luxembourg.

The notes may be transferred or exchanged at the offices or agencies maintained by the Government for such purpose (which initially will be the offices of the transfer agents specified on the inside back cover page of this offering memorandum).

### Status of the Notes

The notes are direct, general, unsecured and unconditional obligations of the Government and rank *pari passu*, without any preference or priority of payment, among themselves and with all other present and future unsecured Public External Indebtedness (as defined under “—Negative Pledge” below) of the Government. The Government has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the notes.

### Form, Denomination, Book-Entry Procedures and Transfer

The notes were offered and sold inside the United States to qualified institutional buyers in reliance on Rule 144A. Notes also were offered and sold outside the United States in reliance on Regulation S. The notes were issued only in fully registered form, without interest coupons, in integral multiples of U.S.\$1,000.

### Global Bonds

The notes were initially issued in the form of two registered notes in global form, without interest coupons, as follows:

- notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1933 are represented by a Global Note (the “Restricted 144A Global Note”); and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S are represented by a Global Note (the “Regulation S Global Note”).

Upon issuance, each of the Global Notes was deposited with the Fiscal Agent as custodian for The Depository Trust Company, or DTC, and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note is limited to persons who have accounts with DTC (the “DTC participants”) or persons who hold interests through DTC participants. The Government expects that under procedures established by DTC:

- upon deposit of each Global Note with DTC’s custodian, DTC credited portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the Initial Purchasers; and
- ownership of beneficial interests in each Global Note are shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each Global Note).

Beneficial interests in the Regulation S Global Note were initially credited within DTC to Euroclear and Clearstream Banking on behalf of the owners of such interests. Investors purchasing notes in this offering may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream Banking, if they are participants in those systems, or indirectly through organizations that are participants in those systems; however, the Government intends to settle by delivering interests in the Regulation S Global Note solely through Euroclear or Clearstream Banking. Each of Euroclear and Clearstream Banking has appointed a DTC participant to act as its depository for the interests in the Regulation S Global Note that are held within DTC for the account of each of these settlement systems on behalf of its respective participants.

The laws of some states of the United States require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons may be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants and certain banks, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the notes, see “—Exchanges between the Global Notes.”

Beneficial interests in the Global Notes may not be exchanged for notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note is subject to restrictions on transfer as described under “Notice to Investors.”

The information in this section concerning DTC, Euroclear and Clearstream Banking and their book-entry systems has been obtained from sources that the Government believes to be reliable, and the Government makes no representation or warranty with respect thereto.

#### ***Exchanges between the Global Notes***

Beneficial interests in a Regulation S Global Note may be exchanged for beneficial interests in a Restricted 144A Global Note only if such exchange occurs in connection with a transfer of the note pursuant to Rule 144A and the transferor first delivers to the Fiscal Agent a written certificate (in the form provided in the Fiscal Agency Agreement) to the effect that the notes are being transferred to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act, purchasing for its own account or the account of one or more qualified institutional buyers in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Restricted 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only if the transferor first delivers to the Fiscal Agent a written certificate (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available).

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

#### ***Book-Entry Procedures for the Global Notes***

All interests in the Global Notes are subject to the operations and procedures of DTC, Euroclear and Clearstream Banking. The Government provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Government nor the Initial Purchasers are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the Initial Purchasers; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC’s nominee is the registered owner of a Global Note, that nominee will be considered the sole owner or holder of the notes represented by that Global Note for all purposes under the Fiscal Agency Agreement. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the notes under the Fiscal Agency Agreement for any purpose, including with respect to the giving of any direction, instruction or approval to the Fiscal Agent under the Fiscal Agency Agreement.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of notes under the Fiscal Agency Agreement (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the notes).

Payments of principal and interest with respect to the notes represented by a Global Note will be made by the Fiscal Agent to DTC’s nominee as the registered holder of the Global Note. Neither the Government nor the Fiscal Agent has any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note is governed by standing instructions and customary industry practice and is the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC’s procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream Banking will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream Banking, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream Banking. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream Banking account, an investor must send transfer instructions to Euroclear or Clearstream Banking, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream Banking, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream Banking participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream Banking.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream Banking immediately following the DTC settlement date. Cash received in Euroclear or Clearstream Banking from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Banking cash account as of the business day for Euroclear or Clearstream Banking following the DTC settlement date.

DTC, Euroclear and Clearstream Banking have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Government nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

### ***Certificated Notes***

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related notes only if

- DTC notifies the Government at any time that it is unwilling or unable to continue as depository for the Global Notes and a successor depository is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depository is not appointed within 90 days;
- the Government, at its option, notifies the Fiscal Agent that it elects to cause the issuance of certificated notes; or
- an Event of Default (as defined under “—Events of Default; Acceleration of Maturity” below) shall have occurred and be continuing with respect to such notes.

### **Payments**

All payments on the notes will be made in immediately available funds in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment therein of public and private debts.

Payments of the principal of, interest on and Additional Amounts on or in respect of any Global Note will be made to DTC, in accordance with DTC procedures, or to its nominee (or any successor thereto) as the registered owner thereof. Neither the Government nor the Fiscal Agent or any Paying Agent has any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Payments of interest in respect of each note will be made by the paying agents by a check drawn on a bank in New York City and mailed to the holder of such note at its registered address; *provided, however*, that a holder of at least U.S.\$1,000,000 in aggregate principal amount of notes shall be entitled to receive such payment by wire transfer in immediately available funds to an account maintained by such holder at a bank located in New York or in Europe as may have been appropriately designated by such person to the Fiscal Agent in writing not later than 15 calendar days prior to the relevant Payment Date. Unless such designation is revoked, any such designation made by such person with respect to such notes will remain in effect with respect to any future payments with respect to such notes payable to such person.

Any payment of principal or interest required to be made on a Payment Date which is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such Payment Date, and no interest shall accrue with respect to such payment for the period from and after such Payment Date. As used herein, the term “Business Day” means any day, other than a Saturday or Sunday, on which banks in New York City (and, in the case of any certificated note, in the place of presentment thereof in accordance with the terms of such note) are not required or authorized by law or executive order to be closed.

All payments are subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses shall be charged to the noteholders in respect of such payments.

Subject to applicable law, any monies held by the Fiscal Agent for the payment of principal or interest on the notes that remains unclaimed for two years after such amount shall have become due and payable shall be returned to the Government, and holders entitled to such monies shall thereafter look only to the Government for any payment to which such holders may be entitled. Claims against the Government for the payment of principal and interest in respect of the notes shall become void unless presentation for payment is made within a period of ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined below), to the extent permitted by applicable law.

If a note becomes mutilated, defaced, destroyed, lost or stolen, the Government may issue, and the Fiscal Agent will authenticate and deliver, a substitute note. In each case, the applicant for a substitute note will be required to furnish to the Government and to the Fiscal Agent (or to any paying agent at whose offices the applicant presents the notes for exchange) an indemnity under which it will agree to pay the Government, the Fiscal Agent and any other agent for any losses they may suffer relating to the note that was mutilated, defaced, destroyed, lost or stolen. The Government and the Fiscal Agent may also require that

the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen note.

### **Further Issuances**

The Government may from time to time, without the consent of noteholders, create and issue further notes having the same terms and conditions as the notes in all respects, except for issue date, issue price and the first payment of interest thereon. Additional notes issued in this manner will be consolidated with and will form a single series with the previously outstanding notes.

### **Optional Redemption**

The notes are redeemable at any time by the Government, in whole or in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, or (2) the sum of the present values of the Remaining Scheduled Payments discounted, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the sum of the applicable Treasury Rate plus 25 basis points. In either case, accrued interest, if any, will be paid to the date of redemption.

For purposes of the Government's redemption right described above, the following terms have the meanings specified below:

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of sovereign debt securities of comparable maturity to the remaining term of the notes.

"Comparable Treasury Price" means, with respect to any Redemption Date, as determined by the Independent Investment Banker (i) the average of the Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means Citigroup Global Markets Inc. or one of the Reference Treasury Dealers appointed by the Fiscal Agent at the Government's direction.

"Redemption Date" when used with respect to any note to be redeemed means the date which is a Business Day fixed for such redemption by the Government pursuant to the Fiscal Agency Agreement.

"Reference Treasury Dealer Quotations" mean, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer, at 5:00 p.m., New York City time, on the third Business Day preceding such Redemption Date.

"Reference Treasury Dealers" means any four national recognized investment banking firms, and their successors, selected by the Government that are each also a primary U.S. Government securities dealer. If any Reference Treasury Dealer shall cease to be a primary U.S. Government securities dealer, the Government will substitute another nationally recognized investment banking firm that is a primary U.S. Government securities dealer.

"Remaining Scheduled Payments" means, with respect to the notes to be redeemed, the remaining scheduled payments of principal of and interest on those notes that would be due after the related Redemption Date but for that redemption; provided, however, that if such Redemption Date is not an interest payment date with respect to the notes to be redeemed, the amount of the next succeeding scheduled interest payment on those notes will be reduced by the amount of interest accrued on such notes to such Redemption Date.

"Treasury Rate" means, with respect to any Redemption Date, the rate per annum equal to the semiannual equivalent yield to maturity (computed as of the second Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

### **Open Market Purchases**

The Government may at any time purchase any of the notes in any manner for any consideration. If purchases are made by tender, tenders must be available to all holders of notes alike.

Any notes that are redeemed or purchased by the Government will be cancelled and may not be reissued or resold.

## Covenants

So long as any note remains outstanding, the Government will:

- (i) notify the Fiscal Agent in writing promptly upon becoming aware of the occurrence of any Event of Default or potential Event of Default;
- (ii) ensure that its obligations under the notes will at all times constitute direct, general, unsecured and unconditional obligations of the Government ranking *pari passu* without any preference or priority of payment, among themselves and with all other present and future unsecured Public External Indebtedness of the Government;
- (iii) give prompt notice to the holders of notes of any future appointment or any resignation or removal of any Paying Agent or of any change by any Paying Agent of any of its specified offices;
- (iv) maintain its membership in, and its eligibility to use the general resources of, the International Monetary Fund; and
- (v) ensure that the Central Bank of the Commonwealth of The Bahamas makes available to the Government sufficient U.S. dollars to enable the Government to perform its payment obligations under the notes and the Fiscal Agency Agreement.

## Negative Pledge

So long as any note remains outstanding, the Government will not create or permit to exist any Security Interest (as defined below) in any of its present or future revenues or assets to secure Public External Indebtedness (as defined below) of the Government, unless (i) the notes are secured equally and ratably with such Indebtedness or (ii) the notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the holders of the notes as provided under “—Meetings of Noteholders Modification and Waiver”; *provided, however*, that the Government may create or permit to exist:

- (i) Security Interests existing on the date hereof securing Public External Indebtedness incurred or assumed by the Government;
- (ii) Security Interests securing Public External Indebtedness incurred or assumed by the Government in connection with a Project Financing (as defined below), *provided* that (a) the aggregate principal amount of Public External Indebtedness secured by such Security Interests shall not exceed (but may be less than) the lesser of cost and fair market value of the assets of the project for which the Project Financing was incurred and (b) such Security Interests shall not encumber any other assets or revenues of the Government;
- (iii) Security Interests securing Public External Indebtedness incurred or assumed by the Government to finance the acquisition of the assets or property in which such Security Interest has been created or permitted to exist, *provided* that such Security Interests shall not encumber any other assets or property of the Government;
- (iv) Security Interests extending, renewing or replacing in whole or in part any Security Interest permitted by clause (i), (ii) or (iii) above; *provided, however*, that (a) such Security Interests do not extend beyond the assets, revenues or property subject to the then existing Security Interest, and (b) the Public External Indebtedness secured by such Security Interests may not exceed the Public External Indebtedness secured at the time by the then existing Security Interest; and
- (v) Security Interests securing Public External Indebtedness (excluding Public External Indebtedness permitted by clauses (i) through (iv) above) which does not have an aggregate principal amount in excess of U.S.\$25,000,000 (or its equivalent in any other currency).

For purposes of this covenant and of “—Events of Default; Acceleration of Maturity” below, the following terms have the meanings specified below:

“Indebtedness” means any present or future indebtedness for borrowed money (including, without limitation, any loans, bonds, notes or other securities), or any guarantee thereof.

“Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any project in which the person or persons providing such financing expressly agree to limit their recourse to the project financed.

“Public External Indebtedness” means any Indebtedness that is in the form of, or represented by, bonds, notes or other securities that are, or are expressly intended to be at the time of issuance, quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market.

“Security Interest” means any mortgage, charge, lien, deed of trust, pledge, security interest, other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any present or future obligations with or from the proceeds of any assets or revenues of any kind.

## **Additional Amounts**

Payments of principal and interest in respect of the notes are not currently subject to withholding or deduction for any taxes, duties, assessments or Governmental charges of whatever nature (“Taxes”) in the Commonwealth of The Bahamas. See “Taxation.” In the event that payments of principal and interest in respect of the notes become subject to withholding or deduction for Bahamian Taxes in the future, the Government will pay such additional amounts (“Additional Amounts”) as will result in receipt by the holders of notes of such amounts as would have been received by them had no such withholding or deduction been required; *provided* that no such Additional Amounts shall be payable with respect to any note to or on behalf of a holder or beneficial owner who is liable for Taxes in respect of such note (i) by reason of such holder or beneficial owner having some connection with the Commonwealth of The Bahamas other than the mere holding of such note or the receipt of principal or interest in respect thereof, (ii) by reason of the failure of such holder to comply with any certification, identification or other reporting requirement, if such holder is legally able to comply, concerning the nationality, residence, identity or connection with the Commonwealth of The Bahamas, or any political subdivision or taxing authority thereof or therein, of the holder or beneficial owner of a note or any interest therein or rights in respect thereof, if (a) compliance is required by the Commonwealth of The Bahamas, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from such deduction or withholding, (b) at least 30 days prior to the first Payment Date with respect to which such requirements shall apply, the Government shall have notified all holders of notes that such holders will be required to comply with such requirements and (c) such requirements are not materially more onerous to such holders (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administration practice (such as IRS Forms 1001, W-8 and W-9) or (iii) by reason of the failure of such holder to present such holder’s note for payment (where such presentation is required) within thirty days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for and notice thereof is given to the holder, whichever occurs later (the “Relevant Date”), except to the extent that the holder thereof would have been entitled to Additional Amounts in presenting the note for payment on any date during such thirty-day period.

No Additional Amounts shall be payable in respect of any note to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent the beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner would not have been entitled to receive payment of the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such note. Any reference herein, in the Fiscal Agency Agreement or in any note to principal and interest shall be deemed to refer to any Additional Amount which may be payable under the undertakings referred to in this provision.

Except as provided above, the Government shall not be required to pay any Additional Amounts (or make any other payment) with respect to Taxes of whatever nature imposed or levied by any government or political subdivision or taxing authority thereof or therein.

## **Events of Default; Acceleration of Maturity**

If one or more of the following events with respect to the notes (herein referred to as “Events of Default”) shall have occurred and be continuing:

- (i) the Government shall fail to pay any principal on the notes when due; or the Government shall fail to pay interest on the notes when due, and such failure to pay interest shall continue for a period of 30 days;
- (ii) the Government shall fail to perform any obligation contained in the notes which is referred to under “—Negative Pledge” above, and such failure shall continue for a period of 30 days;
- (iii) the Government shall fail to perform any other obligation contained in the notes which failure is materially prejudicial to the interests of the holders of the notes, and such failure shall continue for a period of 60 days after written notice requiring the same to be remedied shall have been given to the Government by the Fiscal Agent or the holder of any note;
- (iv) Public External Indebtedness of the Government having an aggregate principal amount in excess of U.S.\$25,000,000 (or its equivalent in any other currency) shall have been accelerated by reason of any event of default (however described);
- (v) the Government shall fail to make any payment in respect of Public External Indebtedness of the Government in an aggregate principal amount in excess of U.S.\$25,000,000 (or its equivalent in any other currency) when due (as such date may be extended as a result of any applicable grace period or waiver);
- (vi) any writ, execution, attachment or similar process shall be levied, after the date hereof, against all or any substantial part of the assets of the Government in connection with any judgment for the payment of money exceeding U.S.\$25,000,000 (or its equivalent in other currencies) and shall remain unsatisfied, undischarged and in effect for a period of 60 days without a stay of execution, unless such judgment is adequately bonded or is being contested in good faith by appropriate proceedings properly initiated and diligently conducted and, in either case, such process is not executed against such assets;
- (vii) the Government shall declare a general moratorium with respect to any payment of any Indebtedness of the Government which does not expressly exclude the notes;

(viii) the Government shall deny, contest or repudiate any of its obligations under the notes;

(ix) it becomes unlawful for the Government to (a) pay any amounts under the notes or (b) perform or comply with any one or more material obligations under the notes or the Fiscal Agency Agreement; or

(x) failure by the Government to maintain its membership in, and its eligibility to use the general resources of, the IMF, and such failure continues for a period of 60 days.

then the holders of not less than 25% in principal amount of the notes outstanding may, by written notice to the Government, declare all the notes then outstanding to be immediately due and payable, and upon any such declaration the same shall become and shall be immediately due and payable upon the date that such written notice is received by the Government, unless prior to such date the Event of Default or Events of Default giving rise to such declaration shall have been cured or waived. If such Event of Default or Events of Default giving rise to any such declaration of acceleration shall be cured following such declaration, such declaration may be rescinded by the holders of a majority in aggregate principal amount of the notes then outstanding in accordance with the procedures described in “—Meetings of Noteholders, Modification and Waiver” below. However, no such rescission shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

#### **Meetings of Noteholders, Modification and Waiver**

A meeting of holders of the notes may be called, as set forth below, at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the notes to be made, given or taken by holders of notes or to modify, amend or supplement the terms of the notes or the Fiscal Agency Agreement as hereinafter provided. The Fiscal Agent at the request of the Government may at any time call a meeting of holders of the notes for any such purpose to be held at such time and at such place in the Borough of Manhattan, The City of New York, New York, as the Fiscal Agent at the request of the Government shall determine. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given as provided in the terms of the notes, not less than 30 nor more than 60 days prior to the date fixed for the meeting. If at any time the holders of at least 10% in aggregate principal amount of the outstanding (as defined in the Fiscal Agency Agreement) notes shall have requested the Fiscal Agent to call a meeting of the holders of the notes for any such purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof.

To be entitled to vote at any meeting of holders of notes, a person shall be a holder of outstanding notes or a person duly appointed by an instrument in writing as proxy for such a holder. Except as set forth below, the holders or proxies representing a majority in principal amount of the outstanding notes shall constitute a quorum. At the reconvening of any meeting adjourned for a lack of a quorum, the holders or proxies representing 25% of the aggregate principal amount of the outstanding notes will constitute a quorum for the taking of any action set forth in the notice of the original meeting. For purposes of a meeting of holders of notes that proposes to discuss the “reserved matters”, which are specified below, the holders or proxies representing 75% of the aggregate principal amount of the outstanding notes will constitute a quorum. The Fiscal Agent may make such reasonable and customary regulations consistent with the Fiscal Agency Agreement as it shall deem advisable for any meeting of holders of notes with respect to the proof of the holding of notes, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

With (i) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the outstanding notes that are represented at a meeting duly called and held as specified above, or (ii) the written consent of the holders of 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the outstanding notes, the Government and the Fiscal Agent may, upon agreement between themselves, modify, amend or supplement the terms of the notes or, insofar as it affects the notes, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the relevant notes to be made, given or taken by holders of the notes; *provided, however*, that any such action to be effected pursuant to clause (i) above must be approved by the holders of not less than 25% of the aggregate principal amount of notes then outstanding; and *provided, further*, that no such action may, without the consent of the holders of not less than 75% of the aggregate principal amount of outstanding notes, voting at a meeting or by written consent, (a) change the due date for the payment of the principal of, or any installment of interest on, any note, (b) reduce the principal amount of any note, or the portion of such principal amount which is payable upon acceleration of the maturity of such note or the interest rate thereon, (c) change the coin or currency in which, or the required place at which, payment with respect to interest or principal in respect of the note is payable, (d) reduce the proportion of the principal amount of the notes the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, (e) change the obligation of the Government to pay Additional Amounts, (f) change the governing law provisions of the notes, (g) change the courts to the jurisdiction of which the Government has submitted, (h) change the Government’s obligation to appoint and maintain an agent for service of process, (i) change the Government’s waiver of



immunity in respect of actions or proceedings brought by any holder based upon the notes, or (j) reduce the percentage in principal amount of outstanding notes that constitutes the quorum required at any meeting of holders of notes at which a resolution is adopted.

The above subjects are referred to as “reserved matters”. A change to a reserved matter, including the payment terms of the notes, can be made without the consent of individual noteholders, as long as a supermajority of the holders (that is, the holders of at least 75% of the aggregate principal amount of the outstanding notes) agree to the change.

The Government and the Fiscal Agent may, upon agreement between themselves, without the vote or consent of any holder of notes, modify, amend or supplement the Fiscal Agency Agreement or the notes for the purpose of (i) adding to the covenants of the Government for the benefit of the holders of notes, (ii) surrendering any right or power conferred upon the Government, (iii) securing the notes pursuant to the requirements of the Fiscal Agency Agreement or otherwise, (iv) curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the notes or (v) amending the Fiscal Agency Agreement or the notes in any manner which the Government and the Fiscal Agent may determine and which shall not adversely affect the interest of any holder of notes in any material respect.

For purposes of determining whether the required percentage of holders of the notes has approved any amendment, modification or change to, or waiver of, the notes or the Fiscal Agency Agreement, or whether the required percentage of holders has delivered a notice of acceleration of the notes, notes owned, directly or indirectly, by the Government or any public sector instrumentality of the Government will be disregarded and deemed not to be outstanding, except that in determining whether the Fiscal Agent shall be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only notes that the Fiscal Agent knows to be so owned shall be so disregarded. As used in this paragraph, “public sector instrumentality” means any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity controlled by the Government or any of the foregoing, and “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

#### **Notices**

The Government will mail notices to holders of the notes at their registered addresses. The Government will consider any mailed notice to have been given on the date of mailing.

The Government will also publish notices to the holders of the notes in leading newspapers having general circulation in New York City and London. The Government anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, so long as the notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, the Government will publish notices to the holders of the notes in a leading newspaper having general circulation in Luxembourg. The Government anticipates that it will initially make such publication in the *Luxemburger Wort* or the *Tageblatt*. The Government will consider any published notice to be given on the date of its first publication.

Neither the failure to give notice nor any defect in any notice given to any particular holder of a note shall affect the sufficiency of any notice with respect to any other notes.

#### **Governing Law and Submission to Jurisdiction**

The Fiscal Agency Agreement and the notes are governed by, and construed in accordance with, the laws of the State of New York.

The Government has agreed that any legal suit, action or proceeding arising out of or relating to the notes may be instituted by the noteholders in any U.S. federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, and has waived, to the fullest extent that it may effectively do so under applicable law, any objection to venue and any right to assert a defense of an inconvenient forum in response to any such legal suit, action or proceeding. Any process or other legal summons in connection with any such action may be served upon the Consul General of the Commonwealth of The Bahamas, at his offices at 231 East 46th Street, New York, New York 10017, acting as agent for service of process for The Bahamas. The Government has irrevocably waived and agreed not to plead, to the fullest extent that it may effectively do so under applicable law, any immunity (including sovereign immunity) from the jurisdiction of any such Federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, to which it might otherwise be entitled in any such suit, action or proceeding arising out of or based upon the notes, except for immunity from execution and attachment as set forth in Section 19(4) of the Crown Proceedings Act (discussed below). Notwithstanding anything to the contrary, the Government has not consented to service or waived sovereign immunity with respect to actions brought against it under U.S. federal securities laws or any state securities laws.

The Government has irrevocably waived, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice, which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action

or proceeding (including appeals) arising out of or relating to the notes, the posting of any bond or the furnishing, directly or indirectly, of any other security.

Section 19(4) of the Crown Proceedings Act provides that no execution or attachment or process in the nature thereof shall be issued out of any court in The Bahamas for enforcing payment by the Government of any money or costs, and no person shall be individually liable under any order for the payment by the Government of any money or costs. The Crown Proceedings Act also provides that, where in any proceedings by or against the Government any order (including an order for costs) is made by any court in The Bahamas in favor of any person against the Government, the proper officer of the court shall, on an application made by or on behalf of that person at any time after the expiration of 21 days from the date of the order or, in the case in which the order provides for the payment of costs and such costs are required to be taxed, at any time after the taxing of costs, whichever is later, issue a certificate to such person, a copy of which may be served upon the Attorney General of The Bahamas. If the order provides for the payment of money or costs, the Minister of Finance of The Bahamas shall pay the amount due to such person.

Judgments of a foreign court against the Government where the Government has not appeared in the relevant proceedings or has unsuccessfully claimed immunity in such proceedings, may not be enforceable in the courts of The Bahamas on the grounds of public policy.

The Government has waived any immunity that it may claim under the U.S. Foreign Sovereign Immunities Act of 1976, as amended, except as set forth above.

### **Judgment Currency**

The Government agrees that, if a judgment or order given or made by any court or arbitration tribunal for the payment of any amount in respect of any note is expressed in a currency (the “judgment currency”) other than the currency (the “denomination currency”) in which such note is denominated, the Government will pay any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the business day immediately following the date of actual payment thereof. This obligation will constitute a separate and independent obligation from the other obligations under the notes, will give rise to a separate and independent cause of action, will apply irrespective of any waiver or extension granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant note or under any such judgment or order.

### **Concerning the Fiscal Agent**

The Fiscal Agency Agreement contains provisions relating to the obligations and duties of the Fiscal Agent, to the indemnification of the Fiscal Agent and to the Fiscal Agent’s relief from responsibility for actions that it takes. The Fiscal Agent is entitled to enter into business transactions with the Government or any of its affiliates without accounting for any profit resulting from such transactions.

## NOTICE TO INVESTORS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the notes.

The notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except that notes may be offered or sold in the United States to qualified institutional buyers in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser of the notes hereunder will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) it represents that it (a) is a qualified institutional buyer, purchasing the notes for its own account or for the account of one or more qualified institutional buyers, and it is aware that the sale to it is being made in reliance on Rule 144A, or (b) is not a U.S. person and is acquiring the note in an offshore transaction within the meaning of Regulation S;

(ii) it acknowledges that the notes are being offered in transactions not involving any public offering in the United States within the meaning of the Securities Act, and that the notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer the notes or any beneficial interests in the notes, it will do so, prior to the date which is two years after the later of the date of original issue and the last date on which the Government or an affiliate of the Government was the owner of such notes, only (a) to the Government or any affiliate thereof, (b) to a person whom the seller reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A (c) in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States or any other applicable jurisdiction;

(iv) it agrees to, and each subsequent holder is required to, notify any purchaser of the notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by one or more Restricted 144A Global Notes and that notes offered outside the United States in reliance on Regulation S will be represented by Regulation S Global Notes;

(vi) it understands that the Restricted 144A Global Notes will bear a legend to the following effect unless otherwise agreed to by the Government:

“THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION, AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS, (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE DATE OF ORIGINAL ISSUE AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTES, ONLY, (1) TO THE COMMONWEALTH OF THE BAHAMAS OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS; AND (C) IT AGREES THAT IT WILL

DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.”; and

(vii) it acknowledges that the Government and the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of notes are no longer accurate, it shall promptly notify the Government; and if it is acquiring any notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements under the Fiscal Agency Agreement to effect exchanges or transfer of interests in Global Notes, see “Description of the Notes—Form, Denomination, Book-Entry Procedures and Transfer.”

## TAXATION

### Certain Bahamian Tax Consequences

The following is a general description of certain tax laws of The Bahamas relating to the notes and does not purport to be a comprehensive description of the tax treatment of the notes. Prospective purchasers should consult their tax advisers as to the tax laws and the specific tax consequences of acquiring, holding and disposing of the notes.

Under existing laws and regulations of The Bahamas, payments by The Bahamas of principal of and interest on the notes to a nonresident of The Bahamas will not be subject to taxation in The Bahamas and no withholding for any Bahamian tax will be required on any such payments to any such nonresident holders of the notes. There is no income tax under Bahamian law and, accordingly, a holder of notes will not be subject to any Bahamian income tax in respect of any payment of principal or interest on the notes, or in respect of any gain on disposition of the notes.

In the event of the imposition of such withholding taxes or duties, The Bahamas has undertaken to make payments of Additional Amounts as described under “Description of the Notes—Additional Amounts.”

Purchasers of notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase.

### Certain United States Federal Income Tax Consequences

The following discussion summarizes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes. The discussion is based upon provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, judicial authority, current administrative rulings and practice, and existing and proposed Treasury Regulations, all as in effect and existing on the date hereof. Legislative, judicial or administrative changes or interpretations may be forthcoming that could alter or modify the validity of the statements and conclusions set forth below. Any such changes or interpretations may be retroactive and could adversely affect a holder of the notes. Except as otherwise described herein, this discussion applies only to notes held as capital assets (as defined in Section 1221 of the Code) by a person who is an initial holder purchasing notes pursuant to this offering. This discussion does not purport to deal with all aspects of U.S. federal income taxation that might be relevant to particular holders in light of their personal circumstances or status, nor does it discuss the U.S. federal income tax consequences to certain types of holders subject to special treatment under the U.S. federal income tax laws, such as certain financial institutions, insurance companies, real estate investment trusts, regulated investment companies, dealers or traders in securities or foreign currency, tax-exempt organizations, persons subject to alternative minimum tax, persons that hold notes that are a hedge against, or that are hedged against, currency risk or that are part of an integrated investment (including a straddle) or as part of a conversion or repurchase transaction, persons whose functional currency is not the U.S. dollar or partnerships or other entities classified as partnerships for U.S. federal income tax purposes. Moreover, the effect of any applicable state, local or non-U.S. tax laws, or any U.S. federal tax laws other than with respect to income taxation, is not discussed.

**THE FOLLOWING DISCUSSION IS FOR GENERAL INFORMATION ONLY. EACH PURCHASER IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISORS TO DETERMINE THE IMPACT OF SUCH PURCHASER’S PERSONAL TAX SITUATION ON THE ANTICIPATED TAX CONSEQUENCES, INCLUDING THE TAX CONSEQUENCES UNDER U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX LAWS AND POSSIBLE CHANGES IN TAX LAWS, OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES.**

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of notes that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or of any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a court within the United States if one or more U.S. persons have the authority to control all substantial decisions of the trust. The U.S. federal income tax treatment of a partner in a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) that holds notes generally will depend on such partner’s particular circumstances and on the activities of the partnership. Partners in such partnerships should consult their own tax advisers.

#### *U.S. Holders*

**Payments of Interest.** Interest payments on the notes will be taxable as ordinary interest income to a U.S. Holder when received or accrued in accordance with such holder’s regular method of accounting for U.S. federal income tax purposes, and such income will include any tax withheld from interest payments notwithstanding that such withheld amount is not in fact received by such U.S. Holder. A U.S. Holder will also be required to include in income any Additional Amounts paid or accrued (in accordance with such method of accounting) with respect to the notes. Interest income on a note generally will constitute foreign source income and generally will be considered “passive” income or, for certain types of U.S. Holders, “financial services” income (unless, in either case, such income is subject to withholding of income taxes at a rate of at least 5%, in which case such income generally would constitute “high withholding tax interest”), which are treated separately from other types of income in computing the foreign tax credit

allowable to U.S. Holders under U.S. federal income tax laws. If any foreign income taxes are imposed in respect of payments on the notes, the U.S. Holder may be eligible, subject to a number of complex limitations, for a deduction or a foreign tax credit. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

*Sale, Redemption or Other Disposition.* The sale, exchange, redemption or other disposition of a note will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder will recognize taxable gain or loss equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received upon such sale, exchange, redemption or other disposition (except to the extent that such cash or property is attributable to accrued interest, which amount will be taxable as ordinary income to the extent not previously included in gross income) and (ii) the U.S. Holder's adjusted tax basis therein. A U.S. Holder's adjusted tax basis in a note generally will be equal to the purchase price paid by such U.S. Holder for such note decreased by all payments received in respect of such note (other than payments of stated interest). Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the note will have been held by the U.S. Holder for more than one year at the time of such sale, exchange, redemption or other disposition. Long-term capital gains may be taxed at a lower rate than ordinary income for certain non-corporate U.S. Holders (including individuals). The ability of a U.S. Holder to deduct a capital loss is subject to limitations under the Code.

Gain or loss realized by a U.S. Holder on the sale, exchange, redemption or other disposition of a note will generally be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

#### *Non-U.S. Holders*

A non-U.S. Holder should not be subject to U.S. federal income tax with respect to the receipt of interest on the notes, or the sale or other disposition of notes unless (i) the interest or gain is treated as effectively connected with the conduct by such holder of a trade or business in the United States (and, if an income tax treaty applies, the interest or gain is attributable to a permanent establishment maintained by the non-U.S. Holder in the United States), or (ii) in the case of gains derived by an individual, such individual is present in the United States for 183 days or more in the taxable year and certain other conditions are met.

#### *Information Reporting and Backup Withholding*

The "backup" withholding and information reporting requirements may apply to certain payments of principal and interest on a note and to certain payments of proceeds of the sale or other disposition of a note. Backup withholding will apply if the holder fails to furnish its taxpayer identification number (social security number or employer identification number), to certify that such holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain holders (including, among others, all corporations) are not subject to the backup withholding and information reporting requirements. Under current Treasury Regulations, backup withholding and information reporting generally will not apply to payments made to a holder of a note who has provided the required certification under penalties of perjury that it is not a U.S. Holder or has otherwise established an exemption.

Any amounts withheld under the backup withholding rules from a payment to a holder may be claimed as a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

## PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Royal Bank of Canada Europe Limited are acting as the Initial Purchasers. Subject to the terms and conditions stated in the purchase agreement dated July 24, 2003, the Initial Purchasers agreed to purchase, and the Government agreed to sell to the Initial Purchasers, the principal amount of the notes set forth opposite the Initial Purchaser's name below.

Initial Purchaser	Principal Amount
Citigroup Global Markets Inc.	\$ 196,000,000
Royal Bank of Canada Europe Limited.	\$ 4,000,000
Total	<u>\$ 200,000,000</u>

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the notes were subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers were required to purchase all the notes if they purchased any of the notes.

The Government was advised that the Initial Purchasers proposed to resell the notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Notice to Investors." The price at which the notes are offered may be changed at any time without notice.

The notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Notice to Investors." In addition, until 40 days after July 24, 2003, an offer or sale of notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Initial Purchasers have represented, warranted and agreed that:

- they have not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any notes included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- they have only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by them in connection with the issue or sale of any notes included in this offering in circumstances in which section 21(1) of the FSMA does not apply to us;
- they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes included in this offering in, from or otherwise involving the United Kingdom; and
- the offer in The Netherlands of the notes included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

No action has or will be taken by the Initial Purchasers that would permit a public offer of the notes in the Grand Duchy of Luxembourg. Accordingly, the notes must not be offered or sold to the public in the Grand Duchy of Luxembourg, directly or indirectly, and neither this offering memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed or otherwise made available in or from, or published in, the Grand Duchy of Luxembourg, except for the sole purpose of the listing of the notes on the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of the securities.

Nor has any action been taken in any other jurisdiction by the Initial Purchasers or the Government that would permit a public offering of the notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required.

The notes will constitute a new class of securities with no established trading market. Although application has been made to list the notes on the Luxembourg Stock Exchange, the listing does not assure that a trading market for the notes will develop. In addition, the Government cannot assure you that the prices at which the notes will sell in the market after this offering will not be lower than the

initial offering price or that an active trading market for the notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the notes at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Government cannot assure you as to the liquidity of or the trading market for the notes.

In connection with this offering, the Initial Purchasers may purchase and sell notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of notes in excess of the principal amount of notes to be purchased by the Initial Purchasers in this offering, which creates a short position for the Initial Purchasers. Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of notes made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may discontinue them at any time.

The Government delivered the notes against payment for the notes on July 31, 2003.

The Initial Purchasers have performed investment banking and advisory services for the Government from time to time for which they have received customary fees and expenses. The Initial Purchasers may, from time to time, engage in transactions with and perform services for the Government in the ordinary course of its business.

The Government has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.



## **GENERAL INFORMATION**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number, or ISIN, for the Regulation S Global Notes is USP06518AC19, and the ISIN for the Restricted 144A Global Note is US056732AE01. The CUSIP number for the Regulation S Global Note is P06518AC1 and the CUSIP number for the Restricted 144A Global Note is 056732AE0. The Common Code for the Regulation S Global Note is 017376179; the Restricted 144A Global Note does not have a Common Code.

The legal authorization for the issuance of the notes offered hereby is set forth in a resolution of the House of Assembly, dated June 25, 2003, which authorizes the Minister of Finance to borrow U.S.\$200 million in the currency of the United States.

Copies of this offering memorandum and any supplement thereto, the Fiscal Agency Agreement, the Global Notes and the purchase agreement between us and the Initial Purchasers will, for so long as the notes are listed on the Luxembourg Stock Exchange, be available for inspection during normal hours on any weekday (except Saturdays and public holidays) at the specified offices of the Paying Agent in Luxembourg.

## **OFFICIAL STATEMENTS**

Information included herein which is identified as being derived from a publication of the Government or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Government. All other information in this offering memorandum is included as a public official statement made on the authority of the Ministry of Finance of the Government, in his official capacity as such.

## **LEGAL MATTERS**

The validity of the notes and certain other legal matters relating to the issuance of the notes was passed upon for the Government by Hogan & Hartson L.L.P., U.S. counsel to the Government, and by the Office of the Attorney General of The Bahamas. The validity of the notes was passed upon for the Initial Purchasers by Shearman & Sterling LLP, U.S. counsel to the Initial Purchasers, and Higgs & Johnson, Bahamian counsel to the Initial Purchasers.

## **ISSUER**

The Commonwealth of The Bahamas  
c/o Ministry of Finance  
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Nassau, The Bahamas

## **LEGAL ADVISERS**

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## **LUXEMBOURG TRANSFER AGENT AND PAYING AGENT**

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Luxembourg

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U.S.\$200,000,000

# The Commonwealth of The Bahamas

6.625% Notes due 2033



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OFFERING MEMORANDUM

September 12, 2003

Citigroup  
RBC Capital Markets

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